FINANCE — GENERAL

1990

FEBRUARY

African Bank branches out

By JOSHUA RABOROKO

(58)

THE African Bank is opening three new branches.

The first was opened in Umlazi, Durban, yesterday, the second will be opened in Tzaneen on April 1 and the third in Cape Town later this year.

The bank's general manager, Mr Ishmael Mamoojee, said the African Bank was well on the road to recovery after a year in which internal problems culminated in the resignation of senior management, including chief executive Mr Gaby Magomola.

The opening of the three branches would lead to an expansion in the bank's activities with its services being used by more people, he said. It will also pursue its objectives of getting clientele from the corporate world who would assist in its development programmes.

A five-year strategic plan aims to make the bank:

* The foremost institution in the promotion of respect, dignity and caring among its clients and staff;

* Active in the continual development of customised competitive products to meet the challenging needs in the black market;

* Achieve above-average returns on shareholders' investment while sustaining strong internal growth;

* Mobilise and recycle the black community's savings by making them available for improving their economic potential; and

* Understand the needs of black business in its commitment to offer effective and professional business development services, and develop staff banking and managerial skills.

Although the bank had been cleared in the 1986 foreign exchange scandal, it would not reapply for its licence enabling it to deal in foreign exhange. Management would wait for an improvement in reserves before any decision to reapply for its licence. This, he said, could take up to three years.

B/Day 1/2/90. (58)

Group areas doubts stymie home loans

EDYTH BULBRING

ATTEMPTS by would-be home-owners — regardless of their race — to secure bonds in Johannesburg's integrated inner city suburbs are being frustrated as banks and building societies decline to grant home loans.

Although none of the institutions has a publicly stated policy against granting bonds in grey areas, they concede the status of these areas does not guarantee security for their investments.

Two prospective homebuyers in the Troyeville area recently had their bond application turned down by Standard Bank, although their financial situation was found to be satisfactory.

The official reason given was that Standard Bank could not grant a loan on the property as assessed. Unofficially, they were told the area was considered a "slum" locality.

The Community Development Act of 1966 declared areas like Jeppe, Troyeville and Fairview urban renewal areas, effectively freezing all development for 10 years while plans for rebuilding were considered. They have since been deproclaimed.

Standard Bank divisional GM of home loans Terry Power said the question that needed to be answered before loans were granted in any area was whether they represented good security. The bank would be reluctant to grant a loan if there was a question mark over the status of an area.

The environment, the property, the undesirable element and the crime rate in the area needed to be assessed. In addition, the bank needed to be satisfied that there was a ready market for houses in the area and that it would get its money back if the house was sold.

Confidence

The same homebuyers approached the United building society to be told the United did not grant bonds in Troyeville at all. When asked how United policy applied in other grey areas such as Bezuidenhout Valley, Bellevue and Yeoville, they were told bonds were granted there on a "selective" basis. The uncertainty surrounding grey areas pending government clarity was the reason given by United for the reluctance to grant bonds.

United MD Mike de Blanche said there was a lack of confidence in grey areas. Property values were affected because of the legal uncertainty, he said. The United had a precautionary attitude to granting home loans in grey areas, but this did not mean bonds were never granted.

Allied Group MD Kevin de Viliers said the Allied did not "redline" any areas. However, in areas of uncertainty, like grey areas, it was difficult to put a value on property. As long as there was this uncertainty, the Allied was forced to excercise caution.

First National Bank communications chief Brent Chalmers said FNB was careful about home loans in unofficially declared grey areas. It had to assess whether it could sell the property if need be, and would not give a 100% loan in "shaky" areas.

NBS head office assistant GM: mortgage lending Trevor Olivier said certain financial institutions had suffered losses or faced potential losses because of the greying of certain areas.

If properties in grey areas degenerated, or the general area deteriorated, this would affect their decision to grant a bond, he said.

TrustBank spokesman Louis de Villiers said its bonds were granted on the merit of the qualifying customer, and were subject to the evaluation of the property and/or the building plans. The location of the house was not necessarily taken into consideration.

CIB secures deal to take over Corbank

B/Day 1/2/90 (58)

GRETA STEYN

RATIONALISATION in the overbanked financial services sector went a step further yesterday when Cape Investment Bank (CIB) clinched a deal to take over Corbank.

The two small merchant banking groups yesterday described the move as a "merger" rather than a takeover, as the names Corbank and CIB would remain separate entities in the market place. The name of the holding company, CIB Holdings, would change to reflect the merger.

Corbank Group's present operating subsidiaries — banking, corporate finance, investment banking, project finance and portfolio management — would become subsidiaries of CIB Holdings.

Corbank, with a market capitalisation of R16,5m, was being purchased for an effective 161c a share. The share closed at 125c yesterday after gaining 10c in two days.

CIB Holdings will acquire all Corbank's issued share capital by the payment of R35 in cash and the issue of 60 CIB Holdings shares for every 100 Corbank Group shares held. This will entail payment of R4,83m in cash and the issue of 8,27-million new CIB Holdings shares.

The move holds benefits for both sides — Corbank, facing a problem in being relatively under-capitalised, benefits from CIB's strong capital position. CIB, in turn, can now enter new markets such as foreign exchange via Corbank's foreign exchange dealing licence. Talk in the market is that CIB's application for a licence has not been successful.

CE of the new holding company will be Jan Pickard Jnr, who commented yesterday: "As far as resources such as capital, systems, trading licences — particularly foreign exchange dealing — and established market footholds are concerned, the two groups combine to form a powerful and diverse banking group."

The new holding company's chairman, Corbank's Laurie Korsten, said: "One benefit for Corbank will be the expertise of CIB's Andy Swartz in trading in the money, capital and derivatives markets."

Corbank is to set up a new trading operation with Swartz's help after its troubles in the markets caused it to virtually close shop some time prior to the takeover.

Korsten says CIB, in turn, will benefit

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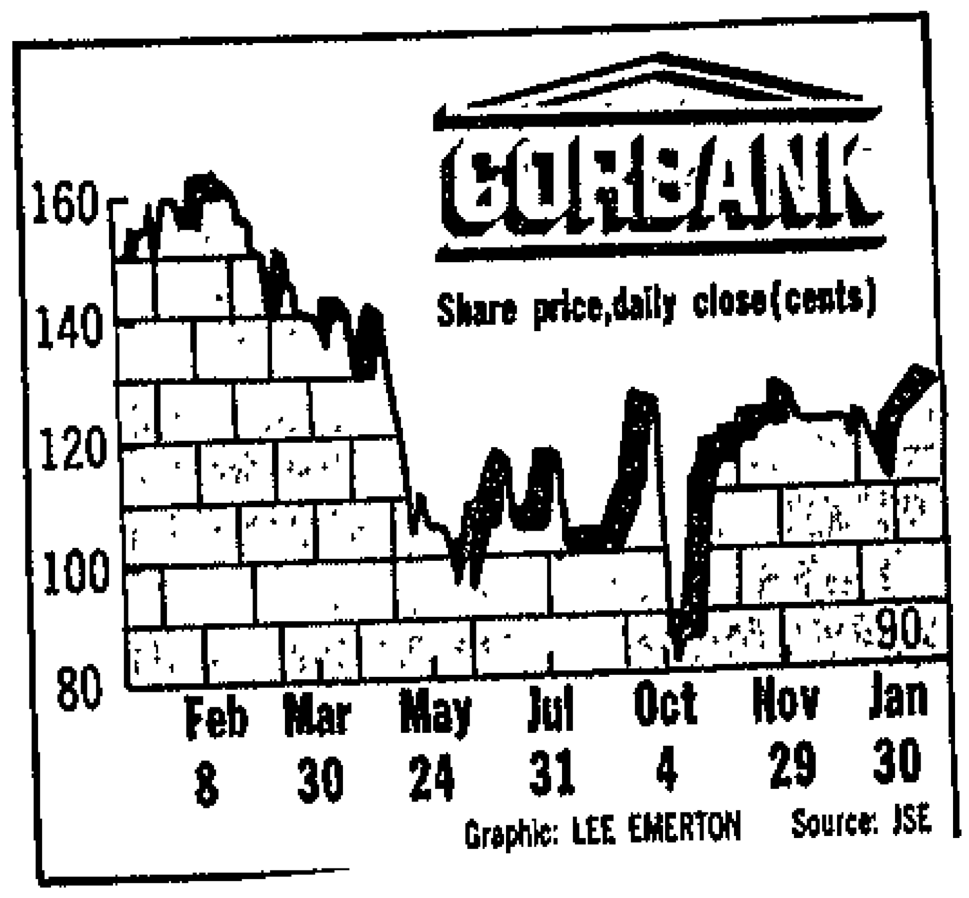

CIB deal

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from Corbank's expertise in banking activities other than trading. The two will complement each other.

He acknowledges "a small degree" of duplication exists, but the greatest areas of business proficiency are in different market sectors.

Korsten and Pickard describe the cultures of the two groups as similar.

A feature of the new group will be the substantial shareholding by executives — 38%. The major shareholder is Jan Pickard's SA General Investment and Trust (Sagit), with 30%, and 32% will be held by the public.

It is foreseen that the transaction will have no material effect on the CIB Holdings' net asset value (NAV) per share or on the earnings per share expected for the year ending 30 June.

In the CIB Holdings annual report, earnings for the year ending June 30 1990 were forecast at R3,9m or 37,5c a share.

The shareholders' funds of CIB Holdings (R28,35m at December 31 1989) are expected to increase to R51m on completion of the transaction.

Corbank in merger with Cape bank

STAR 1/2/90

By Ann Crotty

After months of speculation about a change of control Corbank is to be merged into Cape Investment Bank Holdings (CIBH) in a deal that values Corbank at approximately 161c compared with yesterday's market price of 125c.

For CIBH, major attractions of the deal are that it gets a significant foothold in the Transvaal market and, it gets access to a number of resources such as Corbank's foreign exchange licence. An additional attraction must be Corbank's attractive assessed tax loss.

Initial response from analysts is that it is a good move for Cape-based CIBH assuming that CIBH can efficiently manage the enlarged group and that the losses suffered by Corbank in the gilt market in financial 1989 have been accounted for and the problems behind those losses resolved.

CIBH chairman, Jan Pickard (jnr) is confident that none of these factors is cause for concern. On the issue of management he stresses that there is "considerable value" within the Corbank team. In addition he believes that any real or potential trading losses that exist have been built into the price at which the deal was struck.

This price was based on 75 CIBH shares being equivalent to 100 Corbank shares but does not reflect the market valuation of the shares which puts 75 CIBH at R157 and 100 Corbank at R125.

The purchase of Corbank shares will be settled by the payment of R35 in cash and the issue of 60 CIBH shares for every 100 Corbank shares held. This will entail the payment of R4,83 million in cash and the issue of 8,27 million new CIBH shares.

On the basis of yesterday's CIBH price of 210c and, assuming that the prospect of an increase in issued shares from 10,6 million to 18,8 million will not have an adverse impact on the share price, the deal values Corbank at 161c a share. The 1989 annual report shows Corbank's NAV at 217c at end-March 1989.

Analysts believe that the Investec bid for Corbank, which was called off at the last minute last October, was based on a price of 170c a share for Corbank.

Ahead of the October 1987 crash, Corbank was trading at around 425c. Disappointing operating performances combined with generally weak investor sentiment knocked the share price to a low of 80c last October. Last year major losses in the gilt market caused earnings to drop from 24,5c to 14,5c a share in '89 and NAV to fall from 250,9c to 217c a share.

CIBH's name will be changed and Corbank executive chairman, Laurie Korsten will become chairman of the new enlarged holding company. Mr Pickard will be chief executive.

JCI gets off to a roaring start

STAR 1/2/90 (58)

By Derek Tommey

The strong rise in mining and industrial share prices last year helped increase the net asset value of shares in Johannesburg Consolidated Investment (JCI) by 68,2 percent.

The company reports that the net asset value of its shares (adjusted for the 20-for-1 share split) rose from R35,60 at the end of 1988 to R48,20 on last June and to R58,50 last December.

In this 12-month period JCI's share price rose 70,1 percent — from R31,50 to R54,00

On reported net asset value figures, the company, which has 147,466 million shares, was worth R8,6 billion at the end of last year, up from R7,1 billion at mid-year and from R5,2 billion at the end of 1988.

The increase in assets might have encouraged JCI to follow a more generous dividend policy.

Interim dividend

It has increased its interim dividend by 20 percent from 35c to 42c a share after a 21,9 percent increase in distributable earnings in the six months to December from 82c to 100c a share.

In the six months to December 1988, distributable earnings rose almost as much — 20,3 percent — but the dividend increase was only 16,7 percent.

Spectacular rise in JCI share price

The interim report shows that JCI has made a good start to its 1989-90 financial year.

Income from investments rose 29,3 percent to R120,8 million as a result of increased platinum and industrial dividends.

Attributable earnings of subsidiaries increased by R3,6 million (26,7 percent) to 17,1 million.

But "other net revenue" dropped R3,8 million (27 percent) to R10,3 million, mainly as a result of the cost of financing new acquisitions.

JCI's pre-tax profit for the six months was 17,9 percent higher at R169,8 million (R144,0 million).

But a reduced tax payment helped increase taxed profit by 22,4 percent from R121,3 million to R148,5 million.

JCI's share of retained earnings of associated companies declined by 10,6 percent to R68,4 million as a result of higher dividend payments by these companies.

Altogether, total earnings rose by 9,6 percent to R216,6 million (R197,5 million), equal to 147c (121c) a share.

Earnings available for distribution amounted to R148,2 million (R121,0 million), out of which R61,9 million (R51,6 million) was paid in dividends.

Book value

The book value of investments at December 31 was R1,9 billion — an increase of R487,1 million since June 30.

Included in this figure is R235 million representing the purchase of 40 percent of Middelburg Coal, which was announced on December 18.

The investment in fixed and mining assets rose from R344,1 million to R372,6 million.

Net current liabilities rose from R78,2 million to R446,3 million. Part of this increase in liabilities would seem to be the result of the Middelburg purchase.

F/M 2/2/90 (58)

DISCOUNT HOUSES F/M 2/2/90

New direction (58)

New legislation, embracing the activities of all financial institutions, will open the way for SA's discount houses to become deposit-taking institutions. And at least one of SA's discount houses — Securities Discount House — is to take the opportunity of registering in terms of the legislation expected to be passed by parliament this year.

Under the existing dispensation, discount houses can only accept deposits from registered banking institutions, building societies, mining finance houses, other discount houses, the Reserve Bank, the Land Bank and the Department of Finance. Under the new dispensation they will be free to accept deposits from assurers and pension funds as well as from the general public. This will greatly increase the pool of funds available to them.

Despite its move towards banking, Securities will remain primarily involved in the trading of securities, says chairman Arthur Kelly. There are no plans to offer cheque accounts, hire-purchase agreements and other retail services.

Two other houses, Interbank and National Discount House, may follow suit. The future of the discount houses has been under review since their right to accommodation from the Reserve Bank at a preferential discounted rate was withdrawn in August 1989. Their inclusion under the new Act, on the same basis as other deposit-taking institutions will, among other things, formalise the end of their role as intermediaries between the commercial banks and the Central Bank.

Their new status will free them from the obligation to keep 87,5% of their assets in the form of statutorily defined liquid assets. These assets do not provide the high rate of return offered by comparably dated non-liquid assets. Under the new Act, the houses will have to maintain the same ratio of liquid assets to liability structure as other deposit-taking institutions. A banking analyst put this currently at 4%-6%.

The planned changes will allow discount houses to take advantage of the same investment opportunities as other financial institutions.

This will include the right of bank-controlling companies to own up to 100% of other financial institutions, up from the present limit of 10%. This restriction is already flexible, having been breached with permission from the authorities, when Securities Discount Holdings (Sechold) took 30% of Interbank. It currently also holds 10% of National Discount House.

Cash reserve

The only negative consequences of legislative changes will be that the houses will be required to hold an interest-free cash reserve with the Bank. But "the benefits of the new Act will greatly outweigh the disadvantages," Kelly says.

Ed Hern Rudolph director Alan McConnochie says the move into banking by the discount houses makes sense. He expects them to occupy highly specialised niches. The houses will have to market themselves aggressively. Presently, few people are aware of developments in the industry and services the houses have to offer.

Discount House of SA, the oldest of the houses, has declined to comment on its plans in terms of the proposed legislation. ■

INVESTMENT FM 2|2|90

No losers?

(S8)

The opportunity to acquire capital growth in a virtually riskless environment is a rare phenomenon. But on the fledgling SA futures and options market the Board of Executors (BoE) has developed an equity-linked product that achieves this objective.

Futures markets were formed to allow producers of basic commodities to hedge to secure themselves against loss, while at the same time attempting to optimise the current position. The BoE has built its new product around the hedging principle, for clients who need to hold cash, while at the same time want to enjoy a capital gain if the stock market moves up during the holding period.

It works through the purchase of an option on stock index futures of equal value to the cash on hand. At the same time, the cash is physically placed in interest-bearing fixed deposits in a registered bank for the same period as the life of the option. At the end of the period, if the stock market has appreciated, futures will have done the same and the value of the option will have increased correspondingly. So a capital gain is realised from this source. In addition, interest is earned on the deposit. From this total, the costs (including the cost of the option) have to be deducted. And there are tax implications also to be taken into account.

On the other hand, if the stock market declines enough to make the option worthless by the end of the period, it is simply abandoned. The investor is then left with his original cash, plus the interest it has earned less applicable tax and the cost of the transactions. Simply, then, the only risk the investor faces when he "buys" the product is

FM 2|2|90 (S8)

transaction costs and the loss of the interest foregone by the transaction costs. And while interest rates stay as high as they are, even if the stock market does decline to the point where the option is worthless, interest received should be well in excess of total costs.

The BoE, while not actually guaranteeing results, states: "On maturity, the investor will receive the value of the investment plus any appreciation in the options. The combination will not be any less than the amount of the original investment." As BoE investment GM John Winship points out, "the investor is in a no-lose situation. Heads he wins and tails he wins even more." Only one condition applies. The minimum investment acceptable is R50 000.

The product is the first example of its kind to make use of local market derivatives. For the sophisticated money manager or the man in the street who is holding cash and has, for whatever reason, the need to hedge, it should find substantial support. ■

Momentum Life establishes an investment arm

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B/Day 2/2/90

LINDA ENSOR

MOMENTUM Life has established a wholly owned subsidiary, Momentum Asset Trust (MAT), to act as its investment arm.

MAT will also handle the off-balance sheet assets of its pension fund clients which currently hold assets of about R500m.

The total assets under the administration of MAT amounted to about R6bn in December 1989.

Also included in MAT's activities are management of unit trust investments; and tax, wills and estate management.

At the official launch of the company yesterday, chairman Blignaut Gouws said it had been decided to give Momentum's investment division an independent identity in the belief this would create additional opportunities.

● DU TOIT

Niel Krige is deputy chairman, while Peter du Toit is MD.

Discussing MAT's investment strategy yesterday, Du Toit said gold and mining financials would be the focus for investments in 1990-91 when a gold price rise to between $500 and $800 was expected.

This was due to the present extremely low distribution base of gold.

Du Toit said gold's value as an investment avenue would come increasingly to the fore internationally as mobile funds sought an investment haven.

He said gold was under-capitalised on world markets with non-central bank investments representing 1,29% of total world capitalisation compared with a realistically assessed potential of 9,15%.

A stable rand was predicted for the next two years.

Greater liquidity was expected by institutional investors in 1990, with the cash component rising to R5,7bn (R3,3bn for 1989).

This represents 25% (16%) of a total amount of institutional cash flow of R22,7bn (R19,8bn).

Property investments were expected to rise to 14% or R3bn (10%:R2bn), equities to remain constant at 53% or R12bn (R10,5bn) due to delays in privatisation; while fixed interest investments were expected to fall to 8% or R2bn from last year's 20% or R4bn, he said.

In the medium term — between 1992 and 1995 — investment funds would be directed towards long-term bonds, property, the leisure industry, mass consumer markets, capital investment, export beneficiation and technology adaptation, Du Toit said.

The medium-term scenario was predicated on a relatively strong currency, a neutral gold price and an inflow of foreign project finance for Southern African development. Long term bond markets and property would provide enormous potential, he said.

Bank 'squeeze' warning sounded

BDay 2/2/90

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CERTAIN major banks are criticising the Reserve Bank's current approach to monetary policy, saying the liquidity crunch could cause major distortions such as inflated money supply figures.

In a letter informing corporate customers that credit limits and certain interest rates were being reviewed, one bank noted some "unfortunate implications" of current policy. The Reserve Bank's policy has been to allow the shortage of cash to reach levels in excess of R5bn in the hope the squeeze on their margins will compel banks to curb credit extension.

The letter said the policy could actually lead to inflation of money supply statistics because of the anomalies created in interest rate patterns.

A senior banker said this could occur because some big corporates were "round-tripping" in the money market — borrowing from a bank at the prime overdraft rate of 21% and lending the cash out at a higher rate to a bank in need. The effect is to inflate the money supply statistics because the banks' balance sheets grow.

These distortions could create difficulties in interpreting money supply growth statistics and could lead to a postponement of any relaxation in monetary policy.

GRETA STEYN

The problem arose because lending rates were largely fixed by the Reserve Bank while deposit rates were free to vary, the banker said.

If the situation continued for some months, banks might institute minimum lending rates higher than the prime overdraft rate, making prime obsolete.

Some lending rates have already been increased in an effort to heed the Bank's call to restrain credit extension.

However, the banks would prefer not to have to raise prime, or any other interest rates. Some bankers say the Bank should put extra liquidity into the market to reduce the cash shortage to more manageable levels.

The bank's letter to corporate customers notes the monetary authorities' suggestion that credit limits be reduced and lending policies be reviewed. New business and unauthorised borrowings would be subjected to higher interest rates, the letter said.

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Sanlam and Liberty post excellent returns

Finance Staff

The abolition of precribed asset requirements, coupled with a sharply rising equity market, boosted the investment performances of SA's insurance companies in 1989 considerably.

Two of the largest companies reported their annual investment performances yesterday, with both recording excellent returns.

While the returns vary from fund to fund, depending on the composition of each, they have all outstripped the inflation rate and are bound to be attractive marketing tools in the months to come.

Pension funds investing in SANLAM'S's 100 Plus and 200 Plus Market Value portfolios benefited handsomely from the abolition of prescribed asset requirements.

The greater investment freedom, coupled with judicious share investments by Sanlam, resulted in excellent returns for clients, says Walter Scheffler, senior general manager in charge of group benefits.

The 200 Plus Portfolio, which follows an aggressive investment strategy, yielded a return of 44,7 percent for 1989. Over the five years to December, the average yield was 33,9 percent per annum, which easily beat the average inflation rate of 15,8 percent over the same period.

Since its inception this portfolio has had the best performance of all life offices' pension fund portfolios.

The 100 Plus Portfolio, with assets of more than R11 billion, yielded on average 26,5 percent over the past five years.

Bonuses in the guaranteed Alpha Bonus Portfolio reached new heights for the twelfth consecutive year. For the financial year to September 1990, the bonus rates vary from 18,75 to 28,25 percent, depending on the year in which investments were made.

Special capital bonus

For provident funds, the bonus rates range from 20 to 41,25 percent, inclusive of a special capital bonus thanks to the abolition of tax on provident funds.

Mr Scheffler says the abolition of prescribed asset requirements was in all probability the factor having the greatest effect on financial markets in 1989.

Sanlam had a good run with share investments, inter alia because the share component, especially of the 200 Plus, was substantially increased.

In all portfolios, preference was given to enlarging the mining component. Of the main sectors on the JSE the financial mining sector performed best in 1989 with growth of more than 60 percent.

Shares contributing significantly to Sanlam's achievement were Messina, Gencor, Anglo American and De Beers in the mining sector and Barlows, Murray & Roberts and Richemont in the industrial sector.

For 1989 the return on the share component of the 100 Plus was 56 percent.

Long-term interest rates rose in the first half of 1989 after the announcement that prescribed investments were being abolished.

This was followed by a sharp drop, mainly as a result of overseas purchases. "Timely buying of stock enabled Sanlam to achieve good returns. We also utilised long-term stock options to hedge the portfolios against movements in interest rates," says Mr Scheffler.

The return on interest-bearing investments in the 100 Plus was 21,1 percent.

Property investments benefited from the repeal of prescribed investments because the new investment requirements created a bigger demand for property. The vacancy factor decreased, but there was also a decline in the level of rental increases as economic growth started slowing down.

Greater investment freedom

The property component of the 100 Plus yielded 21,9 percent in 1989.

The greater investment freedom resulting from the scrapping of prescribed investments was widely welcomed. The discretion and skills of portfolio management can now be judged even better,, says Mr Scheffler.

LIBERTY LIFE also reported on its investment performance yesterday, with its Equity Performance Portfolio posting a taxed yield of 42,35 percent in the year to December, while its compounded performance over two years was 35,3 percent.

"Our returns have comfortably outperformed the inflation rate," says Dorian Wharton-Hood, joint MD of Liberty Life. "All our portfolios did extremely well, although they did not achieve the levels of the Equity Performance Portfolio.

"Investors in the Variable Portfolio, which contains approximately five percent in property, recorded returns only marginally less than the Equity Performance Portfolio," he says.

Universal Lifestyle policyholders in the Managed Fund enjoyed a yield of 27,9 percent after tax, while investments in the Pensions Equity Market Value Portfolio appreciated by 40,33 over the 12-month period.

Investors in this portfolio have enjoyed an average compound yield of 26,2 percent per annum over the five-year period to end-December.

Brokers flooded as JSE soars

W/E News 3/2/90

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By DICK USHER
Deputy Business Editor

THE business world, both local and international, reacted sharply and positively to President De Klerk's major reform initiatives.

The Johannesburg Stock Exchange soared to fresh highs, financial indicators responded strongly and brokers were flooded with orders

All leading business organisations welcomed the changes which were called brave, statesmanlike and a challenge to the business community to help create a new South Africa.

Speculation also emerged overseas that sanctions could be eased or lifted.

As news of the steps swept the financial markets reaction was immediate.

At the close the Johannesburg Stock Exchange overall share index had risen to a new high of 3 279 from Thursday's 3 194 close and a previous record close of 3 239 on January 15.

The all-gold index surged to a preliminary close of 2 252 from Thursday's 2 180 finish, with added help from a rally in the bullion price. The industrial index rebounded to a record 3 025 from 2 933 — breaching its January 15 high of 3 023.

Capital market rates were sharply lower.

In London, gold shares rose in early trading and shot up by between 5 and 10 percent while the Stock Exchange showed interest in South African industrials for the first time in years.

One dealer said: "The market's extremely good at the moment, we're very busy and shares are flying about all over the place."

Sanctions

She speculated that economic sanctions against South Africa eventually could be eased as a result of the moves.

In the United States, where Mr De Klerk's speech was carried live via satellite by one network, the market was sluggish in response.

Gold futures were slightly lower and one trader said this was possibly because the steps would "lessen the threat of a civil war and it should also reduce the possibility of production interruptions at the gold mines.

Anglo American Corporation chairman Mr Gavin Relly welcomed the steps, which he said would normalise political life in South Africa.

"We would hope that these acts of courage and statesmanship on the part of President De Klerk will create matching acts of courage and statesmanship within South Africa's borders and beyond."

Mr K W Maxwell, president of the Chamber of Mines, said President De Klerk had crossed the Rubicon and opened the way to a new South Africa.

"We look forward to a positive response from the international community, including the lifting of sanctions. Together with President De Klerk, we also look forward to the end of decades of tensions and conflict".

The Afrikaanse Handelinstituut said the business sector had, for some time, pleaded for negotiations, the tested way to reduce tensions.

The organisation welcomed the announcement that the role of the public sector in the economy was to be reduced and that the private sector would be given the maximum opportunity to flourish.

As the largest employer organisation in South Africa, the South African Chamber of Business (SACB) "heartily welcomes the bold initiatives".

Market clamour

Cape Times 3/2/90

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Investors race to support FW's moves

By ARI JACOBSON

FOREIGN and local investors clamoured to the market to demonstrate overwhelming support for F W de Klerk's opening speech to parliament yesterday.

This reaction rippled through to the JSE where demand for shares soared and crossed over to the capital market which received a healthy injection from overseas investors.

The JSE Overall Index rose 86 points to surpass its mid-January peak of 3261 and close at a record 3279.

General expectations underestimated the extent of De Klerk's initiatives, say market sources.

Gad Ariovich, market strategist at Fergusson Bros, Hall, Stewart & Co says the positive response would impact in the short term, but the medium term would remain uncertain.

"In the short term the brain drain will decline and foreign investment through the equity and capital market will rise."

However, says Ariovich, the medium term seems a little uncertain as negotiations and conflict pave the way to a suitable setlement, which may shake-up the free market system.

Brian Kantor, who heads up the school of economics at UCT says although he saw no immediate threat to the free market concept, all political parties must realise there are benefits to political as well as economic freedom.

"Any form of control is deemed to be a weakness not a strength," says Kantor.

A market analyst added that the medium term would also impact on larger organisations' profitability.

"All such organisations have exploited cheaper labour and will be forced to improve the worker's predicament with higher salaries and improved social conditions."

Moving to the long end of the market, a bond dealer says the real fear surrounding the speech was the possibility R6bn in bonds purchased over the last year could be dumped on the market.

"Thumbs up to the speech saw the E168 rate, which opened at 15,35% trade as low as 15,12 in the morning session, as foreign investment poured in."

Andy Swartz, CE at Cape Investment Bank was overjoyed at the foreign reaction — "although rates came back to close at 15,18% on profit taking, there is plenty of upside potential in bond prices".

The finrand followed the same pattern opening at R3,36/$ and climbing to R3,31/$ before falling back to R3,33/$ at the close.

First National's assistant treasurer Rob Wade says the capital market has been buoyed by local and foreign investors taking a positive position prior to De Klerk's speech.

"We became bullish, once the Germans and Swiss, renowned for their caution, remained locked into the gilt market," says Wade.

He says the sharp movement in the finrand and capital market rates is indicative of how much the market was caught unawares by the speech.

Wade did sound a note of caution — "an appreciating finrand knocks returns, introducing competition for foreign funds as countries like Australia offer similar yields."

Dave Gise, gold analyst at Davis, Borkum, Hare & Co says local institutions helped the equity market, especially gold shares, which edged up to a closing volume of 2 252, just short of the post-crash high of 2 260 recorded in December.

Outlook augurs 'very well' for SA debt

CAPE TIMES 3/2/90

Own Correspondent

JOHANNESBURG. — SA's position with regard to US Congress and its international debt commitments could be substantially altered by the implications of De Klerk's speech, Nedbank economist Edward Osborn said yesterday.

"I think it was a tremendous speech and showed tremendous wisdom and courage," he said. "It was a giant step forward politically and of fundamental importance for the economy.

"The immediate effect on the economy is very difficult to assess. One has to weigh up carefully what De Klerk is saying about the restrictions on government expenditure. These noises have been made already but the length to which he went does certainly illustrate government's determination.

"This is very good from the overall financial point of view to get state finances in order and improve taxes but there are lurking behind it other big dangers, namely unemployment. If government go overboard in cutting back large enterprises they could exacerbate the recession.

"As far as external pressures are concerned, I think there are two. Firstly the US CAAA and secondly financial sanctions in the form of the debt obligation.

"The CAAA of 1986 set out very clearly what is required of the SA government to bring about a suspension of the act. De Klerk in one swoop has come very close to that.

"You will recall that it required the release of all political prisoners and four of five items which are spelt out in the act and the amendment of 1988.

"These were firstly the repeal of the state of emergency, which has not been done. Secondly the unbanning of democratic political parties, which has been done. Thirdly the repeal of the Group Areas Act and population registration, which has not been done. Fourthly the entering into negotiations with the black majority on which the speech showed an open door policy. Fifthly it required the withdrawal from Namibia and the implementation of UN 435, which has been done.

"Two of five have not been implemented and only one more would complete the required four.

"De Klerk has come pretty close to it and things augur very well for a change in attitude on the part of the American administration. There is no doubt that very active negotiations are going on behind the scenes.

"But you have to be cautious and sceptical about this. The US Congress is separate from the administration and even from the US President. It is hard to predict what attitude it will take."

Osborn said the second element in international opinion was related to financial sanctions.

"There are two parts to the debt. The first is debt inside the net which has been nicely buttoned up in the September/October agreement.

"Debt outside the net is more tricky and the only way we can get through the implications of this are by the re-negotiation of the debt with creditor banks either by rolling over or finding substitute finance or paying a bit.

"Most important is to have a satisfactory attitude on the part of the creditor banks. De Klerk's speech is very important in influencing the attitudes of these banks and negotiations with the banks will be infinitely eased by this speech."

But, Osborn added, SA still had tremendous problems and things would not change overnight.

UBS offers soft loans on repossessed houses

STAR 3/3/90 (58)

TREVOR WALKER

THE United Building Society will offer soft loans on repossessed houses at 15 percent for the first three years to approved buyers.

United MD Mike de Blanche said this was intended to get repossessed houses off the society's hands as quickly as possible.

Mr de Blanche was commenting on media reports that houses had been snapped up for R10 each at a recent auctions.

He said: "Anyone could bid at the auctions and if a house was bid up to an acceptable figure for us we would be prepared to grant the new owner a 90 percent bond."

The person would have to meet the conditions of the auction which required a deposit.

"People who want to make use of this facility are closely vetted as we do not want to go through the expensive process of repossession if the new owner was also to run into financial difficulties."

Mr de Blanche said the number of properties the society had had to take on to its books had grown steadily and looked set to exceed the number it was forced to buy in the 1984/85 downturn.

He said the society spread its risk through various communities and all levels of wage earnings, but it was true that the lower income earner with no access to housing perks who suffered most.

The societies had to bid at public auction to protect their loan exposure and to get the property registered in the name of the society.

The societies had to pay the transfer duty and the formality of the R10 price meant that little extra cost was incurred on a property that was already costing the society dearly in lost interest.

A spokesman for the UBS in Cape Town said the deal allowed the home owner to postpone paying transfer duties until the end of the third year.

The house more often than not was sold to him at a figure below that at which it stood in the Society's books.

So in effect he would begin to pay off on a loan account which after three years he would, after taking transfer, begin to pay off a bond.

UBS offers loan deal on repossessed houses

W/E ARGUS 3/2/90

58

By TREVOR WALKER
Business Staff

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Trying to help

He said houses vacated had to be protected against vandalism.

"We would like to get the house off our books as quickly as possible."

Building societies have been doing everything in their power to help people squeezed by the huge rise in the bond rate over the past 18 months.

They said nobody in his right mind would sell a house for R10 and clearly a building society owed thousands of rands on a house that was to be auctioned would bid up to the level of the society's exposure.

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So in effect he would begin to pay off on a loan account and after three years he would, after taking transfer, begin to pay off a bond the society would arrange.

Brokers flooded as JSE soars

W/E ARGUS 3/2/90

58

By DICK USHER
Deputy Business Editor

THE business world, both local and international, reacted sharply and positively to President De Klerk's major reform initiatives.

The Johannesburg Stock Exchange soared to fresh highs, financial indicators responded strongly and brokers were flooded with orders.

All leading business organisations welcomed the changes which were called brave, statesmanlike and a challenge to the business community to help create a new South Africa.

Speculation also emerged overseas that sanctions could be eased or lifted.

As news of the steps swept the financial markets reaction was immediate.

At the close the Johannesburg Stock Exchange overall share index had risen to a new high of 3 279 from Thursday's 3 194 close and a previous record close of 3 239 on January 15.

The all-gold index surged to a preliminary close of 2 252 from Thursday's 2 180 finish, with added help from a rally in the bullion price. The industrial index rebounded to a record 3 025 from 2 933 — breaching its January 15 high of 3 023.

Capital market rates were sharply lower.

In London, gold shares rose in early trading and shot up by between 5 and 10 percent while the Stock Exchange showed interest in South African industrials for the first time in years.

One dealer said: "The market's extremely good at the moment, we're very busy and shares are flying about all over the place."

Sanctions

She speculated that economic sanctions against South Africa eventually could be eased as a result of the moves.

In the United States, where Mr De Klerk's speech was carried live via satellite by one network, the market was sluggish in response.

Gold futures were slightly lower and one trader said this was possibly because the steps would "lessen the threat of a civil war and it should also reduce the possibility of production interruptions at the gold mines.

Anglo American Corporation chairman Mr Gavin Relly welcomed the steps, which he said would normalise political life in South Africa.

"We would hope that these acts of courage and statesmanship on the part of President De Klerk will create matching acts of courage and statesmanship within South Africa's borders and beyond."

Mr K W Maxwell, president of the Chamber of Mines, said President De Klerk had crossed the Rubicon and opened the way to a new South Africa.

"We look forward to a positive response from the international community, including the lifting of sanctions. Together with President De Klerk, we also look forward to the end of decades of tensions and conflict".

The Afrikaanse Handelinstituut said the business sector had, for some time, pleaded for negotiations, the tested way to reduce tensions.

The organisation welcomed the announcement that the role of the public sector in the economy was to be reduced and that the private sector would be given the maximum opportunity to flourish.

As the largest employer organisation in South Africa, the South African Chamber of Business (SACB) "heartily welcomes the bold initiatives".

Lucky fifth for Corbank

58

By Julie Walker

AFTER five approaches Corbank has found a compatible bedfellow.

Chief executive Laurie Korsten says Corbank received four approaches last year. This week a deal was struck with the Jan Pickard-controlled Cape Investment Bank Holdings (CIBH).

Only one of last year's tour made the headlines — the proposal from Investec, but cultural differences prevented the suitors from tying the knot. S/Times 4/2/90

Effective from April 1 and subject to approvals, CIBH will buy all the shares in Corbank, which will probably be delisted.

For every 100 shares, Corbank members will receive 60 in CIBH and R35. Corbank's merchant bank will become 100% owned by CIBH. Divisions involved in portfolio management, project finance, investment banking and leveraged buyouts will become subsidiaries, managements owning stakes.

Corbank's lobola comprises asset-based lending, foreign exchange and international banking, investment management and banking, and corporate finance operating from Johannesburg. CIBH brings capital- and money-market trading expertise from the Cape.

Mr Korsten took over at Hill Samuel — renamed Corbank — without having a close look at it.

"I bought Hillsam virtually blind.

"Only last year when Bill Pienaar joined were the problems addressed. He has got his arms around the problems and they will be out of the system by the end of February. The CIBH deal makes sense. No cultural problems are likely."

Mr Korsten will chair the holding company. Chief executive will be Jan Pickard of CIBH. Other directors include Mr Pienaar, Andy Swartz and present Corbank chairman Bob Aldworth.

4 SUNDAY TIMES, Business Times, February 4, 1990

58

R6bn deals put Senbank on top

By Julie Walker

NEVER mind the high-level staff walkouts in recent years, Senbank is still the leading merchant bank in terms of the value of deals handled.

In the richest corporate finance year ever, Senbank was involved in deals totalling R6-billion in 1989.

Senbank played a role in seven transactions, including parent Bankorp's rights offer and the delisting of Trust Bank. Its involvement in the R3,1-billion listing of Iscor pushed its tally to twice that of runner-up Finansbank.

Memorable

FirstCorp has provided a breakdown of all the deals exceeding R50-million or more last year.

With rights issues totalling more than R5,5-billion and mergers, takeovers and other transactions exceeding R8-billion, it was a memorable year for corporate finance departments.

There is a measure of double-counting, such as occurs through the rights offers of Gencor and its pyramid Fedmyn — now Genbeheer. Some deals also had two merchant bankers, and FirstCorp wisely refrains from apportioning percentage credit to each party.

In most cases customers were loyal to their traditional bankers. Gencor and Federale went to Sanlam stablemate Senbank and RMB got the business from Rembro stablemates, such as Sage and HLH. But there appears to have been less "tied business" than in the past.

Malbak, a Sanlam company, went to RMB. Anglovaal companies used UAL and Volkskas Merchant Bank even though Basil Hersov, its chairman, is chairman of First National. Small private banks DMB and Curle Securities picked up the odd deal.

Finansbank's only big deal of the year was the privatisation of Iscor, where it certainly played the role of senior partner.

Standard Merchant Bank (SMB) had a hand in three deals worth R1,7-billion, and Rand Merchant Bank (RMB) seven deals totalling R1-billion.

FirstCorp comes next, followed by Board of Executors, UAL, Volkskas Merchant Bank, DMB and one-man show Curle Securities.

Deals worth more than R2,7-billion did not require the services of outside helpers — or at least it was not admitted to.

Gencor used Senbank in the acquisition of another 34% of Trek from BPSA and Shell, but bought control of Alusaf from the IDC without help.

Genbel used RMB to assist in raising R300-million.

Samancor employed FirstCorp in the rationalisation of its chrome interests with Gencor.

Gold Fields of SA handled its own R1-billion rights offer. Fedvolks-Sankorp bought 41% of Teljoy from its British parent without help.

Spread

The Anglovaal group spread its business. UAL helped subsidiaries Consol to buy Goodyear and Associated Manganese to take up the rest of Feralloys, VMB did the Grinaker-Mooi River restructure, yet nobody helped Anglovaal buy Lavino SA or to acquire an interest in North Sea & General for £16,5-million.

Rembrandt deals in HL&H, Huntcor and Rainbow gave RMB good business.

One advantage of so many corporate finance houses to choose from is that the service has to be good to keep clients satisfied.

Sunday Times
BUSINESS TIMES
PERSONAL

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That elusive real return on money

S/Times 4/2/90

THE best things in life are real — according to the dairy advertisements.

A real return on investment should bring cheesey smiles to savers' faces. What exactly does real mean?

Real is a much-bandied term to signify a return on investment higher than the rate at which the cost of living climbs.

Real rates of interest imply a higher rate of interest paid than the rate of inflation

The intention of Government and the Reserve Bank is that real interest rates must prevail. With inflation for the year to December at 15,4%, one needs to earn 15,5% or more to get into the real bracket. Or is it?

Taxable

In the hands of most taxpayers, such return is but nominally real. Interest is regarded as fully taxable income by the Receiver of Revenue. Assuming that he demands a maximum of 45% of interest earned, fixed-deposit savers are worse off than ever.

What does the inflation rate signal? Economists have many chicken-and-egg theories, but the outcome is that what cost R100 this time last year now costs R115,40. If you could afford it last year, but have not achieved a real return on investment, you cannot afford it this year. Your standard of living falls, your capital is eroded, and is used merely to exist, not to earn income.

This is the crux of the matter facing all South Africans.

Fortunately, there are many investment opportunities. But only a few can claim to have outpaced inflation.

Security

Beating inflation through safe, institutional investments is no cakewalk.

Fixed deposits, such as those offered by banks, building societies and the Post Office, guarantee maximum security. But they are risky in the long term in that your money becomes worth less. It will depreciate in real terms.

Consider for a moment what the borrower — the bank, for example — does with the money it borrows from you. It lends it to others and takes a margin of profit for itself.

Emergency

Do not be misled by advertisements guaranteeing a fixed rate of return offered by a no-name brand institution. A guarantee is only as good as the institution behind it. If someone offers a return of 25% when banks pay 15%, a high risk is being taken with your money.

Once you start to question the other party's objectives, you will make fewer investment mistakes.

So much for fixed deposits. They are okay for a short spell as a sort of parking place or emergency coffer, but in the long run, they are a no-no.

Happily, the JSE has provided real returns to investors. Those rich and informed enough to have their own portfolio of shares have only their own fortunes to consider.

For more than 500 000 South Africans, investing in shares through unit trusts has been extremely rewarding. In the past 12 years, the rate of inflation has averaged 14,32% annually, but the worst return from a general equity unit trust has exceeded 25% compound growth. The best funds topped 30%.

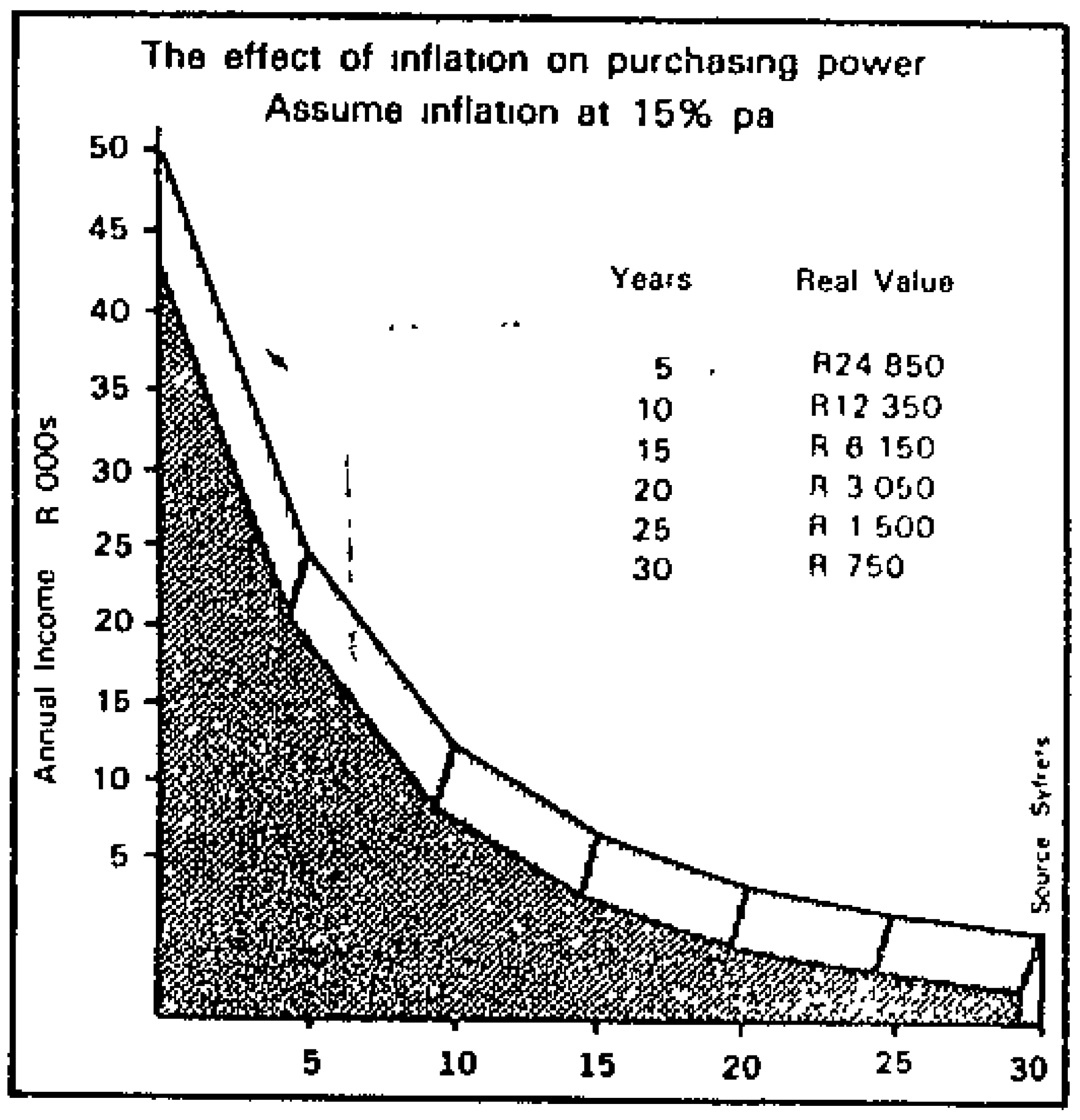
Impartial

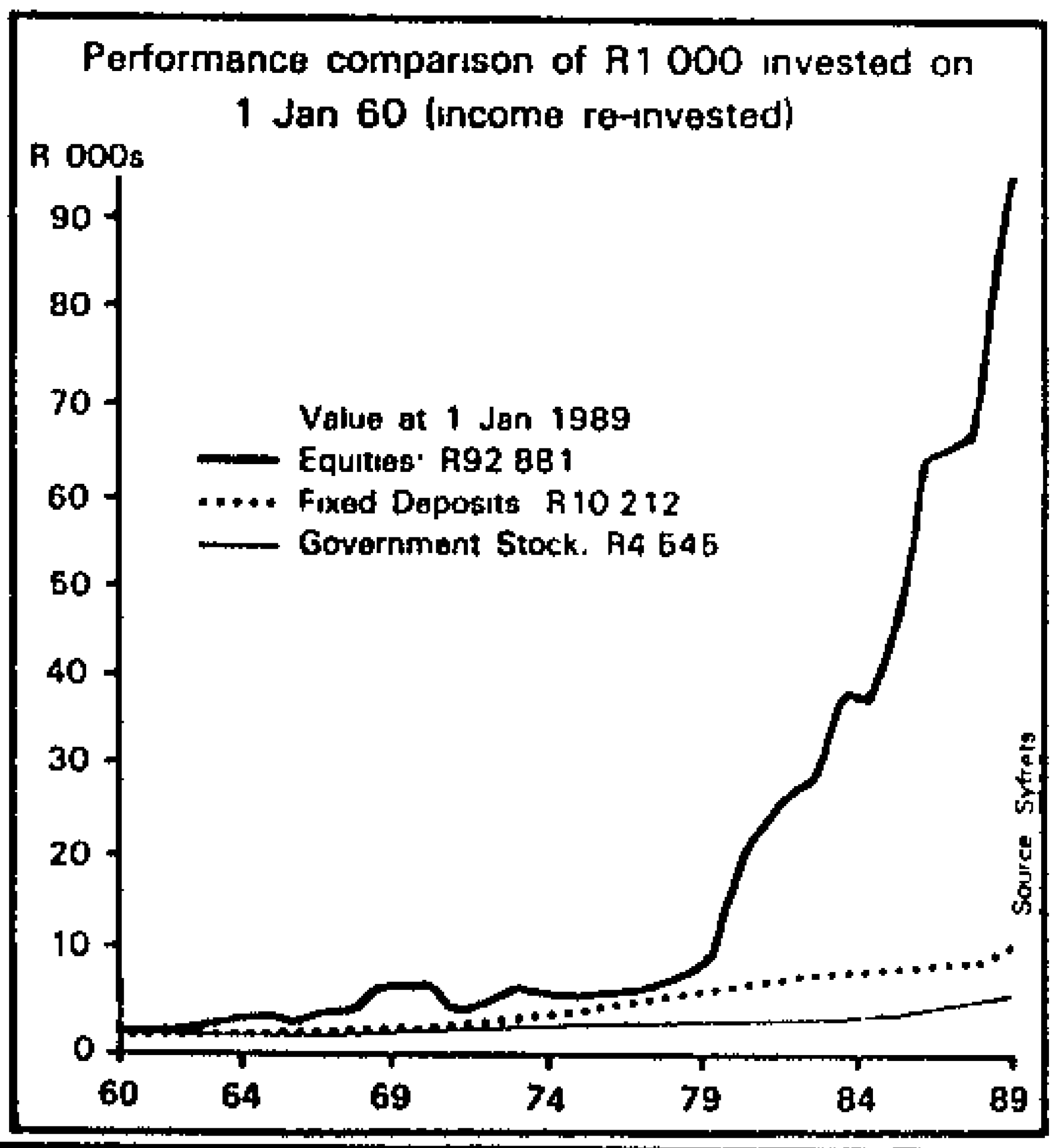
A spread of investments is the best policy. How one's personal investment portfolio should look depends on dozens of factors — needs, objectives, means, taxation and age.

For these reasons tailored professional advice is vital. Many people worry that they will not be given impartial advice if they go to a recognised financial institution.

They should better remember that they will not be given bad advice, that they are under no obligation to follow it, and that they can shop around if they so desire, and can spread their investments across several institutions.

Sound and professional advice is better than none.





DIAGONAL STREET

BoE takes a flyer, but says it's safe

58

S/Times 4/2/90.

TRADITION will play second fiddle at the Board of Executors with the advent of its Equity-Linked Investment.

Since BoE offers no acronym for Equity-Linked Investment, I'll label it quili. Conventional wisdom teaches that there is no such thing as a risk-free investment on the stock market.

The idea behind quili is that investors never lose, not at least in absolute terms, although interest income could be sacrificed in the event that BoE misreads the markets.

Investors with R50 000 or more opting for quili give BoE a mandate to divert the capital into two avenues. Most is placed on fixed deposit. The second leg of the investment comes from the interest accruing which is used to buy options on the JSE's All-Share Index futures, and to pay commission of the lesser of 2% or R2 000.

BoE will never spend more than the interest to be earned on the options and costs, so investors get back at least the capital they put in. BoE and I differ in terminology here.

BoE says investors retain "at least the value of the original investment". I say that although they get their money back, it will have depreciated in value. That is the price of opportunity.

Semantics aside, quili has merit, not least of which is the ability to make a return on both upward and downward movements on the JSE. But because the concept of options on futures is a tricky one to follow, the examples are all in the positive.

The graph outlines performance scenarios assuming an initial investment of R100 000 from November last year to June 15. The middle of the month is selected because the 15th of March, June, September and December are the industry's close-out dates for options.

DEDUCTIBLE

If the JSE moves not at all, investors get back R581 more than they put in eight months previously. They get that much back if the JSE falls by any percentage, not merely the 10% or 20% shown in the graph.

If the index climbs by 10%, pre-tax profit will be R10 332. As the market rises, so do the profits.

Each individual's capital is treated separately. Since the return from such a short-term investment is almost certain to be classed as income, it will be taxed at the marginal rate of each investor. The costs incurred through buying options and paying fees should be tax deductible.

Assuming a tax rate of 45% — people with R100 000 to spare will probably pay that anyway — the taxed profit from a 10% rise in the JSE All-Share Index through investing in quili will be 5,68%. Annualised, this comes to 8% — not fantastic.

But if the JSE goes up by 30%, investors' taxed return is 15,89% — annualising to 22,4%.

The limit on downside dictates that the gearing cannot be so great as to make a spectacular return. Logic tells me that if the JSE All-Share Index rises by 30% in 8,5 months, so too will the value of unit trusts.

Conversely, if the JSE had dropped by 30%, ditto unit trusts, whereas quili could have provided a good return to investors if the fund managers read the market correctly.

Another difference is that quili represents realised profits — a bird in the hand — whereas the unrealised capital growth of unit trusts is at the mercy of the market's moods.

BoE says the JSE must move by 8% or 9% to reach the point at which the interest from a fixed deposit equals the return from quili. That is quite a big swing to expect over the very short term, although the JSE can be volatile.

EXPERTISE

The current peculiar conditions of high interest rates and a soaring stock market are conducive to the launch of quili. BoE lists its advantages as:

- Value of original investment preserved.
- Growth potential.
- Short-term investment with roll-over facilities.
- Optional conversion into BoE's range of investment products on maturity
- BoE's investment expertise.

I differ with No 1, and am amused by No 5. That BoE has done well over the years is one thing, over a few months is another.

Chief executive John Winship says that if clients want their quili options taken in a certain area, it will be done.

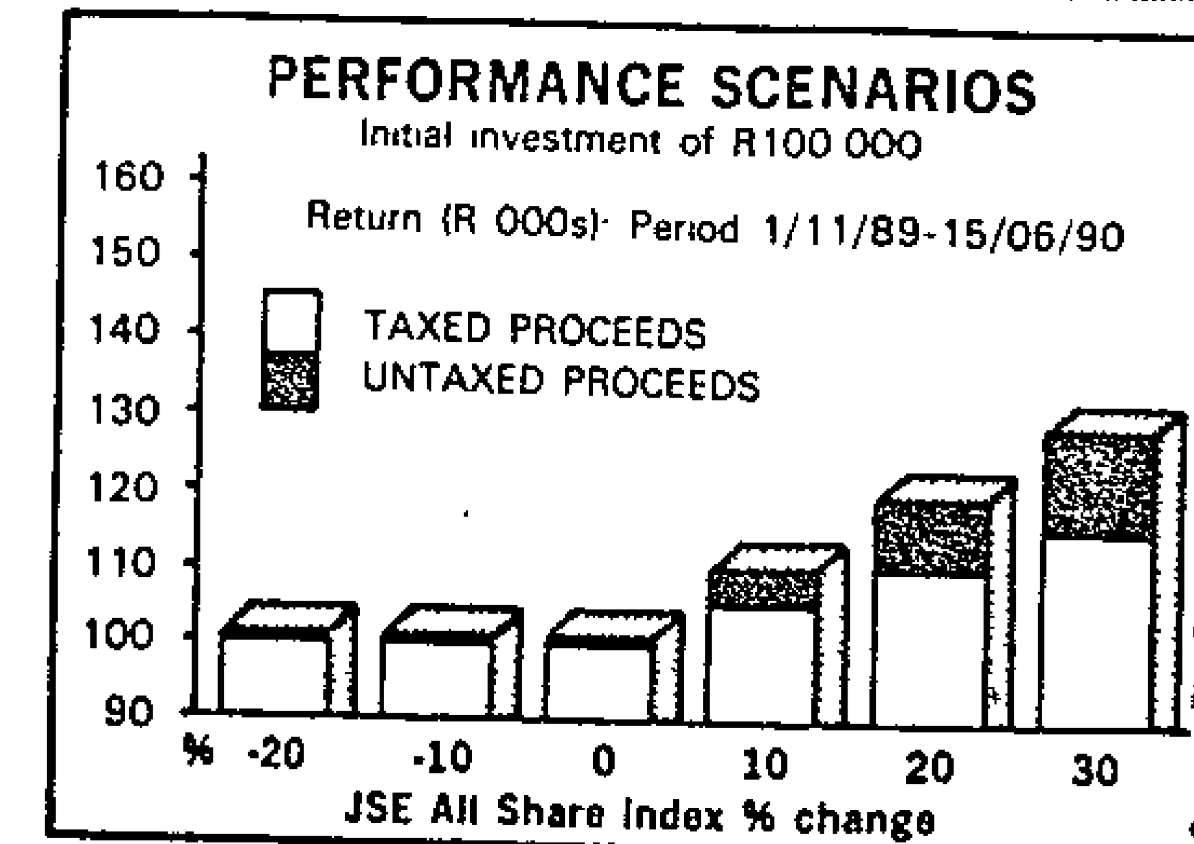
But for this, the client will still pay R2 000. He might as well manage his money himself and save the two grand in that instance. BoE says it will serve clients and consult when it believes positions should be closed ahead of schedule.

Likely applications for quili, says BoE, are for investors seeking equity investment growth with no risk of loss, for retirement and tax planning, prudent investment and deferring alternative share investments.

There is definitely some marketing hype. How quili is useful in that longest of long-term planning — retirement — is not clear to me.

The fact that there might be no real return suggests too high a risk for one's golden days.

The traditional tenet of low risk, low return, still holds true for quili, but it will no doubt attract a following.



Storm ove

CAPE reader Phillip Sussman, owner of Tempest International, takes issue with me over an article I wrote about Interboard two weeks ago.

I wrote: "Then it bought Tempest at net asset value of R21-million from its Swiss parent for 7,8-million shares — a share price of 271c compared with the market's 70c."

Mr Sussman faxed me these details of the transaction.

E I Dutton entered into an agreement on behalf of Interboard BV (Netherlands) with Tempest International Establishment Vaduz as follows:

1) Interboard BV would acquire Tempest Holdings Establishment Vaduz, a subsidiary of TIE Vaduz, for US$17-million cash.

2) Tempest Holdings Establishment was the holding company of Tempest International (Pty) Ltd Pietersburg, Tempest International Seshego (Pty) Ltd and TOM Distributors.

3) As far as I know the SA-based trading assets of Tempest Holdings Establishment were then acquired at Dutton's instructions onshore from Edward Dutton Holdings for R20,8-million and were

PERSONAL FINANCIAL PLANNING
A Business Times Survey February 4, 1990

Property for the brave and rich

58

By Julie Walker

MANY people ask whether or not property is a good investment.

It is akin to asking the same of shares — some are and some are not.

John van Rensburg's book, Everyone's Guide to Investment, offers advice about property ownership.

The merits of owning one's own home are not addressed in the book. Mr Van Rensburg, a former life-assurance consultant and a fellow of of the Institute of Life and Pension Advisers, tackles the methods, advantages and disadvantages of investing in property for capital growth and income.

Risky

Direct investment in property — where you or a syndicate of people physically buy and own property — he classes as risky because of its prime characteristic of immobility.

If a location becomes undesirable because a nuclear power station is built next door, or because the standard of the neighbourhood drops, the property itself cannot be moved.

It is vulnerable to to environmental changes beyond the control of the owners. Buildings are inflexible in that they can be expensive to convert for other uses.

Individuals who wish to buy property will usually be unable to. Either they will not have enough cash, or their potential exposure to a single investment will be too large.

Property is illiquid, has poor marketability and is subject to government interference — for example, rent control could ruin the profitability of a residential property.

Margin

Buyers usually gear up by borrowing money, often a mortgage bond. There is sometimes only a small margin — or even none — between net rental income and bond repayments, even if relief exists on repaying the actual capital.

The buyer is not alarmed at first because he is sure the value of the property will climb and rent income rise.

But if the bond repayment rises, or rents fall because of an oversupply of property, or a tenant does not pay or decamps, expenditure suddenly overwhelms income.

The buyer could become a forced seller and have to bear a capital loss.

Many factors influence the value of property. Political, social and ecological changes all have an effect. For the average individual, investing in property carries high risk.

On the return side of the coin, there are several categories. Initial yield is the amount that the net income bears to the buying price — usually small.

Income growth arises from rent or lease escalations. Increases can be predetermined — say, 10% a year — relate to turnover in the case of retailers, or can be ad hoc.

It has the effect of boosting a low initial yield into an attractive one in the medium to long term.

Ca tal growth — or the rise n property values — occurs in one of two ways.

Either the market-determined initial yield on that type of property falls, or its income increases so that even if the initial benefit does not alter, the value will increase.

Resale

For example, if a property is bought for R1-million yielding 10% return (R100 000 net income) and the demand for its type increases so that it could be sold at an 8% yield, the value rises to R1,25-million.

Tax on property raises other considerations.

- The net rental income is fully taxable at the owner's marginal rate.
- Depending on intention, the capital profit arising from the sale of property could be either tax free, or attract tax if the Receiver of Revenue determines that it was bought for resale at a profit.

Nevertheless, over the long term, sound, well-managed property should emerge as a hedge against inflation. Timing is perhaps the most critical factor in buying and selling property. Prices tend to follow the economic cycle — high at the peaks and low in the troughs.

Property should also be considered a long-term investment.

Mr Van Rensburg advocates indirect investment to individuals who are determined to get into property. This essentially means property or property trust shares listed on the JSE. The factors influencing their price movements are the same as for all shares.

Finally, the book dispels three misconceptions about property investment.

Time-share — consider the owner. He builds a block of units for R800 000. That averages R80 000 a unit, which he divides into 52 lots of one week.

Based on an average price of R8 000 a week, he will recoup more than R4-million for his outlay of R800 000.

Doubtful

Mr Van Rensburg says that if you consider your timeshare to be an investment and regard a yield of 14% as reasonable, and if your gross investment at a peak holiday period is R16 000, you need to let your timeshare for R450 a night. This takes into consideration conservative letting charges, levy, repairs and depreciation.

He says it is doubtful that anyone would pay R450 a night for a two-bedroomed apartment. He queries the soundness of such an investment.

Unless used to generate income, a holiday home provides inexpensive holiday accommodation, and the potential for capital appreciation.

But these factors are countered by bond interest, rates, taxes, services, repairs, depreciation, insurance and so on.

As an investment, a holiday home should be a paying proposition, otherwise it is simply a luxury. The expenses may largely offset capital growth.

Furthermore, it could be argued by the Receiver that the profit on the sale of a holiday home is revenue, hence taxable. It could be claimed that it was not bought as an income-generating investment and, by inference, was intended to be resold at a profit.

Another myth to be debunked regards vacant land. Although it might be a good investment to buy an undeveloped stand, especially in a growing residential area, several aspects should be considered.

They include price, bond registration costs and transfer duty, rates and taxes, and the availability of services (which must be paid for because they are available even if you do not use them).

On resale, agent's commission will probably accrue, and possibly bond cancellations. After subtracting the costs of ownership, a net profit will arise. Take into account the effect of inflation on the buying power of your investment. If you have done better, you achieved a real return, but this is often not the case

Once again, the taxman may want his slice.

A Business Times Survey February 4, 1990

Unit trusts just grow and keep on growing

S/Times 4/2/90 (58)

By Julie Walker

ONE of the most practical and productive ways to accumulate capital — especially among the young who are often reluctant to save — is to put a stop order on one's bank account and invest a fixed monthly sum in unit trusts.

The leading unit trusts have grown by a compound annual rate of 30% a year in the past 12 years, while the rate of inflation has been about half that.

Pool

What exactly is a unit trust?

It is a pooling of funds by many small investors. The funds are then invested in a spread of shares, bonds and gilts listed on the JSE.

The amount of money put in by you is measured in units. The price of each unit reflects the value of the underlying securities in the portfolio.

Your investment is managed by professionals who invest and administer your money for a prescribed fee.

Remember, you get what you pay for. The fees are not expensive, and are justified in the light of the good returns delivered to more than 500 000 unit holders in SA.

Investing in shares has proved to be a protector of capital, but the risk of investing individually is high for several reasons.

- Perhaps there is a lack of expertise, and the heart rules the head when it comes to trading shares.
- Perhaps you don't have a large capital sum to invest. If you can afford to buy shares in only one counter, and that turns sour, you lose everything. But if you have a spread of shares, the risk is lowered. If one share does badly, the others in the portfolio should be able to carry it.
- You could be too busy earning your salary to do a thorough job of investing it.

There is no shame in admitting to any of these faults, and no need to feel stupid if you concede that someone can do a better job of nurturing your wealth than you can. You wouldn't consider taking out your own appendix, you'd call a professional. So it should be with your savings.

So how do you start investing in unit trusts?

Application forms are available from the management companies, stockbrokers, financial institutions and banks.

All the funds have large marketing departments and they are only too willing to earn your business. So all your questions will be answered and your doubts discussed before you make a decision.

Safeguards

Another major advantage of unit trusts is that the management company is obliged by law to buy back your units at the ruling price should you wish to sell.

Think of this — if you were holding shares which nobody really wanted to buy, you could be forced to take a loss if you suddenly needed to realise your investment.

Unit trusts beat that hands down. The repurchase price of the units is calculated on the market value of the portfolio, not on the market in each share within the portfolio.

Moreover, you could have your money back within 48 hours.

The Registrar of Unit Trusts approves a trustee who ensures that the management company is administering the fund correctly. There are many safeguards built into the rules governing unit trusts.

A fund is not allowed to hold more than 5% of its assets in the equity of one company, nor is it allowed to own more than 5% of any class of share in a listed company. This is to ensure a good spread of investments, and so that only the larger, good-quality companies' shares can be considered.

Alert

A third safeguard is that 5% of the unit trust's assets have to be kept as liquid assets — cash and short-dated gilts.

Unit trusts charge a maximum of 5% as an initial fee when you decide to buy units. This fee covers the cost to the management company of marketing and administration.

Charges are also made to cover the 1,5% marketable securities tax and a flat 0,75% in brokerage which the trust is obliged to pay when buying or selling stocks and shares.

The fund's management fee is calculated at 0,5% of the market value of the trust every year, and is deducted from the income accruing to unitholders.

This income is paid periodically, and arises from the dividends and interest paid by the underlying securities in the unit trust's investment portfolio.

Many unitholders who have no immediate need of the income opt to reinvest it in the trust. This speeds up their savings plan.

The capital gain made on holding units is regarded as tax free because of the long-term nature of investing in unit trusts. But the Receiver of Revenue is always alert to quick gains, and could rule otherwise in certain instances.

Unit trusts are ideal for anyone aiming to accumulate capital, whether it is for educating children, supplementing a pension or other savings goals.

Metfund clears decks

METBOARD Mutual Fund (Metfund) is preparing for a slowdown in the economy.

Holdings in second-liner and cyclical stocks were reduced in the last quarter of 1989 and "the process will continue over the next quarter", says chairman Bernard Kantor.

(58)

Metfund's value at the end of last year was R21,6-million — 50% up on the R14,4-million at the end of the previous year.

S Times 4/2/90

Mr Kantor says four factors will affect SA's stock market in 1990.

Foreign equity markets are likely to experience a resurgence of confidence as a result of events in Eastern Europe.

The gentle easing of monetary policy in the US will favour the gold price, "although a major run is not expected this year", he says.

The extent of the economic slowdown will affect the JSE, and slower profit growth could be a moderating influence on the industrial market. But the foreign investment view of SA should continue to improve if the pace of reform is maintained.

Mr Kantor says: "As long-term investors within an inflationary environment, we will use any weakness in 1990 to accumulate high-quality shares where financial strength is inherent to combat the onset of any economic slowdown."

UBS buys dirt-cheap homes

By ALAN DUGGAN

THE nation's largest building society this week paid between R20 000 and R59 000 for repossessed houses sold by public auction in Blue Downs, Melton Rose, Eerste River, Kleinvlei and Kuils River.

At a similar sale last week, the United Building Society — the only bidder present — paid only R10 each for 18 houses sold in execution of a court order after the owners defaulted on their mortgages.

The houses were among many to come on the market after home owners — hard hit by high interest rates and the rising cost of living — simply stopped paying.

Families have been devastated by the loss of their homes and credit status: With their names in the computers of various agencies, they now find it impossible to obtain credit.

This week's auction was again dominated by the UBS, which bought all 14 of the two and three-bedroomed houses.

A spokesman for the building society said that its representative at such auctions generally bid up to a sum which covered the outstanding debt plus costs.

He told the Sunday Times last week that the UBS was deeply sympathetic towards the home owners and tried wherever possible to help them. (58)

● Yet another public auction — this time of 10 houses in the same areas — will be held at the Kuils River magistrate's court at 10am on February 19.

SA Eagle: 12,2% premium growth

Cape Times 5/2/90

(58)

Own Correspondent

JOHANNESBURG. — THE impact of the rates war in the short term insurance industry last year is apparent in the results of SA Eagle, which experienced a growth in gross premiums of 12,2% to R652,5m (R581,3m).

MD Peter Martin says SA Eagle decided to sacrifice premiums rather than retain business "at any cost".

Earnings per share fell 6% to 392c (417,4c) though an increased dividend 190c (180c) was paid out. The share at 2 300c is now trading on a PE of 5,9 and a dividend yield of 8,26%.

Martin believes the results to be "very satisfactory" and cannot realistically be compared with the "exceptional" year of 1988.

The substantial loss on the motor account — the cost of motor claims increased by over 30% — impacted on the underwriting surplus which fell 46% to R20,6m (R37,9m).

Martin says a feature of the motor account was the number of heavy commercial vehicles, together with their contents, which were stolen or hi-jacked.

"Most of these vehicles were insured under fleet accounts which have shown a particularly high loss ratio and we have been forced to increase rates in this section of the account."

The poor motor experience was offset to some extent by the growth in investment income by 18,5% to R52,5m (R44,3m) due to higher interest rates and improved dividends from the substantial investment made in equities at the beginning of 1989. The strength of this investment income and the amount of retained income enabled SA Eagle's solvency margin to surge to 93% (59%).

Another positive feature was the profitability of especially the fire account due to an absence of major fires and natural catastrophes. Accident, engineering, marine and aviation suffered from higher cost of claims but produced satisfactory results, Martin says.

The tax rate fell from 40% to 33%, containing the decline in attributable income of R47m (R50m) to 6% compared with the 13,5% drop in operating income. Attributable income does not include the tax benefit of R4,7m related to the statutory contingency reserve.

Martin says the strength of Eagle's balance sheet has enabled the company to immediately create, in full, the statutory contingency reserve equivalent to 10% of net approved premium income, though the new amendment to the Insurance Act only requires that this be done over five years.

To create the reserve, funds have been transferred from distributable reserves and an appropriation from current income in respect of the increase in premium income in 1989.

According to Martin, SA Eagle "is financially strong, adequately reserved and well positioned to continue to participate in this very competitive market which may have sometime to run before adverse results will force companies to a more sensible approach to underwriting."

The 1988 results have been restated to take account of changes in accounting policies related to fixed assets and dividend income.

Shares boosted by 9-billion

Nb 43 5/2/90 (58)

By TOM HOOD
Business Editor

INVESTORS boosted South African share values by almost R9 billion in reaction to the speech by State President F W de Klerk at the opening of parliament.

Shares prices soared on the Johannesburg Stock Exchange on Friday and brokers expect the momentum to continue today.

Two share barometers, the JSE's industrial index and the all-market index, reached new peaks on Friday and the total market value of shares was today estimated to exceed R331 billion.

South African gold and industrial shares also made sharp gains in British and European share markets.

In London gold share prices rose 7,2 percent. But a 4 percent rise in the financial rand restricted gains in gold shares in Johannesburg to 3,2 percent.

The strength in the financial rand also helped to limit the rise in industrial share prices on the JSE to 3,3 percent.

However, some foreign favourites scored sharp gains. Barlows jumped 500c (11,1 percent) to R50, Johannesburg Consolidated Investments rose 525c (10,6 percent) to R54 and SA Breweries rose 300c (9,2 percent) to R35,50.

The financial rand, following strong foreign buying, firmed to 3,45 to the US dollar — its highest rate since May 1988.

● One of Germany's top businessmen, Dr Carl Hahn, the international chairman of the motor giant Volkswagen, who is visiting this country, said the state president's announcement vindicated Volkswagen's decision to remain in South Africa.

INSIDE: Weather 2, Fin

Bank calls for shareholders

By JOSHUA RABOROKO

THE African Bank has appealed to the black community to buy shares in Afribank, despite the turbulent and trying social, political and economic times South Africa was undergoing.

At a meeting of shareholders in Johannesburg, Dr Sam Motsuenyane, who was re-elected chairman, said the present climate has had a disruptive effect on the socio-economic fabric of the black people. (58)

He also said it was "touching" to note that the bank achieved its best results just after going through its most trying times which were characterised by bad and hostile publicity. Sowetan 5/12/90

The current capital structure of the bank, particularly the existence of 750 000 16 percent and the 3 750 000 eight percent cumulative redeemable preference shares, compelled the bank to pay out a large proportion of its taxed profits to the holders of these shares, a factor which operated against the ordinary shareholders.

SA Eagle results reflect rates war

58

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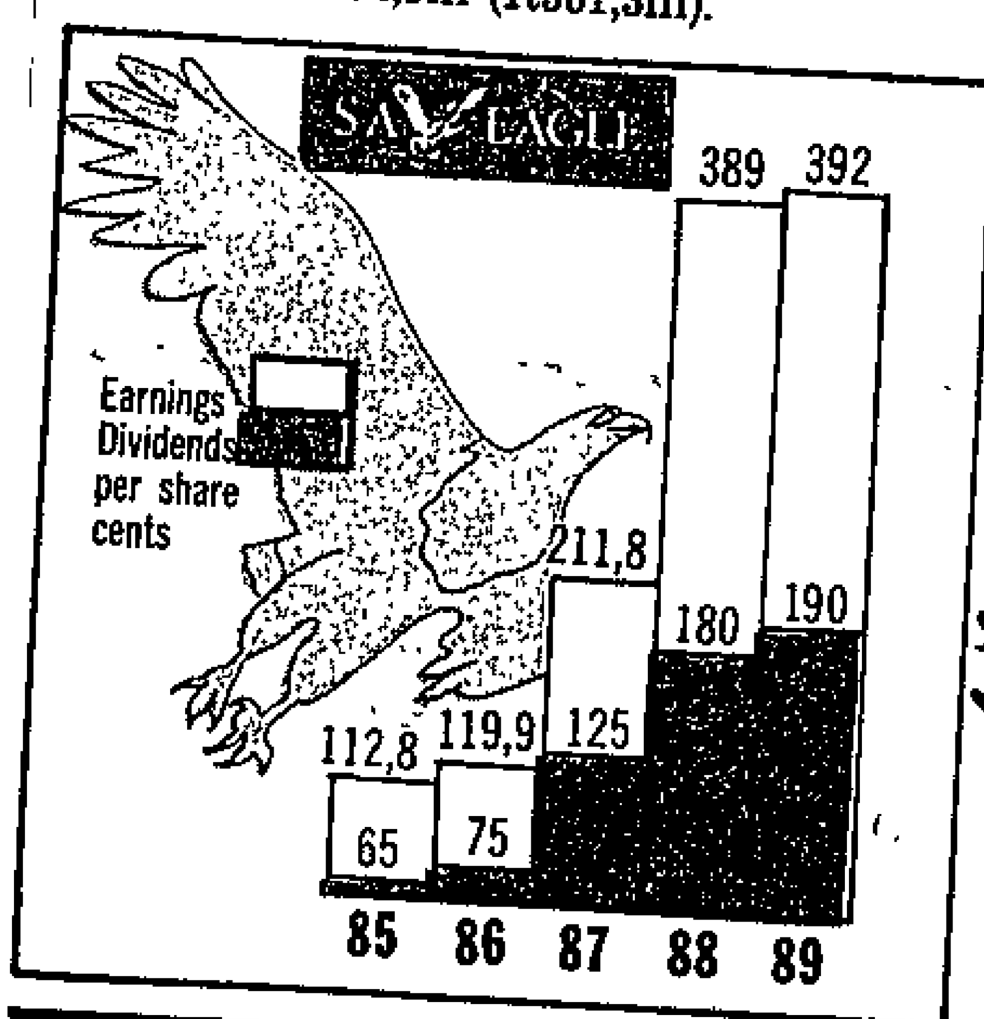

BDay 5/2/90

LINDA ENSOR

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☐ To Page 2

SA Eagle

BDay 5/2/90

58

☐ From Page 1

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Gencor in bid to alleviate medical crisis

(STAR 6/2/90 (58)

PRETORIA — Mining giant Gencor is to host a conference aimed at forming a strategy to alleviate the crisis in academic medicine, the Medical Association of SA (Masa) announced today.

Masa's acting secretary-gneral, Dr Hendrik Hanekom, said the conference would be held between May 28 and 30 and would be attended by decision-makers from both the public and private health sectors, economists and politicians.

Dr Hanekom said Masa had for years warned that a serious crisis was developing at teaching hospitals and the patient would be the ultimate victim should services further deteriorate.

A senior Gencor manager, Mr Kobus Visagie, said his company wished to express its confidence in the future of South Africa not only by its investment in the economy, but also in the health and welfare of its people. — Sapa.

B10M6/2/90

UNIT TRUSTS PROVE SOUND — EXPERTS

LIZ ROUSE

HISTORICALLY, property unit trusts, taking into account dividend and capital growth, have proved to be a sound long-term investment.

Max Pollak & Freemantle partner John Rayner says in a review that property unit trusts and loan stock units are an important part of investment portfolio diversification.

The attractiveness of these vehicles is enhanced by the fact that they offer a comparable yield to investments in single property.

Selective investment in property unit trusts/loan stock will provide a real return over inflation.

From January 1980 to November 1989, the property trust index has provided a total average annual return of 16,5% a year compared with 20,9% for financial and industrial and 15,1% for all share index.

These returns compare with the annual average inflation rate of 14,4% for the comparative period.

Based on the broking firm's forecasts, the current average forward yields of the property trust sector are 11%, 12,2% and 13,5% for financial 1989, 1990 and 1991 respecively.

The property trust index has risen about 34% from 116 at the beginning of 1989 to 170 currently and historic yield is 9%.

Welcomed

58

Prospects for the companies are good, says Rayner. Both property unit trusts and property loan stock companies have been reclassified as fixed property, as opposed to their previous classification as equity for purposes of prudential investment guidelines regarding the new prescribed asset requirements.

With life insurance companies and pension funds holding an average of 11,2% and 8,7% of their assets in the form of physical property, this reclassification has been welcomed by the investment community.

Rayner says with limited new buildings coming on stream, institutions are often unable to find suitable direct property investments.

He expects demand for both property trusts and property loan stock companies to be underpinned by continued allocation by the institutions of annual cash flow to direct and listed property investments.

The broking firm's preferred buying list includes Amaprop, Barprop, Cenprop, Hyprop, Pioneer, Sycom, Tamboti amd Tricom.

STAR 6/2/90 (58)

Barricades set up after march halted

Youths seal off E Rand township

By Stan Hlophe and Abel Mabelane

Youths in Tembisa, near Kempton Park, threw stones, burnt vehicles and set up barricades to all routes leading to the township yesterday.

Burning tyres were found on most main roads and street corners — reminiscent of events in the PWV area during the 1984/85 upheavels.

The township was filled with angry and defiant youths who stood on street corners in groups while policemen in armoured vehicles and cars patrolled the area.

The youths' actions were seemingly a retaliation following police action earlier in the day when they dispersed a march by about 10 000 residents to the local municipal offices.

Van overturned

When The Star visited the area late yesterday afternoon, the area was inaccessible.

Barricades blocked all roads. A burnt-out delivery van was found overturned, blocking the main road.

Youths stood at strategic points and stoned passing vehicles.

When police passed by, youths would run for cover and reappear a few minutes later.

The township was tense. Buses and taxis were not operating and those residents trying to get home from work were left stranded and were seen hitch-hiking in an effort to reach home before sunset.

Thousands of rands' damage was caused when the house and shop of Tembisa mayor Mr Solomon More were set alight, a few hours after police dispersed protest marchers with teargas at Tsepo Section yesterday morning.

The protesters had demanded the resignation of the mayor, the release of detainees and the reduction of allegedly excessive electricity and water charges.

Several people and a child were injured when marchers stampeded after teargas was fired. Tembisa hospital spokesmen said nobody had been admitted with serious injuries.

Some time before the shop was set alight, groups of youths stopped motorists and asked for petrol.

Later a pall of smoke was seen coming from the direction of the shop. Residents in the vicinity stood and watched while the shop burnt.

Police arrived too late to extinguish the fire.

The mayor's house at Sedibeng Section was stoned and set alight but the fire was quickly extinguished by the police. A car on the premises was destroyed by fire.

The Tembisa administration offices were out of bounds to residents as chanting youths sealed off the road leading to the council offices, which were guarded by armed municipal police.

ANC flags

Yesterday morning's march was in protest against the high electricity and water charges in the township and claims that the council had granted 85 percent of the open spaces in Tembisa to a white developer.

Several priests led the march, which started at the squatter camp near Oakmore station at about 9 am. Other people joined the march as it proceeded to the council offices, where a petition was to be presented to council officials.

The marchers, holding ANC flags and those of other organisations, were stopped by police, supported by members of the SADF, at Tsepo Section on the main road to Tembisa West.

Claims that the marchers had obtained permission for the march could not be confirmed.

Schools in Tembisa were empty yesterday with most children taking part in the march.

House prices set to climb by 10% — UBS

SYLVIA DU PLESSIS

HOUSE prices could still climb by about 10% in 1990, but this will nevertheless imply a further decline in real terms, UBS says in its latest quarterly housing review. B Day 6/2/90

It says that as economic activity slows down during 1990 — and probably also into 1991 — the residential property market is bound to follow suit.

The number of house plans passed fell by 18% during the first half of 1989, and a tapering-off in real estate transactions and new houses completed is also "in the offing".

UBS says the average price of a medium-sized house rose during the fourth quarter at an annual rate of 3,5% to R95 000, and for 1989 as a whole by 9% — 1% less than 1988's increase. In real terms, prices fell by 4,8% in 1989.

The average cost of new houses tapered off slightly during the fourth quarter, while prices of existing houses rose by only 2,3% over the previous quarter, reflecting the slowdown in property market activity.

According to UBS, the upward trend in building costs appears to be moderating. While the increase in these costs still exceeded inflation, the costs actually showed a decline of about 1% on a quarterly basis.

Turning to the mortgage rate, UBS says with inflation still at 15%, continued strong growth in the money supply and a low level of gold and foreign exchange reserves, the monetary authorities will have "little choice" but to keep interest rates at their present high levels during the coming months.

"Mortgagers and potential mortgagers will do well to keep in mind that interest rates could remain higher for longer periods than was previously the case," it warns.

(58) The Argus, Tuesday February 6 1990 11

SA shares rising fast in London

From DEREK TOMMEY

JOHANNESBURG. — South African industrial shares, shunned for several years by the world's investors, have at last come in from the cold.

Since President de Klerk's watershed speech on Friday foreign investors have been heavy buyers of top class South African industrials with listings on the London International Stock Exchange.

Since Friday morning the London price of Barlows has risen 28 percent from $13,10 to $16,77. The price of SA Breweries has risen also by 28 percent, from $9,57 to $12,26. Remgro's shares have risen 24,7 percent from $3,92 to $4,89 and Sasol shares have risen 20,5 percent from $3,71 to $4,47.

Differential

These price increases are larger than has been the case on the Johannesburg Stock Exchange, where the strengthening financial rand has depressed prices.

In the two trading days since Thursday the financial rand has strengthened more than six percent, rising from R3,43 to the US dollar to R3,22, following heavy foreign buying. But for the foreign investment interest, this would have resulted in local share prices dropping by six percent.

Stockbrokers in Johannesburg said foreign investors were buying big in companies with London listings, with an established track record and whose shares were freely available.

Foreign investors are also showing interest in OK Bazaars and Iscor. But they are not getting the attention they should as OK Bazaars shares are not freely available and Iscor does not have a London listing.

At present, foreign investors are buying South African shares listed in London at prices equal to 12 times their earnings, and its is believed they could eventually pay a price equal to 16 times earnings, the same as they are paying for their own blue chips.

However because of the distortions caused by the financial rand, a P/E of 12 in London is equal to one of 16 in Johannesburg and this is disturbing local investors.

SA Breweries, in spite of the jump in its share price in the London market in the past two days, is still standing on a P/E of 12.

But in Johannesburg its P/E has reached 15.8. resulting in a claim that the share is now overpriced. Sasol's P/E in London is 13,1, while in Johannesburg it is 16,7. Barlows has a P/E of 6,7 in London and 8,5 in Johannesburg. Remgro's is 8,1 in London and 10,3 in Johannesburg.

The financial rand discount is also resulting in foreign investors getting better yields than local investors. Barlows is yielding 3,15 percent in Johannesburg and 3,99 percent in London.

These lower price-earnings ratios and higher dividend yields make South African shares attractive to foreign investors in spite of the remaining political risks.

Du Plessis hits PW pay move

CT 7/2/90

Political Staff

EX-PRESIDENT P W Botha lacked consistency in applying economic policy and in 1988 agreed to R2 billion extra in salary increases despite agreed strategies not to increase expenditure, according to the Minister of Finance, Mr Barend du Plessis.

"Changing priorites in this way consequently destroyed our financial credibility, severely damaged business confidence and demotivated our advisers," he said.

Mr Du Plessis, in an interview published yesterday in The Executive, said that in 1988 "the wheels came off fiscal and monetary strategies that had been soundly constructed.

"It started when I suddenly had to find money for an interim increase in teachers' salaries, shortly after all such increases had been ruled out ... Ultimately we ended up with a general salary increase for civil servants for which we had not budgeted."

Share prices of Cape firms at record levels

Argus 7/2/90 (58)

By TOM HOOD, Business Editor

SHARE prices of several Cape-based companies have soared to record levels in the buying spree that has followed President F W de Klerk's reform speech last Friday.

Shareholders of 13 Cape companies saw prices rise again yesterday on the Johannesburg Stock Exchange.

The companies and the latest share prices are: Board of Executors (660c), Southern Life (1185c), Safmarine (4600), Distillers Corporation (400c), Irvin and Johnson (3050c), Bergers (165c), Pepgro (2600c), Pepkor (4875c), Pikwik (775c), Pick 'n Pay (1500c), Wooltru A (4800c) and two Rembrandt group companies Tegkor (950c) and Tib (1000c).

Two Cape companies showed recoveries with Pals Clothing rising 20 percent to 30c and Inboard rising 14 percent to 40c. TEJ, however, dropped 7 percent to 60c.

Forty-nine companies, including gold mines, hit new records yesterday.

President Insurance enjoys its best year

JACQUES MAGLIOLO

PRESIDENT Insurance, a wholly owned company in the listed Rentbel group, had its most profitable year (to end-June) since its formation in 1955.

Despite soft market conditions, leading to stiffer competition and strong downward pressure on premium rates, the company's underwriting profit increased to R664 000 (1988: R120 000). Net premium income (NPI) rose to R25,3m (R19,3m) and gross premium income (GPI) to R30,6m (R23,5m). Investment income leapt 68% to R1,5m.

GM Schalk van der Merwe said: "The company's service-orientated approach and emphasis on excellence contributed substantially to its success."

"It is expected that the strategy profit-orientated underwriting and application of loss prevention — with favourable reinsurance arrangements — will lead to further improvements in the results." BDay 8/2/90

He forecasted NPI at R31,5m and GPI at R41m. However, he did not foresee a dividend. (58)

After remaining static for two years, the company's solvency margin — the ratio of free reserves to NPI — climbed to 25,3% (19,1%). An amount of R540 000 (2% of net premium income and unapproved reinsurance) was transferred to a contingency reserve.

Sage Group property trusts raise dividends

(58) LIZ ROUSE

THE SAGE Group's three property trusts — CBD Fund, Fedfund and Pioneer — have announced increased dividends, while results are marginally higher than forecasts. BDay 8/2/90

A report from Sage Property Trust Managers (SPTM), management company of the three trusts, announces dividends for the six months to December of 17,79c for CBD Fund (up 9,4%), 15,41c for Fedfund (up 9,2%) and 15,15c for Pioneer (up 14,6%).

CBD Fund's net distributable income for the year to December was R19,4m (1988: R17,8m). Net distributable income and dividends a unit rose by 8,8% to 31,51c from 28,96c in 1988.

Fedfund's net distributable income rose to R19,9m from just over R18m in 1988, lifting income and dividends by 10% a unit to 27,55c (25,04c).

Pioneer's net income for 1989 increased to R27,5m (1988: R23,3m), producing a 14,7% increase in net income

Bank supports deregulation

TRUSTBANK supports deregulation and privatisation which promote free enterprise and the development of the informal sector.

The bank says it believes that all South Africans should have equal access to economic opportunities.(58)

In his review, the bank's managing director, Mr Kobus Roetz, says part of their Community Development Programme involves the support of job creation organisations such as the Foundation for Entrepreneurial Development, African Council of Hawkers and Informal Businesses, and Triple Trust (which is particularly active in Crossroads and Khayalitsha). Sowetan 8/2/90

Colfin Holdings earnings grow 37,5%

ZILLA EFRAT

COLFIN Holdings' earnings grew 37,5% in the six months to October with the service and investment divisions achieving satisfactory results. (S8)

The financial services and banking operation achieved attributable profits of R1,2m and earnings of 8,05c a share.

The group, previously Cashworths Fashion Holdings, changed its name after the Colfin group of companies were injected into it. B Day 9/2/90

Chairman Harry Spain says the group's major operating subsidiaries underwent fundamental changes in their positioning during the past financial year following its change of control.

MD Jeff Wiggel says the service division is benefiting from increased corporate activity. Together with a satisfactory performance from its investment portfolio, this should ensure earnings for the period to April are in line with forecasts of 18c a share.

BoE's rescue bid for Helderberg

BIDAY 7/2/90 (58)

CAPE TOWN — The Board of Executors has placed its financial muscle behind a scheme to save the troubled Helderberg Retirement Village in Somerset West.

In the latest of a batch of court applications to try and restore the liquidity of the cash-strapped retirement village, villager Rolf-Stephan Nussbaum has applied for the management company to be placed under judicial management and for the scheme to be converted from share-block to sectional title.

In terms of the share block scheme, 300 villagers participated by buying shares in the respondent, the Helderberg Village Share Block Holding.

Nussbaum's Cape Town Supreme Court application has been postponed to February 15, the same day a separate application for the respondent's provisional liquidation is being heard.

His application has been supported by the Board of Executors.

The BoE has researched and approved the sectional title option and offered to secure the capital required to restore the scheme's ability to meet its current obligations.

In terms of a rescue plan proposed in the legal documents, the respondent will need an additional R11m over a period of 11 months to meet these obligations.

This assumes that neither bondholders of the respondent, nor the Allied Bank and Building Society — another creditor — will call up additional debts during the period of judicial management.

The application has also been supported by Personal Trust, a shareholder in, and

LESLEY LAMBERT

creditor of, the development company, Shemara Holdings, which was the respondent in a second provisional liquidation application last week.

Shemara was given until today to reply to the application, which was brought by one of its creditors, chartered surveyers and valuers Roy Horrell and Associates for an amount of R18 984.

In his affidavit, Nussbaum says the financial affairs of the Helderberg Village Share Block Holdings are in a state of disarray.

He says the company is insolvent because it does not have enough cash to meet its current obligations, although it has assets valued far in excess of its liabilities.

Nussbaum argues that it is likely a judicial manager could organise the repayment of debts and the meeting of obligations.

It would also enable the respondent to become a successful concern by completing the development of the retirement village and converting the management company into a sectional title scheme.

His view that the cost of excessive infrastructual facilities in the village could become more affordable if many new cottages are built and sold as sectional title, is supported by a cash flow chart drawn up by the BoE.

The majority of villagers have already approved an offer by an anonymous individual to invest more capital in the village, provided villagers paid an additional R20 000 each to convert to sectional title.

FM 9/2/90 (58)

CORBANK/CIBH FM 9/2/90 (58)

Common ground

The plan to merge Corbank with Cape Investment Bank Holdings (CIBH) will broaden the activities of both groups. Corbank CE Laurie Korsten also hopes it will raise the quality of certain of his group's activities.

He reckons it was Corbank's decision to scale down its gilt, money market and derivative trading activities that led to an approach by CIBH late last year.

Corbank had realised that the systems and skills the group then had in those areas were not of the standard it wanted. When efforts to improve these were unsuccessful — former Southern Life investment GM Blackie Swart declined to be lured to Johannesburg, for example — management decided to cut back with the intention of upgrading those operations three to four years later.

CIBH MD Andy Swartz saw an opportunity in this because CIBH has developed strengths in the same fields. In December he phoned Korsten, who then had discussions with the Pickard family — CIBH's controlling shareholders — and merger talks developed. Korsten emphasises it was CIBH that made the approach and that Corbank had turned down four earlier approaches from other parties.

He contends that while the banking sector's margins have generally been squeezed recently, Corbank has not been affected worse than others; at the end of December the group had surplus deposits of R19m placed with other banks. "When your net asset value is 270c and the share trades at these levels (145c), then you must be a sitter for bids," he says.

The plan is to merge the businesses under CIBH, which is to be renamed, and CIBH will acquire all the shares in Corbank. Corbank shareholders will be offered R35m cash and 60 CIBH shares for every 100 Corbank shares held, entailing payment of R4,83m cash and issue of 8,27m new CIBH shares.

The total capital base will be around R50m; Corbank has a capital base of R28m and CIBH R29m. The Pickards felt CIBH was overcapitalised. It had shareholders' funds of R28,35m at end-December but these are expected to increase to R51m after the deal. Other benefits CIBH expects include international exposure. It had been unable to obtain a forex licence but Corbank has long been active in this field.

The operations will cover six areas: Corbank's banking business, including treasury, forex, money lending and corporate services; portfolio management; Corvest, handling leveraged buy-outs and MBOs; and project finance. From CIBH there will be the money, gilts and derivatives; and corporate finance.

Sceptics tend to think mergers are pointless and often dangerous unless large-scale cost savings are achieved. In this instance, though, it is not a deal likely to generate synergies from cost savings. The cultures are thought to be similar and there will be little overlap. The maximum number of people expected to move between the banks is five and the plan is to keep total employees close to the present figure of about 200. Where redundancies occur they would be at lower levels.

On the other hand, merging these groups could result in some interesting times for the senior executives. Korsten is to be chairman while Jan Pickard Jnr will be CE and deputy chairman. Korsten — who will hold a 10% stake in the top company — expects to be able to concentrate on the areas where his own strengths are, particularly fee-earning business.

Andrew McNulty

FM 9/2/90 (58) **Corbank's Korsten ... no big cost savings**

AFRICAN BANK FM 9/2/90

(58)

New route

Nearly a year ago, African Bank CE Gaby Magomola departed, after employees alleged he was incompetent. Under acting CE Jack Theron it is clearly headed on a different course, but there are questions over whether it is the right course.

scandal that rocked ... mola's arrival. (Magomola is now chairman of the marketing arm of the Foundation for African Business & Consumer Services.)

But some shareholders refuse to take the results at face value. One, management consultant Mike Maisela, says: "While one applauds the turnaround, it is not without questions. How were the results achieved? Through cost reductions? If so, what effect will this have on long-term viability?"

The quest for profitability is at the expense of market share, still less than 1%. Potentially, the market is huge. More than 50% of wages are earned by blacks; and the potential markets for mortgages, second-hand cars and taxis are huge. Then there are aid funds — a multibillion-rand industry in SA. Could the bank not seek this business?

Then there is the union-controlled provident and pension industry, worth billions. Church funds and independent and self-governed States are other potential sources of business. After all, this is how Afrikaans financial institutions developed.

Whether or not the long-term strategy is correct, Theron has made many improvements. Hired on a three-year contract to turn the bank around and train a successor, he's tightened up on the previously lax checks on loans to bank officials and employees. The staff is being trimmed; the complement of 186 compares to 214 in 1988.

Theron believes increased services will help performance. He expects to offer cheque accounts next year, credit cards three years after that, and automatic teller machines within five years. He says up to four more branches will open this year — in Cape Town, Durban and the eastern Transvaal.

Theron has also launched a training programme, using Standard Bank's expertise and facilities. Employees will take Standard's banking courses, and Institute of Bankers exams. Managers will take business school courses.

But to acquire a competitive edge, the bank needs a massive infusion of capital. One source might be grants from overseas institutions. Another solution could be a merger with a major bank but that — like a JSE listing — would run against the aim to be a black, mass-controlled institution. However, even if it can attract capital, it will take

(58) · FM 9/2/90 (58)

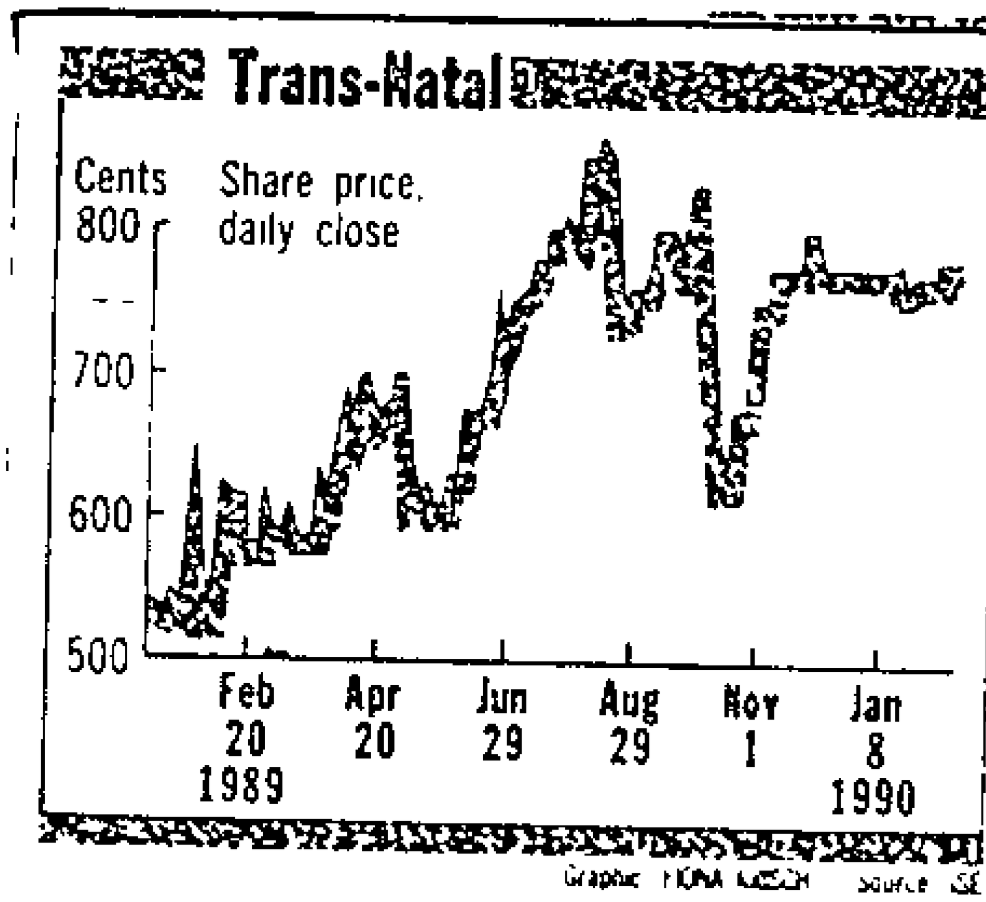
TAKING A TURN

Composite insurer Commercial Union (Cusaf) has diversified into factoring, establishing Commercial Union Trade Finance, together with Colin Warner, formerly head of First Factors, who will be MD, Peter Edmonds (marketing director) and Richard Smith (credit administration director).

Says Cusaf MD Bill Rutherford: "We are always available for diversification into something viable."

He believes the new company will complement Cusaf's previous acquisition, Credit Underwriting Agency, which provides domestic trade credit insurance. The latter has a more direct link with Cusaf, in that the insurer carries the insurance risk.

Cusaf will provide most of the capital. Other shareholders will include Warner, Edmonds and Smith. The firm will target small to medium companies, with turnover of R1m-R50m. It will provide invoice discounting and a straight factoring service — the purchase of a customer's debtor book — as well as debt collection, credit management and computerised reports for management.



Trans-Natal lifts earnings by 112%

B/Day 11/2/90 RIAAN SMIT

TRANS-Natal Coal Corporation has more-than-doubled earnings to 71,7c (33,8c) a capital unit in the six months to end December, and lifted its interim dividend from 10c to 20c.

Attributable income increased by 113%, from R26,7m to R56,9m, and taxed earnings by 112%, to R56,9m (R26,8m).

The company has also strengthened its financial position, with cash holdings now exceeding interest-bearing debt.

The Genmin-owned group's cash holdings increased significantly, to R160,2m, compared with R35,4m in 1988; they now exceed interest-bearing debt by R15,2m.

Group chairman Brian Gilbertson said cash holdings would come down a bit because of the Gloria project (to provide access to reserves at Koornfontein colliery via an incline shaft) — "but we are confident it will remain above R160m".

Steamcoal exports increased by 33%, while inland sales decreased 7% and sales to Eskom decreased by 6%. Export of steamcoal and anthracite accounted for 33% of total sales, compared to 26% in 1988.

Gilbertson expressed concern about the 33% increase in cost-of-sales, to R552,4m, mainly due to higher costs of increased export sales, ongoing provision for rehabilitation (R22,7m), and inflation. On a comparable sales-mix basis unit working costs rose 15,4%.

He said although results should be maintained for the second half of the year he was concerned the dollar coal price had not increased significantly.

SA coal also still suffered from the sanctions stigma in the international market, although this was easing. Contracts which expired recently had all been renewed, with an average price increase of 5% in the Far East, Gilbertson said.

BoE's rescue bid for Helderberg

B/Day 9/2/90 58

LESLEY LAMBERT

CAPE TOWN — The Board of Executors has placed its financial muscle behind a scheme to save the troubled Helderberg Retirement Village in Somerset West.

In the latest of a batch of court applications to try and restore the liquidity of the cash-strapped retirement village, villager Rolf-Stephan Nussbaum has applied for the management company to be placed under judicial management and for the scheme to be converted from share-block to sectional title.

In terms of the share block scheme, 300 villagers participated by buying shares in the respondent, the Helderberg Village Share Block Holding.

Nussbaum's Cape Town Supreme Court application has been postponed to February 15, the same day a separate application for the respondent's provisional liquidation is being heard.

His application has been supported by the Board of Executors.

The BoE has researched and approved the sectional title option and offered to secure the capital required to restore the scheme's ability to meet its current obligations.

In terms of a rescue plan proposed in the legal documents, the respondent will need an additional R11m over a period of 11 months to meet these obligations.

This assumes that neither bondholders of the respondent, nor the Allied Bank and Building Society — another creditor — will call up additional debts during the period of judicial management.

The application has also been supported by Personal Trust, a shareholder in, and creditor of, the development company, Shemara Holdings, which was the respondent in a second provisional liquidation application last week.

Shemara was given until today to reply to the application, which was brought by one of its creditors, chartered surveyers and valuers Roy Horrell and Associates for an amount of R18 984.

In his affidavit, Nussbaum says the financial affairs of the Helderberg Village Share Block Holdings are in a state of disarray.

He says the company is insolvent because it does not have enough cash to meet its current obligations, although it has assets valued far in excess of its liabilities.

Nussbaum argues that it is likely a judicial manager could organise the repayment of debts and the meeting of obligations.

It would also enable the respondent to become a successful concern by completing the development of the retirement village and converting the management company into a sectional title scheme.

His view that the cost of excessive infrastructual facilities in the village could become more affordable if many new cottages are built and sold as sectional title, is supported by a cash flow chart drawn up by the BoE.

The majority of villagers have already approved an offer by an anonymous individual to invest more capital in the village, provided villagers paid an additional R20 000 each to convert to sectional title.

Angola denies Cuban troop build-up

LUANDA — The Angolan government yesterday denied persistent media reports that Cuban troops were on their way from Cuito Cuanavale to Mavinga to reinforce Angolan forces fighting against Unita.

Foreign Affairs Minister Pedro de Castro van Dunem said here the reports were aimed at justifying US military support for Unita, the Angolan news agency (Angop) reported. B/Day 9/2/90

"Even people that are cautious know that Cuban troops are at this very moment north of the Lobito parallel."

Van Dunem said the [illegible] forces (Fapla) had the capacity to eliminate Unita but SA intervention had prevented this in the past.

He said: "Now that we are meeting each other face to face, we see that Unita does not have the capacity to defeat us."

He insisted there were no troops marching to Mavinga.

Sapa reports that a group of US congressman has appealed to President George Bush to step up military aid to Unita because of the increasing conflict.

The leader of the group, Republican con-

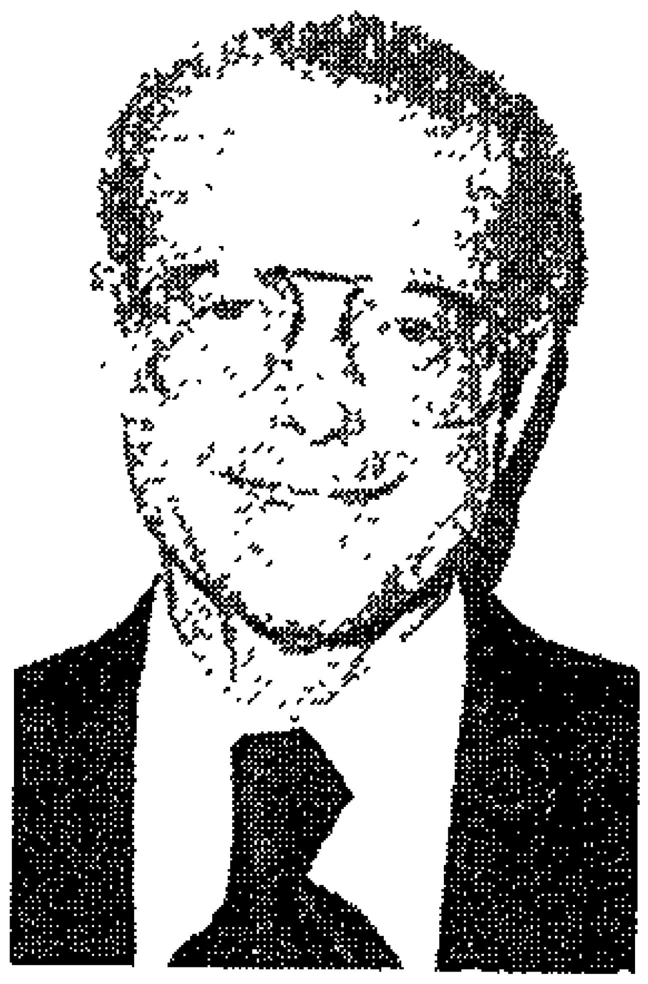
Seardel boosts profits 33,1%

Cape Times 9/2/90

(58)

By AUDREY D'ANGELO
Financial Editor

THE huge Seardel Investment Corporation once again achieved record sales in the six months to December 31. It lifted turnover by 21,9% to R470,6m and operating profit by 33,1% to R41,5m — indicating a widening of margins.



Aaron Searll

But, with higher finance charges and an increased number of shares in issue, earnings at share level rose by only 12,1% to 62c.

In spite of this, the interim dividend has been maintained at 8c with a high cover of 7,8 times.

Executive chairman Aaron Searll said that in fact attributable earnings had risen by 18,4%. But the number of shares in issue had risen by 39% to 23,4m as a result of the conversion of redeemable preference shares in December, 1988. Shareholders' equity had risen by 12,5% to R118,7m.

Explaining the reason for the high dividend cover, Searll said: "We need to plough back substantial reserves in order to reduce the ratio of borrowings to equity."

This had already been reduced to 119% compared to 123% this time last year, "so we are on our way. Our objective is to bring it down to 80%".

He said total assets on December 31 were R393m. The return on assets was now 17,9% compared with 16,1% the previous year. "Our objective is 20%."

Searll said retail sales of group products had continued to be good in January. But although the margins of clothing companies in the group had improved they had still lagged behind the inflation rate.

"We hope to change this. The clothing manufacturing industry has been hit by inflation and we shall have to pass on some of this."

Although he expected economic activity to slow down in the second half of the year, forward bookings were still good.

He expected earnings for the full year to be around 105c a share.

Commenting on the future outlook, Searll said he expected interest rates to fall in mid-year.

Although he agreed that monetary policy could not yet be relaxed, the whole situation would change if foreign bankers agreed to roll over SA's foreign debt, relieving the pressure on the balance of payments (BoP).

"The recently announced initiatives by the State President applicable to the political scene should impact positively on economic activity in this country. I am very optimistic."

The group exports clothing to Europe but Searll said he saw no opportunities, at this stage, in the opening up of Eastern European countries.

"They may provide us with markets in the future but at present I don't think they have money to buy imported clothing."

UBS takes 25% stake in Aida

STAR 9/2/90

(58)

By Derek Tommey

Aida Geffen, Johannesburg's hot shot property saleswoman, has made one of the biggest sales in her life. She has sold 25 percent of her 54 branch estate agency, Aida Holdings to the United Building Society.

No price has been published for the transaction, but it would have cost UBS Holdings, the top company in the United Group, about R1,2 million to buy 25 percent of Aida through the share market.

The deal was confirmed last night by Mrs Geffen, the founder, chairman and principal shareholder in the estate agency.

This is the UBS's second link-up with an estate agency business. In August last year it paid R5 million for one third of the shares of Multi Listing Services, the Cape-based association of 600 estate agencies nationwide.

This follows the pattern set in England by building societies and other financial institutions who bought into estate agents to promote their home financing and other business.

The link-up with the UBS offers both organisations new business opportunities.

Aida would be able to offer a complete financial package including mortages, insurance and other forms of finance to house buyers, said Mrs Geffen.

Many new products, including an insurance policy against a house-buyer having to outlay money for repairs during the first two years after purchase were planned. Aida's staff would benefit as they would be able to augment their commission from house sales with income from the sale of insurance and other financial products.

Having a stake in Aida would ensure that the UBS would be able to assemble a package of top quality house mortgages which its finance company, Mortgage Securities, launched with Discount House Risk Management, could resell to financial institutions.

In a move that generated considerable heat among some of the investment community, in 1987 she listed Aida on the Development Capital Market.

And her confidence has been fully vindicated for in spite of a downturn in the property market Aida has been one of the few DCM companies which has not disappointed its shareholders.

In the 12 months to February last year, the group sold properties worth R591 million, had a turnover of R7,8 million and had pre-taxed profits of R1,3 million.

Profit figures for the 12 months ended February, this year, will be published shortly.

Mrs Geffen said that Aida now had 54 franchise holders together with another 10 offices and employed more than 600 people. It is expected to have a turnover of around R700 million in the current financial year.

There are plans to increase the number of franchise holders to 75 in the next two years.

She said that every franchise holder had agreed to link-up with the UBS. The shares bought by the UBS are coming from Mrs Geffin's 85 percent holding.

She said the changes in the shareholdings should enable Aida to move its listing from the DCM to the JSE's main board.

No UBS officials were available for comment, but the move is in line with that institution's drive to rapidly expand its activities.

Blue chips go round-tripping

W/K ARGUS 10/2/90 (58)

By CLAIRE GEBHARDT

SOUTH Africa's leading corporations are topping up their bottom lines via banking operations involving billions of rands.

Prime corporate banking customers are literally laughing all the way to the bank as they borrow money up to their overdraft limits and lend it back to cash-hungry banks at a higher rate of interest.

And banks say there is no way to pin down the canny operators.

First National treasury general manager Ken Russell says it is impossible to accuse a customer of drawing down an overdraft and investing it elsewhere, — "but those who see a chance of making a profit will certainly take it".

This form of round-tripping has reached the point of absurdity as Reserve Bank Governor Dr Chris Stals turns the thumbscrews on the banks to squeeze lending growth, say informed sources.

Bank margins are under unrelenting pressure as the gap between deposit and lending rates narrows, while at the same time prime is kept unchanged because Bank Rate is unchanged.

Rising levels of money-market illiquidity is allowing triple-A-rated corporates to borrow at, or below, 21 percent and lend on call at 22,75 percent.

This is because at shortages over R4,5 billion, banks run out of bills for rediscounting and are subject to penal rates of up to 23,50 percent at the Reserve Bank's "window".

Some banks are making noises about raising prime but the Reserve Bank has indicated that this won't be allowed.

The present convention, excercised through moral suasion, is that prime is set about three points above Bank Rate.

Reserve Bank sources say Dr Stals is getting a message across that he means business and that he intends to cool people's ardour for borrowing and spending.

But re-intermediation — the process whereby lending outside the banking sector and off-balance-sheet lending is reduced and comes back on balance sheet — is boosting money supply and frustrating Dr Stals's efforts to slow down growth in M3.

It has also resulted in a stagnating bankers' acceptances (BA) market.

Banks can create BAs themselves, but instead of selling the BAs into the secondary market they are exchanging them among themselves.

This way they can obtain refinancing at the window at non-penal rates.

But Dr Stals's nasty medicine is unquestionably working.

Banks are looking at different approaches to new lending via both pricing and stricter policies.

Hardest hit, unfortunately, will be the less-well-protected smaller businesses and smaller account holders.

This is because banks are prohibited from squeezing clients whose rates are linked to prime.

Trust Bank's treasury general manager Koos van Ettinger says banks have to look at growth on the assets side.

"We can't stop lending but have to take heed of what the authorities say, which means looking at pricing to cope with the situation."

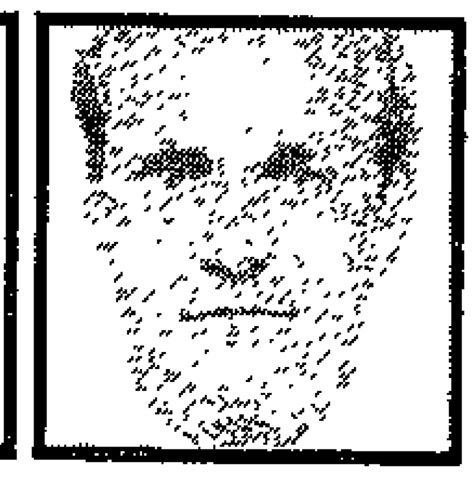
Playing down unit trusts

STAR 10/2/90

Money Matters

58

MAGNUS HEYSTEK



THE unit trust movement comes in for considerable criticism by one of the country's leading unit trust experts.

In the latest edition of the quarterly Unit Trust Survey, Mr Hugo Lamprechts from the Graduate Business School at the University of Pretoria writes: "It is sad that unit trusts are not being marketed more aggressively as an investment and saving instrument.

"Some of the largest unit trusts (for example Sage) almost never advertise. Others say that advertisements (especially on TV) are so expensive that they simply don't have sufficient funds available.

"We would like to know of a more suitable investment channel for the relatively unsophisticated investor (that is most of us) that can hold a candle to SA's general equity funds."

This viewpoint is echoed by that of many market commentators, including me, that unit trusts are downplayed as a retirement product by most financial companies, and particularly their brokers.

The reason for this is quite simple: the commission paid to brokers and life agents on unit trusts are far lower than on other products like retirement annuities and endowment policies. Unit trusts are bought and are in most instances never sold.

Another reason is that the Unit Trust Control Act forbids comparative advertising between unit trusts. The only source for this information is the media.

Let's look at how the commission-structure differs between endowment policies and unit trusts.

If a client makes equal monthly investments of R100 for the following 10 years (120) months, the marketer will receive approximately R3 a month — 3 percent of the maximum charge of 5 percent — or R36 a year for the next 10 years.

The commission received by the marketer of an endowment policy with a R100 monthly premium (also ten years) is roughly R300 in the first year and another R120-odd in the second year. This difference in commission-structure explains two things: why brokers tend to favour endowment policies over unit trusts but more importantly why unit trusts are likely to be the best performing investment.

Because a broker of an endowment policy receives all of his commission within the first two years, a policy that lapses after that doesn't affect his earnings while a unit trust investment that is lapsed after, say three years, (which happens frequently) will cost the broker a great deal of his commission.

With the commission cutting heavily into the capital available for investment in the first two years of an endowment policy it stands to reason that a unit trust investment should easily outperform that of an endowment policy or even a conventional retirement annuity.

The good news according to Mr Lamprechts is that unit trust companies will in future be able to use projected figures, based on a maximum growth rate of 15 percent a year in future. This will place unit trusts on a similar footing with insurance companies who can project estimated maturity values of 15 percent.

UNIT TRUSTS & INDICES	3 YEARS (%)	5 YEARS (%)	7 YEARS (%)	10 YEARS (%)	12 YEARS (%)
GENERAL EQUITY FUNDS					
All Share Index	19,36	30,44	24,82	24,87	30,52
Industrial Index	29,63	31,88	26,94	25,63	30,05
Guardbank Growth	21,18	28,61	26,53	26,52	30,52
Metfund	—	—	—	—	—
Momentum (Lifegro)	—	—	—	—	—
NBS Hallmark	—	—	—	—	—
Norwich NBS	—	—	—	—	—
Old Mutual Investors'	23,41	33,70	27,49	27,16	30,70
Sage Fund	18,50	26,32	23,20	24,12	27,62
Sanlam Index Trust	18,07	27,96	23,72	22,81	26,97
Sanlam Trust	14,50	22,58	20,58	20,95	25,05
Southern Equity	—	—	—	—	—
Standard Bank Mutual	19,88	27,14	23,62	22,69	26,78
Syfrets Growth Fund	—	—	—	—	—
UAL Unit Trust	17,14	26,17	24,08	24,02	27,91

COMPARISON: How the various general unit trusts performed.

Guardbank funds top a billion

S Times 11/2/90

(58)

UNIT trusts are in good health. Two of the biggest players passed new milestones this week.

Guardbank, the second-largest trust, announced that its funds were worth more than R1-billion for the first time.

Old Mutual's Gold Fund attracted R17-million from investors in its first four days.

Guardbank's figure includes the assets of its Growth, Resources and Income funds.

After Guardbank Growth Fund began in 1970, assets grew to R49-million at the end of 1979, R115-million at December 31, 1984, and R1,1-billion at February 8, 1990.

Quality

Fund managers managing director Roy McAlpine says: "In line with demands for high-quality growth investments, particularly during the last few years, sales of Guardbank units have increased dramatically.

"This aspect, together with a substantial rise in equity values, has resulted in a massive increase in the size of assets."

He calls this a significant milestone, especially since Guardbank Growth Fund began several years after most of the other unit trusts.

"The level of growth in the scale of the activities of the Guardbank funds has been achieved despite a very low-key marketing strategy which has intentionally been adopted over the past two decades," says Mr McAlpine.

By Charmaln Naidoo

Mutual Investors still leads the way, having reached assets of R2-billion late last year.

Senior portfolio manager Marco Celotti says of the new Gold Fund: "Although we believe that any time was a good time to launch it, market conditions strengthened investors' sentiment."

Including Old Mutual's initial investment of R11-million, the fund's market value was R28-million at the close of business on Thursday.

"With the gold price breaching the US$420 level several times this week, our Gold Fund was well placed to attract bullish investors.

"However, the strengthening of the financial rand offset this to some extent, with the result that the gold index was quite flat.

"The State President's speech pushed international interest in SA shares to new heights," says Mr Celotti.

Pepsi a can

S Times

PEPSI Cola Africa is up for grabs to anyone with a few million in his pocket — and enough nerve to tackle disillusioned consumers —

Retirement Annuities

A Star survey

Balancing risk and reward

THE DECISION by several life insurance companies, including Liberty Life, to take a contrary view to other life assurers and introduce an 80 percent equity-based retirement annuity, including investment guarantees, is supported by an article in the UK publication "Pensions World", written by Jonathan Tate, chief investment manager of Confederation Life.

Tate concludes that the optimum balance between risk and reward would be best achieved by investing 80 percent in equities and 20 percent in fixed interest securities.

Star 14/2/90

South African life Assurers Old Mutual, Sage, Federated Life and Commercial Union have all recently introduced a 100 percent equity-based RA, following the abolition of prescribed assets last year, which means that life assurers no longer have to place 53 percent of their RA funds into low yielding investments such as government stock.

Policyholders investing in these portfolios forego all investment guarantees.

Liberty Life joint managing director Dorian Wharton-Hood says that a 100 percent equity-based portfolio would obviously expose policyholders' funds to greater volatility and hence greater risk.

Liberty Life believes that this extra exposure to risk is not justified by any reasonable expectation of greater return.

Tate's research supports this. Says Tate: "History shows that, in the period since 1945, equities have produced superior returns despite the higher risk, but of course, the future could turn out to be different.

"The investment manager should look at the relationship between the risk-free return and his expected equity return.

"Obviously, in the real world, the asset choices within the mix are much wider."

Tate advocates broad diversification to include fixed interest securities, property and overseas equities, and would not contemplate dramatic shifts in the mix, except in exceptional circumstances.

Liberty Life believes the 80 percent equity-based portfolio is the optimum mix because policyholders gain a greater exposure to equities from the lower prescribed asset requirements without foregoing any guarantees.

Adds Wharton-Hood: "The term 100 percent equity-based is in any event, a misnomer. I doubt whether any sophisticated fund manager would continue to invest in shares when the prices are inflated simply because the portfolio is deemed to be 100 percent equity based."

Equity-linked RAs not a new concept

SOUTHERN LIFE has slammed the widespread publicity given to the launching of equity-linked retirement annuities by several of its competitors.

Southern claims that the concept is not unique, stressing that it already has an all-share retirement annuity (RA) portfolio with distinct advantages over the "new product" approach of certain other life offices.

Executive director (life division), Chris Liddle, says Southern has always offered policyholders a selection of linked investment channels and that changes in legislation have resulted in an all-equity portfolio.

"Since the introduction of the present Master Adaptor RA in 1985, investors have had the choice of four portfolios — managed, equity, property or money market — or the traditional smoothed bonus portfolio.

"While the equity portfolio has held sufficient Part 1 assets to conform to the requirements of the Insurance Act, the balance of the portfolio has been invested solely in equities."

He says that since the removal of the prescribed asset requirement in September last year gilts have gradually been sold out of the portfolio and selected equities bought as value situations arose.

"The end result is that the portfolio which was originally established to offer clients the maximum possible exposure to the stock market is now a true all-share RA portfolio."

Mr Liddle suggests Southern's existing equity portfolio offers distinct advantages over the "new product" approach of competitors:

- **Being part of an existing fund with a sizeable asset base, policyholders do not participate in a small portfolio comprising only new money.**

Investors do not need to buy a new policy but can continue paying premiums on existing contracts and benefit from the removal of the prescribed asset requirements.

☐ RETIREMENT ANNUITIES

Delays could cost you thousands in the long run

FEBRUARY 28 is not the only deadline you should consider in deciding on a retirement annuity (RA) — another deadline, potentially far more expensive, is imposed by the cost of delay.

On a R100 a month contribution, a delay of only one year for a 40-year-old could cost over R140 000 (see box).

Many people decide on an RA bearing in mind the final date to obtain tax relief on contributions, the last day in February. They often overlook the primary purpose of an RA, to provide a retirement income, and remain blissfully unaware of the effect a delay of even one year can have on that income.

Nine out of 10 South Africans lack financial security when they retire, but many have cover should they die. "Living too long" is no less important then "dying too soon". It is essential to plan and save for both and the consequences of failing to provide for retirement as soon as possible can be alarming.

Sage Life Universal RA — R100 pm

Age	Delay years	Value of fund at 65 R	Cost of delay R
40	Nil	876 076	Nil
41	1	731 287	144 789
42	2	609 350	266 726
43	3	506 788	369 288
44	4	420 628	455 448
45	5	348 323	527 753

☐ 15% pa premium increase
☐ 15% portfolio growth (market related)
Source: Sage Life

Being a member of a pension fund can lead to the dangerous delusion that no further retirement provision is needed. In most cases the opposite is true, with a large gap in earnings before and after retirement. The average pension is less than 30 percent of the final remuneration package.

The earlier you begin to save for retirement, the better, due to the remarkable effects of compound interest over longer terms.

The regular monthly or annual savings aspect of most retirement annuity plans also works in favour of the investor, even in volatile markets, due to rand cost averaging. It can provide good returns even when markets are down.

As the table shows, a delay in beginning a retirement plan can be very expensive and adversely affect the end benefit.

For example, a 40-year-old investing R100 a month for 25 years (assuming 15 percent growth and 15 percent contribution increases) would receive R876 076 at the end of the term. A postponement of only one year would reduce the fund by 16,53 percent to R731 287, making the cost of delay in that year R144 789. A delay of four years could mean a loss of more than half of the fund.

Don't fall into the trap of thinking it will make no difference if you postpone your decision on a retirement annuity until the end of the next tax year.

STAR 12/2/90 (58)(. -)

Opportunity to buy units trusts at 50pc discount

by Dr Bruce Ilsley FILPA
Marketing Director
Sage Life

YOU can now buy unit trusts (mutual funds) at a discount of almost 50 percent — depending on your tax rate, thanks to recent changes to the law relating to retirement annuity (RA) investments.

If you had put your money in unit trusts over the years, you would certainly be more than happy with the results. For example, an investment of only R100 a month for 20 years in Sage Fund was worth a staggering R319 213 by September 30 1989 (assuming income was reinvested). This is a compound return of 22 percent a year. Returns over shorter periods have been even higher.

While RA's have alway been a good investment, one drawback was the fact that less than half the investment in RA portfolios was allowed to be in unit trusts. Now new investment guidelines for life assurers have come into operation.

Prior to the change 53 percent of all RA investments had to be placed in prescribed assets such as Government stock. Because the returns on prescribed assets generally were below the inflation rate, returns to policyholders suffered.

Under the new guidelines, "linked policies" which have no investment guarantees such as a guaranteed maturity value or vesting bonuses, may now be 100 percent invested in growth assets, such as shares or unit trusts. No investment in prescribed assets is required.

These changes, together with the tax saving, mean that you can now invest in unit trusts at a discount of almost 50 percent.

You can achieve this result, for example, by investing in a Sage Life RA with SageLink profit participation. Because the SageLink portfolio is invested in Sage Fund and Sage Resources Fund, your investment goes via the RA into unit trusts.

Your "discount" arises from two savings. Firstly, you get tax relief of up to 45 percent on your RA contributions. Secondly, because of Sage Life's bulk buying facility you do not have to pay the normal five percent initial charge which would be levied if you invested directly in Sage unit trusts.

An indication of the effective discount when you invest in this way is set out in the table

Your 'discount'

Taxable income R	Effective 'discount' %
Over R80 000	48
Over R60 000	46
Over R40 000	44
Over R20 000	31

Source: Sage Life

As SageLink policies already qualify as "linked policies" in terms of the new guidelines, both new and existing clients will benefit from the change to the legislation and can anticipate even better growth on their RAs.

What is more, an RA investment grows entirely free of tax and there are major tax concessions available when benefits are taken at the end of the term. Retirement annuities have never provided a more attractive investment than they do now.

You should also bear in mind that it is now more important than ever for a salaried woman to have her own RA.

In terms of the SITE provisions, tax-deductible RA contributions have been increased where the wife works and if she has her own RA it can also save the couple appreciable amounts in tax after retirement.

Liability insurance rates 'too low to cover awards'

3/DAY 13/2/90

RATES for liability insurance are inadequate to cover the cost of awards, which have escalated astronomically, says SA Reinsurance Offices' Association chairman John Rich. (58)

He believes that unless there is a return to sound pricing and normal underwriting disciplines, it is unlikely that there will be any profitability in this sector of the market before 1992.

"Until three or four years ago, awards in excess of R1m for bodily injury, pain and suffering, were most unusual. Whilst such awards are still not frequent, it is now not uncommon for settlements in excess of R2m to be negotiated.

"The liability premiums charged by the local market (and by reinsurers under excess loss contracts) are simply not sufficient to cater for escalation in claims for personal injury," Rich says.

While no amount of money can compensate an injured person for his disablement, the trend does reflect a need for a re-evaluation of insurance cover.

Mibsa technical director Rod Pearson says court awards have risen above

LINDA ENSOR

previous liability limits of, for example, R500 000. The level of court awards when a case comes to court — possibly several years ahead — should be taken into account when cover is taken out.

Most high claims related to motorcar accidents. The highest single claim to date was R14,7m, though this was not the amount the claimant received.

Claims for accidents where more than one person is involved will be higher, Pearson says.

The highest known award was R2,5m, paid out by the MVA fund to a permanently brain-damaged victim. Second highest was the R1,75m paid out to a person left paraplegic after an accident. The claim in this case was R3,25m.

The biggest personal liability award — R1,2m — was made to a man who became a quadriplegic after being thrown into a swimming pool.

Non-motor awards have involved amounts of R6m and more in respect of product liability.

Markets nervous over Mandela

58 CAPE TIMES 13/2/90

JOHANNESBURG. — Jitters shook South Africa's financial markets yesterday in the wake of ANC leader Mr Nelson Mandela's release — sending the financial rand plunging as capital market rates shot up and the JSE suffered a sharp setback.

Euphoria evaporated as it dawned on both local and foreign investors that SA's political future was fraught with uncertainty. Concern over Mr Mandela's firm belief in nationalisation, coupled with reports of unrest, awoke the bears and sent the bulls running for cover.

The barometer of foreign perceptions — the financial rand — nose-dived by about 7% in a day of unprecedented volatility. The investment currency's initial strengthening earlier was followed by a dramatic reversal later after Mr Mandela had reiterated his belief in nationalisation.

Dealers expected the JSE to open higher but with both local and overseas buyers withdrawing from the market the lower finrand gave scant support to share prices and the overall index closed 2% down at 3 273.

ROBERT GENTLE reports that the futures market gave Mr Mandela's weekend speech the thumbs-down yesterday from as early as 7am.

● Full Report — Page 15

Spotlight swings to ANC economic policy

Cape Times 13/2/90

Negative reaction to Mandela statement

(58)

By AUDREY D'ANGELO
Financial Editor

HOPES that foreign bankers would now be more willing to roll over SA debt receded — at least for the time being — yesterday. The Johannesburg Stock Exchange fell, and the financial rand weakened, following a statement by Nelson Mandela that the ANC would nationalise banks and mines.

Economists and stockbrokers said that any hint of nationalisation made foreign bankers nervous and would discourage them from giving SA more time to pay.

But some considered that Mandela's statement yesterday, and his call on Sunday to continue the struggle and for sanctions to remain, were "posturing" for the benefit of his supporters and in preparation for negotiations.

The financial rand fluctuated wildly yesterday before closing at R3,58 to the dollar compared with $3,33 on Friday, indicating a loss of confidence by foreign investors.

A lower gold price also helped to depress the JSE. The over-all index fell to a preliminary close of 3 271 from 3 341 on Friday. The industrial index was 28 points lower at 3 158 from 3 178.

And the all-gold index fell 80 points to 2 091 as the gold price fell to $415,25 before recovering slightly to an afternoon fix of $418,85.

Trust Bank chief economist Nick Barnardt said: "The attitude of foreign bankers and their willingness to reschedule loans will depend very much on the statements Mandela makes.

"The spotlight has swung round from apartheid to the ANC's economic policy. The more there is talk of nationalisation the more negative the reaction will be.

"We all understand that there are certain subtleties in the internal dynamics of the ANC position. People cannot lose their constituencies and make themselves irrelevant.

"But these statements of intention to nationalise undermine SA's chances of attracting investment from overseas, necessary for economic growth.

"I believe they are only posturing. As I see it, the government will put the remaining vestiges of apartheid on the table and the ANC will put its economic policy on the table and that will form the crux of negotiations."

Glenn Moore of Personal Trust said: "The fall in the financial rand does not indicate positive foreign reaction. I believe there has been movement out of mining houses and banks.

"As long as nationalisation remains a cornerstone of ANC policy, it will be frightening for shareholders."

Moore said the reaction by SA shareholders "does not indicate a wholesale sell-off. But there is probably quite a bit of apprehension."

Sanlam chief economist Johan Louw said he thought statements about nationalisation should not be taken too seriously. "Once it gets to the negotiating table it will probably be traded off.

"But, as far as the outside world is concerned, such statements are unfortunate at this stage. They have created uncertainty and stopped the inflow of foreign investment. Hopes of rolling over SA's foreign debt have certainly receded."

Louw said he thought uncertainty would cause prices on the JSE to decline even further. He thought SA institutions would step in and buy — but not until prices had fallen more, to a level that offered good value.

"I think we are entering a period when the stock market will be much more volatile."

Manny Pohl of the stockbroking firm Davis, Borkum, Hare said he thought the falling market offered a buying opportunity.

"Only very naive people thought that change would come quickly and without trouble.

"Overseas investors are fickle. They rushed in and now they are rushing out again."

However, Pohl said, two callers from New York yesterday asked him to send research material of SA shares after he had given his view of the situation.

He pointed out that, in Namibia, Sam Nujoma had talked of nationalisation but Swapo had agreed to a constitution "which pleasantly surprised us. When the ANC goes to the negotiating table, sanity will prevail".

Stockbroker Frank Brewer of Frankel, Kruger, Vinderine said he was "still bullish on gold".

He thought the industrial sector was still a bit high, judged purely on its fundamentals. But he thought gold mining shares and mining financials offered a buying opportunity.

Matt Brenzel, head of research at Syfrets Managed Assets, said Mandela's speech on Sunday "must have had a dampening effect as people realised there was still a long way to go".

He thought it might result in a 15% or 20% correction in the stock market. However, with the weight of institutional funds on the sidelines — including money being invested for the SA Transport Services (Sats) pension fund — a steep fall might be avoided. "It might ratchet down slowly."

And he thought gold, which was "down for a bit of a breather", would dominate the share market. The market would, however, be "very volatile".

Actuarial value of Sanlam assets up 46%

LINDA ENSOR 58

THE actuarial value of Sanlam's assets grew 46% to R31,3bn (R21,4bn) in the year to September 1989, says the group's annual report.

Through Sankorp, the company now controls R50bn in assets.

The excess of assets over liabilities amounted to R1,7bn (R1,5bn). This is kept as a reserve for unforeseen contingencies and also as operating capital.

The value of assets at balance sheet values grew 32% to R22,8bn, with the fixed property portfolio growing to R2,2bn (R1,8bn), and share investments to R6,6bn (R4,1bn). B/Day 13/2/90

Public sector securities and loans remained the same at R6,2bn. Other interest-bearing investments rose to R6bn (R3,8bn) and fixed and current assets to R1,8bn (R1,3bn). R2,4bn was earned in investment income, 41% more than during the previous year. The balance sheet value of policy-holders' funds rose to R21,7bn (R16,5bn). These funds contribute towards benefit payments and administrative costs relating to policies. Surplus funds are allocated to policy holders as bonuses.

(58) STAR 13/2/90

Dutton 'had control of a R100-m trust'

By Anna Louw, East Rand Bureau

Former Interboard managing director Mr Edward Isaac Dutton (34) had the ability to control the Mary Gibbs Trust, the assets of which amount to about R100 million, with a further R13 million available in ready cash, a Germiston magistrate heard yesterday.

A chartered accountant, Mr Caspir Venter, gave evidence before Mr J J B van Zyl in a bail application by Mr Dutton's defence counsel.

Mr Venter said he was requested by the police and the Reserve Bank to investigate foreign currency contraventions.

He said during his investigation it came to light that the trustees administering the Mary Gibbs Trust acted in terms of a letter of wishes from the settler.

After inspecting the letter of wishes and other documentation Mr Venter deduced that the trustees acted on direct instructions from Mr Dutton.

Mr Venter said the person nominated in the letter of wishes was Mr Dutton.

He said Mr Dutton had the ability to transfer assets. He had control over the actions of the trustees and could make and withdraw investments, transfer funds and act on bank accounts.

He said the trust was formed in 1980/81 allegedly on the instructions of Mr Dutton.

The hearing continues.

Masses against Bantustan concept

Protest to FW over homeland threats

STAR 13/3/90

Own Correspondent

CAPE TOWN — Several communities under threat of being incorporated into homelands have called on President de Klerk to intervene.

A delegation from the Stop Incorporation Campaign delivered a memorandum setting out their demands to President de Klerk yesterday. The campaign is co-ordinating resistance to legislation which will strengthen the hand of those advocating incorporation — the Borders of Particular States Extension Amendment Bill.

A national petition representing all the communities involved in the campaign, and containing about 43 000 signatures, mostly from those affected communities, has been presented to the President. Smaller petitions from the majority of the people of Hanover and Silverdale in the East London/Ciskei area have also been presented.

Communities under threat of incorporation into homelands include East Peelton, Thornhill, Hanover, Silverdale and Needs Camp in the Border/Ciskei region, Braklaagte, Leeuwfontein, Hartebeesfontein and Tshikota in the Transvaal, and Botshabelo in the Free State.

Harassment claims

The campaign had been launched against a background of turmoil in the affected communities, said a spokesman for the delegation, Mr Bahle Sibisi.

"Many have been detained, assaulted, subjected to harassment and oppression," he said.

Claiming that they were never consulted about the planned moves, they demand the immediate ending of incorporation; the return to South Africa of those communities already incorporated, compensation for those who suffered loss as a result of incorporation; and the withdrawal of the proposed legislation.

They also demand the removal of security forces from the areas affected, the provision of pensions and other services by South Africa and the scrapping of the Bantustan policy.

Asked what the group would do in the event of their demands being rejected, Mr Sibisi said it would not be in the interests of the Government to respond negatively, especially in the present political climate.

Contingency plans would be discussed, according to another member of the delegation.

Police chief's wide command

STAR 13/2/90 Crime Reporter (55)

Brigadier Floris Mostert, commander of Johannesburg's Brixton murder and robbery squad, has been promoted to command all specialised police units on the Reef.

Brigadier Mostert confirmed this yesterday.

His appointment came into effect on February 1.

He now commands all the murder and robbery squads on the Reef, the narcotics bureaux, vehicle theft branches and the robbery reaction unit.

However, Brigadier Mostert said he would still personally investigate Dr David Webster's murder.

Nafcoc ventures into

STAR 13/2/90 (58)

insurance market

By Jabulani Sikhakhane

The National African Federated Chambers of Commerce and Industry (Nafcoc) may soon realise its decade-long dream of launching a black-owned insurance company.

Negotiations are at an advanced stage between Nafcoc and majority stakeholders in New Era Life Insurance, which does a lot of business at the bottom end of the black family life and funeral policy market.

The two major shareholders in New Era, the South African Development Trust which has a 29 percent stake and the Transkei-based Prosperity Insurance Company which has 23 percent, are willing to sell out for R3 million, or about 150c a share.

However, Robin Bryant, general manager finance at SADT says this is subject to approval of the other shareholders.

Mr Bryant said negotiations between Nafcoc and the major shareholders have been on a stop-go basis for some time. Nafcoc has renewed its approaches and SADT and Prosperity have indicated that they are sellers.

Nafcoc intends to increase New Era's capital base from the current R2 million to R7 million. It believes the company to be under-capitalised.

A source added that at least four major white-owned companies have made pledges to take a 10 percent stake each in the new company. The other 60 percent will be in black hands, with the African Bank taking up 20 percent and the rest sold to the small black investors.

The new company hopes to buy out the white shareholders from future profits and make the company a wholly black-owned venture.

Pepsi Cola's liquidation

STAR 13/2/90

An article published yesterday from our correspondent in Cape Town concerning the demise of Pepsi Cola in the Western Cape wrongly stated that SA Breweries, the holding company of Amalgamated Beverage Industries (ABI), played a major role in the price war that erupted in the cold drink industry and ultimately forced the liquidation of Pepsi Cola.

A spokesman for SAB has pointed out that ABI does not operate in the Western Cape and therefore could not have been involved in any price-war with Pepsi Cola. The error is regretted.

Business Report

Life offices soak up flow of savings funds

58

OM T/-n K 14/2/90

By ARI JACOBSON

THE flow of retail savings to life offices has soaked up funds which would otherwise be available to banks and building societies. This has led to increased demands by banks "to level the playing fields" between them.

Whilst bankers agree high inflation and negative real returns have supported the flow of contractual savings to life offices, they argue high marginal tax rates and restrictive asset base requirements on banks enhanced the imbalance.

Liberty Life MD Dorian Wharton-Hood disputes the claim the tax structure favours insurers.

Life offices pay normal business tax on behalf of policyholders and the tax-free aspect generated through Retirement Annuities (RA), Pension and Provident funds are taxed in the hands of the individual, says Wharton-Hood.

"The reason why insurers attract funds is because they provide an inflationary hedge coupled with capital growth."

Wharton-Hood says banks should operate at the short end of the market with life offices providing for long-term contractual savings.

"The Life Offices Association (LOA) decided to withdraw from the five-year market to draw a definite line between the banks and life offices' business."

He says all financial intermediaries need to work towards a savings strategy that outstrips competition from luxury goods and other forms of expenditure.

Perm MD Bob Tucker says banks cannot operate at the short end of the market when part of their business includes holding long-term assets.

"At the moment, banks and building societies in desperation are using current account deposits to finance 30-year mortgage loans."

This situation has been exacerbated by the price of wholesale money creating mortgage rate fluctuations of between 12,5% and 21% in a matter of months, says Tucker.

This impacts on the small homeowner and businessman, undermining what Tucker terms the grass-roots economy.

"Further, endowment policies and RAs are pure investment vehicles yet banks have stringent reserve asset and lending requirements not applicable to insurers."

The solution, says Tucker, is having positive real interest rates and only taxing the real component of interest income.

"Alternatively a withholding tax could be implemented, which relies on banks paying interest tax at a low rate, but not the individual.

"These factors should allow banks to sharpen their competitive edge and attract retail savings tied up with life offices."

Mike Law, First National's money market manager, says, "the high price of liquidity through the wholesale market has cut away at banks' margins and destroyed their competitive edge".

"Yet the surplus funds of insurers are used for unproductive investments in low risk ventures which include office blocks, government stock and equities."

Banks, he says, opt for more productive loan capital financing which boosts economic growth.

Stanbic shows why it is a top rated banker

STAR 14/2/90 (58)

By Ann Crotty

Although the environment of high interest rates accompanied by a slowing down in the rate of economic growth took its toll as the year progressed, the Standard Bank Investment Corporation (Stanbic) has reported results for the year to end-December that guarantee its place as the top rated bank on the JSE

Earnings per share increased by 25,9 percent to 340c (270c). A final dividend of 80c a share has been declared bringing the total for the year to 112c a share. (This means that the prefs have been converted.)

This strong performance is all the more commendable given the high base from which it was achieved — for financial 1988 the group reported a 20 percent hike in eps.

At interim 1989, shareholders were looking at an earnings increase of 32,4 percent. The rate of increase in the second half slowed to 21,6 percent — in line with the generally tighter trading conditions experienced by the banking sector.

A significant increase in the group's asset base (advances and other accounts rose 26 percent to R29,6 million) helped to counter the impact of the squeeze on interest margins felt throughout the year.

Operating profit before interest paid was up 72,8 percent to R4,4 billion (R2,6 billion). But there was an 81 percent hike in interest payments to R3,9 billion (R2,1 billion) which left pre-tax operating profit showing a 30,4 percent advance to R529,5 million (R406,2 million).

The tax charge was 35,7 percent higher at R216,5 million (R159,6 million) and taxed operating profit was up 26,9 percent at R313 million (R246,6 million).

Bad debt provision

The solid advance in operating profit was achieved despite a bad and doubtful debt provision of R156,2 million — 50,8 percent ahead of financial 1988's R103,6 million. Specific provisions accounted for R80,9 million of this and general provisions accounted for the remaining R75,3 million.

A divisional breakdown of the group's performance at taxed income level shows SBSA's contribution up 28 percent to R200,8 million (R157 million) Standard Merchant Bank stole second place from Stannic. The former was up 21 percent to R26,4 million (R21,8 million).

Stannic took serious pressure on its margins and its contribution to taxed income was down from R31,2 million to R23,4 million Stanbic MD Dr Conrad Strauss stressed that the weaker performance was due to the squeeze on interest rate margins and noted that its bad debt experience and its quality of assets was very good.

This suggests that when interest rates begin to ease Stannic will quickly show the benefits of the consequent easing on margins.

Standard Bank Botswana had an excellent year with contribution to group taxed income more than double at R17,6 million (R8 million).

The increase in the group's asset base exceeded the increase in total shareholders' funds resulting in a slight decline in the capital ratio but Dr Strauss stated that the capital ratio in all divisions of the group still comfortably complied with the current phase of requirements and most divisions were in line with the long-term requirements.

This suggests that, in the absence of anything unexpected, shareholders will not be looking at another rights issue for some time which in turn suggests that any improvement in attributable earnings will come through to the per share level — unlike financial '85 and '86 when rights issue diluted the eps benefit of net income advances.

Dr Strauss is looking to real earnings growth in financial 1990 helped by an expected improvement in interest rate margins In addition "lots of assets that have been put on the books in previous years will be generating income"

Standard Bank stays on top

58

BARRY SERGEANT

DESPITE pressures on margins the blue chip Standard Bank group has increased dividends 17,9% to 112c a share(95c) and earnings 25,9% to 340c (270c) for the year to end December.

Operating profit before tax was up 30,4% at R529,5m (R406,2m) as taxed operating profit rose 26,9% to R313,0m (R246,6m). Total shareholders' funds swelled 20,0% to R1,9bn (R1,6bn) as total assets increased 25,8% to R37,3bn (R29,7bn). BDay 14/2/90

Pressures on margins, as a result of Pretoria's general insistence on stemming credit, were marked. Operating profit before interest paid increased 72,8% to R4,5bn (R2,6bn), while interest paid (to de-

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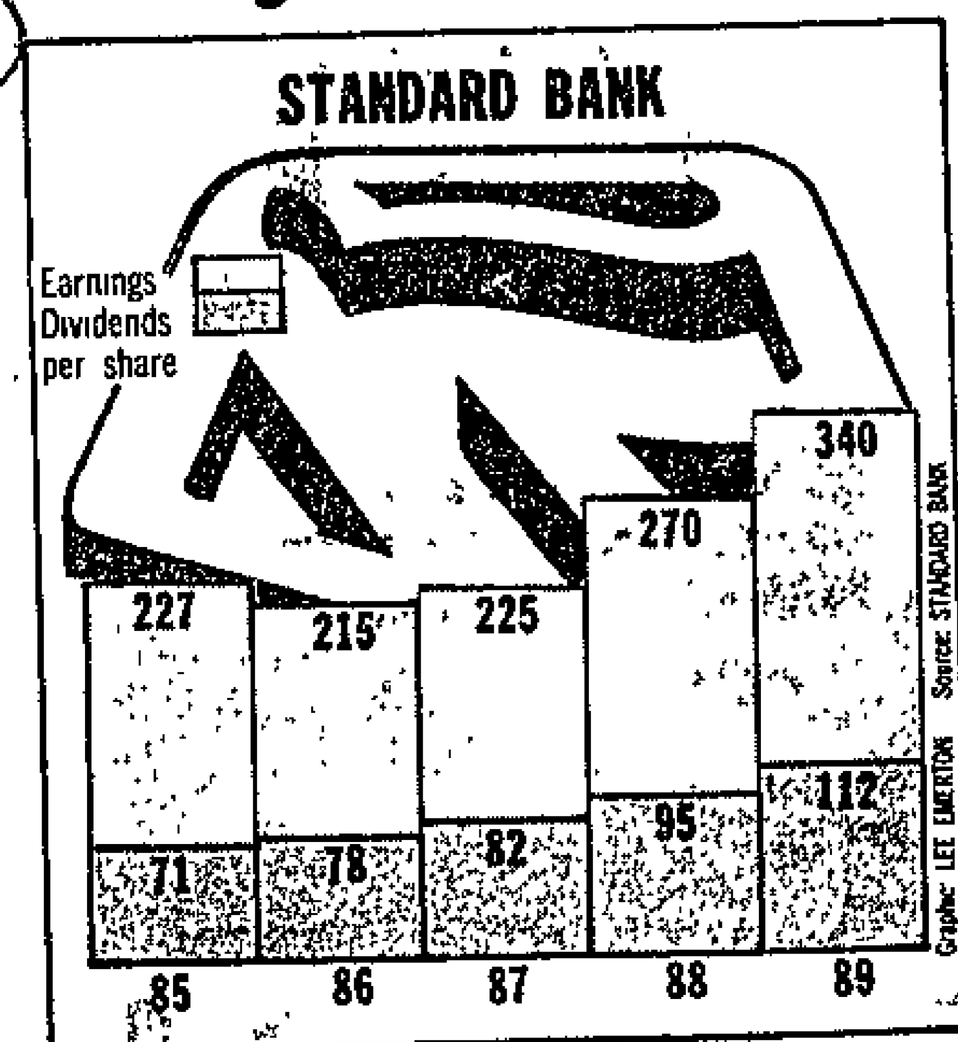

Standard Bank

BDay 14/2/90

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☐ From Page 1

positors) increased 80,8% to R3,9bn (R2,2bn). The deposit mix of group subsidiaries showed 64% (63%) short-term, 28% (29%) medium-term, and 8% (8%) long-term.

Total assets, including off-balance sheet facilities, increased 24,3% to R43,9bn (R35,3bn). On balance sheet assets increased 25,8% to R37,3bn, and contingent liabilities and repurchase commitments rose 16,2% to R6,6bn (R5,7bn). The share price traded unchanged yesterday at 3 100c, off its 12-month low of 1 775c on May 23. The group carries a market capitalisation of just over R3bn.

In line with group policy to increase assets off a powerful capital base, the crucial equity to assets ratio fell to 5,13% (5,38%). On latest financial accounts this is still the highest of the Big Five banks with First National, Nedcor and Volkskas at 5,0%, and Bankorp at 3,8%.

Group MD Conrad Strauss said two years ago Standard "because of its strong capital position had decided to increase return on assets (ROA)". From 1985, ROA had been 1,04%, 1,02%, 0,90%, and had risen slightly for 1989 despite the large increase in assets to 0,92%.

The return on equity also increased to 17,83% (16,81%). Main contributors to group net income after tax of R341,8m (R268,6m) were Standard Bank SA at R200,8m (R157,0m), Stannic and Stancor at R23,4m (R31,2m), Standard Merchant Bank at R26,4m (R21,8m) and Stanbo at R17,6m (R8,0m).

Debts written off increased to R108,7m (R91,5m), while the provision for bad and doubtful debts income statement charge for the year increased 50,8% to R156,2m (R103,6m). The provisions total R528,9m (R435,3m), comprising R198,5m (R180,2m) specific debt provisions and R330,4m (R255,1m) general debt provisions.

Spending on computers and mechanised equipment increased 111% to R137,7m (R65,2m). Strauss said 1989's level of spending on these items was likely to continue in the years ahead.

Standard ups profits to R529m

Cape Times 14/2/90

(58)

Own Correspondent

JOHANNESBURG. — Despite pressures on margins the blue chip Standard Bank Group has increased dividends 17,9% to 112c a share (95c) and earnings 25,9% to 340c (270c) for the year to end December.

Operating profit before tax was up 30,4% at R529,5m (R406,2m) as taxed operating profit rose 26,9% to R313,0m (R246,6m). Total shareholders' funds swelled 20,0% to R1,9bn (R1,6bn) as total assets increased 25,8% to R37,3bn (R29,7bn).

Pressures on margins, as a result of Pretoria's general insistence on stemming credit, were marked. Operating profit before interest paid increased 72,8% to R4,5bn (R2,6bn), while interest paid (to depositors) increased 80,8% to R3,9bn (R2,2bn). The deposit mix of group subsidiaries showed 64% (63%) short-term, 28% (29%) medium-term, and 8% (8%) long-term.

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Metropolitan subsidiary to fund cottage industries

Cape Times 14/2/90 (58)

Financial Staff

METROPOLITAN LIFE has formed a new subsidiary — Metpol Investment Enterprises (MIE) — which will plough back some of the funds raised from its target markets into helping to start viable new businesses.

MIE's newly appointed MD, Francois Jooste, explained that the money would be used to help start cottage industries and find outlets for their products.

The new project would be a mixture of venture capital and social responsibility. His company would try to match the skills of the informal and semi-formal sector with product needs in the formal sector.

Francois Jooste

Jooste emphasised that "profit expectations by policy holders would not be sacrificed".

A statement issued by Metropolitan Life yesterday said: "By investing some of the funds mobilised from these communities in this way, Metropolitan will profitably contribute to their economic development, generating employment opportunities and developing markets for its insurance products.

"Investments will be made in conjunction with existing development agencies and will be partially managed by MIE.

"MIE will function as a separate investment subsidiary but within the Metropolitan group. It will operate from Metropolitan's head office in Cape Town and will make use of certain of its administrative services."

Insurance industry pay structure to be surveyed

LINDA ENSOR (58)

A MEETING between the state actuary, Piet Robbertze, and representatives of the insurance industry took place in Cape Town last week to discuss parity in rewards for brokers and agents. BDay 15/2/90

The Life Offices Association (LOA) is undertaking a survey of the remuneration paid by insurance companies to agents to monitor the implementation of the equivalence of reward principle and the meeting was held to discuss the progress of the survey. The last survey was undertaken in 1984.

Robbertze said yesterday equivalence of reward was one of the necessary conditions for the regulation of maximum commission rates for brokers.

Registrar of financial institutions, Theo van Wyk, and representatives of the LOA, the SA Insurance Brokers' Association (Saiba), the International Brokers' Council and Life Underwriters' Association of SA (Luasa) were also present.

Banks get set to jump onto the bandwagon

58

B/Day 15/2/90.

BANKS provide the man in the street with everything from a cheque account and credit card to car loan and access to unit trusts.

Should the next step be a margin account and access to the derivatives markets?

At least two banks — Volkskas and First National (FNB) — think so and are putting the final touches to a personal service that will do just that.

The target market is the client who has a few thousand on which he would like a higher rate of return than that guaranteed by a straight interest account or a unit trust.

Although some futures broking houses already cater for such relatively small-time clients — First Financial Futures says it handles accounts as low as R3 000 — most stick to blue-chip individuals with five-figure sums or more burning a hole in their pockets.

So the niche is obviously there for the banks, not least of all because in the mind of Joe Public, what could be safer than a bank?

FNB assistant treasurer Mike Law says the man in the street is going to be a major player in the derivatives markets, though his presence will be felt mainly in terms of the number of transactions.

"It'll probably be the old eighty-twenty rule," he says. "He'll do eighty percent of the market by volume, but only twenty percent by value. It will be the other way around with the institutions."

Volkskas believes SA should follow the example of the US by making the small private client an integral part of the derivatives market. This could alter the often suspect status of futures and increase liquidity.

Volkskas Merchant Bank (VMB) senior GM Jan de Kock says the small private SA client has difficulty trading in small contract sizes like 1 or 3 lots in a market where multiples of 10 are the norm.

Helping to bring such clients into the local derivatives market is what VMB calls an all-in-one service at which everything from margining to clearing will be handled by the Volkskas group.

VMB will trade the account on the futures markets, and use its status as a clearing member of Safex to do the clearing as well.

Settled

Maintenance margin will also, naturally, be settled within the VMB group.

Says De Kock: "Everything would be conveniently centralised with resulting benefits in both cost and efficiency.".

FNB's approach differs from VMB's in that the clearing would be done through its separate clearing subsidiary.

Clients would insist on confidentiality and would not want their deals to be perceived to be part of those of the bank itself, says FNB group treasurer Ken Russell.

Both FNB and Volkskas — or any other bank that may be courting private clients in this way — are going to face a more important problem than mere confidentiality — education.

Futures and options

BDay 15/2/90

Three years on — and derivatives have come of age

(58)


STUART REES

THE SA futures market — or, to use the more general term, the derivatives market — approaches its third birthday in April safe in the knowledge that it has come of age.

It has not always been an easy ride, but derivatives have succeeded in changing the financial landscape. Banks, institutions, stockbrokers, accountants, the Press, the JSE, the government — all have had to adapt.

For most of this year, turnover in share-related futures has been narrowly trailing total JSE turnover, and has on certain days exceeded it — once by a record 34%.

"A market that size deserves to be formalised," says a futures trader, expressing the widely held view that the time has come for the SA Futures Exchange (Safex) to start operating.

Safex has been delayed for almost one-and-a-half years as problems of various sorts, ranging from the serious to the trivial, continue to be sorted out.

Safex CE Stuart Rees says according to the most recent timetable, the exchange's clearing company, Safcom, should start operating from April 2. The exchange itself should follow suit two months later.

Tired

Acknowledging how tired people have been growing of waiting, Rees says: "We've got to get the formal market moving. If one tries to cross every t and dot every i, this thing will never get off the ground."

Safex will operate under a formal set of rules having the force of law under the terms of the Financial Markets Control Act.

The impending change of status illustrates how the market can produce and sustain an idea whose time has come long before the relevant authorities get round to legislating it into existence.

The daring leap into the financial unknown was taken in April 1987 by Rand Merchant Bank (RMB), which pioneered what is today still known as the informal futures market.

It assumed the role of market maker and official clearer and started offering index futures contracts to an almost green financial community.

Margins were high and bid-offer spreads were so wide that, in the words of a trader, one could "drive a coach and horses through them". (The wider the spread, the further a market has to move before a profit can be made. Narrow spreads are associated with active, liquid markets).

But supply created its own demand and the market took off. Turnover and open interest soared, the field of expertise widened, competition increased, new market makers appeared, spreads narrowed, futures broking houses mushroomed and almost all players who could get into the market got in.

Some JSE stockbrokers, prevented from actively participating because of the particular rules of their profession, set up separate trading arms so as not to miss out on the rising market.

At the time of going to Press, the JSE is putting the final touches to the computer systems which will link it with RMB and finally allow stockbrokers to trade derivatives on behalf of clients as well as for themselves.

Embraced

Insitutions have embraced the field with particular enthusiasm, putting portfolio management in a whole new light.

Consulting manager at Andersen Consulting Fiona Main says: "Derivative instruments are receiving much attention because of the importance of their role in altering the risk/return profile of portfolios.".

However, while some firms are actively using the markets — Cape-based Capital and Asset Management constructs option portfolios for clients — others remain on the margins.

A spokesman for a well-known Cape based instutution says privately his company will only go into the derivitives market in a big way once it is formalised.

The most optimistic scenarios speak of a tenfold rise in turnover over the next few years in the new formal market. Also expected to help the industry is a solution to the liquidity problems of the JSE, which impacts directly on the operation of the derivatives market.

Finally, with the JSE's own Traded Options Market expected to come on stream by Easter, the road will be open to the next key stage — options on futures.

All things considered, there will be much to celebrate in April.

Changing face of portfolio management

B/Day 15/2/90 (58)

THE face of portfolio management has completely changed in the few years since the derivatives market was born.

Institutions now routinely use futures and options to enhance the value of their portfolios.

Linked

Funds of millions to billions — at institutions ranging in size from Southern Life and Norwich Union to Sanlam and Old Mutual — are inextricably linked to a market they once hardly knew existed.

Portfolio managers use derivatives to hedge and increase their exposure to the equity market.

This approach goes some way towards alleviating the chief problem they face as a result of the abysmally low level of liquidity of the JSE — a shortage of scrip.

HENDRIK DU PLESSIS

When the market is looking good they can't get the shares they want; when the market looks set for a fall, they're too scared of selling the shares they have for fear of not being able to buy them back.

Says Old Mutual portfolio manager Rowland Chute: "The use of futures in the management of large portfolios must be carefully considered in terms of what the objective is.

"It could be to hedge or merely increase exposure to a given asset type, such as gold."

All well and good then, this hedging, but is it always necessary?

"The danger is we may be on a derivatives kick," says Chute. "If you hedge everything, you get a risk-free, but low, rate of return."

Indeed, when assets comfortably exceed liabilities, hedging may not be necessary at all.

Futures theoretician and Sanlam investment technology division GM Hendrik du Plessis agrees.

"Institutions should determine the risk/reward profiles of their funds before going into futures," he says.

Drawing on a paper presented at the last Futures Convention at Sun City, Du Plessis brings into play parameters like dealing costs, predictive accuracy, types of hedge (optimistic, pessimistic), risk probability and historic JSE data to show the advantages of different strategies.

Eliminate

Thus, while a straight buy and hold strategy may over the long term bring in a higher average rate of return, hedging would yield a better spread of returns and all but eliminate negative returns during bear patches.

"These techniques are going to change the nature of portfolio management in SA," he says. "Most portfolio managers have up to now been stock pickers."

With improved economic conditions and real interest rates, the stock market may no longer remain the soft option. Timing and technique could become more important than mere "stock picking".

All of which underlines the fact that if certain institutions *are* using the futures markets, a great many are not.

A portfolio manager at Southern Life says he knows of many other portfolio managers "dead set against futures".

Syfrets, which for its relatively small size is one of the more active users of derivatives, believes the new market will be ignored at the expense of profitable opportunities.

Says portfolio manager Rob Nichol: "If you don't have your line in the water, you can't fish."

Broking houses boom in a flourishing market

B/Day 15/2/90

(58)

ROD HOLNESS

FUTURES broking houses have mushroomed on the back of the thriving informal market, upsetting the hegemony of the established "heavyweights" and establishing newer niches in the scramble for market share.

Until about four years ago, futures trading was synonymous with Holcom Futures, the successful firm established by Holness brothers Rod and Tony back in 1973.

Their only real competition was Bailey Overseas, the Cape-based broking company set up in 1986.

But from mid-1988 onwards, the first new brokers started appearing. George Huysamer Commodities Trading was set up as a separate trading arm to stockbroking firm George Huysamer & Partners.

Fledgling

Barely a week later, Greenwich Futures was started. The fledgling company traded as an independent till January '89, when it became a subsidiary of Finansbank.

A month later, in February, First Financial Futures (no connection with First National Bank) was formed by a two-man trading team with the backing of computer firm MBM Information Systems.

Other 1989 start-ups were National Futures & Options, Cape-based SA Futures & Options and Simpson Futures, a separate trading arm of stockbrokers Simpson McKie.

By the time this survey goes to press, the JSE will in all liklihood have given its stockbrokers the green light to start using the informal futures market for their clients.

Until now, they have been doing so on their own account because the JSE says it does not yet have the necessary systems in place to permit the effective monitoring of client risk.

Blue chip

Some brokers take on clients with as little as R3 000 to invest, others prefer blue-chip individuals with five or six-figure accounts.

Some specialise in the local futures markets, others have the necessary Reserve Bank permission to trade on the international markets. A select few are known to specialise in profitable arbitrage operations.

So from Holcom, which does the lion's share of the international market, to Greenwich, which does the lion's share of the local market, even the most pernickety client should find a broker suited to his needs.

It would, however, be prudent to check if the broker SAIFA member, warns SAFIA MD Brenda Greyling.

Overseas panic selling hits JSE

CAPE TIMES 15/2/90 S8

Own Correspondent

JOHANNESBURG. — Shock waves through the JSE on the Mandela factor gathered momentum yesterday to take the tumble in the overall index to 7,5% since the ANC leader's release at the weekend.

Panic selling of SA shares by US investors in New York on Tuesday night, in the wake of Nelson Mandela's tough stance on nationalisation and negotiations, rubbed off on local investors.

Renewed selling from the US through London ahead of Wall Street's opening last night accentuated the declines.

Dealers said the stampede out of shares caused sharp, swift falls in prices not seen since the October crashes of 1987 and 1989. Despondency was deepened by a weaker gold price, which touched a low of $413 at one stage in London.

Gold shares bore the brunt of the sell-off and the all gold index tumbled 108 points or 5,3% to close at 1 921, but off its low of 1 899 as the newly formed Old Mutual Gold Fund was believed to be mopping up stock coming out of the US.

The index has now shed 11,5% since Monday, while the 84-point or 2,6% slump in the industrial index to 3 051 took its decline to 4%. The overall index yesterday fell 123 points or 3,8% to 3 091.

UAL executive director Alister Colquhoun said: "US investors are known to be jumpy but the panic selling seen yesterday does not seem to be justified.

"While the falls have been heavier than expected, the question is whether these are actual sales or jobbers taking short positions in anticipation of further declines when Wall Street opens."

Jannie Mouton, of stockbrokers Senekal, Mouton & Kitshoff, said: "Overseas investors tend to panic more quickly than local investors and they have been large sellers of our shares.

"The market has been very sensitive to Mandela's comments . . . but it should be realised that he is engaged in a power struggle within the ANC.

"When everybody is in a negative mood, it could present a buying opportunity, and I would not be surprised to see foreigners back in our market once things settle down."

Another dealer said: "Intense world-wide media coverage has created the perception that SA is on the way to becoming the last outpost of communism.

"This has frightened overseas investors, particularly from the US, who have been transformed from aggressive buyers of gold shares into panic sellers."

With the market's decline through several technical resistance levels, chartists are now projecting that the all gold index could now go down to 1 700 points.

However, perceptions of tension in SA helped platinum reverse an early downward trend to close $2 higher in London at $520. The rise spilled over to gold, which trimmed losses in late trading to close at $417, a decline of $1,50 on the day.

ROBERT GENTLE reports that a major trend reversal occurred in the futures market yesterday when all share futures sank to a 19-point discount to the underlying spot index, and premiums on all gold and industrial index futures narrowed considerably.

For much of this year, index futures have been trading at hefty premiums — as high as 200 points — to their underlying spot indices as they rode the bullish climate created by President F W de Klerk's political initiatives.

The new tendency was definitely downwards, traders said, and unless there were positive political developments soon, remaining future/spot premiums could reverse into discount.

"The bloodbath continues," said a trader from Holcom Futures, commenting on a day of panic selling made worse by lunchtime statements by Mandela.

Mandela had told the BBC that government installations were legitimate targets for the ANC, and that civilians could be caught in the crossfire.

The remarks sent the market into an almost 100-point nosedive. "There wasn't a buyer in sight," said a trader from National Futures & Options.

Traders said they expected futures to open even lower today.

Share prices rally in nervous trading on JSE

Argus 15/2/90

58

By TOM HOOD, Business Editor

SHARE prices rallied on the Johannesburg Stock Exchange today after an avalanche of overseas selling yesterday wiped more than R16 billion off share prices.

Modest buying pushed up the overall share index by 22 points after plunging 123 to 3214 yesterday.

But the market remained jittery as investors waited for the next moves by the African National Congress and the South African government, said stockbrokers.

Most early gains were in gold mine and mining-related shares.

The total market value of shares on the JSE has dropped by about R34 billion to R430 billion since Monday.

The panic sell-off yesterday was due to fears of widespread nationalisation of State and private sector assets by an ANC government taking hold in London and New York.

"SELL-OFF OVERDONE"

Market analysts believe the sell-off has been overdone — just as euphoria after President De Klerk's reform speech sent share prices into the stratosphere and added R27 billion to share prices in a few days last week.

"For years overseas investors have been pressuring the government to release Mr Mandela. Now that he's released, they're getting rid of our shares at any price," said James Cross of broking firm Fergusson Bros, Hall Steward and Co.

Most stockbrokers' analysts agreed that Mr Mandela's statements on nationalisation should not be taken literally, saying they were bound to be part of the ANC's strategy in the run-up to negotiations.

Mr Roy Klipin said overseas investors were clamouring last week to buy a stake in SA Inc at any cost — "this week they are sellers of SA Inc on a huge scale".

"This reaction indicates an enormous amount of naivety on the part of overseas brokers. They are focusing on the negative statements made by Nelson Mandela and are totally ignoring the conciliatory noises he is making."

Cape Times 15/2/90

Market must adapt to needs of the people

By GORDON KLING
Executive Editor

DON'T blame Nelson Mandela for the alarming slide in share prices on the Johannesburg Stock Exchange since his release.

He has said nothing particularly unexpected, unreasonable or detrimental to the economy. The market should look to itself if Mr Mandela's broad reiteration of ANC policy on nationalisation of the mines and monopoly industries was responsible for the price decline and bear in mind, too, that the JSE is still standing at near record highs.

Who could possibly expect the arguable leader of most South Africans to come out soundly on the side of an institution which far from relating directly to the vast majority of the population, white or black, is effectively dominated by a handful of business magnates?

Latest research by McGregors On Line Information shows that only four groups — Anglo American, Rembrandt, SA Mutual and Sanlam — control 80,7% of the market capitalisation of all shares on the JSE. Only a minuscule percentageof those shares ever change hands in a given year and most of that trade is conducted by the groups themselves. The JSE is, of course, simply a reflection of a badly distorted economy controlled by what is seen by the disaffected majority as an unholy alliance between government and big business; an old boys' club that apportions the wealth of the land according to its own priorities.

Since they effectively own the thing, gloom on the part of big business has to be self-fulfilling on the JSE.

On threshold

Certainly events in Eastern Europe have proven the ruinous folly of communist and socialist centrally planned economies, but the masses in South Africa clearly do not believe they have fared appreciably better under a system masquerading as the opposite. The ANC has evidently not updated its economic policy in the wake of that juddering collapse with its massive implications but, as Alex Irwin, one of its key theoreticians, made clear at Madame Mitterrand's Marly-lé-Roi conference, now is no time for slinging economic rhetoric.

We don't have anything like a genuine capitalist, free enterprise system in South Africa. We have failed totally to involve the majority in the fruits of the free market system. And while it is becoming widely appreciated that the communist economic model could never work, few blacks could be expected to accept that the past 41 years of Nationalist apartheid rule has been a threshold of great opportunity.

So-called capitalism in South Africa hasn't done enough for enough people.

Yet here lies the rub. The system does work. We just haven't tried it, despite the urgings of an almost sycophantic financial Press. Ask yourself: who do your friends work for? If you are white, the overwhelming odds favour the answers government, parastatal or big business. Your financial security is closely intertwined with the performance of mega-taxpaying big business on the JSE, the performance of which also directly affects your pension and insurance policies.

Progress

If you're black, it probably doesn't matter at present and any black leader worth his salt would have to recognise the fact that the performance of the JSE is not the barometer it should be for the economy.

Progress has been made by Anglo American and others on extending the principle and benefits of share ownership to employees but most whites don't own shares in their own or any other company; virtually no blacks do.

So why all the fuss over how the market is doing?

For starters, we ourselves don't generally realise what warped capitalists we have become. If we did we might begin to appreciate that no transition could be much worse financially than what we've had: a pariah economy badly administered by an unrepresentative, racist, minority government on behalf of a hamstrung business clique incapable of generating sufficient growth for reasonable employment levels let alone higher standards of living for those with jobs.

The capitalist West might have understood our difficulties but that didn't make SA a better investment, and if our past performance has bred a backlash against the real thing, the free market system, they would be correct to fear for our future.

And why the grave mutterings in the marketplace over any suggestion of possible action against the big business cartels?

If the American administration could use anti-trust laws to actually break up a gigantic conglomerate such as AT&T, we should be able to withstand the possibility of deconcentration of economic power in the private sector. Similarly in the public sector; governments no longer relish being saddled with responsibility for unprofitable undertakings, albeit rhetoric to the contrary. Thanks again to the revolution in Eastern Europe, the inefficiencies of big government in the West stand every chance of being seen as less desireable than ever.

Mixed economy

Gung-ho free marketeers don't like the idea of a mixed economy, arguing that the free enterprise system can provide better opportunities and eventually sort out distortions by itself. Correct. But years of unfathomable inequity have debased the ideal, hopefully only in the short term. Instead, the "mix" of the mixed economy is probably what the future is all about and there is every reason to believe it should be an improvement on the phony capitalism of the past.

15 000 call for re-incorporation

By Mckeed Kotlolo, Pretoria Bureau

HAMMANSKRAAL — About 15 000 Hammanskraal residents marched to the local Magistrate's Court yesterday and submitted a petition calling for the re-incorporation of Bophuthatswana into South Africa.

The petition, which also urged police to stop harassing residents, particularly pupils, was received by the chief magistrate of the Moretele district.

Thousands of workers and pupils gathered, after reaching an agreement with the police, and drew up a petition outlining their grievances about water and electricity bills, bus fares, wages and annual increases in house rentals.

The protesters then marched to the chief magistrate's office where they submitted the petition.

Inside the Magistrate's Court, scores of workers chanted in response to the crowd which toyi-toyied outside. Some policemen toyi-toyied on top of the building.

The marchers were later told about funeral arrangements for two children allegedly killed during police action this week.

STAR 15/2/90

First black broking firm launched

What is believed to be the first Black controlled insurance broking operation was officially launched in Johannesburg yesterday.

Named Afsure, it will be helped by an existing broker in the initial stages and is associated to the Foundation for African Business and Consumer Services.

The initial target for the first year of operations is premium income of R10 million.

The chairman is Mr Gaby Magomola and the managing director is Khehla Mthembu.— Sapa.

STAR 15/2/90 (58)

Commercial Union's new premium income up 48%

COMMERCIAL Union's total new life and pensions premium income soared 48% to R204,5m last year. (58)

General manager John van der Linde said today that the composite insurer had achieved a 33,5% increase last year in recurring premiums.

Group recurring premium growth of 46,9% was achieved, with new plans up 54,7% and increases up 43%. Individual recurring premiums rose 23,6% on average.

Retirement annuity business was up 52,6%. — Sapa. 610 44 15/2/90

New insurance mooted

BDay 15/2/90 (58)

LESLEY LAMBERT

CAPE TOWN — Replacement of third party motor accident insurance with "no-fault" insurance could cut provincial hospital costs by about 25% and allow more space for indigent patients.

This is the view of Jakob Huisamen, MD of Health Oriented Systems Technology (Host), which builds and runs community health centres with 24-hour private casualty departments. Two of these are planned for Cape Town.

Huisamen believes that the efficiency benefits of privatisation, coupled with changes to the administration of third party motor accident insurance and medical aid, could help reduce the critical problems related to primary health care in SA.

He has appealed to the Cape Provincial Administration to commission a study on the feasibility of a new health insurance system.

Under the current system of motor accident insurance, hospitals and doctors are paid only once negligence has been proved. Huisamen argues that a "no-fault" insurance, funded in the same manner as third party through a petrol levy, would ease access to private hospitals and take some of the pressure off overworked provincial hospitals.

New financial instrument listed on JSE (58)

BDay 15/2/90

ROBERT GENTLE

THE JSE sees the listing today of a new financial instrument in the form of R250m worth of freely tradeable, unsecured, mortgage-backed, floating-rate debentures issued by Mortgage Securities 101.

MS101 is jointly owned by the United Building Society (UBS) and Discount House Risk Management.

The raising of these funds, known as securitisation, takes R250m off UBS's own mortgage book and repackages it in the form of marketable and tradeable securities yielding regular interest payments.

The resulting infusion of cash into UBS will enable it to increase the availability of funds into the low-cost housing market.

The issue consists of R225m Class A debentures and R25m Class B debentures, both of which are in R100 000 tranches and yield quarterly interest payments.

The prospectus defines the Class A rate as "equal from time to time to the standard rate at which UBS grants reducing balance loans secured by first mortgage bonds over urban residential property to applicants who do not qualify for or who have not negotiated any special or lower rate of interest, less 1,6%".

The Class B rate is defined as 0,65% above the Class A rate. The bottom line for the institutional investor holding these debentures, according to a spokesman from Discount House of SA — underwriters of the issue — is that he has a market-related interest yielding instrument.

Equally importantly, it goes a long way towards meeting the high risk criteria demanded by normally risk-averse trustee-type fund managers who would not be happy holding just any type of paper.

"We are looking into further and possibly larger securitisation issues," said the Discount House spokesman, describing the R250m as "a good pilot size".

He said this issue was largely inspired by similar issues in the United Kingdom, where so-called Floating Rate Notes (FRNs) were commonly used securitisation vehicles.

In the two years since the first such issue in May 1987, more than £6bn had been securitised, he said.

The more SA assets could be repackaged into securities in this way, the more demand there would be for such instruments from investor institutions. This in turn would translate into more funds funding their way into areas of need.

The cost of learning can be high

B Day 15/2/90

DERIVATIVES markets can be dangerous for one's financial health, as a string of casualties — from private individuals to prestigious institutions, clearly shows.

The damage has ranged from merely irritating to near-fatal, while in some cases the full extent of losses has yet to be quantified.

In keeping with the experience of other countries where derivatives markets are well established, the riskiest instruments have often been the most volatile — options.

Corbank, now merged with Cape Investment Bank, ran into trouble last year on gilt options. In the words of a Cape-based portfolio manager, "they bet the bank".

Trust Bank also ran into trouble last year, though the news was only made public in this newspaper within the last month.

It first missed the expiry dates on a batch of in-the-money call options by three weeks as a result of what a Treasury GM described as "an error". The market estimated the loss at R2m-R5m.

Some sources reacted by saying Rand Merchant Bank, which had sold the options, should have informed Trust Bank about its lapse in the interests of fair play.

Others took the opposite view, saying business is business. "This is a market for professionals," says Johannesburg Options Market MD Dave Bullard. "It should not be a bank's business to protect a competitor against his own folly."

Suffered

Later, in December, Trust Bank suffered an even larger loss on E-168 call options, estimated in the market at R20m to R30m, after miscalculating the timing of the bull market brought about by foreigners piling into local gilts.

Suddenly the market had woken to the very real danger of naked options — that is, options not backed by the underlying asset.

When rates moved against Trust Bank, holders of the options apparently moved to "call" on Trust Bank to deliver stock it apparently did not have.

In all fairness to Trust Bank, it was by no means the only bank to have taken a knock in this way. Other market players also took positions on E-168 stock when rates were at the 17% level, so there simply has to have been other casualties.

Had the Reserve Bank not confirmed that the Trust Bank debacle had reached the ears of senior deputy Governor Japie Jacobs, it might never have come out.

Market sources concede — mostly privately — that they have all been down the Trust Bank road in one form or another, whether in options or futures.

Indeed, some have accepted the fact that the road to profitable derivatives trading is paved with losses — the trick is to learn from them.

To this end, Sanlam says it has used a small speculative trading subsidiary separate from its main long-term fund operations to gain first-hand experience in the markets. It is now being "curtailed".

Volkskas Merchant Bank deputy GM Pieter Wessels, on what he calls the high cost of learning in futures and options, says: "The school fees are high."

First National Bank (FNB), which trades in the futures markets mainly for its own account, speaks about the long learning curve. "We've paid our fees," says group treasurer Ken Russell.

As the formal market draws near, the time and effort institutions, brokers, traders and others have put into the informal market will almost certainly pay dividends.

The more active stockbrokers in the markets, such as Simpson McKie (through its separate trading arm Simpson Futures), Frankel Kruger, Fergusson Brothers or Rice Rinaldi should have a head start over their less active competitors.

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Expertise

Similarly, few would dispute the level of expertise at banks like Rand Merchant Bank, Finansbank and Cape Investment Bank, institutions like Old Mutual and Sanlam, or futures houses like Holcolm and Greenwich.

This will no doubt define the terms of the shakeout which Finansbank's assistant GM Stuart Yates believes will eventually occur.

STUART YATES

"But," he says, "it will be like the computer industry — lots of failures but many more start-ups. The result will be net growth."

Mandela answers key questions

Attitude of white businessmen 'unsympathetic'

C/M Times 14/2/90 58

JOHANNESBURG. — The dip in stocks and shares was indicative of the unsympathetic attitude of white businessmen towards the reasonable aspirations of blacks, Mr Nelson Mandela said yesterday.

Speaking to the press from his home in Orlando West, Soweto, the ANC leader said the government's attitude towards the ANC's demands for nationalisation also seemed out of character.

"It (the flight of capital after nationalisation) may say a lot about the reluctance of whites inside the country and in the West to achieve a real settlement. Nationalisation has formed part and parcel of the history of this country," Mr Mandela said.

"Only now that the possibility had arisen that blacks might be able to participate in the running of the country, was the government beginning to privatise.

"Our demands are reasonable. Where do we get capital from to finance reform in health, education and housing if we don't nationalise?"

Asked if the country's five million whites would have to change their lifestyles under an ANC government, Mr Mandela said they had already begun the process.

"Whites in this country are a very important section of the community and without them, without their co-operation, we will have immense problems."

No negotiations would take place until the government had met all the ANC's demands, he insisted.

He criticised President F W de Klerk for his "ambiguous gesture" in which he invited political exiles to return home, yet left them to decide whether or not they had committed any actions liable for prosecution on their homecoming.

"Nothing short of an amnesty for all our exiles and imprisoned people is acceptable to the ANC."

Mr Mandela lavished praise on South Africa's "alternative" press, revealing that prison authorities had kept letters he wanted to send to two editors (Mr Max du Preez of Vrye Weekblad and Mr Ameen Akalwaya of the Indicator) because he refused to change the letters' contents. — Sapa

Black unity 'vital'

JOHANNESBURG. — Mr Nelson Mandela yesterday held out the olive branch to previously hostile black liberation organisations, saying unity was vital in the fight against apartheid.

In his quest for unity, Mr Mandela said the ANC had, throughout its history, made "the question of unity among the oppressed people, the cornerstone of its policy". — Sapa

MINI BUDGET

Schwarz: JSE panic was not necessary

Cape Times 16/2/90

Mr Schwarz

PARLIAMENT. — People should not have panicked and sold their shares on the Stock Exchange after listening to Mr Nelson Mandela's speech, Mr Harry Schwarz, Democratic Party chief spokesman on finance, said yesterday.

"Instead, they should have read the ANC Charter or its policy years ago and then they would have known that Mr Mandela said nothing new."

The reality was that there were people in the country who were not only deprived of political power but were also economically disadvantaged.

"Capitalism is associated with apartheid in the eyes of many blacks. We need, therefore, to project a system which is not associated with apartheid, has been proven to be effective and gives opportunity and benefits to those previously deprived," he said.

In reply to Mr Schwarz, Finance Minister Mr Barend du Plessis said that South Africa needed a social market economy to provide upliftment for disadvantaged people.

Government, he said, had never argued for a cold, free-enterprise, capitalist system.

In its distribution of taxes over the past few years it had shown a considerable degree of compassion to the poor. It could have shown more compassion but was restricted by the process of reconstructing the economy.— Sapa

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B/Day 16/2/90.

Giving investors a chance to get into blue chip market

OLD MUTUAL, the market leader in retirement annuity sales with an estimated 40% share of the market, lost no time in launching an all-equity "super growth high-risk investment" RA.

The life office has announced that investors will effectively be buying into a portfolio of blue chips such as Richemont, Barlows, Rembrandt, Sasol, SA Breweries, De Beers, Anglo American, Gencor, Anglovaal and Rustenburg — at a discount of up to 45% if full tax deduction is achieved by the investor at the maximum marginal tax rate.

Magnificent

Old Mutual's all-equity portfolio in which the RA premiums will be invested has shown an annual yield of more than 28% over the past 10 years, which, when combined with tax savings, promises a magnificent return on investment at the RA's maturity date.

Old Mutual is, however, emphasising to potential investors that the all-equity RA does have a considerably higher risk profile than the conventional RA which has a mix of fixed interest, property and a much lower share content.

Due to the high equity content of the new RA, assurers are not allowed to offer guarantees. Guarantees are normally around 4% a year on conventional retirement annuities.

Old Mutual takes the view that the all-equity RA is best-suited for younger people who have the time to build up exceptionally high portfolio values over a long period.

The assurer has imposed a five-year minimum term on the new policies to protect policyholders who may see the RA as an instant "get rich quick" formula. Short-term market fluctuations make this an unwise approach.

A danger mentioned by a number of market observers has been that the older investor may not have the time to benefit from sufficient growth to make the risk worthwhile and, should the policy mature at a time when the equity market is down, he could lose.

Old Mutual general manager (individual life) Bobbie Jooste says: "We do not advise older investors to use an all-share RA as the cornerstone of their retirement planning. But the equity product can have a major 'topping-up' role for existing RA policyholders who want to sweeten the yields on their retirement investments."

Jooste also points out that RAs do have an important advantage over unit trusts. "Unit trust holders generally misstime the market. They tend to sell at the bottom and buy at the top. Due to the contractual nature of RAs this temptation will be removed and retirement nest egg will remain intact.

"The benefits of rand cost averaging will also apply to monthly RA payments.

"The equity RA returns will be more volatile than conventional products but the investment returns should be far higher than portfolios with a fixed interest and property mix.

"The track record shows that while fixed interest and property provide stability in the short term, equity investments are the answer in beating inflation in the longer term," says Jooste.

Old Mutual's equity portfolio has over the past 10 years showed only two occasions when performance fell to single figures — in 1981 (1,42%) and in 1988 (5,70%).

In the other periods growth varied from 11,33% to 77,27%. "Apart from the 1969 crash, market slides have been of reasonably short duration," says Jooste.

"RA investments tend to be of long-term nature and the high values built up both prior to a crash and after a correction should outweigh much of the potential risk.

"The equity content of conventional RAs can also be increased following the phasing out of prescribed investments. The ceiling is 65% in shares and up to 30% in property. Due to the fixed interest and property content, guarantees can be offered."

Sanlam marketing actuary Jacques de Villiers says there are different investor markets for different types of RAs and that the 100% or even 85% equity-linked RAs will not necessarily appeal to the majority of RA investors.

Security

"One might compare the attractiveness of these products with other conventional equity portfolio-linked policies. We find these are in fact not our biggest sellers. Many investors prefer the security of a more fixed type of policy."

De Villiers describes Old Mutual's prediction that its new product should "double" its RA sales and that similar products introduced by other life offices might make this an industry-wide growth, as "perhaps over-optimistic" but he agrees that Old Mutual is the leader in this particular area of the market.

Old Mutual will be offering three different types of RA — the all-equity, a managed RA and an RA where the returns are smoothed to iron out market fluctuations. Guarantees are available on the latter two products.

Liberty Life joint managing director Dorian Wharton-Hood doubts the meaning of the term "100% equity" in the case of an RA and asks if it is not a misnomer.

Sophisticated

"I doubt whether any sophisticated fund manager would continue to invest in shares when the prices are inflated simply because the portfolio is deemed to be 100% equity-based," he says.

Old Mutual may go some way towards explaining this. Jooste says: "While portfolio managers will have the discretion to push the equity content to 100% of the portfolio, they can for investment strategy reasons decide to stay liquid, or place a portion in fixed interest.

"The important point is that with the change in prescribed asset requirements, fund managers are no longer being forced to invest in low-return investments.

"They can now manage funds unshackled by these impediments and achieve the best performance for policyholders."

LIFE ASSURERS' LEAGUE

	Rm			
	Total† assets	NPI	% Increase in NPI	12 months to . . .
Old Mutual	33 151,0 24 721,0	5 313,0	26,77	Dec
Sanlam	18 350,0 13 950,0	5 170,0	23,10	Dec
Liberty Life	14 797,1 11 386,2	1 430,8	2,05	Dec
Southern Life	9 002,6 7 614,2	1 261,7	22,31	Dec
Lifegro	3 894,5 3 636,3	723,5	(33,08)	Dec
Federated Life	2 674,4 2 390,0	490,8	38,10	Dec
Metropolitan Life	1 921,0 1 875,6	342,1	31,10	Sep
Commercial Union	1 226,8 990,3	206,4	45,25	Dec
Sage Life	1 180,0 960,0	226,8	18,40	Dec
Norwich Life	1 051,9 832,4	247,3	37,34	Dec
Momentum Life	485,0 478,2	77,1	5,47	Dec
*Safrican Life	365,7 96,0	199,1	331,40	Mar 89
AA Life	270,1 198,3	107,1	146,80	Apr 88
Standard General	186,5 156,8	44,1	7,75	Dec
Charter Life	144,9 119,8	29,2	36,99	Dec
Protea Life	133,0 108,6	16,5	27,10	Dec
African Life	100,9 94,7	22,6	37,90	Dec
Crusader Life	102,5 69,2	42,2	13,52	Dec
Anchor Life	38,4 34,1	18,7	11,68	Dec

* Formerly IGI Life. † Total assets at book value (or market value, if underlined).

Sage offers 'half-price' investment in unit trusts

BDay 16/2/90

S8

SAGE Life appears to be the first life assurer to immediately link the benefits of the new RA dispensation with unit trusts, offering investors twin advantages.

Sage Life marketing director Bruce Ilsley says the company has introduced a 100% equity-based RA option with the choice for investors of either of two unit trust portfolios — SageLink or MultiTrust.

"As a result of the new RA dispensation, clients can effectively buy unit trusts at half price if they do so via a Sage Life RA.

"They get a tax saving of up to 45% on contributions and an additional saving of 5% — the usual initial charge — which Sage Life does not pay as a bulk buyer.

"We are not offering simply another portfolio option when buying a policy but rather an even better way to buy unit trusts.

"The question for many clients is: if I am going to invest in unit trusts, shouldn't I consider investing via an RA?"

The RA option holds several advantages.

For the same net cost a client could invest almost double the amount in unit trusts using an RA than he could in a direct unit trust plan.

Taxation

Whereas interest on a direct investment is subject to taxation, unit trust income (dividend and interest) are reinvested free of tax.

The effect is that a client could (depending on tax rate) more than double the amount of money standing to his credit in the retirement fund when compared to a direct investment in a unit trust.

Says Ilsley: "The unit trust route was chosen because of its advantages over direct equity investment. Unit trusts have an excellent image among the public.

"Clients feel safe because unit trusts have an excellent record over a period of nearly a quarter of a century.

"Investors can see exactly what their unit trusts are earning — there are no hidden charges and full quarterly disclosure is required."

Ilsley says SageLink combines Sage Life's universal series of policies with the performance of the Sage family of unit trusts — Sage Fund and Sage Resources Fund.

Sage Fund was, in fact, SA's pioneer unit trust and has a good track record of investment growth.

It has a broadly based portfolio of high-quality shares covering the metals, mining, financial and industrial sectors of the JSE as well as some holdings in other countries.

Sage Resources Fund is a specialist unit trust introduced in 1987. This focuses on SA's own natural resources from metals and minerals to energy and timber.

Selected

Sage's MultiTrust concept on the other hand allows the investor to link his retirement annuity to not just one but a selected range of unit trusts offering a wide variety of investment strategies and policies.

Sage Life's strategy regarding RAs has involved no new product launch.

BRUCE ILSLEY

It has simply taken the existing SageLink and MultiTrust portfolios and "moved them to a 100% investment posture in unit trusts" says Ilsley.

"It is not only new clients that get the benefit of the new situation governing retirement annuities but existing clients as well. Existing policyholders have the benefit of the choice."

All-equity RA needs 'at least 10 years'

BDay 16/2/90

S8

THE natural and appropriate clients for an all-equity based retirement annuity are those who can give the policy 10 years or more before maturity, says Sage Life marketing director Bruce Ilsley.

"Two important factors must be considered by a client before taking a policy that is 100% equity linked — the client's own investment profile and the term of the policy. These are closely related," says Ilsley.

"It is over the longer term that equities consistently perform well, often outperforming other investment avenues.

"In the case of shorter-term contracts, with terms considerably less than 10 years, the volatility of equity investments could make such a policy less advantageous.

"If a shorter term is required, this could indicate that a policy with guarantees or reduced exposure to sharp share market fluctuations would be a better choice.

Appropriate

"The extent to which an investor is prepared to accept risks will play a major role in deciding on the appropriate route to follow."

Other commentators put their doubts about the all-equity RA more strongly.

Developer of the independent RA André Immelman says it is probable this policy will limit its equity exposure to 65%. He says a 100% equity RA is not in the spirit of retirement planning, which by its nature requires a great deal of security.

Liberty Life has limited its new RA policy's exposure to equities to 80% and takes the view that the extra exposure to risk contained in the 100% no-guarantee RA is not justified by any reasonable expectation of greater return.

In support of its contention, Liberty Life points out that the same conclusion has been reached by life offices in the UK. As an example, they refer to the views of UK investment manager Jonathan Tate, who, writing in the UK publication Pensions World, said the optimum balance between risk and reward would be best achieved by investing 80% in equities and 20% in fixed-interest securities.

Abolition

Liberty Life joint MD Dorian Wharton-Hood says: "Following the abolition of prescribed assets last year, which means life assurers no longer have to place 53% of their RA funds into low yielding investments such as government stock, four of SA's major life assurers have introduced a 100% equity-based RA.

"Policyholders investing in these portfolios forego all investment guarantees. Their funds are obviously exposed to greater volatility and, hence, greater risk.

"Jonathan Tate's research supports our belief that this risk is not justified by greater return."

Tate wrote: "History shows that in the period since 1945 equities have produced superior returns despite the higher risk — but the future could turn out to be different."

Wharton Hood says: "The investment manager should look at the relationship between the risk-free return and his expected equity return. In the real world, the asset choices within the mix are wider."

IT IS IMPORTANT TO KEEP OPEN OPTION TO CHANGE PORTFOLIO

INVESTORS keen to invest in the new wave of all-equity based RAs should ensure that all or part of their funds could be transferred to more conservative portfolios if share markets became too risky, says Protea Life Assurance life division senior executive Jim Brayson. B/Day 16/12/90

Protea has developed its own all-equity RA and Brayson says although there is no doubt that in the long term equities outpace other investments, there will be risks involved.

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"At certain times, alternative investments such as gilts, options or property might be yielding higher earnings and under these circumstances, policyholders should have the option of moving wholly or partially into a more general fund where prevailing conditions can be fully exploited."

JIM BRAYSON

While Protea's warning joins that of many other life assurers to ensure that a long-term view be taken on nil guarantee all-equity RAs, Brayson is bolder than most in saying that provided this ability to switch and split investments is built into the policy, it could be a good opportunity even for those close to retirement age.

"As retirement age approaches, the policyholder might choose to place his accumulated funds in a fully guaranteed fixed deposit portfolio, or he might decide to hedge his bets by placing one-third on fixed deposit, one-third in a conservative general portfolio, while leaving the balance invested in equities," says Brayson.

Protea's all-equity portfolio is to be managed by UAL Merchant Bank, with contributions currently being invested in the UAL Unit Trust.

Nothing new, says Southern

BDay 16/2/90

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WIDESPREAD publicity on the launch of equity-linked RAs by several life assurers has been challenged by Southern Life.

It believes the concept is not unique and claims to have an existing all-share RA portfolio with distinct advantages over the "new-product" approach of competitors.

Selection

Executive director life division Chris Liddle says Southern has always offered policyholders a selection of linked investment channels and changes in legislation had resulted in an all-equity portfolio.

"Since the introduction of the present Master Adaptor retirement annuity in 1985, investors have had a choice of four portfolios — managed, equity, property or money market — or the traditional smoothed bonus portfolio.

"While the equity portfolio has held sufficient Part 1 assets to conform to the requirements of the Insurance Act, the balance of the portfolio has been invested in equities."

He says that since the removal of the prescribed asset requirement in September last year gilts have gradually been sold out of the portfolio and selected equities bought as value situations arose.

The result is that this portfolio, which was originally established to offer clients the maximum possible exposure to the stock market, is now a true all-share RA portfolio.

Advantages

Liddle says Southern's existing equity portfolio has distinct advantages over competitors.

"Being part of an existing fund with a sizeable asset base, policyholders do not participate in a small portfolio comprising only new money.

"This means investors do not have to buy a new policy but can continue paying premiums on existing contracts and benefit from the removal of the prescribed asset requirement."

As to why Southern Life did not challenged the claims of competitors when they launched their new products, Liddle says all government and semi-government stock had gradually been sold out of the portfolio and these transactions had been completed by December. The fund is now being actively marketed to clients.

FD FM 16/2/90 (58)

MOTOR INSURANCE (58)

Going up

FM 16/2/90

Significant motor insurance losses in the fourth quarter of 1989 have persuaded short-term insurers the time has come for a round of premium increases. Those for motor vehicles are set to rise an average of 20% in the first half of this year with further increases expected later.

Aegis's Brian Seach predicts industry-wide increases of 30%-40% this year. General Accident's Clive Dean says rises could be as high as 80%.

Most insurers plan across-the-board increases and drivers with good claims records will not be spared. They benefit through discounted premiums but these will rise by the same percentages as other rates.

Increases have been expected, since underwriting profits began to fall early last year, but fierce competition for a share of a soft market kept the lid on premiums, even as declining profits turned to losses. A healthy investment market made it possible to sustain these losses but even good investment returns cannot now offset underwriting losses.

Rates on other categories of insurance are also likely to increase but, according to SA Eagle MD Peter Martin, motor insurance has been particularly hard hit. SA Eagle hopes to limit premium increases to 10% from April 1.

Spare parts and new car prices have risen considerably, partly reflecting the import surcharge introduced in 1988 and partly because of a weak rand. A large panel-beating firm estimates component prices have risen faster than inflation for several years with some increasing 50% in 1989 alone.

Labour costs have also soared with minimum wage hikes and other increases exceeding inflation rates in the past two years.

According to Naamsa figures, car prices rose by 12,5%, 20% and 15% in 1987, 1988 and 1989 respectively. Car prices are expected to rise by 12%-14% this year.

Oosthuizen

Central Statistical Service figures show vehicle prices, including commercial transport, and running costs exceeded average inflation during every month last year. Vehicle price increases hit a year-on-year 29,2% in July before a stronger rand helped to push price hikes down to an annual 19,8% in December. Running costs, which include repairs, peaked at 28,3% in July before falling to 18,8% at the end of last year.

Seach

Insurers insist cost increases have not been offset by a decrease in thefts. Mutual & Federal's Bunny Attree has seen no marked reduction in this type of claim and no indication police have achieved a higher retrieval rate. The company plans to increase motor insurance rates by 15%-20% on April 1.

Guardian National plans to raise premiums in Natal by 14% with 7,5%-12,5% hikes already in place in the rest of the country. Guardian's Stuart Miller says car theft claims have fallen in the Transvaal but some thieves have moved to Natal.

Santam's Oosie Oosthuizen says his company has not raised premiums but he expects increases of up to 20% will be needed.

After comfortable profits in the early Eighties, short-term underwriting losses begin to mount by end-1984. The natural cycle was then compounded by car theft and robberies from property, which reached epidemic proportions during unrest over the next two years. Premiums peaked in 1986 but by 1987 a significant turnaround had occurred, with claims for vehicle thefts and robberies from property down by more than 30%, and insurers enjoying booming underwriting profits.

Those profits are now sliding. ■

Still persuasive

Bankers studying a draft Bill feel that, for the most part, legislation due in parliament this year allows more flexibility than the 1965 Banks Act. One exception, they fear, is the control given to the Reserve Bank over the advertising material of deposit-taking institutions. Authority, previously exercised through moral suasion, will be enshrined in statute if the Bill becomes law.

The section dealing with *undesirable practices* includes a clause aimed mainly at preventing institutions from making misleading claims. It not only gives the supervisory authorities power to put a stop to advertising which is not factually correct, but it allows them to end advertising "not in the public interest." This clause could be used to include marketing campaigns that authorities feel will undermine monetary policy.

Chris de Swardt, who, as Registrar of Banks & Building Societies, has been deeply

involved in drafting the Bill, says: "It is not our intention to use the legislation to implement monetary policy. The reason the phrase is there is that it was taken over from the Building Societies Act of 1986. We will use it only when an advertisement or other document could mislead the public."

Reason for the suspicions aroused by the reference to "public interest" is the war waged by the Bank over the past two years against excessive growth in money supply. Major campaigns to increase market share of lending were conducted by banks and building societies. Consumers were subjected to a barrage of offers of apparently unlimited credit on enticing terms.

One institution offered a line of credit to spare customers the nerve-racking experience of repeatedly approaching a bank manager. Another offered effective 110% finance for purchase and decoration of a home; another allowed the client to borrow against the security of a home to finance current consumption.

With mortgage and other interest rates still negative at the start of 1988 — a hangover of 1986-1987 monetary policy — these and other offers were accepted with enthusiasm. While the Bank was trying to cut credit creation, each institution was determined to maintain — or increase — its share.

The result, of course, was a massive increase in total lending.

Along with increased interest rates, the Bank put pressure on lending institutions. Late Governor Gerhard de Kock at one stage asked institutions to refrain from advertising lending-based products: all complied.

It seems, despite the potential for censorship in the phrase, the traditional phone call from the Bank to an erring bank or building society won't be replaced by a written request with which institutions must comply.

In this context, moral suasion does not lack teeth — it has ended several successful campaigns. ■

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JUMPING THE GUN

Even before October's abolition of the minimum 33% prescribed assets life offices had to hold, a dramatic change had taken place in the composition of the investment portfolio of mutual life assurer Sanlam.

The report for the year to September, released this week, shows an increase of 32% to R21bn in investments. A breakdown reveals a marginal decline in stocks and loans of the public sector from R6,2bn to R6,19bn.

Equities increased 60% to R6,6bn; mortgages, debentures and other loans, together with deposits and similar securities, 58% to R6,1bn; and fixed property 21% to R2,2bn.

So public-sector stocks and loans dropped from nearly 39% of total investments in 1988 to under 30% in 1989.

BILL JACK FM 16/2/90 (58)

Market vision

African Life MD Bill Jack has a lot to smile about. His company — one of the fastest growing life assurance companies in SA — has increased total income by 44% to R33,6m for the nine months to end-December. Plans for a listing on the JSE later this year are well ahead of schedule.

Says Jack: "One of our strengths is that we are very focused. We have a clear understanding of our market and we try to target in." He believes the new business indicates a growing acceptance of life assurance within the lower income groups. African Life has traditionally offered low premium policies ranging between R40 and R70 a month and has succeeded in capturing a large black market.

The recent private placement of shares to policyholders and business associates raised R27m in new capital — as well as Jack's confidence. "We like to think nothing happens in African Life by accident."

Changing names seems to be a feature of Jack's life. He arrived in SA from the UK in 1975 to join Guarantee Life as national marketing manager. In 1980, he moved to the home service division of African Eagle (the holding company of Guarantee Life). The two later merged to form Anglo American Life (now Southern Life), but the home service division was to operate separately as African Life. "We've tried to grow the company. A lot of mistakes have been made — who doesn't — but we still get a lot done," he reflects in a thick Scottish accent.

Born in Glasgow in 1938, Jack completed the SA equivalent of Standard Nine. Circumstances forced him to get a job in the fire department of an insurance company and he's been in the business ever since. When the company he was working for collapsed in 1974, Jack decided to sell his skills in marketing life assurance. He sent applications all over the world and accepted a job here.

Bill Jack . . . a focused approach

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Any regrets? "None. It's a marvellous place — people are remarkably friendly considering the history of the country. I wish the world would leave us alone to make something special of this country."

Jack plays golf badly and has a keen interest in wine. His wife, Edith, is a librarian; their son, Stuart, has just completed a BCom at Wits.

Of his management style, Jack likes to think he gives his staff space "because I appreciate being given room to move by my parent company — Southern Life."

He admits to being short-tempered and doesn't suffer fools, though he is tolerant of mistakes — "just don't repeat them." ■

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VOLKSKAS

New motley

Head office functions are moving to Johannesburg — and now the returns need to improve

For more than five decades Volkskas clung steadfastly to its roots. Unlike the rest of the big five banking groups — First National, SBIC, Nedcor and Bankorp — the group chose not to have its head office in Johannesburg. It remained headquartered in Pretoria, for Volkskas a city of greater historical and cultural significance.

From this month, CE Danie Cronje and senior executives and staff — about 450 of them — are settling into offices in Johannesburg.

These offices are in a modern building developed recently by Liberty Life on the site of the old Colosseum cinema. The executive suite is decorated in the red and grey corporate colours — another innovation — and Volkskas's new logo adorns the building.

Reduced to simple business logic, the move ought probably to have happened years ago. It should improve access to banking markets, in which Volkskas has remained weak, and enable more effective nurturing of commercial relationships. And, in a sector where there is limited talent available, it makes sense to be close to potential recruits.

There is another, possibly much more important, aspect. The move to the country's financial hub may also be a symbolic and highly visible gesture which is probably essential if Cronje is to convince the market and his staff that what counts is the bottom line.

The legacy of Volkskas's origins, and of successive directors and senior executives, is that of a culture whose profit performance has not been impressive. The group was slow to react to the intense competition that ensued after the break-up of the banking cartel in 1983. In some sectors it languished or lost market share.

Between September 1982 and 1989, Volkskas's share of total assets held by the big five banking groups slipped from 14% to 12%. It gained penetration in cheque deposits — a high-cost but potentially very profitable activity — but penetration of corporate deposit business slipped from 13% to 10%, while acceptances fell from 13% to 12%.

In the March 1989 year, return on equity (ROE) was only 12,6% and the return on assets (ROA) was 0,7%. Last year, First National's ROE was 22,7% and ROA 0,9%; in 1989 SBIC's ROE was 17,83% and ROA 0,92%, and Nedcor's ROE was 23,2% and ROA 0,97%. Nor has Volkskas's policy of limited disclosure encouraged investors. At 1 350c, the share price is 24% below the March 31 disclosed net worth.

The group is of much more recent vintage than FNB, SBIC or Nedcor, all of which have roots firmly in the last century. The largest subsidiary and major income earner, Volkskas Bank, was founded as a people's bank in 1934 by 60 Afrikaners; according to at least one history, all were members of the Broederbond. It started as a co-operative society before being registered as a commercial bank in 1941 and gaining a JSE listing in 1952.

For many years it seemed the emphasis was on ownership of assets and reliably serving traditional markets; the group was seen to have a strong rural base and loyal clients in the public sector. Management was generally seen as stolid rather than aggressively profit-orientated. Interestingly, Cronje's predecessor, Pieter Morkel, MD from 1982 to 1988, wrote his doctoral thesis on the maize marketing system.

It was, however, during Morkel's tenure that the group disposed of much of its industrial portfolio to focus on financial services, and generally tidied up its structure. Other changes were set in motion. International management consultants, PA Consulting, was hired. In 1985, Rembrandt built up a 30% stake in Volkskas Group and then UBS Holdings gained a further 30% while Volkskas in turn acquired 49,99% of the new United Bank.

In evaluating Volkskas, the market is now asking two questions: will Cronje achieve his rather ambitious targets for lifting profitability over the next two years; and what will come out of the links with Rembrandt and UBS over the longer term?

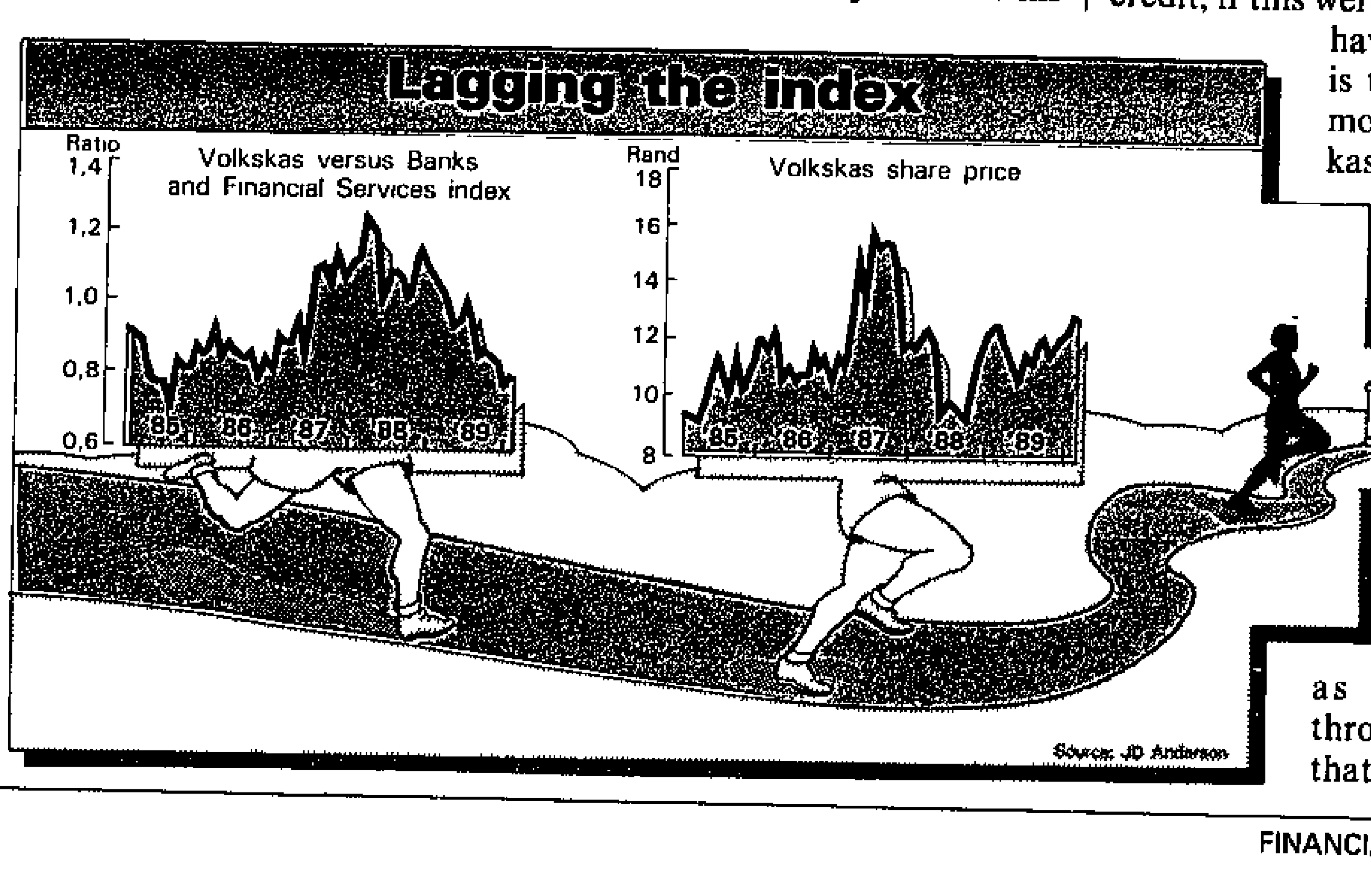
CE Cronje ... symbolic shift to the market

The first is essentially an operational matter. Cronje says returns of 20% on equity and of 1% on assets "can and must" be achieved by the end of 1992. These returns will be expected from companies within the group when seeking capital. Tactics will include efforts to expand in growth markets, better asset and liability management and improved cost controls. It will also need some success in remoulding a deeply-embedded corporate culture — never easy.

Cronje takes a pragmatic view. "If all the banks' head offices are here you must have a very good reason not to be," he says. "Otherwise, you may fall into the trap of being a regional bank." Part of the thinking is to use the client base better. Volkskas Merchant Bank has been in Johannesburg for 13 years and does business with 80 of the Top 100 companies. The group has found it difficult to use that source of potential business, often because personal relationships are lacking.

Growth is particularly targeted in the corporate and instalment credit sectors, with Volkskas Industrial Bank the major vehicle for the latter. Cronje notes that the group's overall market share in the retail sector is about 13% but as low as 9% in instalment credit; if this were lifted even to 13% it would have a useful impact. The idea is to expand in areas such as motor finance, where Volkskas has never had a strong presence.

Management knows the group's cost structure is well above the average for banks. Cronje reckons cost problems have had much to do with the group's relatively small size and unit costs will improve as larger volumes move through the systems. He notes that the staff of the commer-



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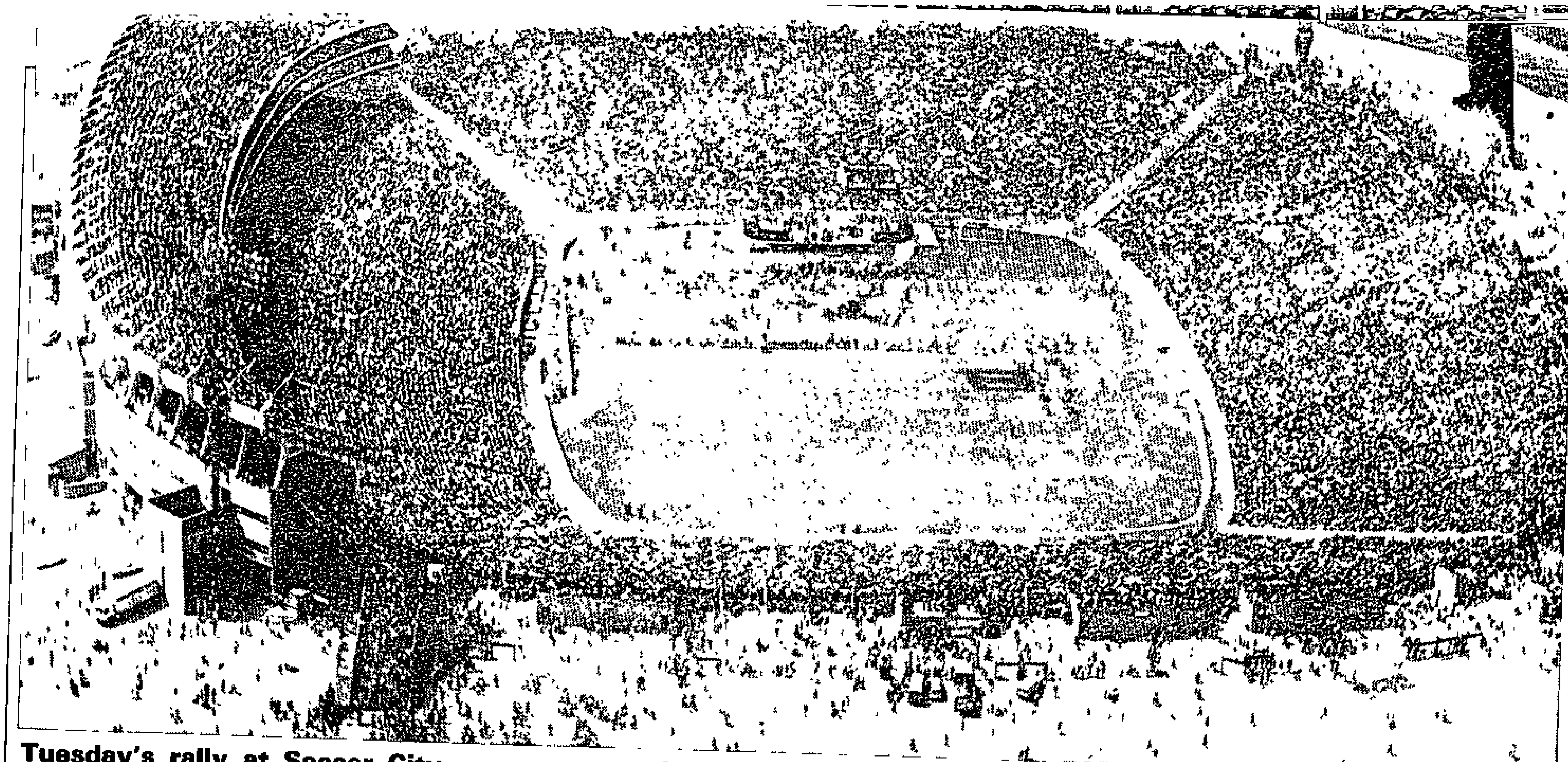

Tuesday's rally at Soccer City . . . mass emotion tempered by discipline

Photo by Robbie Botha Flight courtesy Radio 702

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through negotiation — was simply not sufficiently recognised.

Obviously, some believed that all the good things would suddenly come about with Mandela's release. This might be called the Hollywood view of history. They made the same mistake as those who believe that it was "the people" who released the man, whereas, in fact, it was De Klerk and his team.

The major exceptions were British Prime Minister Margaret Thatcher, who wishes to lift sanctions, West German Chancellor Helmut Kohl and President George Bush — though he has made a coherent stance contingent on his assessing Mandela man-to-man. He is in any case bound by the law and the wishes of Congress.

Thatcher found herself in a familiar position — isolated but courageously arguing that De Klerk needed both reward and support for his stance. The dangers of a right-wing backlash were pointed out in the Commons but Mandelamania had taken hold and the familiar and ugly postures of hatred for Thatcher were very visible.

Since so many expectations were built into Mandela's release — an event in many respects subsidiary to the freeing of the political process — De Klerk's critics had a field day. This was, of course, to miss the point. De Klerk and his aides — in particular Pik Botha and Gerrit Viljoen — have stressed that the steps they have taken have been in the interests of equity; and that any important political decision has an element of risk. The major risk — that there would be an overwhelming tide of revolutionary fervour, a familiar modern phenomenon — does not look as if it is capable of fulfilment.

Therefore, the unbannings and the release must be accounted a remarkable success, notwithstanding incidents of violence. They have dealt, in one sense, with a residue of old work left over from the previous administration. This suggests that De Klerk is still ahead of the game. It would have been pleasant if the world had been more supportive of the courage which it took to break free of past restraints — with no precise mandate to do so from the white electorate — but not essential to the continuance of the process.

The process — of which the next step is that substantive meeting between Pretoria and the ANC — remains intact, barring major folly by the ANC. Government appears to be convinced that such a folly will not happen, though it has doubtless been perturbed by some events surrounding the release.

With old business dealt with, the focus of debate, as the *FM* has noted, shifts to the economic front. The black entrepreneur Richard Maponya — who figured largely in Mandela's reception — recently made some widely publicised remarks about Mandela's economic views, suggesting they did indeed deviate from official ANC policy; that the lessons of eastern Europe had been assimilated; and that Mandela's democratic-mindedness was matched by a tolerance of private enterprise.

If this is so, Mandela obviously does not feel himself free to express such beliefs. In fact, he believes the economy is in ruins — which may indicate the effects of so long and morally unacceptable a sojourn in jail.

The debate is likely to come down in the end to precisely what is meant by the restructuring of the economy to which Mandela also referred in Cape Town. If it means the nationalisation of banks, mines and "monopoly enterprises," then substantial foreign investment will never return, fixed investment will be choked off and the emigration of skilled whites will accelerate. It is difficult to believe that after the experiences of Zambia, Tanzania, Angola and Mozambique wide-scale expropriation of wealth is a serious option in SA. But it would be a mistake to believe that the lessons of even the recent past have necessarily been learnt by ideologues.

Even the progress of Namibia to what at this stage looks like a promising independence, with nationalisation very much yesterday's idea, need not apply in an economy as sophisticated as ours — one in which the birthrate and alarming educational statistics indicate plainly the potential for a revolution, or endemic instability, which would overtake the ANC itself.

These matters need to be thoroughly considered in advance of negotiations. Negotiations, in any case, can only establish a broad framework for a political and economic system which is fair and just. Such matters as land availability for rapidly urbanising populations, the provision of schools and hospitals out of general revenue, and for that matter the denationalisation (or privatisation) of concerns occur in the constitutional fine print.

This means that the parties to the negotiations need to elucidate well in advance what their intentions are. If the ANC is to persist with socialism, this must be clarified soon — along with the leadership structure — so that, for example, businessmen have real data on which to base decisions. Before that happens, it is inevitable that the markets will react convulsively and serve to predict the outcome of fears.

It is, therefore, fortunate that the Nationalists have laid the requisite stress on privatisation and deregulation — of creating an enterprise economy. The ANC's economic policies remain unclear — shrouded as they are in the interpretations of academics of a document devised in the Fifties.

Whatever bias towards socialism the years of National Party rule have left the economy, it would be folly to make or even attempt a transition back to doctrinaire socialism, especially if the economy had to carry the cost of more social services — such as education, health and housing. Businessmen have a role in persuading the ANC that this is so; and the debates, thanks to De Klerk, can be public and not clouded by prevarication and rhetoric.

We remain marginally optimistic. ■

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cial bank is in line with five years ago.

However, what will really determine the cost (and profit) performance will be the effort to change the corporate culture. A "quality programme" has been instituted, as have incentive schemes for staff, and Cronje says all new business will have to be profitable by specified criteria. "Changing culture means adapting to a more competitive environment," he says. "10 years ago there was no competition but today it is highly competitive and that is not going to change."

In the life assurance sector, Volkskas has a 30% stake in the enlarged Momentum Life, formed by last year's merger of Momentum and Lifegro. Here Volkskas has exposure to a highly rated investment advisory operation and the cross-selling potential in the life company's large client base. In time Momentum should be a cash generator.

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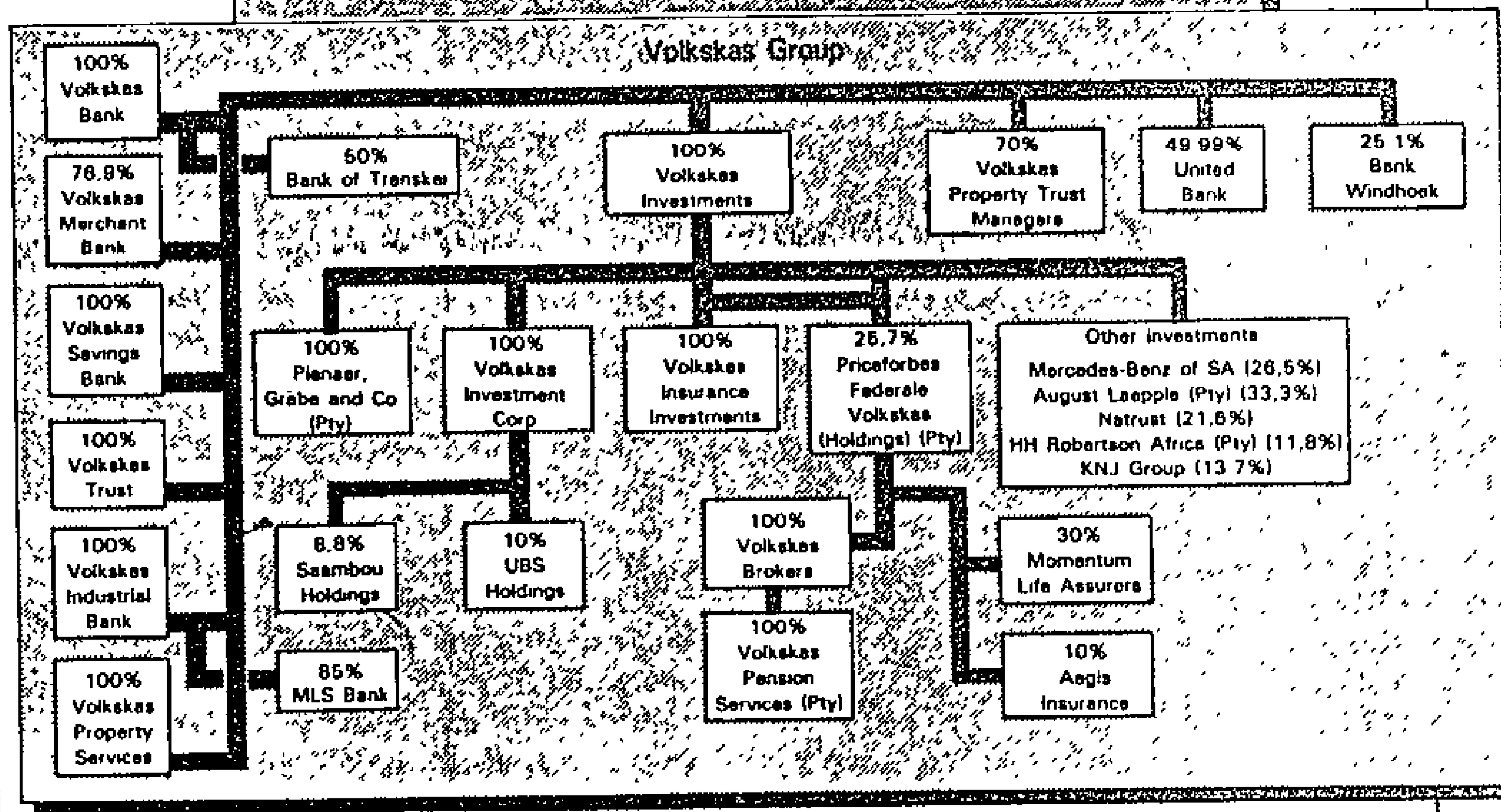
Medium term, the share price is more likely to depend on whether management can persuade the market that profitability is rising. EPS for the six months to end-September rose 26,6% and the full-year result will probably remain robust.

The group should have reaped tidy profits from its large cheque account balances during the phase of rising interest rates, though the same may not apply when rates ease. Competition will remain severe, including, perhaps, a more vigorous Bankorp with Derek Keys in the chair. If Volkskas can show sustainable growth, the share rating must improve. Meanwhile, many investors will prefer to wait and see. *Andrew McNulty*

Group structure



fantasy

reign. By contrast, Kerzner nurtured a close relationship with Mangope.

The developments make Kersaf and Sunbop more dependent on Mangope, whose tenure may not be assured in a new SA. But they also dilute its concentration on gaming, perhaps in anticipation of relaxation of SA gambling laws. About two-thirds of SI's income and 40% of Kersaf's was from Sunbop last year. Ed Hern, Rudolph analyst Syd Vianello believes that taking into account SI's management contract, Sunbop probably contributes 55% of Kersaf's earnings.

Sunbop yields 2,5% (2,1% after non-resident shareholders' tax) and Kersaf 3,7%. Vianello comments that, though interest costs will be capitalised, interest earnings from the cash pile will be lost. He believes gambling should track expansion in money supply, so on current trends Sunbop is unlikely to extend its historic earnings increases. From 1993, he believes, borrowings will be quickly repaid on strong cash flow.

Another analyst forecasts 38% EPS increase for this full year and further strong growth until the expansions are in place, partly because of a lower tax rate. She believes smaller interim developments will ensure earnings growth.

Though the share may react slightly, investor faith in Kerzner will probably ensure any downside is temporary and limited.

Teigue Payne

SBIC FM 16/2/90 (58)

Asset gearing

While the banking sector reports severe pressure on margins over recent months, this has not deterred Standard Bank Investment

FM 16/2/90 (58)

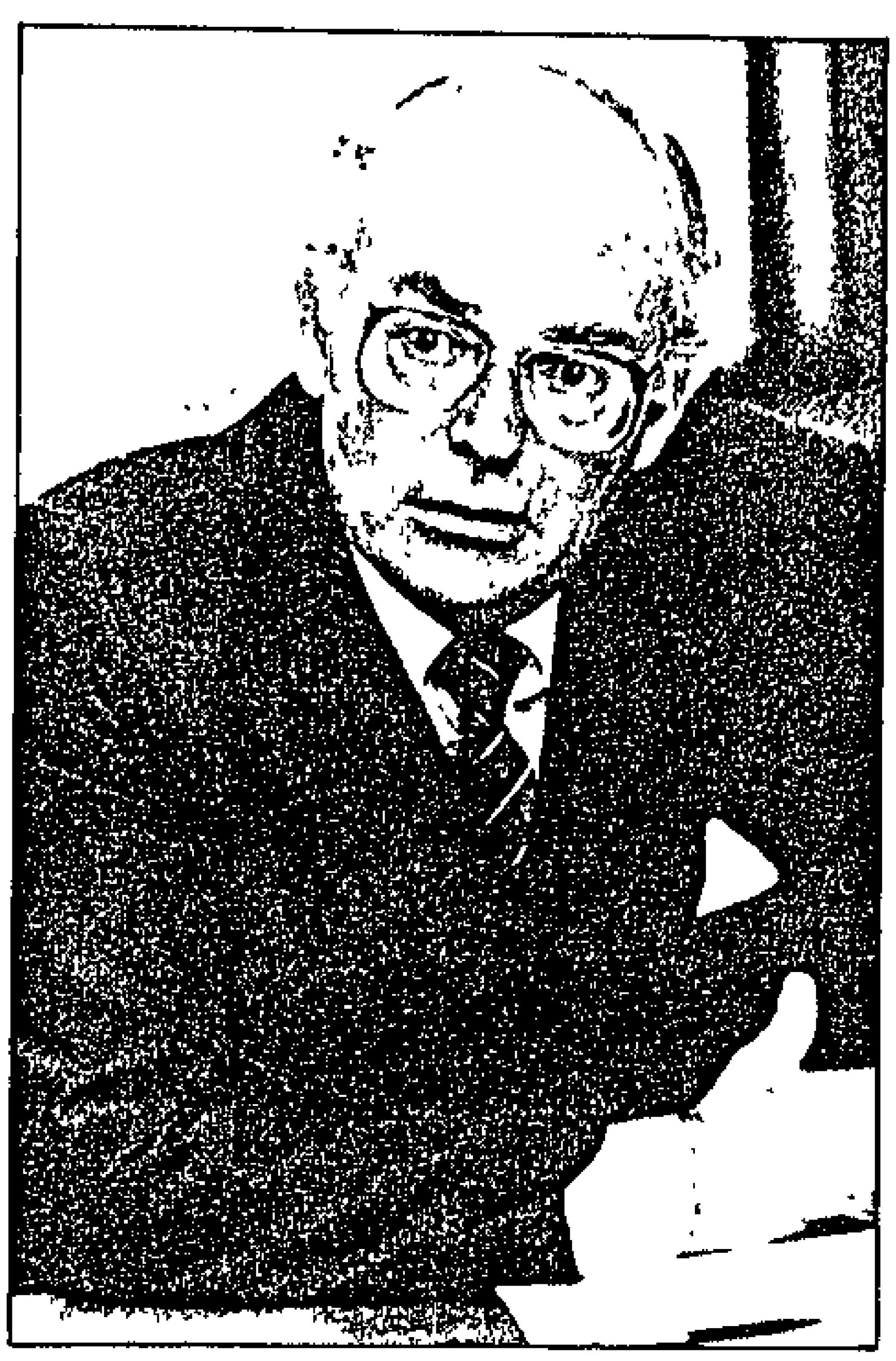
Corp (SBIC) from maintaining its run of robust earnings advances.

Profits continued to improve in most of the major divisions and EPS were up by 25,9%. The policy adopted over the past two years of using the strong capital base to achieve better returns for shareholders rather than return on assets has again proved effective. With total equity expanding by 20% and total assets by 25,8%, the return on shareholders' funds rose to 17,83% (16,81%), while the return on assets edged upwards to 0,92% (0,90%).

MD Conrad Strauss says the group is now comfortable with its return on equity and the "aggression of the asset gearing exercise" has ended. For the current year, a real increase in earnings is budgeted and, by implication, there should thus be further improvement in returns on both equity and assets.

The recent squeeze on margins, which was particularly tight in January, is seen as an essentially short-term phenomenon. Strauss, far from being unhappy that the authorities have maintained interest rates at the recent high levels, feels that from a macro-economic standpoint even higher levels could be justified. He notes that the real rates available in SA of around 4% are still well below those of about 7%-8% in leading industrial economies.

Standard Bank MD Mike Vosloo points out that, notwithstanding the squeeze that



SBIC's Strauss ... achieving higher returns

FM 16/2/90 (58)

STAYING AHEAD

Year to December 31	1988	1989
Pre-tax profit (Rm)	406,2	529,5
Attributable income (Rm)	264,2	333,2
Earnings (c)	270	340
Dividend (c)		
—ordinary	95	112
—pref ord	108	112

high interest may place on margins, banks can make good profits when the rates pattern declines. The squeeze at present is on deposit rates, but with a lid being kept on lending rates. The group is expecting less real growth in the economy this year than last, with rates showing only a fairly small decline.

Standard Bank, the group's largest income producer, saw its contribution to net income after tax rise by 28% to R200,8m (R157m). Similar advances were also produced by Standard Merchant Bank to R26,4m (R21,8m), Stanbo to R17,6m (R8m) and Stanswa to R7,1m (R5,5m). The only decline was posted by Stannic, whose contribution was R23,4m (R31,2m), owing to a narrower funding margin.

Strauss notes that Stannic is a medium-term lender with a significant proportion of its assets held at fixed rates. In line with the general thinking in the group, the emphasis in its liabilities has been relatively short-term in anticipation of lower rates. The trade-off comes in the impact on margins in the meantime.

The bad and doubtful debt charge to the income statement for the year jumped to R156,2m (R103,6m), but Strauss says he is not concerned about this. He notes that the general debt provision as a percentage of total advances, other accounts and acceptances was very conservative by international standards at 1,04%. Debt provisions this year were widely spread across the group.

Also sharply higher was the expenditure on computer and mechanised equipment — at R137,7m (R65,2m). After a recent lull, investment on technology and related areas is expected to remain for a while at higher levels.

At R31, the share stands 28% above year-end net worth and offers a historical yield of 3,6%. With management expecting more real growth, the group continues to justify its present rating as industry leader.

Andrew McNulty

METROPOLITAN LIFE FM 16/2/90

In a growth market

(58)

Activities: *Life assurer.*
Control: *Sankorp has 68%.*
Chairman: *P J F Scholtz; MD: W S Pretorius.*
Capital structure: *R44,5m ords. Market capitalisation: R285m.*
Share market: *Price: 640c. Yields: 4,7% on dividend; 7% on earnings; PE ratio, 14,2; cover, 1,5. 12-month high, 685c; low, 410c. Trading volume last quarter, 127 000 shares.*

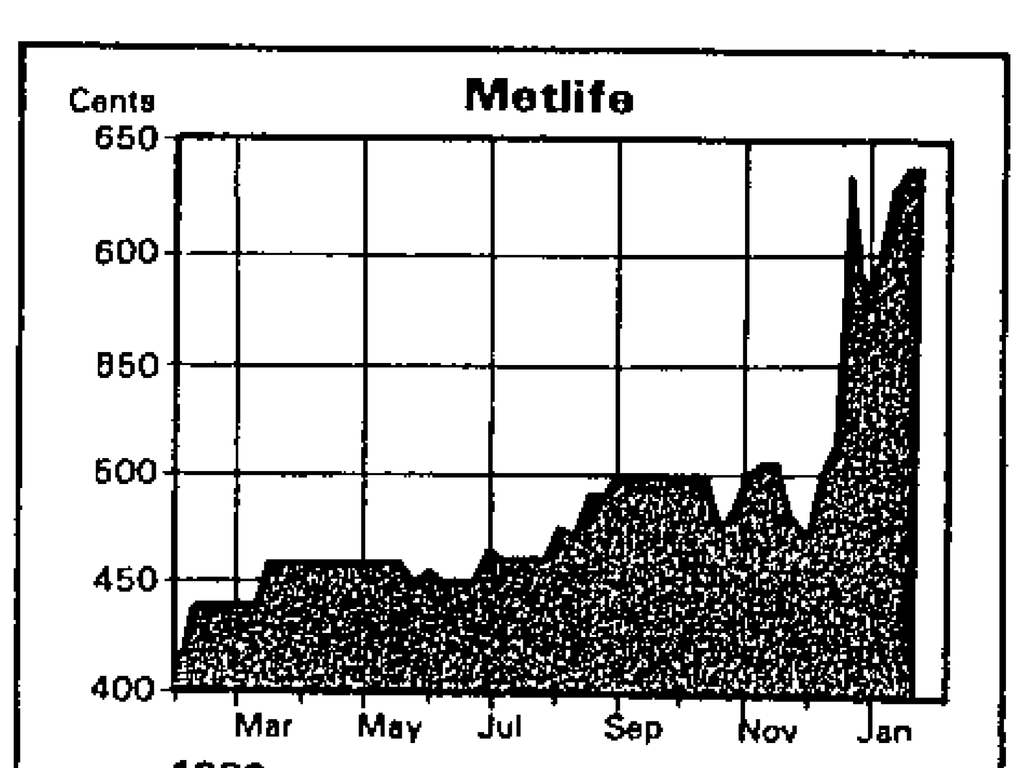
Year to Sep 30	'86	'87	'88	'89
Total assets (Rbn) ...	1,35	1,87	1,92	2,57
Premium income (Rm)	213	261	341	438
Investment income (Rm)	119	132	165	217
Earnings (c)	21	28,5	36	45
Dividends (c)	15	19	24	30
Net worth (c)	—	153	165	180

A sharp rerating of Metropolitan Life occurred after strong results were published in December. Life shares generally rose well last year, but Metpol's advance occurred later and more swiftly.

The 25% earnings increase follows rises of 26% and 36% in the preceding years and, since the listing in 1986, dividends have grown by 25%-26% a year. Deputy MD Marius Smith says that last year about 62% of new business was from blacks, 17% from coloureds, 5% from Asians and 16% from whites — roughly the same ethnic spread of the population. Sales were well spread, though particularly strong in the Transkei; every year, the white percentage declines.

Owing to Metpol's focus on the black market it has relatively little single-premium business, which carries low administration costs. Anyway, single-premium business generally declined in the life industry last year in the face of competition from higher interest rates and a directive against them to municipalities.

Smith says the trend towards saving via life policies is as strong among blacks as among whites. The increase in policies written means a high growth in marketing remuneration — 32% last year — as commission is paid to agents largely up-front. It also resulted in operating costs rising 31%. As Metpol's base grows, the extent of these increases should decline. Smith says Metpol's has kept its cost ratio as low as some of the larger, white-orientated life offices.



Investors may fear that the client base, though growing fast, is more heavily exposed to Aids. Smith replies that in most universal life policies the premium may be flexibly appropriated to either the life cover or the investment. In an epidemic, bonuses from investment would be smaller, but it would then be unacceptable to continue increasing dividends. Metpol has strict selection and exclusion procedures and large amounts have been placed in undisclosed reserves.

Last year, the transfer to long-term reserves, which encompasses the undisclosed and the Aids reserves, rose 45%. Smith says Metpol has had only about five Aids-related claims so far and statistics indicate that if no cure is found for Aids, an epidemic would only occur from 1996. Investors have not started to discount that spectre.

Investment assets rose 19% to R1,6bn. After the abolition of 40% prescribed assets, the holdings of semi-government stocks fell two-thirds. Smith says it is likely to be reduced further this year. Unlike some life offices, Metpol has not introduced a 100% equity-liked policy; Smith believes a more balanced portfolio with equity content is wiser.

The message that blacks will increasingly receive is that, for growth in savings, no alternatives to life companies and unit trusts have appeared. Metpol is well placed in a growth market.

Teigue Payne

YORKCOR FM 16/2/90

State threat

Activities: *Sawmiller, manufacturer with wood and property developer.*
Control: *Tucker family.*
Chairman and CE: *S Tucker.*
Capital structure: *8,9m ords. Market capitalisation: R22,4m.*
Share market: *Price: 250c. Yields: 5,2% on dividend; 16,8% on earnings; PE ratio, 5,9; cover, 3,2. 12-month high, 300c; low, 126c. Trading volume last quarter, 147 000 shares.*

Year to Dec 31	'86	'87	'88	'89
ST debt (Rm)	1,4	0,5	1,1	1,7
LT debt (Rm)	5,6	9,5	4,4	8,1
Debt equity ratio	0,47	0,5	0,12	0,24
Shareholders' interest	0,51	0,58	0,59	0,52
Int & leasing cover .	1,1	1,4	6,3	6,7
Return on cap (%) ..	0,1	5,5	15,6	14
Turnover (Rm)	24,2	28,5	33,8	36
Pre-int profit (Rm) ...	0,2	1,3	5,4	5,8
Pre-int margin (%) ..	0,7	4,6	15,9	16,2
Earnings (c)	(9)	4	31	42,1
Dividends (c)	—	1	10	13
Net worth (c)	150	153	223	244

FM 16/2/90 (58)

VOLKSKAS

New motley

Head office functions are moving to Johannesburg — and now the returns need to improve

CE Cronje ... symbolic shift to the market

For more than five decades Volkskas clung steadfastly to its roots. Unlike the rest of the big five banking groups — First National, SBIC, Nedcor and Bankorp — the group chose not to have its head office in Johannesburg. It remained headquartered in Pretoria, for Volkskas a city of greater historical and cultural significance.

From this month, CE Danie Cronje and senior executives and staff — about 450 of them — are settling into offices in Johannesburg.

These offices are in a modern building developed recently by Liberty Life on the site of the old Colosseum cinema. The executive suite is decorated in the red and grey corporate colours — another innovation — and Volkskas's new logo adorns the building.

Reduced to simple business logic, the move ought probably to have happened years ago. It should improve access to banking markets, in which Volkskas has remained weak, and enable more effective nurturing of commercial relationships. And, in a sector where there is limited talent available, it makes sense to be close to potential recruits.

There is another, possibly much more important, aspect. The move to the country's financial hub may also be a symbolic and highly visible gesture which is probably essential if Cronje is to convince the market and his staff that what counts is the bottom line.

The legacy of Volkskas's origins, and of successive directors and senior executives, is that of a culture whose profit performance has not been impressive. The group was slow to react to the intense competition that ensued after the break-up of the banking cartel in 1983. In some sectors it languished or lost market share.

Between September 1982 and 1989, Volkskas's share of total assets held by the big five banking groups slipped from 14% to 12%. It gained penetration in cheque deposits — a high-cost but potentially very profitable activity — but penetration of corporate deposit business slipped from 13% to 10%, while acceptances fell from 13% to 12%.

In the March 1989 year, return on equity (ROE) was only 12,6% and the return on assets (ROA) was 0,7%. Last year, First National's ROE was 22,7% and ROA 0,9%; in 1989 SBIC's ROE was 17,83% and ROA 0,92%, and Nedcor's ROE was 23,2% and ROA 0,97%. Nor has Volkskas's policy of limited disclosure encouraged investors. At 1 350c, the share price is 24% below the March 31 disclosed net worth.

The group is of much more recent vintage than FNB, SBIC or Nedcor, all of which have roots firmly in the last century. The largest subsidiary and major income earner, Volkskas Bank, was founded as a people's bank in 1934 by 60 Afrikaners; according to at least one history, all were members of the Broederbond. It started as a co-operative society before being registered as a commercial bank in 1941 and gaining a JSE listing in 1952.

For many years it seemed the emphasis was on ownership of assets and reliably serving traditional markets; the group was seen to have a strong rural base and loyal clients in the public sector. Management was generally seen as stolid rather than aggressively profit-orientated. Interestingly, Cronje's predecessor, Pieter Morkel, MD from 1982 to 1988, wrote his doctoral thesis on the maize marketing system.

It was, however, during Morkel's tenure that the group disposed of much of its industrial portfolio to focus on financial services, and generally tidied up its structure. Other changes were set in motion. International management consultants, PA Consulting, was hired. In 1985, Rembrandt built up a 30% stake in Volkskas Group and then UBS Holdings gained a further 30% while Volkskas in turn acquired 49,99% of the new United Bank.

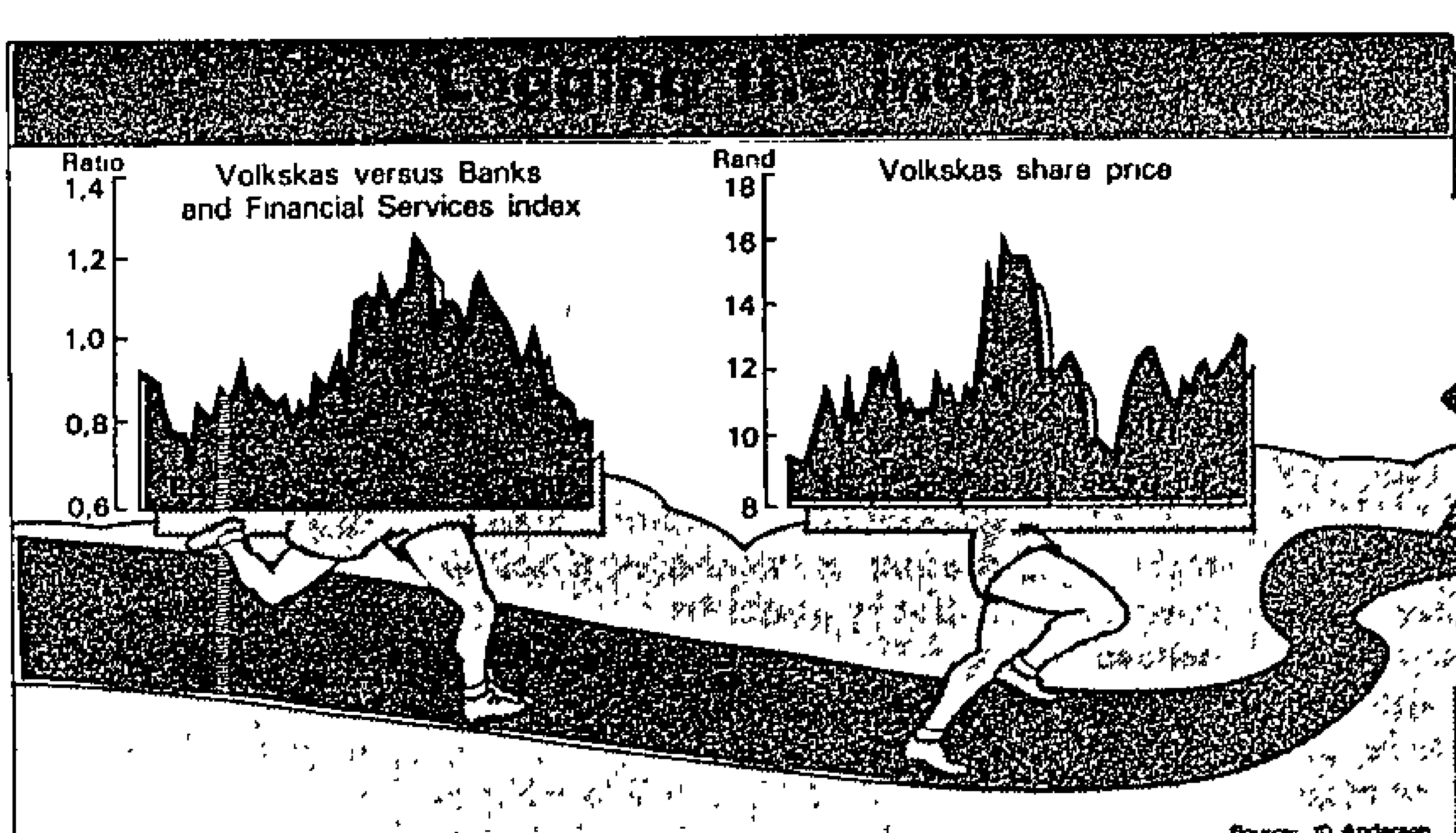
In evaluating Volkskas, the market is now asking two questions: will Cronje achieve his rather ambitious targets for lifting profitability over the next two years; and what will come out of the links with Rembrandt and UBS over the longer term?

The first is essentially an operational matter. Cronje says returns of 20% on equity and of 1% on assets "can and must" be achieved by the end of 1992. These returns will be expected from companies within the group when seeking capital. Tactics will include efforts to expand in growth markets, better asset and liability management and improved cost controls. It will also need some success in remoulding a deeply-embedded corporate culture — never easy.

Cronje takes a pragmatic view. "If all the banks' head offices are here you must have a very good reason not to be," he says. "Otherwise, you may fall into the trap of being a regional bank." Part of the thinking is to use the client base better. Volkskas Merchant Bank has been in Johannesburg for 13 years and does business with 80 of the Top 100 companies. The group has found it difficult to use that source of potential business, often because personal relationships are lacking.

Growth is particularly targeted in the corporate and instalment credit sectors, with Volkskas Industrial Bank the major vehicle for the latter. Cronje notes that the group's overall market share in the retail sector is about 13% but as low as 9% in instalment credit; if this were lifted even to 13% it would have a useful impact. The idea is to expand in areas such as motor finance, where Volkskas has never had a strong presence.

Management knows the group's cost structure is well above the average for banks. Cronje reckons cost problems have had much to do with the group's relatively small size and unit costs will improve as larger volumes move through the systems. He notes that the staff of the commer-



P.T.O.

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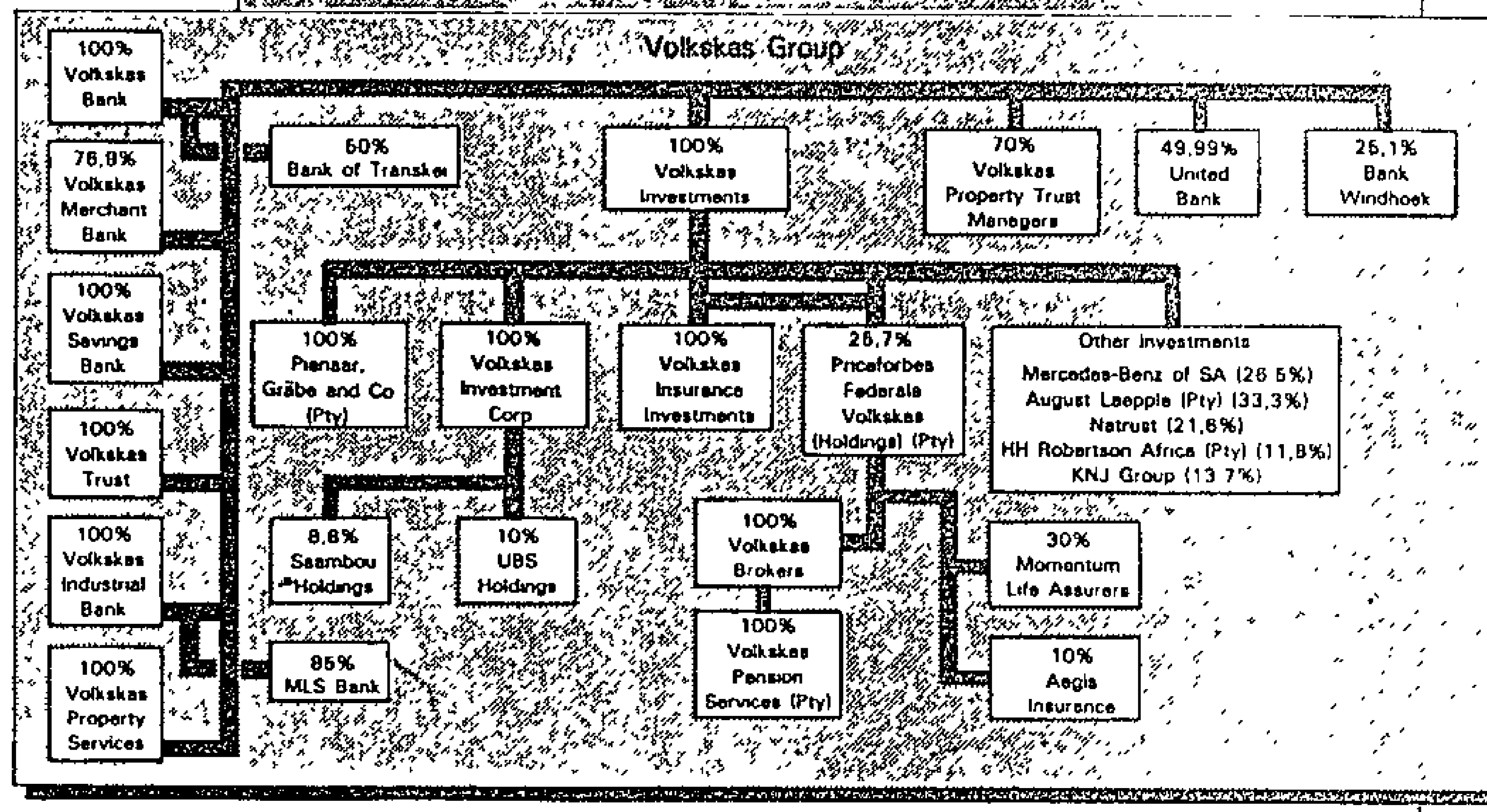

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Safex clause opposed

BDay 16/12/90 (58)

ROBERT GENTLE

A NUMBER of leading banks which intend becoming SA Futures Exchange (Safex) clearing members oppose a draft rule requiring clearing members to pay R3m to help other members that may default.

Spokesmen from Volkskas and First National Bank (FNB) strongly opposed the rule yesterday. Safex said Standard Bank had given its support, but only under certain conditions.

The argument against the rule is twofold· firstly, the banks would have to bale out firms over whose financial operations they had no direct control; secondly, it was unnecessarily costly and would increase clearing costs.

The rule, still in draft stage and scheduled to be approved next month, works on joint liability.

Any shortfall after a defaulting member's assets have been liquidated shall fall on all remaining members.

"We are not in favour of it," said Volkskas Merchant Bank senior GM Jan de Kock. "We cannot, at this stage, agree to any additional liability to that which we may create ourselves."

FNB group treasurer Ken Russell said clearers should be strong enough in their own right.

Russell said Allied and Nedbank were also "unhappy" about the ruling. Neither could be reached for comment.

Safex assistant GM Mike Henegan rebutted the lack-of-control argument by saying members had to approve membership anyway.

He said there was an element of overkill in the rules, but it was prudent with a new market and could be reduced later.

BDay 16/2/90

58

Masa, LOA issue separate tariffs

LINDA ENSOR

THE tariff agreement between the Medical Association of SA (Masa) and the Life Offices Association (LOA) has collapsed because of disagreements over fee increases and the bodies have issued separate tariffs.

Doctors are caught in the middle.

Meetings held in Cape Town this week failed to reach agreement on the 1990 increase in fees paid for life assurance medical examinations.

Assurance companies, which are members of LOA, have agreed not to pay more than the LOA-recommended fee, effective from January 1.

Some life assurers have asked doctors to fill in a form indicating whether the LOA fee was acceptable or not and according to LOA chairman Dorian Wharton-Hood, a number had said they were happy with the tariff.

He said the LOA consulted the Registrar of the SA Medical and Dental Council (SAMDC) and received the assurance that doctors who accepted the LOA tariff would not be contravening Rule 19 of the SAMDC's ethical rules.

But Masa Federal Council chairman Dr Bernard Mandell said this was not the issue as, while doctors might decide to accept the LOA tariff, the SAMDC did not permit doctors to enter into contracts with lay bodies.

Should doctors commit themselves in writing to the LOA tariff "they may be contravening Ethical Rule 12, which prohibits tendering for appointments as 'preferred doctors', and Ethical Rule 26, which prohibits exploitation of doctors by lay bodies in that the doctor would not be able to charge fees regarded by Masa as reasonable".

The LOA offered an across-the-board increase of 20% with a 22,5% increase for standard medical examinations (R55,10 each), which make up about 75% of all work done for life assurers by doctors.

Masa rejected this, proposing, according to Wharton-Hood, a 77% increase (R80 each compared with the R48 recommended by Masa for private patients) for the basic medical investigation and offering in return to reduce the fees of certain specialist investigations.

Mandell disputed the 77% figure but did not wish to disclose the increases recommended by Masa.

The last increase came into effect in October 1988.

Sought-after way of reducing a high tax rate

(58)

THE maximum allowable tax deductions on retirement annuity contributions and on the one-third amount which may be commuted to cash at maturity has in recent years been described as too low by many tax consultants.

Does the relaxation of prescribed asset requirements and greater potential return mean a new perspective?

Ernst Young partner Ray Eskinazi believes not in cases where an employer-contributed provident fund might take the place of an RA in employees' retirement portfolios.

Option

He says a provident fund offers a greater tax advantage than an RA, is equally protected from creditors, yet has the option of being entirely commuted to cash at retirement.

Whereas an RA is taxed at the investor's marginal rate of tax, the provident fund is taxed at the investor's average rate of tax, which is lower.

Eskinazi says: "These relatively disadvantageous tax considerations at retirement are in no way offset by the removal of prescribed asset requirements on RAs."

However, he concedes that if a person taking retirement has a significant lump sum that is taxable, to put the maximum allowable 15% of this into a single premium RA would be advisable.

Coopers & Lybrand tax consultant Pascale van der Elst believes that for the individual who already has pension and provident funds and life assurance policies but still requires a method of reducing taxation, RAs are a good choice.

They are also very valuable for the self-employed individual with no other pension scheme. He says one of the most important advantages to the RA's place in a retirement plan is that, as it is not employer-provided, the individual loses no benefits by changing employment.

Eskinazi says that as an employer may pay up to 20% of an employee's salary in the form of contributions to RAs, provident and pension funds, they can be very tax-effective as part of a salary package.

Contributions to an RA are deductible according to circumstance as follows: whichever is the greatest of: 15% of non-retirement funding income (which excludes income derived from any retirement funding employment); or R3 500 less other allowable pension fund contributions; or R1 750.

Van der Elst describes the RA as "a much sought-after tax deduction needed to reduce an individual's high tax rate."

One way of seeing the tax advantage, says Price Waterhouse's Martin McAusland is that although the annuity purchased after retirement is fully taxable, it is at the lower rate of taxation applicable to the investor's reduced income bracket.

This means that, in a way, the investor is deferring taxation to take advantage of a lower marginal rate.

Sanlam marketing actuary Jacques de Villiers says it is "particularly those people in the higher income brackets who do well by putting their money into RAs".

"Many people are unaware that RA contributions may be deducted for tax relief from not only earned income, but also, for instance, from investment income and even from pensions.

Discretionary

"Someone retiring with a larger income than is needed could put some of that discretionary income into a retirement annuity planned to mature before his or her 70th birthday.

"When such policies mature, these pensioners will have given themselves a substantial raise.

"A word of advice to married couples is to take the annuity in the wife's name if she is younger than her husband.

"This also makes sense when the wife is a taxpayer and the husband's maximum contribution for tax relief has been reached."

Platteland home for Colombia's cash pile

(58 ST Times 18/4/90

Business Times Reporter

AFTER enriching shareholders who stayed with Columbia Consultants from day one by more than R45-million, founder Gordon Polovin has decided on his next investment.

He will pump a large part of Columbia's cash holdings into little Acrem, a JSE-listed chain of platteland stores.

Mr Polovin says: "We were a management consultancy turned investment banking operation. We brought several of our clients to market successfully. Now we have cashed in our chips and will focus on retailing."

Mr Polovin listed his business consultancy in October 1986. There were 20-million shares with a net asset value of 24c — capitalising the company at R4,8-million. Today, after disposing of 11 companies that it brought to the JSE, Columbia has net assets of 166c and 30-million shares in issue.

Although the companies Columbia brought to the market have been successful, the track record is not impeccable. The market became overexcited about the shares of Columbia and its associates at times. Columbia, for instance, was run up to 800c. Buyers at the top are still showing losses.

Mr Polovin says: "Companies such as Toco have been successful and I don't doubt that they will do well. But we never had control, so didn't have a lot to contribute. We also had R25-million of debt, with which we were not comfortable.

Discount

"Like most conglomerates, Columbia stood at a discount to net assets. We sold assets to bring in cash and reduce the discount.

"We had a lot of cash and for a year have been looking for a major acquisition on which to focus. We looked at numerous prospects, including disinvestment propositions and a couple of pharmaceutical companies. But we could find nothing as promising as Acrem, which was already in our portfolio."

Acrem has raised sales by 35% and earnings by 24% of late. The company specialises in selling big-ticket consumer items on credit to low-risk customers. Margins are uncommonly fat.

Acrem, founded by former Tedelex chairman Benny Slome and his right-hand man, former Amrel director Arthur Hirshowitz, comprises 14 general dealers, operating as Acme, Rembrandt and Decor stores. Turnover is about R35-million a year.

Avoiding food, clothing and cars, the stores sell furniture, white and brown goods, firearms, radio and hi-fi sets, musical instruments, sports equipment and toys — all under one roof and all on tick.

Mr Hirshowitz says: "Many reliable people earning R2 500 or R3 000 a month can't simply walk into a discount store and make out a cheque for R1 500-R2 000 for golf clubs, video tape recorders, etc. That's where we come in, offering these items on HP."

To raise expansion capital, Acrem will make a rights issue, to which Columbia will contribute at least R15-million, increasing its holding to nearly 80%.

Minding the store ... ARTHUR HIRSHOWITZ and GORDON POLOVIN move into retailing and hire purchase Picture: MARGOT WILLIAMS

58

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ST Times 18/4/90

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Acrem has raised sales by 35% and earnings by 24% of late. The company specialises in selling big-ticket consumer items on credit to low-risk customers. Margins are uncommonly fat.

Acrem, founded by former Tedelex chairman Benny Slome and his right-hand man, former Amrel director Arthur Hirshowitz, comprises 14 general dealers, operating as Acme, Rembrandt and Decor stores. Turnover is about R35-million a year.

Avoiding food, clothing and cars, the stores sell furniture, white and brown goods, firearms, radio and hi-fi sets, musical instruments, sports equipment and toys — all under one roof and all on tick.

Mr Hirshowitz says: "Many reliable people earning R2 500 or R3 000 a month can't simply walk into a discount store and make out a cheque for R1 500-R2 000 for golf clubs, video tape recorders, etc. That's where we come in, offering these items on HP."

To raise expansion capital, Acrem will make a rights issue, to which Columbia will contribute at least R15-million, increasing its holding to nearly 80%.

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Small-time Time heads for big time

By David Carte

HE'S been responsible for a thousand times more money, but Bill Haslam of fledgling life assurer Time Life is proud of the company's taxed profit of R1-million in the year to December.

A year ago Mr Haslam stepped down as an actuary and senior general manager of Southern Life to take over what must have been the smallest life company in SA.

Time Life came into being in 1988 on the strength of mortgage protection business written for Colin Hibbert's bustling project management company, Time Holdings. It was the first new life assurer registered in 20 years.

In his first year, Mr Haslam reports total net premium income of R4,4-million, investment earnings of R2,1-million and a net profit to shareholders of R1-million.

Mr Haslam says the traditional way of reporting life company profits is extremely conservative compared with the way in which other commercial and industrial companies calculate earnings.

Several top UK assurers, including BAT Industries, Commercial Union, Crown Financial Management, Hill Samuel, Lloyds Bank and Royal Insurance, use a new method called the embedded value approach. It recognises profit — as distinct from distributable surplus — by reference to changes in values of future streams of distributable surplus.

Time Life's independent actuary assesses its embedded value at R488 000, so the company could actually have reported earnings of nearly R1,5-million.

With shareholders' funds at R6-million, total assets rose from R5,9-million to R14,2-million. Staff numbers have grown in the year from eight to 23.

Mr Haslam says: "It's easy to grow off a small base. But I'm happy."

Mr Haslam has focused sales efforts on independent brokers. They are receptive because they feel uncomfortable about links between the big assurers and the large broking houses.

Time Life will concentrate on A-income earners in the Pretoria-Witwatersrand-Vereeniging area, which accounts for 60% of gross domestic product.

The company has moved beyond mortgage protection — like most life business, it causes new-business strain.

"On high-strain products, there is a loss after commission on the first year's business. You need a lot of capital, so we have pursued other niches.

"One successful product was devised by a group of independent brokers, who wanted a 10-year pure-endowment equity-linked policy to help provisional taxpayers, who are left every six months with a big overdraft after paying the Receivcer. It has been popular and premiums average R1000 a month, reducing administrative costs."

Time Life has also taken on the management of pension and provident funds.

"It would have been folly for us to start our own investment department, so we hire the best in the country. We place funds with various managers and monitor returns closely."

Mr Haslam says administration in several big companies has deteriorated. A priority is to make Time Life's administration slick.

BILL HASLAM ... accent on the A-income earners

(58) (82) S/Times 18/2/90

Assurers fret as Aids claims soar

By Robyn Chalmers

LIFE companies worldwide are facing huge Aids-related claims, US assurers having paid out $802-million (about R2-billion) in 1988.

SA life companies have forked out R6-million since 1984, and the sum is rising sharply.

UK companies have paid out £18,5-million (about R75-million) since the middle of 1987.

Disability

Statistics from Mercantile & General senior underwriter Jakes Greyling, who is collating information for the Life Offices Association, show Aids-related claims have risen dramatically since 1984 when there was only one payment.

Figures released in January 1989 showed that assurers had paid out R3,3-million since 1984 to 30 policyholders in 47 claims.

By January 1990, the figures had risen to 55 Aids claimants with 99 policies, resulting in a total payout of more than R6-million. Included were payouts of R5,4-million for life and R642 724 for lump-sum disability policies.

A survey of 460 firms conducted in the US shows the extent of the threat the disease poses to assurers.

A Mercantile & General News Digest shows that 2% of all US individual and group life claims arose from the virus in 1988 compared with 1,4% the previous year.

"Accident and health assurers' Aids-related illness claims reached 9% of total payout, compared with 6% in 1987.

"However, it is recognised that these are less than the full cost of the disease because of the problems associated with accurate diagnosis," says the digest.

In an effort to protect themselves, SA assurers and medical-aid schemes have tried to limit their liability in various ways. The LOA decided in 1988 that life assurers could implement an Aids exclusion clause in new policies of more than R200 000.

Since then, assurance companies have gone even further to ward off the danger of Aids mortality experience worsening Southern Life eliminated the R200 000 threshold in May last year and no long offers Aids cover on new policies

Sanlam has cut the threshold to R100 000 and Metropolitan Life has introduced new underwriting arrangements They include a blood test for sums assured for less than R200 000.

Limit

Although there is no agreement for medaid schemes, several limit the annual payout of Aids treatment to less than R500. Others have lowered it to the legal minimum of R100.

The extent of the disease in SA is not known, but Institute of Medical Research Aids expert Ruben Sher estimates that the number of people suffering from the disease doubles every eight months.

By mid-January this year, the number of people with full-blown Aids was 332, but Dr Sher believes that upwards of 35 000 could be infected with the HIV virus.

Insurers in bid to ease health costs

SITimes 18/2/90.

(58)

THREE big players in insurance have banded together to produce a health-care specifically for employees.

By Robyn Chalmers

Soaring costs have widened the gap between expenses and medical-aid scheme payouts.

First Bowring, Crusader Life and General Accident have launched the First Bowring Group Major Medical Expenses Plan to supplement medaid benefits of employees.

Payout

Crusader Life joint managing director Bob Rowand says the plan will not compete with medaid schemes, but will fill the gap between recommended fees and benefits.

"In the event of an accident, the policyholder will receive a tax-free lump sum, calculated on a unit system. Included in this is a recuperation benefit, which no other plan to my knowledge provides for, and a 50% increase in payment for those who are treated in foreign hospitalis."

Crusader Life medical director Marius Barnard says a patient undergoing a hip replacement operation is charged R1 664, but receives a payout from a medical scheme of only R732,20.

Dr Barnard predicts that medical costs will continue to climb rapidly. In 1980, coronary artery surgery cost R4 000. Today's cost is R30 000 and by the year 2000 it will be between R250 000 and R300 000.

"In addition, the pattern of disease is changing. In the early 1900s, infectious diseases caused the most deaths in SA. Pneumonia and influenza accounted for 11,8% of deaths a year. Heart disease caused 8% of deaths, strokes 6,2% and cancer 3,7%.

"Today, the picture has changed dramatically. A total of 49,6% of deaths in SA were caused by heart disease in 1980, 20,9% by cancer and 8,6% by strokes, pneumonia and influenza accounting for only 2,6%."

Combination

Dr Barnard says it is imperative that the private sector heed the Government and become involved in financing medical services.

Insurers have slowly become more involved in the provision of health-care protection plans. Towards the middle of last year, Crusader Life launched its Total Health Care package.

BOB ROWAND . . . bridging the health gap

It combines three Crusader products — Hospitalplan, Major Medical Expenses Plan and Dread Diseases — with an endowment policy. Under the policy the insured will have an amount invested at the end of 10 years.

First Bowring Group Major Medical Expenses Plan is intended for companies which are concerned about their employees' well-being and security.

For R15 a month an employee aged 40 can cover himself and his family for medical expenses up to a maximum of R200 000 a year.

According to the unit system on which benefits are calculated, an employee can, for example, receive about R17 226 for a coronary bypass operation — which includes two days in intensive care, eight days in hospital and recuperation expenses.

Reserve Bank to stick to guns until lending declines

IN THE MONEY MARKETS
Harold Fridjhon

THE only financial market which was unaffected by last week's epochal events was the money market which, as dealers state, is not a market because relatively few assets are traded; bank dealers' major concern is procuring wholesale cash deposits.

Markets can function easily and smoothly only when they are liquid and that the money market certainly isn't. Nor is it likely to be until the banks can shake off the incubus that is the Reserve Bank. And the Bank will not be shaken off or diverted from its present policy until the banks' advances have been reduced to levels approved by the authorities.

As far as can be ascertained there has been no real decline yet in total bank lending; there couldn't be. Contractual loans cannot be cancelled at a moment's notice, and even overdrafts, which are nominally call advances, cannot be closed like turning off a tap. If they are not reduced little by little, businesses and private borrowers could be ruined. And no one wants that, least of all the authorities.

Reduction

It is a long process. A year has passed since Bank rate was hoisted by one-and-a-half percentage points to 16%, followed within eight months by two further full-point rises. And only now are there signs that this painful policy is taking effect. The rate of increase in bank lending has been retarded and will slow down still further in step with slower economic momentum.

But it will take time. Perhaps another four months will pass before Bank rate is marginally eased by about half-a-percentage, hopefully followed a few months later by another reduction.

This will depend not only on purely local conditions but also on international perceptions of the political environment. If these are favourable some relief might come sooner than expected, but optimists who hope positive political discussions will bring back boom and plenty are losing sight of the prime reason why the present tight money policy was adopted: To bring down the rate of inflation.

A flood of overseas funds, a sudden rise in demand in the economy, could derail the anti-inflation programme which includes the promised stringent restraints on government spending.

But private spending, too, must be curbed and for this the most effective brake is high interest rates. The public must be coaxed away from profligacy by the counter-attraction of good returns on their savings.

The past week has been the easiest in the money market for a long time. By Friday the market shortage — its debt to the Reserve Bank — was less than half of what it had been four weeks ago, a comfortable low of only R2,4bn. The wholesale call rate had dropped to around 18%, three percentage points below prime.

But there was no euphoria or blowing of trumpets in the dealing rooms. Everyone realised this was a one-off. More than R1bn had flowed into the market from the redemption of the RSA 11,5% 1990 loan stock, almost to the day when public servants' paychecks filtered into the market. Rands have also come into the market with the Reserve Bank's buying of dollars.

This period of relief will end this week when GST is paid and by the end of the month a market shortage of upwards of R4,5bn, and call rates of 20%, can once again be expected when gold mine tax and provisional tax is paid to Treasury.

□□□

POLITICS triggered off the bond market's most volatile week with yields on the Eskom 168 going up and down within a range of 53 points from a low of 15,24% to a high of 15,77% in a turnover of about R6,5bn. The stock closed at 15,56%.

The market acted defensively when Nelson Mandela spoke of nationalisation. As the financial rand began to fall, dealers in the market sold to push up rates and to discourage offshore investors from offloading stock they had previously bought.

A dealer summarised the week: "It was a political market. It was a gambler's market."

Kersaf Investments comes up trumps (58)

Star 19/2/90 **Finance Staff**

Kersaf Investments, Sun International's holding company, turned in a good growth rate in earnings of 28 percent for the six months to end-December.

Attributable earnings soared from R39,35 million to R63,85 million, which translated to earnings per share of 85,1c, a 29 percent increase on 1988's 65,8c. An interim dividend of 50c (39c) was declared.

Revenues rose by 26 percent to R805 million (R639 million), while operating profits improved by 28 percent to R220,35 million (R172,53 million).

The directors say that trading conditions were affected by the slowdown the South African economy.

Sun International resorts traded at an occupancy rate of 74 percent during the period under review, compared with 72 percent the previous year and 65 percent attained by the top hotels in the SA markets.

Directors expect a satisfactory performance for the full year, despite the further economic slowdown.

Kersaf's balance sheet was strengthened considerably, with total assets rising from R1,6 billion to R1,94 billion, largely as a result of taking up its rights in the additional share offer by Sun International's offshore hotel group, Royal Resorts.

RAs now a powerful new investment tool

(58) February 1990

By MAGNUS HEYSTEK

RETIREMENT annuities were given a new lease in life during last year's budget when government announced the abolishment of the prescribed asset requirements of life insurance companies.

Life companies were quick to capitalise on this newly found investment freedom and several major insurance companies have recently announced equity-based retirement annuities.

Old Mutual, SA's largest composite insurer was the first to the chip in with its equity-based RA while several other companies, including Federated Life, Sage Life, Commercial Union and one small fund called the Independant Retirement Annuity Fund have since announced similar schemes.

The Independant RA's differs from the other funds in that investments are made in 10 general equity unit trusts rather than in equities directly.

The choice of the unit trust is at the discretion of the individual investor and also has the added bonus that capital values can be preserved in a downturn in the market place by diverting funds, in this instance, to Liberty Life's guaranteed investment portfolios.

Most other large insurance companies are currently constructing similar equity-based RA's while one or two have indicated no need for such funds.

There is no doubt that these innovative product offer exciting and extremely lucrative new dimensions to investment and retirement planning. In some cases this boils down to a discount of up to 50 percent to invest in blue chip shares. But that, ofcourse, is only half the story.

What should not be forgotten, is that although equities generally have been excellent investments in recent years, their risk profile is much higher than that of conventional RA's. This is an important factor that should not be overlooked by individuals.

Stock markets, conceivably, can crash just prior to someone retiring. This could seriously effect the eventual commutation as well as the life-long pension.

As a rough rule of thumb I would say that the further one is away from retirement, the bigger the attraction of equity-based RA's. But the closer one gets to the retirement age (in terms of the RA fund) the more I would advise caution and perhaps even advise a switch out of an all share RA into a conventional RA that has a wider spread of risk.

The creation of equity-based RA's were largely brought about by a relaxation of the law governing assets; until now, 53 percent of the capital placed in retirement annuities had, by law, to be placed in various stipulated and conservative investments such as government stock.

Historically the returns on government and semi-government stock have underperformend that of other kinds of investments like equities and properties.

As a result, only up to 47 percent of linked retirement annuity funds could be invested in equities, which obviously had a stifling effect on the capital growth potential of a retirement annuity fund.

Now they offer the buyer the opportunity to invest in the stock market at a significant discount.

With equity-based RA's investors will get similar growth as they would from mutual funds, while at the same time reaping the tax benefits that are not applicable to mutual fund units.

But, unit trusts have the element of liquidity and the transferability (after death) which many RA funds don't have.

John Rigby Assistant General Manager: Life Marketing at Fedlife, says: "With Fedsure 100 percent of the investment will be placed in general equities on the Johannesburg Stock Exchange. With this we are confident of obtaining higher returns across the board."

Returns

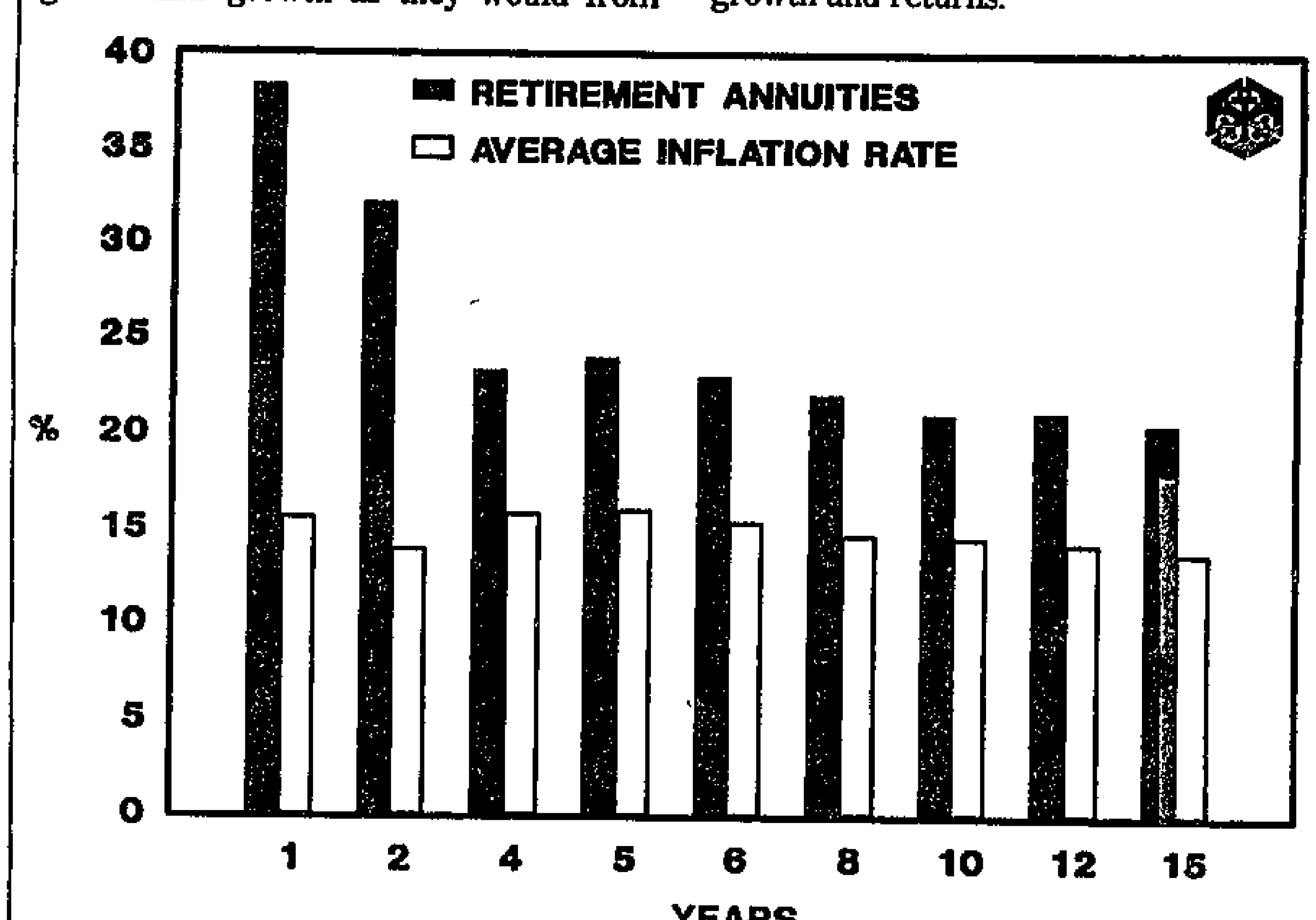
These views are echoed by various other spokesmen for life insurance companies.

Retirement Annuities have consistently shown to be a quality savings mechanism in saving for retirement and have delivered reasonable investment returns.

According to figures supplied by FPS, a subsidiary of the Sage group, RA's have been better investments than endowment policies during the last decade, with compound growth of 19,7 percent versus 19,1 percent on average.

Retirement annuity contributions, unlike those of mutual funds, are tax deductable. If one is aiming at making worthwhile savings towards one's retirement — which is the basic purpose of a retirement annuity — then these tax savings can make a significant contribution.

With the changes to the law, RA's have become a powerful new investment tool for those who wish to maximise both growth and returns.



THIS graph shows the inflation-beating performance of Old Mutual's conventional retirement annuities. Over each of the periods surveyed the return to investors has been well ahead of the inflation rate. Allowing for the RA tax concessions the returns would have been even higher. Old Mutual's new all-share retirement annuity launched last month is expected to have even higher returns than those of the conventional RA.

Firms reject 'plunder' claims

LINDA ENSOR

ALL three insurance companies accused of collaborating with the SA government in "plundering" the Namibian state pension fund have denied any involvement in the decision taken to privatise the fund.

Spokesmen from Old Mutual, Sanlam and Southern Life have taken issue with the statements by Namibia's finance minister designate Otto Herrigel suggesting they put pressure on the authorities for privatisation to take place.

Stompie Lombaard, assistant GM of Southern Life, Namibia, said no pressure had been put on government, but once the decision had been taken, great pressure was placed on individuals by insurance salesmen to take the retirement annuity option.

Lombaard said "a lot of bad things happened", with some insurance salesmen misrepresenting facts about the effects of independence on member's pension benefits.

There had been, he said, a lot of competition between insurance companies.

"Give a salesman a chance to sell, and he will sell," Lombaard said.

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Walter Scheffler, Sanlam's senior GM: group benefits, said the drive to privatise the fund stemmed from statements by Swapo that pension fund assets could be used in various ways by the post-independent government, for instance, to balance the budget. This motivated people to get their money out.

BDay 19/1/90.

He also denied any complicity by Sanlam in engineering privatisation.

Old Mutual's GM of individual life, Bobbie Jooste, said the Namibian pension fund had appointed consulting actuaries to advise on privatisation, which was presented to the insurance companies as a fait accompli.

BDay 19/2/90 · (58)

FINANCE

Vehicle insurance premiums expected to rise by 20% to 40%

CHARLOTTE MATHEWS

MOTOR vehicle premiums are likely to rise between 20% and 40% on average this year after remaining almost static for two years, sources in the insurance industry said last week.

"Some companies are talking about more than one increase this year," Santam MD Oosie Oosthuizen said. "I feel a 20% maximum average increase is what the industry would take, and our company's increase will be more or less 20%."

The increase in premiums was necessary because of the rising cost of motor spares as well as the cost of labour. Import duties on cars and the rise in motor vehicle prices were other factors.

Guardian personal lines manager Stuart Miller said premiums were likely to rise beyond 20% this year.

Guardian had raised their rates by between 10% and 12,5% in the Transvaal and by 7,5% in the Free State and Cape from January 1. In Natal premiums would rise by 12,5% from April 1.

"It is difficult to say whether premiums will rise again," Miller said. "Results from our motor portfolio will determine future levels of increase.

"We took a sample of accident claims processed in September 1988 and ran them through a motor repair quotation system to compare them with costs at the end of 1989. We found the cost of repair had risen by 23,8% over that period, whereas premiums had not increased."

Mutual and Federal MD Ken Saggers said M & F would raise its premiums by 15%-20% in April, depending on area. Some areas would even see a premium reduction.

"The cost of repairs has considerably outstripped inflation. Over the last 18 months the cost of repairs has risen 30%-35% and there has been very little increase in premiums."

Saggers said premiums had not increased for several reasons. M & F had processed 360 vehicle theft claims a month for the last couple of years but he had the impression these were now on the increase, despite police statements that there was a greater recovery rate.

"Another factor is that Central Statistical Service (CSS) figures show motor accidents over the period January to September 1989 increased by 3%. This compares with a 1,5%-2% increase in the number of vehicles on the road. In the previous year accidents rose by 8%.

"The last 18 months has certainly seen a worsening accident rate, and this must affect the insurance industry."

Auto and General marketing director Johan van der Merwe said the company had increased premiums in September by 10%-15%. At this stage no further increases were contemplated.

IGI increased their premiums in October, chairman Michael Lewis said, and were raising rates again. The percentage varied with the region. In some areas premiums were up 20%-25%, but in others by "only a couple of percent".

COMPARATIVE PREMIUMS OF MAJOR MOTOR INSURANCE COMPANIES FOR MALE DRIVER AGED 35 DRIVING 1990 MODEL TOYOTA CONQUEST 1600 IN JOHANNESBURG WITH 3 NO CLAIM BONUSES. COMPREHENSIVE COVER.

Source: Compuquote, Cape Town

Company	Monthly	Annual	Basic Excess**
Mutual & Federal uns	R340,39	R3 789,39	R 934
Mutual & Federal sup	R283,11*	R3 151,65	R 934
Aegis monthly	R230,21	N/A	R1 600
IGI Voyager	R214,83	R2 343,60	R1 600
General Accident	R213,10	R2 324,70	R1 120
Protea	R211,22*	R2 204,04	R 500 or 5% claim
Commercial Union	R206,24*	R2 271,00	R1 557
Guardian National	R202,95	R2 214,00	R1 557 or 5% claim
NEG Protector	R185,40	R2 190,58	R 500 or 5% claim
SA Eagle	R183,25	R1 975,63	R1 557
Santam	R175,36	R2 104,30	R1 500 or 5% claim
President	R173,25*	R2 055,04	R1 557
Santam Multiplex	R170,69*	R2 048,22	R1 000
Fedgen	N/A	R2 318,76	R1 557
Aegis-annual	N/A	R2 216,00	R 900

*Only available if supported by domestic insurance.

**Other excesses may apply depending on age of driver and type of car.

R1 600

Bank subsidiary's affairs to be wound down

Star 19/2/90 (58)

Staff Reporter

The affairs of Kolektor, Trust Bank's debt-collecting subsidiary, are to be wound down after the discovery of several irregularities which led to the dismissal of its managing director, Mr Vic Lilje, last week.

Trust Bank senior general manager Mr Jan Kuhn said yesterday that an internal investigation had been carried out after rumours in the media.

"An internal investigation team from our audit division went into the matter thoroughly. They discovered several irregularities which we decided we could not live with, and therefore steps were taken."

Those measures had resulted in Mr Lilje's services being terminated and the suspension of two senior officials of Kolektor, Mr Cornelius Mostert and Mr Hennie van der Kruit, who now face disciplinary hearings.

Mr Kuhn denied these events were related to the resignation last November of Kolektor chairman Mr Kobus Roetz.

(When asked for comment, Mr Roetz said he had signed an agreement not to talk to the media about his departure.)

Losses incurred were not substantial and would not affect Trust Bank's profitability.

So far no criminal charges were being investigated.

Mr Kuhn said the irregularities, which occurred in the Bedfordview area, concerned the process used by Kolektor to bring in doubtful accounts.

Kolektor would become dormant. Future work would be referred to the legal department.

Teleplex to use brokers

BDay 20/2/90 LINDA ENSOR (58)

SANTAM has decided to incorporate brokers into its telephone selling operation, Teleplex, from April 1 by offering a commission of 10%.

This is lower than Auto & General's 15%, the normal commission paid for a domestic insurance package, but Teleplex senior manager Jan Kleinhaus says the rate is justified because Santam offers a toll-free telephone service.

As Santam is carrying the cost of the commission, no increase in premiums will result. Existing policies issued will not be affected.

Kleinhaus says the inclusion of brokers is an attempt to broaden the market, and adds that Santam — which established Teleplex last August 1 — needs time to test the system before incorporating brokers.

Prestasi Brokers executive chairman Jan Erasmus says that the step "which amounts to Santam having to pay commission on policies which have been quoted net of commission, should cost them several million rand".

Kleinhaus says Santam is accommodating brokers, not the other way around, and that two brokers' associations and individual brokers approached Santam regarding participation.

Rand Merchant Bank confirms futures records

BDay 28/2/90

S8

ROBERT GENTLE

RAND Merchant Bank (RMB), the official futures clearer in the informal market, yesterday confirmed that Friday's high futures volumes led to four new records being set.

Equity futures breached the R200m mark for the first time at R203m. This was 36% higher than JSE turnover of R149m, a new record.

Total contracts traded — equity and non-equity — reached a record 7 682 while open interest reached a new high of 23 019.

However, RMB Assistant GM Des Davidson said that Friday's volumes were largely due to a significant bookover deal worth R103m between two members of the same trading group.

Put in context, therefore, the actual futures volume was much less than the global overall figures suggested.

"This shows the difficulty in interpreting statistics unless one has access to the raw data," he said.

But Davidson acknowledged the steady growth in futures volumes, which he said was reflected in the new high for open interest — the number of open contract positions.

Open interest increases by one every time a new position is taken out on a given contract. It decreases by one every time a contract is closed out.

Cape Times 20/2/80

Doctors and assurers clash over medical fees

A TARIFF agreement between the Medical Association of South Africa (Masa) and the Life Offices Association (LOA) has collapsed after Masa's recent demands for a "large" increase in the fees for life-assurance medical examinations.

In the past, the LOA and Masa have agreed on fees which doctors could charge life assurers for various investigations for life-assurance purposes.

According to a statement issued by the LOA yesterday, standard medical examinations, for which Masa demanded an increase of 77%, comprise about 75% of all work done for life assurers by the medical profession.

In return, Masa offered to reduce the fees for certain specialist investigations.

As a result of the failure of negotiations, the LOA has issued its own tariff of fees effective from January 1 this year and member companies have agreed not to pay more than the recommended fee.

Masa has in turn published its own set of fees, recommending that life assurers be charged R80 for a basic medical examination while private patients are charged R48 and medical-aid schemes pay R21,15 for similar examinations.

Compared to these fees, the LOA has offered to pay R55,10 for a basic medical examination.

"Despite repeated requests to Masa for justification of the large increase in medical fees and for an explanation why life assurers should pay so much more than everybody else, this has not been forthcoming," said the chairman of LOA, Mr Dorian Wharton-Hood, in the statement. "We therefore have no choice but to make our position clear."

Chairman of the Cape Western Branch of Masa, Dr John Steer, said in an interview yesterday that doctors were entitled to charge less than the Masa rate if they wanted to. — Staff Reporter and Sapa

Drexel disaster gives Safex food for thought

58

BDay 20/2/90

ANALYSIS:
ROBERT GENTLE

Drexel Burnham Lambert's demise this week — defaulting on over $100m in loans — has brought into focus the issue of risk and default in SA's new futures market.

The SA Futures Exchange (Safex), which intends to start operating in April, is putting the final touches to a system of financial guarantees aimed at preventing a Drexel-type default here.

Admittedly, Drexel's was not a true futures default, but the distinction is academic as Drexel traded futures and was a clearing member of International Commodity Clearing House (ICCH).

To put that statement in context, SA companies — mostly banks — will operate as clearing members of Safex just as Drexel did with ICCH.

Drexel cleared its trades through ICCH. Similarly, SA companies will clear their trades through Safex — actually Safex's clearing house Safcom.

Sustainable

The stakes are high because Safex is effectively interposing itself between buyers and sellers in the market, rendering the parties anonymous and guaranteeing all trades.

One defaulting clearing member (like Drexel) is often sustainable, as its exposure (open contract positions) is passed on to the clearing house, which guarantees performance.

However, a string of defaulting clearing members can bring down the whole clearing house, which would then not be able to meet its contractual obligations.

This would wreck the integrity of the Exchange. Thousands if not millions of futures contracts in the market place would be transformed into worthless paper.

It is the ultimate nightmare scenario, which explains why Safex is going to great lengths to reduce the liklihood of default. All well and good, except some banks feel Safex is going too far.

To be a clearing member, Safex draft rules insist on a net financial worth of R20m and the maintenance of a R10m suretyship.

Within that R10m is a R3m joint liability guarantee which would be used to bale out any other clearing member that may default. It is this joint liability that has some banks seeing red.

They object to having to bale out members over whom they have no control, and say the cost of holding this capital will have to be passed on to clients in the form of higher charges.

FNB Group Treasurer Ken Russell, echoes Volkskas's view: "We are not comfortable with it. Clearing members should be strong enough in their own right."

In the light of the other strict conditions of net worth and suretyship, Russell calls the R3m joint guarantee "overkill to the n'th degree".

Safex Assistant GM Mike Henegan rebutts the arguments thus: clearing members have control over other members as they have to approve his membership to start with.

Moreover, Safex continues to monitor the exposure and risk of all clearing members, and can jack up the R10m suretyship at any time.

On higher costs, Henegan says banks would not be physically out of pocket by R10m (or whatever higher cost is imposed) but only by the 0,5% required by the Reserve Bank liquidity regulations.

Thus the cost of holding R10m would only be R50 000 plus the interest foregone on having to keep it available.

Henegan admits to a degree of overkill, but says it is the prudent way to start out in a new market. "These levels can always come down later as volumes pick up," he says.

Finansbank Assistant GM Stuart Yates says: "Finansbank believes clearing members should jointly and severally back the clearing house. Most international exchanges have some sort of joint guarantee system."

SA Futures Industry Associatoin (Safia) MD Brenda Greyling says: "Joint guarantees are the norm in virtually all international futures exchanges."

Exposure

How such a joint guarantee system might work is illustrated by the way in which the London Clearing House (LCH), a division of the ICCH, is currently handling the Drexel default.

LCH, which clears for exchanges like the London Financial Futures Exchange, and the London Futures and Options Exchange, now carries Drexel's exposure.

LCH MD David Hardy, speaking in Friday's (16th Feb) Financial Times, says the LCH will try to arrange the transfer of Drexel's open positions to other clearing house members (ie, they are helping shoulder the burden).

He declares himself "totally satisfied that the default of Drexel will not adversely affect LCH's financial position".

It is this state of affairs — a financially sound clearing house that can take a default in its stride — that Safex is aiming for.

Just how far it will actually get should be known later this week when the joint liability issue is expected to be resolved.

Financial office to be independent

LINDA ENSOR

THE Financial Institutions Office (FIO) will become a separate statutory body some time after the promulgation of the Financial Services Board Act of 1990. B/Day 21/2/90

Assistant registrar of short-term insurance, Willem Heckroodt, says that in terms of the Bill, which has already been circulated for comment, the FIO will become an independent body reporting to the finance minister, though not falling under the Department of Finance.

The FIO has been critically short of staff, and it is believed privatisation of its functions would enable it to offer salaries competitive with those in the private sector. The lack of staff has resulted in delay times in responding to problems, queries and applications, Heckroodt says.

The Bill is a fairly lengthy document as amendments to several Acts will be necessary.

It makes detailed provision for the functioning and financing of the board. Possibilities for financing include donations and levies placed on financial institutions. The Treasury may also contribute.

BDay 21/2/90.

RMB Holdings earnings grow 18,4%, net income up to R8,9m

BARRY SERGEANT

RAND Merchant Bank Holdings (RMB) saw earnings grow 18,4% to 16,1c (13,6c) for the six months to end-December.

It is not policy to declare an interim dividend. Net income — after tax and transfers to secret reserves — grew 18,5% to R8,9m (R7,5m). Income, before transfers to non-distributable reserves — zero during this period but R2,5m a year previously — was up 16,2% to R8,9m (R7,5m); the same figures apply to net income attributable to ordinary shareholders.

RMB, which is not listed, is on limited disclosure. Items not disclosed include transfers to secret reserves, taxation and bad debt experience.

The directors say that Rand Merchant Bank, its wholly owned subsidiary, experienced continued pressure on margins "due to monetary policy being conducted in such a way that lending rates did not adequately reflect the rise in deposit rates".

However, they say that the trading divisions of the bank, "especially the capital market, turned in a sparkling performance, benefiting from the buoyant and volatile conditions in the SA gilt market in the last months of 1989".

Increased

58

The balance sheet reflects a stronger all round position, with shareholders' funds increasing by 18,4% to R92,7m.

Listed gilts and semi-gilt stocks increased rapidly by 155,6% to R79,8m (R30m).

~~The crucial shareholders'~~ funds to assets ratio slipped slightly from 6,2% to 6,1%. Liabilities of customers under acceptances and foreign finance increased by 48,5% to R548,4m (R369,2m).

The directors are "satisfied with the quality of its advances book and the low incidence of bad and doubtful debts has been maintained in spite of the negative impact of high interest rates on corporate profits".

For the rest of the financial year, "the group faces a major challenge, in the current financial year to repeat the 24% increase in its disclosed income in the 1989 financial year".

The Star
Finance

Comprehensive strategy is needed

Star 21/2/90 (58)

By Magnus Heystek

South Africa cannot afford to follow the ad hoc economic policies of the past and needs to pursue a comprehensive strategic plan in order to solve the country's economic problems.

This was said this morning at Sanlam's annual general meeting in Belville by the chairman, Dr Abie van den Bergh.

According to Dr van den Bergh the main problems facing South Africa have been identified in the past few years. They included:

- The reduction of the public sector's role in the economy.
- Reallocation of state funds and stricter control over their use.
- Decreasing the tax burden, particularly in the case of individuals.
- The promotion of the process of deregulation and privatisation.
- Lowering the inflation rate.

"It is encouraging to learn that of the government's resolution to tackle our country's economic problems more systimatically, particularly so since the State President himself has stressed the importance of properly coordinating policy measures.

"The government not only deserves to be congratulated on this new approach to our economic problems; it also deserves to private sector's wholehearted co-operation," Dr van den Bergh said.

He stressed that if the proposed adjustments in economic policy are made, the private and public sector work together and SA regains access to foreign capital, the nineties could be considerably better than the eighties — with more rapid growth, the creation of more jobs and a higher standard of living for all.

In his address Dr van den Bergh also refuted allegations that the life assurance industry had an unfair advantage over other savings institutions. He appealed to government to encourage savings at all savings institutions, inter alia by increasing the ability and willingness of people to save.

Bidcorp ahead of market expectations

Star 21/2/90 (58)

By Ann Crotty

Despite disappointing results from 51 percent held Afcom, Bidcorp's figures for the six months to end-December are ahead of market expectations with earnings per share up to 45,4c from 20,8c. A dividend of 15c a share has been declared.

The performance suggests that 100 percent-held Cater Plus (formerly Chipkins) turned in very strong results.

Because of the major restructuring that has been going on within the group during the past 18 months, direct comparison with previous reporting periods is not strictly valid.

The interim figures to end-December 1988 comprised two months trading from Cater Plus only and, at that stage Bidcorp only had 5,3 million shares in issue.

The figures for the year to end-June 1989 reflected only 8 months trading. Curries, renamed Bidvest, was only in from beginning March 1989 and, Afcom did not feature at all as that deal was only finalised in November 1989.

An additiional complication is the fact that earnings are not evenly distributed throughout the year. Executive chairman Brian Joffe reckons that the split is about 40:60 in favour of the second half.

If all of these factors are taken into consideration then earnings of around 28c a share could be the most appropriate figure to compare with the review period's earnings of 45,4c.

The 28c figure is based on the June 1989 results — allowing for the fact that the 92c a share was earned in 8 months, reducing it to a six months figure and, allowing for the increase in shares from 5,8 million to 9,7 million. In addition it allows for the 40:60 percent earnings distribution during the year, so that the seasonal factor is stripped out of the comparison.

All of which suggests a very strong performance from Bidcorp in the six months to end-December 1989.

Earnings in the six months to end-December 1989 came from Cater Plus; Afcom; Justine and, interest on the R25 million cash in Bidvest.

According to Mr Joffe an earnings break-down shows Cater Plus as the dominant earner, accounting for 70 percent of the total. Bidcorp's share of the Bidvest interest income accounted for 13 percent of earnings. Afcom contributed 15 percent of earnings and, Justine chipped in with 2 percent.

The market may have been disappointed with Afcom, Mr Joffe was not. He says that Afcom's earnings were in line with budget and suggest that the R20 million acquisition price was an historic price/earnings rating of abou 7 times.

On the bright side the Bidorp management team was onlyinvolved in Afpac from Novemer — too short a period to effect ny significant improvement in oprations. According to Mr Joffethe Afpac figures "do not reflectthe measures that we have taen since acquiring control of Afpc. These are aimed at improvig asset management, curtailig operating costs, streamlining operations, and creating a climate for growth."

Management has indicated second-half earnings of at least 72c a share, making a total of at least 117,4c for the year. This puts the share on a prospective price/earnings rating of 6 times.

The recovery prospects at Afcom, the strong outlook for Cater Plus and the R25 million cash available for acquisitions justify a stronger rating.

Series of investment products launched

LIZ ROUSE

UAL Merchant Bank has launched a new series of unit trust-linked investment products that offer the potential of the equity market coupled with the security of guaranteed capital returns.

UAL senior manager Peter Anschutz says the UAL Guaranteed Performance Trust (GPT), the UAL Perpetual Income Provider Plans (PIPP), the UAL Linked Retirement Annuity and the UAL Linked Endowment bring together the benefits of both the merchant banking and insurance sectors, and will revolutionise investing in SA. BDay 22/2/90

The GPT's advantages include a capital guarantee (equity investment with no risk of capital loss), annual tax-free withdrawals after five years, capital growth potential, investment terms to suit the financial requirements of the investor, tax effectiveness and UAL's investment expertise.

The minumum investment is R50 000 with multiples of R10 000 to follow. The GPT offers investors two options.

The PIPP provides four options that offer a lump-sum investor a guaranteed monthly income and, on maturity, a tax-free lump sum. Investment periods range from five to 10 years. (58)

Anschutz says the investor's lump sum will be used to purchase an annuity, and the income which accrues will provide a guaranteed monthly income and an investment on the UAL Unit Trust. The monthly annuity payment is totally flexible and can be handled according to any of the four plans.

The UAL Linked Retirement Annuity is a tax-deductible investment in the UAL Unit Trust through the medium of a Protea Assurance annuity.

Investors paying the maximum tax rate can obtain almost 50% discount on their unit trust investment.

The UAL Linked Endowment provides all the tax advantages of an endowment with a maximum investment in the UAL Unit Trust.

RMB's margins squeezed

Star 22/2/90 (58)

By Derek Tommey

Expectations voiced last September by officials of Rand Merchant Bank Holdings that the 1989-90 financial year should be more profitable than 1988-89 have not yet been realised.

High interest rates squeezed the bank's margins in the six months ended December and resulted in profits rising by only 18,5 percent to R8,87 million, an interim statement shows.

Short-term interest rates are expected to remain higher for longer than originally envisaged, say the directors. "Therefore the group faces a major challenge in the current financial year in repeating the 24 percent increase in disclosed income achieved in 1989."

However, the corporate finance department and other fee-earning divisions exceeded their budgets and the trading divisions, especially the capital market division, turned in a sparkling performance.

The directors say they are satified with the quality of the bank's advances and it has maintained a low incidence of bad and doubtful debts in spite of the negative impact of high interest rates on company profits.

The increase in profits was in line with the rise in shareholders' funds which were up 18,4 percent to R92,7 million.

Total assets rose 20,5 percent from R1,27 billion to R1,53 billion. Deposits rose from R801,2 million to R866,1 million.

Markets set to recover after Tokyo rebounds

Star 22/2/90 (58)

The Tokyo stockmarket recovered strongly today after share prices had plunged by 3,15 percent on Wednesday.

The Nikkei stock average closed at 35 826 today, a gain of 92,51 points, or 0,26 percent, on a strong buying spree in late trading.

The recovery in Tokyo is likely to ease fears of substantial declines on other leading stockmarkets, including the JSE.

Equity markets in Europe and North America already held their nerve yesterday in the face of a substantial fall in prices in Tokyo.

In London, the FTSE 100 fell 17,3 points to close at 2 259,7 in light turnover. In West Germany, the German Stock Index (DAX) fell 16,62 to end at 1 807,19, whileon Wall Street, which initially fell sharply, the Dow Jones industrial average was down just 13,19 points at 2 583,56.

Share prices on the JSE, however, were substantially lower as the decline in Tokyo added to investor uncertainty in the wake of recent political developments. The JSE overall index was down 36 points at 3167, following largely on the 45 point decline in the industrial index to 3058.

Mining shares held up well, as the all-gold index fell by only 17 points to 1996, but sentiment on the board was boosted by a rise in the gold price above the $420 level. Bullion hit $422 in Far East trading, amid the uncertainty on the stockmarkets, but fell back later in London to an afternoon fix of $420.

In Hong Kong this morning it opened at just over $417. The recovery in the Far East this morning should further boost share prices, if the gold price holds up in Europe.

However, not all the fears have been removed from international markets.

Wall Street, in particular, remains unsettled by US consumer price figures for January which indicated that inflation pressures have yet to abate.

World markets have been unsettled since the beginning of the year by the threat of higher interest rates in response to a deteriorating outlook for inflation and uncertainty generated by developments in eastern Europe.

The strain has been felt mostly in bond markets where prices have fallen and long-term interest rates risen.

Analysts said this has led to the traditional relationship between bond and equity yields becoming stretched in some markets, particularly those in Japan and West German. The only way for normality to be restored was for equity prices to fall thereby leading to a rise in equity yields or for bond prices to rise.

Both occurred yesterday. Rallies in the West German, Japanese and UK government bond markets accompanied falls in equity prices.

Interest rates in Japan and West Germany are expected to rise. In the UK and the US no rise in official interest rates is expected but, in the US especially, a poor outlook for inflation is expected to keep bond prices under pressure.

A disappointing speech by Alan Greenspan, chairman of the Federal Reserve Board, who described current US inflation as horrendous, was believed to have influenced investors.

In Washington yesterday the Labour Department said the US consumer price index (CPI) had risen 1,1 percent in January, the biggest rise in seven and a half years. However, it said seasonal factors such as an increase in food and energy costs had accounted for about 60 percent of the jump.

Analysts interpreted the figures to mean the Federal Reserve would not immediately consider pressing interest rates lower.

Mr Greenspan, testifying before Congress on Tuesday, was guardedly optimistic that the US could avoid a recession this year, but his warnings on the dangers of accelerating inflation helped send financial markets into a tailspin.

Setting up a potential clash with President George Bush, Mr Greenspan said the central bank was looking to the economy to grow at a rate far below the one on which the government had based its 1991 budget.

In the new Federal Reserve Board economic forecast, the central bank projected that the economy, as measured by the gross national product, would grow by an anaemic rate of 1,75 to two percent this year, the slowest annual growth rate since the 1981-82 recession.

The Bush administration, in a forecast released last month with its 1991 budget request, forecast growth almost a full percentage point higher at 2,6 percent. — **Finance Staff, Financial Times and Sapa-Reuter-AP**

lay February 22 1990 Star 22/2/90 (58)

Traffic brought to a standstill

Cape Town hit by taxi protest

Own Correspondent

CAPE TOWN — Hundreds of protesting minibus taxi operators who caused a mass traffic jam in central Cape Town claim to have forced a climbdown on increased hire purchase instalments.

Traffic ground to a standstill by mid-morning yesterday, with an estimated 400 minibus taxis blocking streets as drivers abandoned their vehicles.

An executive of the Black Taxi Association, Mr A Gibisela, emerged from the Southern Life Building to announce that Wesbank had promised to reduce instalments from R3 000 a month to R1 600 a month.

Mr Gibisela said the bank also promised to return two minibuses that it had confiscated on Tuesday.

He added that the taxi drivers should return home slowly, without causing accidents.

The taxi association would receive a letter within two weeks from the "boss" of Wesbank, who was now in Johannesburg on business, he said.

Soft line

Wesbank officials could not be reached for comment or confirmation.

Cape Town's assistant traffic manager, Mr Jan Minnie, said his officers were at this stage adopting a "soft line".

"We are not ticketing or arresting anybody until we get the full picture," he said.

The senior officer in the city centre was in charge of operations at the scene, he said.

'Tightly held' Sage in upswing

JACQUES MAGLIOLO

BANK and financial services company Sage Holdings' share price has, despite negative market reactions to talk of nationalisation, climbed rapidly in the past few months. BDM 22/2/90

The share has risen steadily from November's 650c to yesterday's 1 055c. However, analysts' explanations for the upward movement vary.

Sage Holdings secretary Eric Langland says the share "got knocked off last year's high of 1 400c and is simply recovering from the fall."

The high of 1 400c had, however, been a drop from 1987's 1 800c — a reaction to problems experienced by the group's important profit contributor, the property arm.

Langland says Sage is a share that is very tightly held. (58)

Some analysts say that, in addition to the share being tightly held, it was oversold last year and is currently moving ahead of results.

Not all response to the upswing is favourable. One analyst says Sage is a mysterious operation.

"Offshore interests are not shown in the group's financial statements," he said.

This analyst believes Sage — in its annual report to be released soon — will not produce a greatly improved set of results compared with last year.

Insurance sector profits noteworthy

BD 22/2/90 LINDA ENSOR (58)

THE undervalued insurance sector has seen a rerating over the past year and the high quality of its earnings are now being appreciated by investors, analysts say.

Southern Life, Mutual & Federal and Metropolitan Life are cited as being particularly strong performers.

Martin & Co research director Richard Jesse says the constraints on economic growth have meant insurance companies which steadily produce growth of between 20% to 25% are generating renewed interest. Others agree.

The sector's price gain over the past 12 months has been 42,3%, outstripping several industrial sectors, the financial sector (33,5%) and banking (40,2%).

The Southern share has gained 80% from 680c on May 23 to its present level of 1 225c and is trading on a dividend yield of 3,4% and a P:E ratio of 19,4.

Metropolitan Life has seen a 48% growth from its 440c on March 15 to its present 650c, giving the share a dividend yield of 4,6% and a P:E of 14,4.

Mutual and Federal, now at 1 450c with a dividend yield of 2,1% and a P:E of 7,4, has shown a 61% growth since March 1989 when it traded at 900c.

TAXI PROTEST . . . Hundreds of township taxis converged on Cape Town yesterday to deliver a protest memorandum to Wesbank against increased vehicle instalment payments. The CBD virtually ground to a halt for two hours.

Pictures: GLENN SHERRATT

CNT Trib 22/2/90

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Taxi protest jams city traffic

Staff Reporters

A "PARK-IN" taxi protest by hundreds of minibus drivers yesterday brought the central business district to a virtual standstill, incensing the city's traffic chief and extracting major concessions from a vehicle financing bank.

Township taxi operators converged on Cape Town to park in and block off Long Street between Hout Street and the foreshore for several hours in protest at Wesbank's sudden increase in hire-purchase payments earlier this month.

They were also protesting at recent repossessions of vehicles and "short" repayment periods

When Mr Jabu Mabuza, deputy managing director of the Southern African Black Taxi Association (Sabta), triumphantly emerged from the Southern Life Building to announce Wesbank's turnabout concessions, loud shouts of "Viva" erupted.

The massive convoy then jostled its way out of the city, hooters blaring and driving, according to traffic chief Mr Wouter Smit, "with total recklessness and disregard" for pedestrians and other motorists.

Sabta regional vice-chairman Mr Clement Ramatlakane said Wesbank had agreed to return all vehicles repossessed in January and February, not to execute any repossessions for a fortnight and to extend repayment periods from 42 months to 48 months

The reduction of instalments, recently increased, allegedly without notice, by about R700 a month, was still open for discussion, he added

Mr Smit said he was upset at Sabta's lack of consultation for the "unco-ordinated and unapproved" event.

"Their behaviour was deplorable Not only did they disrupt traffic in the CBD for almost two hours but they also disregarded traffic lights," he said

He intended raising the matter with Sabta's liaison committee but would take no action before then

Responding, Mr Ramatlakane said there had been nowhere else to accommodate vehicles Sabta officials had been on hand to ensure discipline and a minimum of disruption. He "categorically denied" Mr Smit's claims of bad road behaviour and said Mr Smit seemed to "be interacting with the police rules that magisterial permission is needed"

Repeated attempts to get comment from Wesbank were unsuccessful.

BDay 22/2/90 . (58).

Inflation inhibits role of life offices — Stals

LESLEY LAMBERT

CAPE TOWN — Reserve Bank governor Chris Stals reaffirmed government's drive to eliminate inflation yesterday, saying that high inflation inhibited the role of life offices in mobilising and investing savings which were vital to economic development

In his seconder's address at Sanlam's AGM, Stals said savings made a vital contribution to the financing of the net outflow of funds overseas and expansion of production capacity which created more job opportunities.

Life offices played an important role in ensuring that the total savings pool was as large as possible and that available funds were invested in a way that enhanced long-term economic growth.

But none of these objectives were attainable in an environment of high and increasing inflation, he said.

The elimination of inflation was also one of the best ways of removing economic distortions which upset the competitive environment of financial institutions and lead to uneven playing fields, Stals argued. He said it would lead to more equal and unprejudiced application of the tax system and liquidity requirements.

"Those who have the responsibility of encouraging the public to save even more, and who then also have to mobilise and invest those savings, can do so in the best interest of future economic development only in an environment of stable monetary values.

"In this way alone will we eventually be able to persuade those who doubt the benefits of the market economy that this system, where realistic prices and realistic interest rates reflect the underlying conditions of supply and demand, will ultimately provide us with the greatest possible prosperity," he said.

Business Day SURVEY

After a disappointing year, participation bond lending looks set to climb. Those in the market are optimistic that it will win back some of the borrower business lost to banks, and there are already indications that borrowers are returning to the fold.

LYNN CARLISLE *reports.*

Good income is coupled to the maximum security

ALTHOUGH most people prefer shorter term investments, greater benefits accrue through tying up money for periods of five years or more in part bonds.

The advantages are particularly applicable to retired people who require a good income stream along with maximum security, says Metboard GM Barry Kalkhoven.

"For them, a good investment portfolio will always include something in part bonds, which provides good returns that are market-related and which are normally adjusted every quarter."

A part bond, which is covered by legislation, provides for each investor to become a participant in a first mortgage bond. Investors lend their funds, which are pooled in the form of mortgage bonds, over selected properties.

Through a reputable part bond managing company these funds are lent to qualifying borrowers. Thus each investor has a share, or participation, in the bond.

Kalkhoven says the lending level is strictly controlled.

"It may not exceed 66% of the valuation, or 75% of the valuation if there is capital repayment, which makes part bonds a very secure investment."

In its 25 years of part bond management, Metboard claims no investor has suffered a loss.

Advance

Because borrowers pay interest quarterly in advance, this enables investors to receive first interest from the day they invest, while interest cheques can usually be paid within 48 hours.

Such an advantage results in very high effective rates of interest.

For example, on a quoted rate of 15% per annum the effective rate is 15,58%; while on 20% it becomes an effective rate of 21,05%.

As part bonds consistently offer a return well in excess of shorter term investments, Kalkhoven says the stipulated minimum five years investment period should be regarded as a positive method of ensuring the highest income return of such a period.

Part bonds are carefully controlled and monitored in order to both reduce the risks associated with the loan and improve interest earned.

Kalkhoven says there are other advantages of a part bond over shorter term investments, including:

☐ It serves as collateral for a loan of up to 90% of the value of the investment;

☐ As a cash investment it is free from any risk of capital depreciation.

BARRY KALKHOVEN

Positive effect of sectional title

THE spread of small unit sectional title industrial premises should have a positive effect on the shortage of factory space and also boost the part bonds sector.

NBS Part Bond Managers MD Mike Maidment says: "This trend, primarily evident in the PWV, western Cape and Durban areas, enables entrepreneurs to obtain affordable sectional titles.

"Small home industries can secure factory space at cost-effective prices, allowing them to control expansion rate, overheads and, ultimately, profit."

Like most other major players in the market, NBS PBM has also cottoned on to the need for greater flexibility where borrowers are concerned.

Being part of the large NBS group, it also has extra leverage and can develop packages tailored to meet the needs of borrowers.

Maidment says in some instances it can lend up to 90% of the valuation of the property.

This is subject to the help of the NBS bank, as legal restraints allow borrowers only 66% of the property value. This limits risk exposure of the managers and its investors.

Borrowers able to show that their commercial buildings or industrial premises are multi-purpose and multi-tenanted are generally favoured.

Noting that interest rates have been maintained at competitive levels, he says from March 1, the company will charge borrowers 19,73% and pay investors 18,25%, thereby yielding an operating margin of 1,48%.

"We always lend money against market-related property values and do not incorporate a floor rate in our bonds. This means the rate is not left artificially high when bond rates begin to decrease."

Scheme to build a varied portfolio of investments

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A SINGLE part bond scheme can be used to build a portfolio of investments, sometimes with different characteristics, geographical spread and maturity dates — but without the hassle of separate investments.

Conventional wisdom is that "plain vanilla" part bonds are a somewhat inflexible medium for long-term, lump sum investments. But Sage Trust GM Kelvin Bell disagrees.

Seen as a way of planning for steady income flow, Sage believes that not all part bond investors want to commit a large, single lump sum amount at one go that is taxable when it matures.

For example, supposing one invests R5 000 every two months for a year (total R30 000), the advantages submitted by Bell are:

☐ The second and succeeding investments are regarded as "additions" to one's investment in a particular part bond scheme;

☐ No new documentation is necessary when these investments are made and, secondly, the investor receives interest on all the separate investments in one convenient payment each quarter, or month, as the case may be;

☐ Investors unable or unwilling to commit a large initial investment, but prepared to rather make regular and smaller investments over time are not penalised — the same rate of interest applies as for the large lump sum commitment;

Elect

☐ Additional to the "plain vanilla" part bonds, one may be able to invest in a "special" during the build-up period — for example, a fixed-rate or escalating rate bond may become available and the investor could elect to put one or more R5 000 tranches into this offering, thereby adding to the portfolio of investments concept within one scheme.

Encouraging signs that big borrowers are taking a hand

23/2/90 23/2/90 B DAY

AFTER a disappointing 1989, participation bond lendings look set to climb this year, predicts the Association of Participation Mortgage Scheme Managers of SA.

This forecast, which is supported by some leading part bond managing companies, comes at a time when many prospective investors are being diverted from part bond investments into other high income investments as borrowers and investors need to be balanced out.

But the association, whose members comprise about 50 of mostly bigger managing companies, is optimistic it will win back some of its borrower business, lost mainly to the banks.

Says association chairman Al Human: "There are indications that borrowers are returning to the market with a significant number of large loans, which provide an encouraging prospect for the ensuing year."

Latest Reserve Bank annual figures show total lendings to September 1989 amounted to R3 506bn — an increase of R310,5m over the corresponding figure of 1988.

Human, who says it is difficult to put a number on last year's investment growth numbers, believes the borrower lendings' 9,7% increase was disappointing.

This is particularly so following increases of only 6,6% and 7,1% in the two preceding years.

Steps

Stanbond MD Eric Tomlinson says part bonds have endured low real growth in the past year.

"But managers expect to attract more borrowers now that steps have been taken to make lending easier."

While a lion's share of part bond lending has been going to commercial and industrial ventures, some managers believe the size of CBD investments in terms of rand cost has become too large for part bond financing. This may account for the "intrusion" of bigger financial institutions.

However, borrower belief that they will continue to be tied down to repaying only the interest on their part bond loans for the first five years, a standard requirement, has been a stumbling block.

As MD of Syfret Trust, the country's largest part bond managing company, Human agrees there is definitely a perception that part bond loans are inflexible.

"But in my capacity as chairman of the association I refute this allegation and point out that interest rates respond to overall money-market conditions, while the five-year fixed period applies to the investor and not necessarily to the borrower."

He says a number of registered part bond companies are able to grant loans of shorter tenure in time of continuing growth and high stock levels.

Part bond managers believe their particular product, which provides a moratorium on capital repayment by borrowers during the early years (fixed period) of the loan, should prove particularly attractive for property developers.

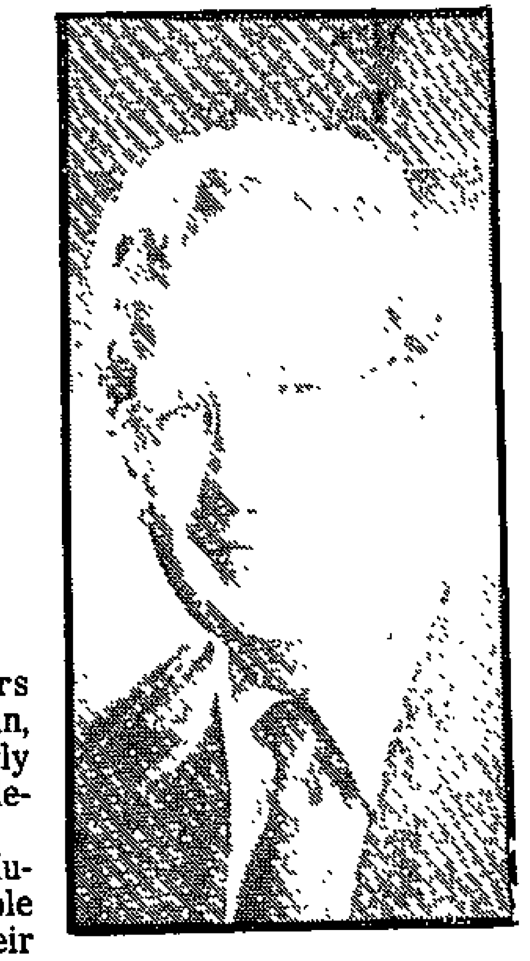
Main reasons, says Human, are part bonds enable developers to contain their cash flows in the difficult earlier years, after which rental escalations would take effect to finance the necessary capital repayments in later years.

Attract

Combined Part Bond Managers national marketing manager Nico Botha says competition to attract borrowers is increasing as financial institutions, such as general banks along with building societies, continue to undercut rates.

While lending criteria differs from institution to institution, lending formulas are particulary attractive to the better quality borrower.

"Our interest is usually granted at less than prime, while loans approved by banks to the normal property borrower could be prime plus 2%."



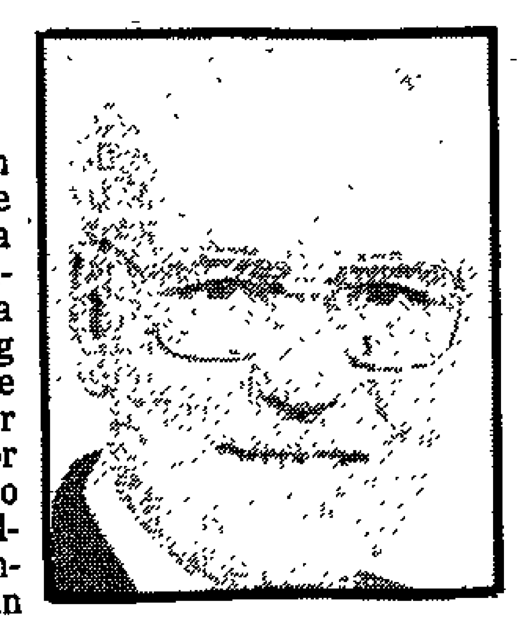
AL HUMAN

With the recent merging of several banks and building societies, the differences in bond finance handled by the two types of financial institutions is diminishing.

For instance, Combined is among those part bond managers to offer a one-stop service through more than 1 500 outlets countrywide — arising from the part bond activities of a combination of United Building Society, the Volkskas group and the J H Isaacs Group.

From such a base it is able to adopt a flexibility approach to applications, and tailor terms and conditions to suit individual borrower's needs with the assistance of their part bond shareholders.

'Corrections' add to the attraction



KEN BURGESS

OFTEN overlooked in a bullish equity market, part bonds provide steady and reliable income over a sustained period, says First National Persam MD Ken Burgess.

"Part bonds never fail to attract a wide cross-section of investors and their popularity rises dramatically when 'corrections' take place on the stock market."

At a time when many stock market analysts believe blue chip industrial and gold equities have become overheated, Burgess says part bonds are a safe haven in troubled waters, providing the security absent in the stock market.

"They play a valid role in any investment portfolio. In times of stock market uncertainty, part bonds regularly yield a high rate of interest, currently 18,5% per annum."

As interest is paid quarterly in advance, an additional attraction is income becomes available upon investment.

Investors should, however, always look carefully at the underlying stability of the company offering the bonds, as this will determine the ultimate security of their investment.

Such an investment is also a matter of buying into a sound financial management team who, like their counterparts in the unit trust industry, continually seek the most productive yet sound investments.

Persam, claiming to be one of the top three part bond suppliers, who control half the market, says its products cover a diversity of commercial and industrial investments.

Meeting specific needs

23/2/90

CHANGES in the part bond market have caused market leader Syfrets to develop considerable flexibility in meeting borrower needs.

Fundamental to the changes have been the dramatic increase in building costs and property prices along with the growing move to sectional title.

Syfrets Participation Bond Managers GM Ken Pettit says the size of the average bond has risen significantly.

"Part bonds are attractive to people who want to borrow a lot of money. These are normally longer-term projects where investors prefer to avoid being linked to the volatile prime rate."

As a percentage of total funds in property financing, part bonds have dropped marginally in the last three years, but are now increasing in attractiveness.

He says the trend for pension funds and similar institutions to invest in property has increased significantly.

While Syfrets is proud that the properties over which it lends money are attractive to institutional buyers, Pettit says that, in some cases, this has prompted owners and developers to seek shorter loan periods.

Flexibility

"We try to negotiate flexibility. What we are trying to do is meet the borrower's requirements, so we may accommodate a shorter period than the traditional five years."

Similarly, for developers there has been increasing flexibility.

For instance, two-thirds may be in the form of a part bond, with the rest in various packages through, for example, Syfrets Bank.

Pettit says the increasing trend to sectional title development in both commercial and industrial property is reflected in the market.

"The concept of blocks of flats as we know them, as an income generating investment, has changed radically.

"If people buy a block of flats today, their aim is to sectionalise it. So these developers go for the short-term loan."

But he points to a growing trend to finance a development intended for sectional title with part bond funding. Here Syfrets, through its bank, provides bonds for the individual unit holders as these are sold by the developer.

"With the changes in the market it has become essential to offer a flexible service," he says.

A unique link-up pays off

IN A bid to attract investors, Lisabond claims to have launched a unique link-up where the interest is probably higher than paid by most other part bonds.

Lisabond manager Fernando Santos says by linking a part bond with a savings bank account the current return exceeds 20% a year.

"This permits an investor's interest to be capitalised and, depending on whether he withdraws interest paid quarterly in advance, interest earned is currently 20,28% per annum," he says.

The 20,28% return arises from coupling the savings account interest to that of the part bond.

BANKING LEGISLATION (58)

Under scrutiny

FIM 23/2/90

The first draft of a Bill to replace the Banks Act of 1965 and Building Societies Act of 1986 could have serious implications for life offices. The draft, which embraces all deposit-taking institutions, is circulating among banks and building societies for comment but has not yet been submitted to the insurance sector.

Assurers may be affected by the proposed new definition of a *deposit.*

Certain investment products sold by life offices could fall under the definition in the draft. If this is accepted these investments could attract the same prudential requirements as those imposed on banks This would force life companies to hold a ratio of liquid assets to certain liabilities and a ratio of capital and reserves to certain assets.

Because legislative changes in one area of the financial services industry affect another, life offices have asked to be consulted on all relevant legislation. They have already consulted the authorities on the problems that could be created by the new definition of *deposits* and believe their concerns are being sympathetically considered.

Another issue that will affect large life offices, which have close links to banking institutions, is the question of associates. Bankers say the definition in the draft is so wide as to create major problems relating to shareholdings. Shares of any person (or associates) are restricted to a maximum of 49% of total nominal value of all "issued shares in the deposit-taking financial intermediary or controlling company."

The definitions of associate include:

☐ Shareholder's spouse or any relative "by affinity or consanguinity" — marriage or blood — up to and including three tiers of kinship — for example, father's sister's

continue p 40

(58) FIM 23/2/90

child, mother's mother's brother, or child's child's husband;

☐ A company of which the shareholder is a director or executive officer;

☐ A shareholder's business partner; and

☐ Any person who "has entered into an agreement or arrangement . . . relating to acquisition, holding or disposal of shares" or an agreement to "act with a common purpose when exercising voting rights."

The onus is on the associate to disclose his position and on the company to uncover the existence of associated holdings which exceed 50%. The only shareholders who fall outside the definition are those with less than 1% of total issue. Anything more than this, when combined with a major investor's holding of 49%, could constitute control.

From a practical point of view, revision of the definition is crucial. "As it stands," says a banker, "any non-executive director of a large shareholder of any major bank is an associate. Shares held by any family member may force his own holdings above the 49% barrier." Apart from any genealogical ramifications, the concentration of ownership in the relatively small SA economy makes cross-holdings virtually impossible to avoid.

Bankers are also worried by the degree of control through regulation which the new legislation gives the minister of finance. Though they concede this new flexibility will allow the industry to adapt to rapidly changing circumstances, they fear the uncertainty it could create. "A new minister may have entirely different views to his predecessor and make radical changes. This makes it difficult for us to plan for the long term."

The authorities are refining the draft in the light of comments from the industry. ■

Financial Mail

CONCENTRATION OF OWNERSHIP 58

Learning from history?

There has without doubt been a concentration of ownership of quoted shares in this country over the past 40 years — and, accordingly, growing disparities in the distribution of wealth. It is a situation that will have to be changed in a fairer and more egalitarian post-apartheid society.

No new negotiated political dispensation can ignore this fact. So it would be well now to consider the policies that will change this situation without threatening economic growth. The ANC's solution is simply to nationalise the towering heights — the mines, banks and monopolies — and no doubt use them to create jobs for disadvantaged blacks.

This after all is how the National Party used the railways, Post Office, police, defence force, Iscor and, to a lesser degree, Eskom and some IDC-owned companies in the late Forties and early Fifties. By doing so, they actually didn't have to nationalise anything.

Presumably, this is what Nelson Mandela meant when he referred to nationalisation being part of the history of this country. In that respect, he was quite right.

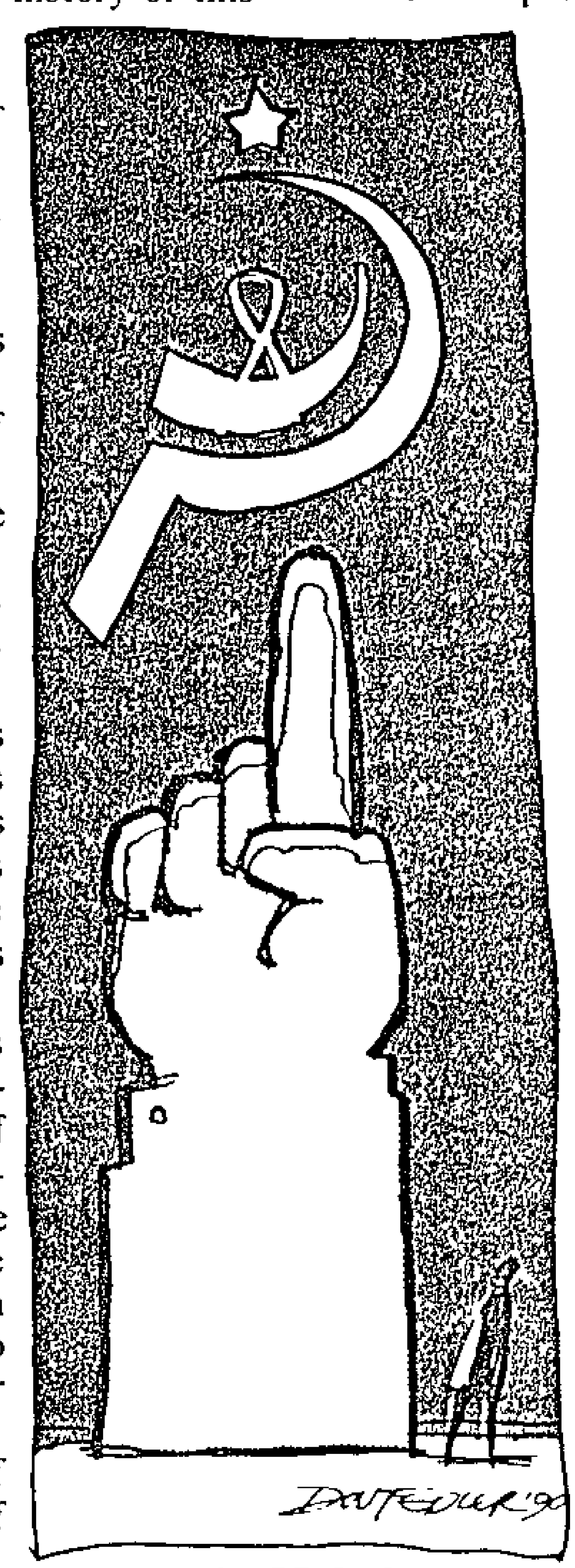
It is a beguiling argument — one especially attractive to politicians seeking policies of mass appeal and more power. But there are several things that those who espouse it must keep in mind.

First, as it was introduced into the social circumstances of SA some three decades ago, it was the manifestation of the authoritarian and collectivist ethic of apartheid. If Mandela wants to perpetuate apartheid for the benefit, this time, of blacks, it is of course the road to take.

Second, when apartheid was being increased in the Fifties, the gold mining industry was booming. It is not in that happy position today. It has been overtaxed, is facing cost increases that are eroding its international competitiveness and the depths at which gold is found nowadays demands greater ingenuity both in financing and the technologies required more than 30 years ago.

Third, the concentration of ownership has taken place precisely because of authoritarian and socialist policies that apartheid itself has fostered. Exchange controls are a socialist device that assumes the State has some claim on where and in what form private wealth may be held They are designed as a means of physically constraining those who might wish to vote with their money or their feet for a different system.

By restricting the inflow and outflow of wealth, government forces a greater share of private savings into the hands of the most efficient corporations operating in a circumscribed market. Where else can they invest?



Likewise, for many years, the authorities in Pretoria took it upon themselves to decide how many banks and financial institutions there should be in this country. This was done in the name of an orderly market. It provided a great deal of protection for the established banks and institutions. This meant that, very quickly, most of the approximately 55 independent banks were absorbed into five main banking groups. By the time this policy changed a few years ago, there were less than five independent banks left. This was a massive concentration of ownership.

The fastest way to widen ownership of productive assets would be to reverse these apartheid-spawned policies. Banking and insurance legislation is being altered now to achieve this and the authorities have been far less restrictive.

More impetus could be given to the process, too, by changing government's attitude to privatisation. The emphasis has been too strongly on raising funds for government rather than to create a share-owning democracy.

The ownership of residential land could be widened quickly by removing the Group Areas Act and giving township land, on which blacks have been resident for some time, to them, or selling it to them for a nominal sum. Precedents already exist. After World War 2, some local authorities sold land to returning servicemen at one pound sterling per plot.

Deregulation and immigration, if only from the rural to the urban areas, are important ways of spreading wealth and creating jobs. Successive waves of immigrants revitalised the economy of the United States over numerous years.

However, exchange controls are by far the greatest cause of a concentration of ownership. They are an anomaly among the policies of a government that increasingly claims to be free-market orientated.

Their justification is sought on political grounds, when both the basis of policy has altered and the results have invalidated their efficacy.

Nationalisation does not redistribute wealth. It merely places control of more assets in the hands of a few politicians and bureaucrats. And they can be guaranteed to make decisions about them by strictly political, rather than economic, lights Therein lies impoverishment.

FM 23/2/90 (58

When the bough breaks

Drexel Burnham Lambert's pending bankruptcy will have an impact far beyond the monetary losses that may be suffered by its shareholders and creditors.

For, through all its recent travails, Drexel continued to dominate the US$200bn market for high-yield-high-risk junk bonds, which it created almost single-handed in the early Eighties.

The collapse, therefore, sounds a symbolic death knell for the whole era of frenetic junk-bond financed deal-making.

The market has lurched from crisis to crisis since September when investors took their first big hit, on a credit crunch at Campeau, the Canadian real estate group which built a US retail empire on a mountain of junk bonds it could then not service.

There have been only two new junk bond issues in the public market so far this year compared with 18 in the first two months of 1989. About 20 new issues were scheduled for this month — 15 underwritten by Drexel — but most seem sure to be postponed.

At its peak the value of junk bonds outstanding was $200bn. Estimates suggest the market is now worth about only $150bn so holders of speculative debt have absorbed, or are still sitting on, losses of $50bn.

Was the junk bond crisis created by a coincidence of circumstances or was the market fragile, illiquid and too dependent on support from a few individuals who built it from scratch?

The market was the brainchild of Michael Milken, former head of bond trading at Drexel's Beverly Hills office, who was indicted two years ago on 98 counts of insider trading and securities fraud. Junk bonds offered equity-like risks and rewards to investors seeking attractive yields and became a source of capital to small, emerging companies which, Drexel argued, could not easily find credit from other lenders.

They soon became, however, the prime source of funds for the most powerful take-over artists in corporate America. Using this network, Milken and Drexel were able to foster an impression of liquidity in the market but, after Milken was indicted and forced to leave Drexel, this turned out to be a mirage.

The junk market has not been a victim of accidents: it has been an accident waiting to happen. The surprise has not been the speed with which it unravelled but how long it survived. There were always inherent flaws:

□ Junk bonds appeared to offer equity-type returns, backed by the guarantees and security associated with bonds This tempted into the market investors, such as Savings & Loans (building societies) and insurance companies, which would normally have been prevented by regulators from speculating in equities. This made an important contribution to the US thrift crisis and now threatens similar problems for some insurance companies and pension funds, with liabilities that may ultimately have to be made good by US government agencies;

□ Junk bonds allowed leveraged buy-out firms and corporate raiders to impose untenable capital structures on firms they were buying or restructuring. Junk bond investors were also persuaded to accept complex securities which generally deferred cash payments. Investors were exposed to enormous financial risk, unless these securities could be redeemed or refinanced before they had to be serviced in cash;

□ Such securities and capital structures made it possible for take-over operators to pay inflated prices, stoking up the bull market on Wall Street and contributing to inflation of US asset values. But, once these values stopped growing, companies which had relied on refinancing asset sales were rapidly forced into default;

□ Effectively, the junk bond market dispensed with the intensive credit analysis practised by banks who lend to high-risk borrowers. Many investors thought they could protect their interests by off-loading their bonds, if necessary, in the secondary market — an idea which turned out to be an expensive illusion in the past few months;

□ Finally, the junk bond market seemed to ignore the economic cycle. Prospectuses projected steady, or even accelerating, indefinite revenue and profits growth, assuming there would never be economic slowdowns or interest rate squeezes.

Only a handful of high-yield bond issues existed before the recessions of the early Eighties, so nobody could guess how junk bonds might perform in hard times. As it turns out, what is most surprising as well as disturbing about recent junk bond crises is that they occurred with no prompting from the economy at all. The US economy is still growing, though slowly, and interest rates are lower than they were a year ago.

That the era of leveraged takeovers and corporate raids is probably over may be good news for the economy and even for the stock market, where companies are once again being valued on business prospects and profits rather than take over potential.

But it may be optimistic to suppose the worst of bankruptcies and defaults is behind.

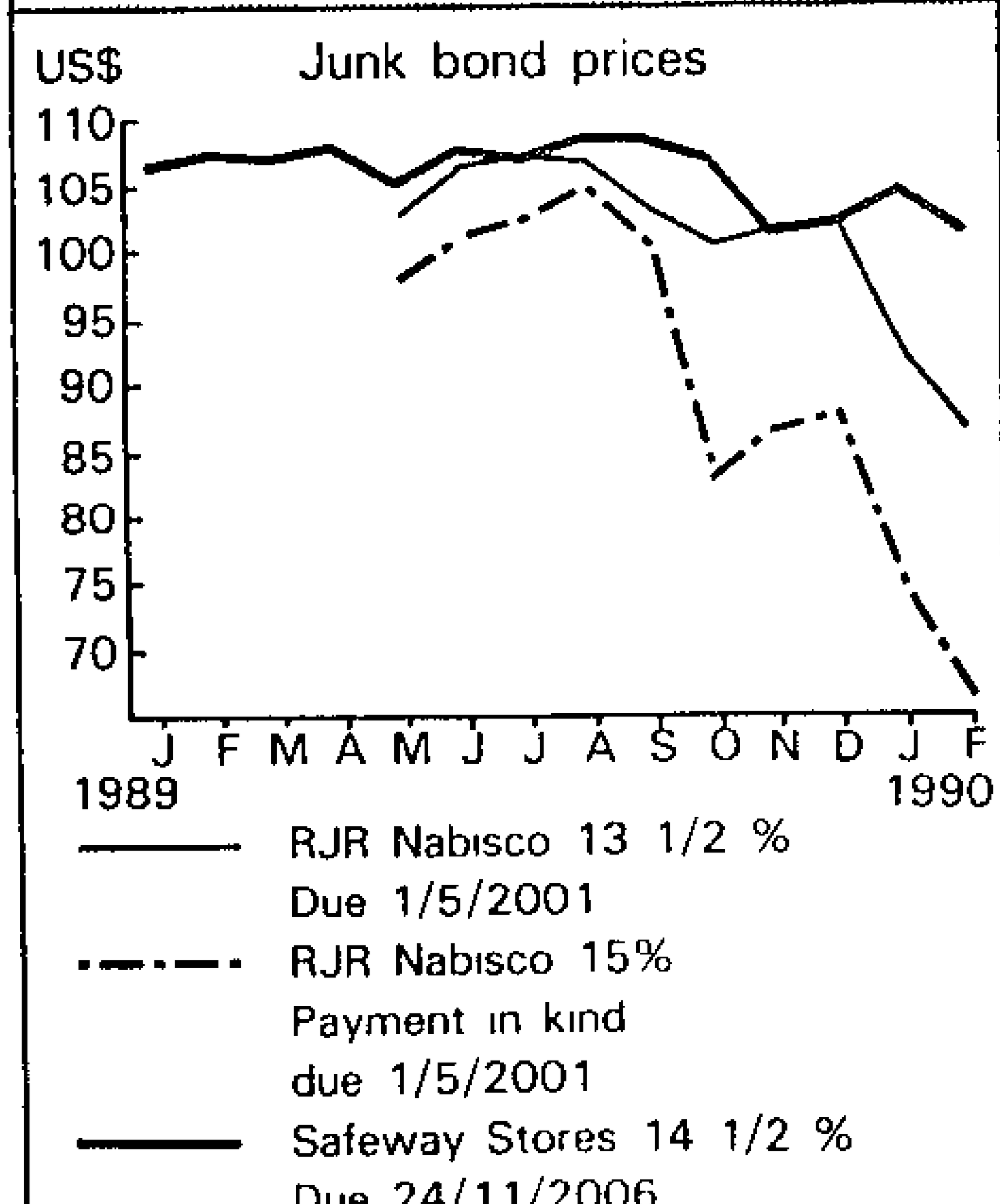
Perhaps the best that can be said for the future is that bankruptcy does not carry the same stigma, or have the same catastrophic implications, in the US as in most countries.

In the US it is possible to operate and even expand while keeping creditors at bay through Chapter 11 bankruptcy protection. This is what about a dozen big junk bond issuers are already doing and Drexel itself is hoping to join them. In the next year or two the ranks of large companies operating under Chapter 11 are sure to grow.

For bondholders, of course, Chapter 11 filing is usually a disaster. But the economic damage of the collapse of the junk bond market will certainly be limited by the protection which bankrupts enjoy in the US.

This may be the final irony of the whole saga. It was the US's lackadaisical attitude to credit which spawned the junk bond market. Now the same broad-mindedness towards debtors will be the economy's main protection against the consequences of the junk bond market's collapse.

The heap topples



Source Salomon Brothers

INVESTMENT SCHEMES (58)

Watch for pitfalls

Brochures distributed by PIT International Investment Consultants in the past two months invite people to join a syndicate, so as to benefit from opportunities available to investors with large pools of money. It is an alternative to unit trusts, promising higher returns and lower brokerage fees.

On examination, PIT's promotional material reveals a number of problems. To become part of the PIT syndicate, investors must pay an introductory fee of 8% of capital invested and a 3% annual syndication fee thereafter. F/M 23/2/90

PIT claims other portfolio managers charge annual management fees of between 3%-8% of capital invested as well as an administration fee from 1,5%-3,5% a year. However, an *FM* check found that most portfolio managers charge between 0,25%-2%, depending on the size of the investment. Investing in a unit trust costs between 3%-5% up-front with annual fees ranging from 0,5%-1%.

According to the brochure, a minimum investment of R200 a month, escalating at 25% a year, would be required over five years. That means that in the fifth year, investors would pay in more than R7 000.

Further investigation reveals that Emanuel Levitan, listed in the pamphlet as a CA and apparently in charge of the company's books, was removed from the Public Accountants' & Auditors' Board for non-payment of fees in April 1987. He can, therefore, no longer operate as a certified public accountant.

When the *FM* contacted PIT, it was told the company had been purchased by Agechanged Ltd on January 28. It is an "introductory broker" to Balfour Maclaine International UK Ltd. Balfour is part of Kay Corp, a commodity broker specialising in coffee and cocoa, foreign exchange and financial futures. Its head office is in New York, with branches in London and Chicago.

Markus Burgesmeir, one of the new directors and previously involved in product training at PIT, says the company has been totally restructured. Burgesmeir carries a German passport but has been in SA intermittently for seven years and has permanent residence.

The other two directors will be Richard Grant, a lecturer at Wits and director of the old PIT, and Christian Feustel, a vice-president of Balfour Maclaine.

According to Burgesmeir, the brochures were distributed by the previous backers of PIT, Ossie Johnson and Craig Kinsman of Securities Managed Assets & Realty Trust (Smart). Smart denies this.

Previously known as PIT International Traders CC, the company is now being registered as PIT International (Pty), says Burgesmeir. The new directors believe the syndication concept is a good one and that small investors should have the opportunity to realise greater returns than those available from unit trusts.

F/M 23/2/90 (58)

The new PIT plans to have almost 100% of its investment portfolio in equities. The introductory fee will remain at 8% with an annual 3% syndication fee, though those figures will decline as the sum invested increases. The new minimum will be R300 a month with no escalation.

Portfolio managers approached said they could see no advantage in this scheme over a unit trust. For a minimum of R100 a month and up-front charges of 3%-5% of capital invested, the smaller investor could have earned up to 33% last year in unit trusts. Burgesmeir claims that his scheme can beat the All Share index, which last year would have meant a return of over 50%. ■

REINSURANCE FM 23/2/90 (58

Moving off-shore

Hollandia Re is trying to move into African and south-east Asian markets through Mauritius. It is forming a subsidiary on the island, via a wholly owned Luxemborg company. The subsidiary, to be called Coral Re, if the Mauritian authorities agree to the name, will start business in June.

Says Hollandia Re MD Steve Murphy: "Mauritius is already being used as a springboard to access that market in other areas of business." It has other attractions, too:

- ☐ Tax incentives — the new subsidiary could qualify for a maximum tax rate of 5%;
- ☐ A multi-party democracy which is politically stable and pragmatic towards SA;
- ☐ Established connections with Europe as well as being well positioned for business with Africa and south-east Asia;
- ☐ A highly literate population; and
- ☐ Liberal exchange control regulations which allow funds to move freely in and out.

Coral Re will begin with what Murphy calls a "relatively small" capital base of £1m. It will be run by Jean-Pierre Callebaut, who has worked for Hollandia for three years as a treaty underwriter. Before that, he worked in insurance and reinsurance for 20 years in Europe. ■

FINANCIAL MARKETS (58)

Risk rate FM 23/2/90

An agency to rate the quality and financial risk profile of corporates is to be established on May 1 by Treasury and risk consultant Laird Associates. A feasibility study by Laird's Dave King was sponsored by market representatives, who felt there was a need for a rating service such as that provided in the US by Standard & Poor and Moody.

FM 23/2/90 (58)

Each security traded will be evaluated on a standardised structure, which will enable possible triple AAA corporates to issue their own paper without being endorsed by a bank.

Says King: "This will bring a range of players to the marketplace who have not had access to it as they are not household names. And it should make the cash and derivative markets more liquid."

The first project is to rate public and private organisations involved in the short-term debt market, which could have a wide ranging effect on those corporates now funding through BAs.

Says Discount House's Julian Knopf: "It will be a major contribution to the whole securitisation and development of the corporate paper market." ■

ESTATE AGENTS FM 23/2/90

Testing times

(58)

Government's proposal to lower the minimum education requirement for entry into real estate is not a prelude to dismantling the Estate Agents' Board.

Board chairman Eskel Jawitz also says assurance has been given by government that the board is not a target for deregulation. "We are not going the same way as the Travel Agents' Board.

"I can say that with certainty. Trade & Industry Minister Kent Durr has a property background, a thorough understanding of the real estate industry and the implications of any changes. There is no comparison between the board and the Travel Agents' Board."

Jawitz's comments follow an announcement by Durr that a legislative package, embodying government thinking on deregulation and rationalisation, is being prepared for parliament.

Special measures

Features include a lowering of entry level requirements for estate agents and introduction of special measures to assist in the training of "non-traditional" entrants into the property market.

Jawitz says neither Durr nor the board want to keep out people.

"At the same time we must ensure that people entering the industry have a certain standard of education. This is to protect consumers by ensuring that estate agents, to whom they entrust their properties, have an appreciation of the industry."

He adds: "This is a case of rationalisation of the property industry rather than deregulation.

"There are no plans to take away all the rules and create a free-for-all. That would be patently impossible in our economy. There must be an entry examination but it must not be of a level so as to debar people. Equally, it shouldn't be too simple." ■

Star 23/2/90

Money supply increase slows

The rate of increase in the SA money supply declined in January, the SA Reserve Bank announced yesterday.

(58)

Preliminary figures released by the Bank show that the rate of increase in the broadly defined M3 money supply in January this year compared with January last year is 21,91 percent compared with the year-on-year figure for December of 22,69 per cent.

M2 money supply in December rose by 27,41 percent to R119 725 million, while the narrowly defined M1 rose by 10,89 percent to R464 60 million. November's increase in M2 was 29,42 percent, while the M1 rose by 18,03 percent.—Sapa.

Cape Times 23/2/90

Taxis: Wesbank 'not to blame'

Staff Reporter

THE Southern African Black Taxi Association (Sabta) says Wesbank is not to blame for recent price and running cost escalations in the industry, and has apologised for Wednesday's blockade by taxi drivers in central Cape Town.

In a statement issued yesterday, the association said it was "incorrect" to lay the blame for the taxi operators' financial problems at the door of the financial institutions. "They do not set the prices of taxis (which increased from around R15 000 four years ago to R50 000 today), nor do they influence the escalating input costs.

"Wesbank has been responsible, together with Sabta, for assisting thousands of Sabta members in purchasing new minibuses. Up to 80% of these clients would not have passed (Wesbank's) normal credit screening process, but were accommodated by Wesbank through Sabta standing surety for them."

"Sabta and Wesbank will, early next week, send two members of staff to Cape Town who will investigate each member's circumstances on an individual basis, and see how (they) can be assisted," the statement said.

Sabta said it also wished to record its regret at the inconvenience caused by the large number of vehicles which "could not find parking in the central business district of Cape town and double-parked, blocking roads".

Reacting to press reports, Wesbank yesterday claimed that the escalation in monthly repayments from taxi owners had been exaggerated and generalised.

Mr Ronnie Watson, Wesbank general manager, said that increases were, in any case, due to escalating insurance costs for these vehicles, the premiums for which were being added, at the buyers' request, to the purchase repayments.

"In November last year a group of 13 taxi owners indicated that they were experiencing difficulty with their repayments as a result of the inclusion of annual insurance premiums and, in terms of our normal policy, they were invited to discuss their problems with us — none availed themselves of this offer," Mr Watson said.

"In this year, one of these vehicles was repossessed. In accordance with our normal procedures, a suitable arrangement for the return of the vehicle has now been concluded and repayment arrangements in respect of the insurance premiums have been agreed with the remainder."

He added that Wesbank was surprised at the reaction of Western Cape taxi owners, only 180 of whom were financed by Wesbank, as Wesbank, with Sabta, had pioneered the financing of taxis in South Africa.

On the matter of the escalation in costs incurred by taxi operators, particularly the petrol price which had increased 100% over the last four years, Sabta said it would continue to negotiate with the government for the bringing down of such input costs. He added that if talks failed, fare increases would probably follow.

Usury Amendment Bill published

CAPE TOWN — A Bill amending the Usuary Act in order to define certain expressions and prescribe conditions surrounding the levying and payment of finance charges, was published yesterday. BDay 23/2/90

According to a memorandum on the objects of the Usuary Amendment Bill, several aspects of the Act are to be addressed.

Among these are:

☐ Finance charges may not be levied for shorter or more periods than the instalment periods agreed upon;

☐ To repeal a provision that could be construed as meaning that finance charges may be calculated and levied in advance;

(58)

☐ To abolish certain exemptions applying in the case of certain money loans and debentures in regard to the particulars to be contained in instruments of debt;

☐ To further determine the finance charges that may be recovered. — Sapa.

Business Report

Cusaf posts 24% higher profits

CAPE TIMES 23/2/90

58

JOHANNESBURG. — Commercial Union Assurance (Cusaf) posted a 24% in after-tax profit to R38,7m compared with the previous R31,2m.

Financial results released yesterday show that in line with the better result, earnings per share are up from 312,4c to 387,3c and the final dividend has been increased by 25% to 65c.

The total dividend for the year is 95c, a 27% increase on the corresponding dividend of 75c for 1988.

The deteriorating short-term underwriting climate in the latter part of the year took its toll on the short-term underwriting surplus, which is down from R21,2m to R11,5m.

This was, however, more than compensated for from other sources, notably improved investment income which was up 34% from R26,1m to R35,1m.

Advantage was taken of the strong investment climate in the course of the year, and this is reflected not only in the increased investment income but also the substantial growth in shareholders' funds.

Cusaf's long-term (life and pensions) operation turned in a good performance with a surge in both new life premiums to R204,5m and total premium income to R298m — up 47% and 44% respectively on the previous year.

These increased figures include an amount of R63m from the staff pension fund. Long-term investment income rose to R142,4m and the life fund is now backed by assets of R1,8bn.

MD Bill Rutherford describes the results as satisfactory, but says that steps will be taken by the market to remedy the deteriorating claims trend. — Sapa

Standard, Ernst & Young get majority of Sats work

BDay 23/2/90.

STANDARD Bank and Ernst & Young have been awarded the most valuable part of Sats's work ahead of its "commercialisation" — conversion from a public utility to a public corporation on April 1.

Seven auditors and five banks — the "Big Five," including Nedcor, First National, Volkskas and Bankorp (Trust-Bank) — have been signed up by the transport giant.

The most valuable part of the audit has gone to SA's largest accounting, tax and management consultancy firm, Ernst & Young, formed in the international merger last year of Ernst & Whinney and Arthur Young.

Standard Bank, the country's highest rated bank, receives the most valuable part of Sats's commercial banking work. There is to be no official announcement of the awards, from either Sats, auditing firms or banks.

Ernst & Young are main auditors for group head office (to be renamed Transnet), telecommunications (Transtel) and data processing (Infodata). The firm is joint auditors with Deloitte Haskins & Sells of railways (Spoornet); Deloittes also gets catering services.

Standard Bank has been awarded the work for Spoornet.

BARRY SERGEANT

Harbours (Portnet) goes to Arthur Andersen, with Theron du Toit clinching SA Airways and SARTRAVEL. Pim Goldby is awarded pipelines (Petronet), Transmed, housing and Transnet's training college.

Wiehahn Meyernel gets road transport (Autonet), pensions and production house (for example, printers). Aiken & Peat gets workshops (Transwerk), stores, engineering services and museums.

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Entity

The award of the account to seven of SA's top accounting firms means millions of rands in new audit and other fees.

On April 1, the Auditor-General and Reserve Bank, respectively, will cease duties for Sats. Sats, renamed Transnet on that date, will be converted to an entity under the Companies Act of 1973 and report in terms of its rules and regulations, including accounting.

According to auditors involved in the tender for the account, one of the biggest in the country, presentations were the longest and the most costly ever.

What to consider before signing up

AS WITH all forms of borrowing and investment, some tips on what to look for and avoid in part bonds are not out of place.

Fidelity Banks' advice is for the borrower to seek a loan through a recognised part bond scheme.

The borrower must ensure he is paying a market-related rate and, as this is a highly competitive market, any fee to be paid to the scheme managing company can and should be negotiated so that it is low.

Other highly desirable things the borrower should look for include:

- ☐ Flexibility;
- ☐ Services — how quickly will a decision be given;
- ☐ A structured loan to meet individual requirements;

Hidden

- ☐ No commitment or holding fee;
- ☐ No upfront inspection fee or other hidden costs, and;
- ☐ No floor rate.

The borrower should also tread carefully if his borrowings on long-term projects are being financed on a short-term basis.

For part bonds to be an ideal "sleep easy" investment which pays a competitive return, medium to long-term investors should look for:

- ☐ A recognised registered scheme;
- ☐ A manager who is flexible in his approach to loans and the payment of interest;
- ☐ Full disclosure of the bond(s) into which the funds have been invested, and;
- ☐ Competitive rate of interest.

If these criteria are met every investor should find a meaningful place in a well-balanced portfolio.

Cusaf takes short-term knock

LINDA ENSOR

COMMERCIAL Union (Cusaf) suffered a drastic drop of 45% in its short-term underwriting surplus to R11,5m (R21,3m) for the year to end-December, though this was offset by a 34% rise in investment income to R35m (R26m).

The results are in line with experiences of other insurers and reflect the rates war and the rising cost of claims. MD Bill Rutherford believes the trend will continue for the rest of 1990.

"One cannot expect anything else but deteriorating results due to the savage competition which has been taking place over the last 12 months," Rutherford says.

B/Day 23/2/90

"The soft market has meant rates have fallen below what is really an economic level, and what is ominous is that the trend line in underwriting surpluses is pointing severely downwards."

The bottom line benefited by a sharp drop in the tax rate to 23,3% (27,3%) with earnings per share rising 24% to 387,3c (312,4c) compared with the 17,5% rise in pre-tax profits to R50,5m (R43m). A final dividend of 65c brought the total for the year to 95c (75c).

The deterioration in profits, already apparent at the interim stage when the underwriting surplus fell 21%, gathered momentum in the second half of the year.

(S8)

The commercial and private motor accounts just broke even at year-end, experiencing losses in the last quarter which depleted profit surpluses.

Rutherford says motor rates will be increased by an overall 20% as from April 1 and a "more resolute" stance will be adopted in renewing industrial and commercial fire policies. Householders rates will be held for a while.

However, these increases will not have much impact on 1990 results as increased premiums take time to flow through.

Shareholders' share of the life division's profits also contributed to counteracting the poor underwriting experience, rising 21% to R2,3m (R1,9m).

Cusaf's long-term operation turned in good returns — especially from retirement annuities and pension funds — with total premium income increasing by 44,4% to R298m (R206,4m). Assets of the life fund now total R1,8bn (R1,2bn).

Cusaf remains financially strong with a solvency margin of over 80%.

B Day 23/2/90

Long-term projects call for long-term backing

(58)

AMID the shaky financial and monetary markets worldwide, indications are that the participation mortgage bond movement will continue to strengthen as demand grows.

Fidelity Bank GM special services markets Tony Bennett says demand will be sustained by the latest innovations and more flexible part bond deals — for borrowers and investors alike.

But much will depend on how managers market their products, particularly with the industry having reportedly lost market share as developers are lured by innovative mortgage loans provided by the major financial institutions.

Advice to the borrower is still to seriously consider a part bond scheme as these have recently increased their flexibility and may offer a better deal at lower interest rates.

For starters, purchasers and developers have learnt, sometimes through bitter experience, that long-term projects should be secured by long-term loans.

This is where a part bond loan comes into its own.

The borrower should ideally aim for a structured loan to meet individual requirements, along with a competitive rate of interest, says Bennett.

In addition, he should seek a service fee related to the capital sum required plus no floor rate.

Bennett cautions borrowers to be wary, however, of paying any commitments or holding fees while the bond is in the process of being registered or, in the case of a building bond, while the capital is being paid out as the project progresses to completion.

While in the past the term of part bond loans have been fairly rigid, managers — such as Fidelity — have adopted a far more flexible approach.

"For instance, we will structure a deal where capital is fixed for, say, five years — with interest only paid during this initial period — and then repaid over a balance period of, say, 25 years.

Undertakes

"This means the company undertakes not to call for any capital repayments for the first five years," says Bennett.

However, there are no such restrictions on the borrower, so should he have a windfall, or interest rates increase, the option exists to reduce the capital subject to three months notice.

Then at a later stage, the borrower may apply to have the bond capital reinstated to its original amount, without incurring costs of having another bond registered.

The valuation of a property in order to raise a loan is quite costly to the borrower.

"Here again some managers, such as Fidelity, undertake this valuation free. The only charge is a nominal fee for the tri-annual

TONY BENNETT

inspection in terms of the Act," he says.

Apart from flexibility and quick service, the borrower should also look for:

- ☐ A recognised registered scheme;
- ☐ Competitive rates of interest;
- ☐ Full disclosure of the bond into which the funds have been invested; and
- ☐ A manager who is flexible in his approach to loans and the payment of interest.

Although the rate of interest charged on part bonds is not normally fixed but linked to market related rates, thereby moving with the supply and demand for funds within a scheme, some schemes do not have a floor rate.

This means that the rate charged to borrowers can go as low as market trends dictate and that rate will then be charged on the capital outstanding at any particular time.

In addition to ensuring the borrower is always paying a market-related rate, this also acts as built-in protection to investors in the scheme.

"It ensures the borrower is not being placed under the pressures of a floor rate when interest rates start falling."

For its efforts, the management company is permitted to take a maximum commission of 7,5% from the rate received from the borrower and pass the difference to the investor.

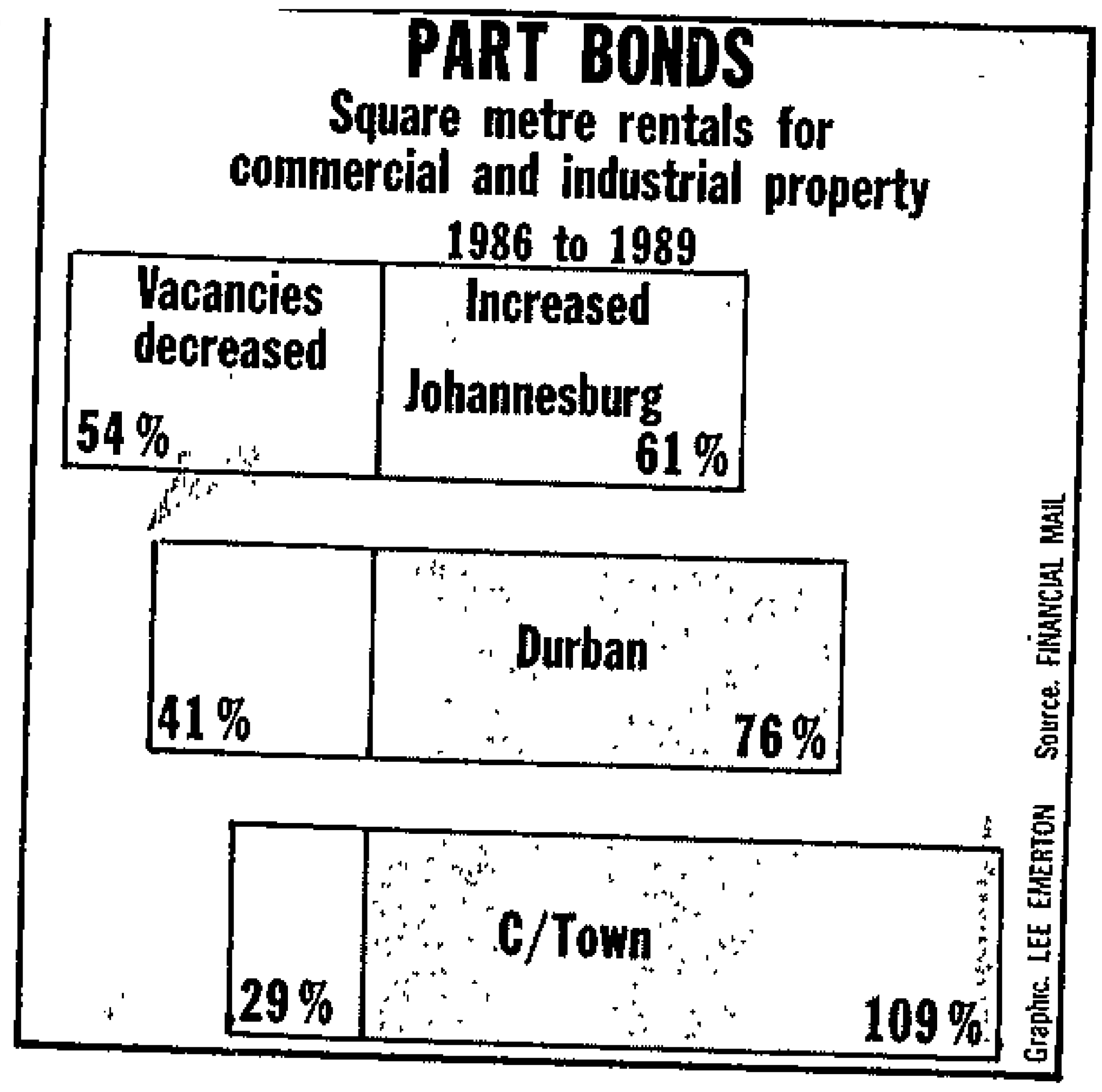
"This is the reason why borrowers are quoted unusual rates of interest, currently 20,54% with Fidelity and investors a clean rate currently 19% per annum."

Wide choice

Turning briefly to the investor, he has a wide choice of bonds to invest his funds in. Should the bond mature early he is able to elect another bond into which his funds will be re-allocated.

Unlike other fixed rate investments, the investor's rate of interest can fluctuate over the period invested.

"But history has shown that the rate at any time will be highly competitive and market-related. Just choose your manager or scheme carefully and you will not go wrong," says Bennett.



Combining income and tax benefits

(58)

PARTICIPATION bonds are ideally suited for linking to other types of investments, thus improving flexibility and returns.

In the packaged format, the initial investment could be increased as much as three times over a 10-year period, says Bloemfontein Board of Executors manager of financial services Nico Botha.

He cites the innovative Mubloem Growth Investment Plan, launched in the Free State, as an excellent and possibly the sole example of such a link-up.

Comprising a joint venture of Bloemboard and Old Mutual, Mubloem combines growth, high income tax benefits and liquidity in one package.

He says institutions are realising that many of the traditional products are no longer adequate if used in isolation. However, when combined in the correct mix with other investments, any weaknesses can be minimised.

"To offset any shortcomings, Mubloem combines the strong features and benefits of three investments — a five-year part bond, an endowment policy and a deferred annuity.

Botha says the capital of the part bond investment forms the basis of funding the whole plan: assuming an investor has R100 000 available, about R80 000 would go into the part bond portion of the package.

The remaining R20 000 is used to purchase a deferred annuity and to pay the first year's premium of the endowment.

Not more than 10% interest on the part bond investment is used to fund quarterly premiums in respect of the endowment policy from the second year on. The balance of the interest (8% if the prevailing rate is 18%) is available to the investor.

BDay 23/2/90

Withdraw

After five years — when the part bond contract matures — the investor may withdraw it (80% of the original capital). The deferred annuity is now activated to pay the premiums of the endowment policy for the remaining five-year period.

"The investor now enjoys a capital injection five years from the date of withdrawal when the endowment matures. The proceeds of the endowment is tax-free (in terms of current taxation) and until maturity it has loan and surrender values as well as life cover," says Botha.

BDay 23/2/90'

Flexibility is the key to bringing in new blood to the market

BDay 23/2/90 (58)

PARTICIPATION bonds have shown low real growth in the past year

But Stanbond MD Eric Tomlinson says more borrowers are expected now that steps have been taken to introduce more flexibility into part bond financing

Standard Bank subsidiary Stanbond, SA's second largest managing company, set about to improve the flexibility of its part bond product last September while retaining its high lending standards.


ERIC TOMLINSON

At fault

Having researched the reasons for slow growth in the market, Stanbond found the part bond product in general, was at fault.

While part bonds are governed by certain regulations, the inability of managers to attract more first mortgage lending business on good quality commercial and industrial properties was due mainly to self-imposed restrictions.

Such self-imposed restrictions were valid initially, Tomlinson says But recent events, spurred by the aggressive marketing of property development loans from financial institutions, has caused some to become outdated

Taking advantage of managers' inflexibility, the institutions clinched most of the bigger property lending deals

Stanbond's research indicated the major reasons for the loss of good property lending opportunities to other forms of lending were the restrictive lending margins against valuation and inflexible terms of repayment.

"We need to provide the option of a much shorter lending period, that includes three months notice of intention to terminate the bond agreement This notice will allow time for the re-allocation of the investors' funds to other secure and quality bonds," says Tomlinson.

Stanbond has addressed these issues within the scope of its existing rules and the current legislation.

In addition, it plans to introduce other refinements which will have a positive affect on borrowers.

Where a good proposal cannot be accommodated entirely by the part bond, the company will put together a package utilising other lending products where required

Despite the inroads made by innovative financial institutions, Stanbond believes there is still a valid and growing market for part bonds

The company is confident of regaining a share of part bond business that has bypassed the part bond industry by becoming more competitive

The Association of Participation Mortgage Scheme Managers of SA has noted that a number of part bond companies are able to grant loans of shorter tenure in time of continuing growth and high stock levels.

Combined Part Bonds, for example, are among those registered managers able to tailor a package to suit individual clients, says Combined's Nico Botha.

Negotiable

He says the company offers negotiable repayment terms and conditions to borrowers of its bonds And a bond lending rate of 20% could also be fixed for one year.

Providing part bond services from its 1 500 agencies via the United group, Volkskas and JH Isaacs, Combined currently pays investors 18,5% a year on amounts larger than R1 000

Its target market is prime commercial and industrial properties, or soundly based property developments, with a minimum amount of R250 000

"We are experiencing very good demand for bond lending," says Botha

Playing the game safe as a house

ONE needs to consider both markets in the event of any part bond development, say part bond managers.

Simply, part bonds are units invested in comparatively large mortgage loans granted against the security of first-class commercial, industrial, residential and agricultural properties.

From the investor's side, they are said to be as safe as a house

They present an opportunity to benefit from the development of prime space, such as in multi-million rand buildings, for as little as a R1 000 lump sum.

Although black retail developments have shown the best part bond return for borrowers in recent years, because the ratio of income to building costs is the best, this makes no difference to the investor.

(58)

Standard

The reason for this is an investor's return is a standard rate of interest, regardless of whether his bond is in the central business district, an industrial area or residential area.

However, there is a direct relationship between the prime overdraft rate and the investor's part bond rate — except prime can move faster.

Part bond investments pay one of the highest interest rates on an interest yielding investment, which allows one to benefit from an increase in interest rates — while often limiting a fall in interest rates to a minimum base rate.

For example, at a nominal rate of interest of 18% paid quarterly in advance, part bonds yield an effective return of 20%. The minimum floor rate is 11%.

Bearing in mind the high prime rate, should interest rates soar or patterns seem uncertain, investors may consider the 'longer term advantages of fixed-rate part bonds.

This means that as soon as rates come off they stand to score handsomely in the years ahead.

Investors at some managing companies can further improve returns and obtain capital growth by investing their monthly interest in a unit trust, or even using the interest to fund annuity premiums.

Innovative funding a boost to business

BDay 23/2/90 (58)

A STRONG market exists for innovative funding packages which go further towards meeting the business objectives of prime part bond borrowers

Board of Executors (BoE) senior manager Hein Guse says a focused approach and the tailoring of packages to suit specific needs of prime commercial and industrial property development has given new impetus to the market.

Nature

The key to structuring such packages, which must fall within the parameters of the Participation Bond Act, is getting to know the nature of each potential borrower's business, he says.

"We've had to spend more time investigating the merits of each deal, but the effort has been most worthwhile."

Since adopting this approach the BoE has recorded remarkable growth

"In the first four-month of our current financial year we placed eight times as much business as we did on an annual basis over the previous year And this without any compromise on the quality of this business"

Guse believes one of the reasons for the declining attractiveness of part bonds in recent years has been the lack of innovation in packaging and marketing them

This has been aggravated by the introduction of innovative and competitive funding packages by the banks

"Traditionally, part bond finance was bought rather than sold If a potential borrower satisfied certain criteria, he would get a standard package, which he then adapted to his needs

"We've turned that around and the results are showing," says Guse "We are creating new opportunities for part bond financing and this is rejuvenating the market."

An interesting spinoff of this approach has been the opportunities for cross-selling for the BoE, which has a long-term bias to business.

Identified

The company has thus identified related investment opportunities for clients, arising directly out of its part bond activities One such example is property syndications.

A revitalised part bond market would be a boon to private investors, says Guse

"The inherent security of a part bond together with the current rate of return of 19%, payable quarterly in advance, certainly makes it more attractive than any other fixed interest investment around — even those with partial or full tax exemption," he says.


HEIN GUSE

What to consider before signing up

MD 23/3/90

(58)

AS WITH all forms of borrowing and investment, some tips on what to look for and avoid in part bonds are not out of place.

Fidelity Banks' advice is for the borrower to seek a loan through a recognised part bond scheme.

The borrower must ensure he is paying a market-related rate and, as this is a highly competitive market, any fee to be paid to the scheme managing company can and should be negotiated so that it is low.

Other highly desirable things the borrower should look for include:

- ☐ Flexibility;
- ☐ Services — how quickly will a decision be given;
- ☐ A structured loan to meet individual requirements;

Hidden

- ☐ No commitment or holding fee;
- ☐ No upfront inspection fee or other hidden costs, and;
- ☐ No floor rate.

The borrower should also tread carefully if his borrowings on long-term projects are being financed on a short-term basis.

For part bonds to be an ideal "sleep easy" investment which pays a competitive return, medium to long-term investors should look for:

- ☐ A recognised registered scheme;
- ☐ A manager who is flexible in his approach to loans and the payment of interest,
- ☐ Full disclosure of the bond(s) into which the funds have been invested, and;
- ☐ Competitive rate of interest

If these criteria are met every investor should find a meaningful place in a well-balanced portfolio.

R15bn forex losses ahead

W/E ARGUS 24/2/90

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From CLAIRE GEBHARDT

JOHANNESBURG. — Forward exchange cover losses totalling R14,9 billion — almost a quarter of the national Budget — will come home to roost this year.

The Minister of Finance Mr Barend du Plessis is expected, at the urging of the Reserve Bank, to set aside R2 billion in the 1990/91 Budget to make provision for the losses.

During the current fiscal year, R1 billion was set aside for this purpose.

These losses are cited as one of the reasons why the Minister of Finance Mr Barend du Plessis will be unable to deliver any significant tax cuts when he unveils his Budget on March 14, in spite of huge increases in revenue collections.

Economists point out that there is no such thing as a free lunch as South Africa's beleagured taxpayers are once more called upon to foot the bill for losses caused by "protecting" importers and exporters against a sharply depreciating rand during 1989.

United's economist, Dr Hans Falkena says a loss on the forward exchange book means somebody has to pay.

"If the state pays, then this person is the taxpayer."

Economists point out that Exchequer balances are at a record high and that some of the R11 billion call deposits at the Reserve Bank could be used to redeem the losses.

Volkskas economist Adam Jacobs says the forward cover losses should be added to government expenditure and financed in the correct way.

He says the effect of this would be to increase government expenditure in the current year by an extra R5 billion.

"Strictly speaking there is then a deficit in government expenditure which should be financed either by raising taxes or borrowing money on the capital markets.

"What happened in effect was that money was created to finance the deficit and this resulted in a soaring money supply which, through its inflationary impact, taxes people indirectly."

But losses on the forward cover book may soon become a thing of the past.

Interest rate

Governor Chris Stals has said that the Bank hopes to facilitate its withdrawal from the forward cover market through exchange rate and interest rate policy.

His committment to keeping a stable exchange for the rand against a basket of currencies while keeping interest rates high in real terms maintains the cost of cover at a relatively high level.

This could eventually see a reduction in the Bank's losses on its forward book.

Frankel Kruger Vinderine economist Mike Brown says the latest announcements by governor, Chris Stals, that banks will be allowed to buy dollars and invest these abroad will transfer some of the forward transactions risks to the commercial banks.

Provident funds save employer time, money

HIGH personal rates have focused the attention of employees on the tax effectiveness of their salary package, while low social pensions, high inflation and negative interest rates make many employes nervous about their retirement prospects.

Generally employers are aware of these problems. However, those wishing to begin a retirement fund for the benefit of their employees are faced with the choice between a pension or a provident fund.

Other businesses are considering a provident fund as a fringe benefit to supplement an existing pension fund.

Advantages

For the employer the major advantages of an individual policy provident fund are the savings of time and expense, as the fund is already approved and registered.

The only formality is applying for affiliate membership.

The appeal to small businesses (with too few employees to warrant the registration and administration costs of their own fund), is enhanced by the fact that the minimum number of employees is one.

Ownership of the policy is transferred from the provident fund to the employee at retirement or resignation.

At death the proceeds are payable to his dependents.

The benefit received (cash value of the policy) may be taxable, however, this is at the employee's average tax rate and not his marginal rate.

There are tax-planning methods to keep his average rate low. One often used is to retire early in a tax year.

At maturity after retirement, the policy can be continued by leaving the proceeds with the assurer.

This provides tax-free income, according to current legislation, in the form of cash bonuses, while a pension from a pension fund is taxable at marginal rate.

At resignation from the fund the employee receives his full benefit and is free to continue with the premuim payment on his normal standard endowment policy.

Resigns

In contrast the employee who resigns from a pension fund generally forfeits the employer's contributions and interest.

The trade union movement has shown a marked preference for provident funds mainly because all benefits payable to the employee are in the form of a single lump sum.

The individual policy is popular with highly skilled First World employees, albeit for different reasons.

RA: key to prosperous second retirement

WILL you be retiring shortly at a still young and healthy 60? Star 24/2/90 (58)

Or are you already into a lucrative second career after early retirement — in which case chances are that your tax problem is set to continue for at least the next few years?

"An investment in a retirement annuity policy is one of the best ways to relieve this headache, even after retirement," says Mr Jacques de Villiers, Sanlam's marketing actuary.

Many people don't realise that they can continue contributing to an RA after retirement — and can deduct contributions from, for example, investment income and pensions. Those who retire on a company pension will probably find that they can even increase their RA contributions, which were formerly fixed at R1 750 per year.

Anyone who retires some years from the RA cut-off age of 70, and has sufficient income from other sources, should include retirement annuities in financial planning.

"Don't forget that a married woman may be a member of a retirement annuity fund even if she earns no income," says Mr de Villiers.

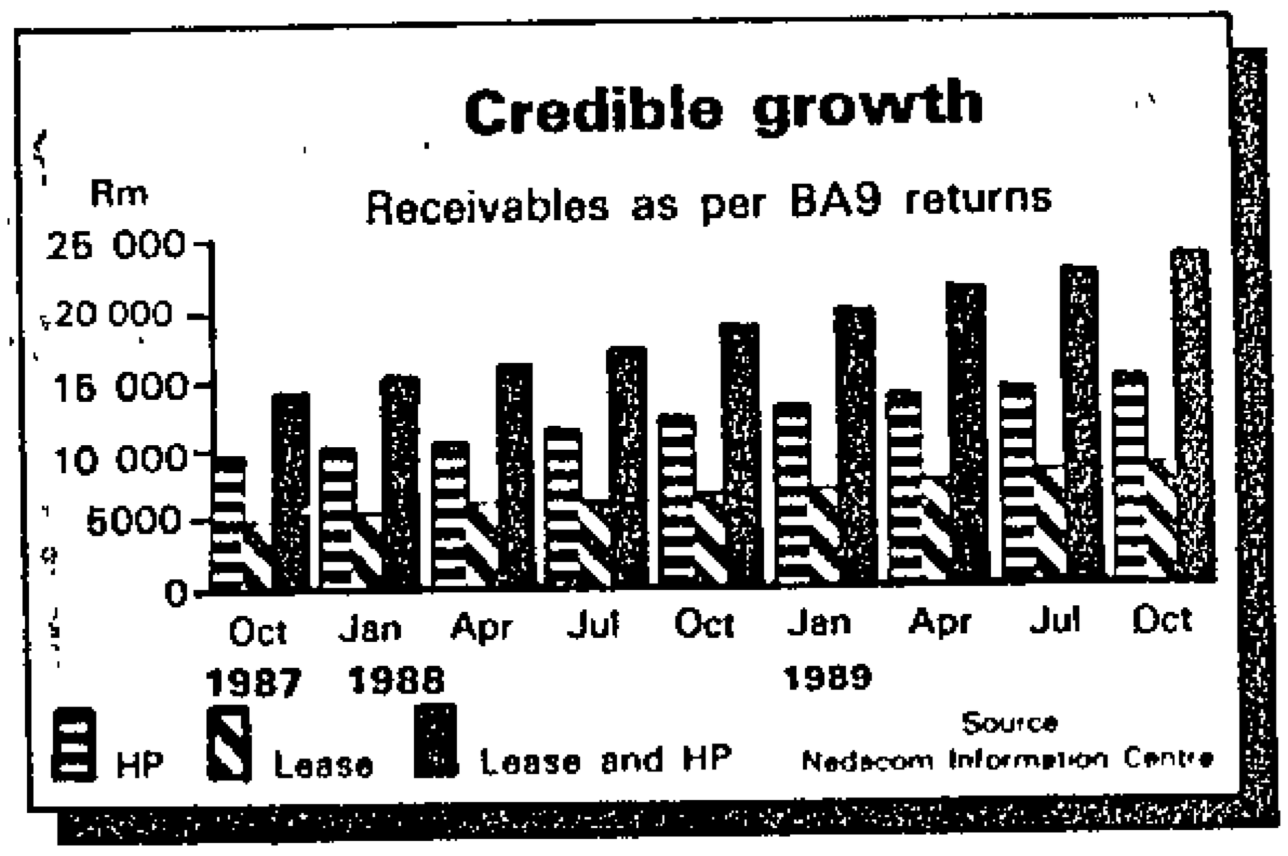
"Her contributions to the fund may be deducted from her husband's income. As she is usually the younger partner it is a good idea to effect an RA taken out after retirement on her life. In this way the tax benefits can be enjoyed for a longer period."

With modern RAs it is easy to increase or decrease contributions, or pay in a lump sum — a distinct advantage for active pensioners who, for example, undertake part-time jobs, or act as consultants. As it is difficult to predict the income flow in such cases regular RA contributions will probably not maximise the tax benefits. However, this is easily rectified in the last month of the tax year by paying in an extra lump sum.

Apart from tax benefits, short-term RAs have performed very well in the past.

Mr de Villiers cites the example of Sanlan policy taken out five years ago with a monthly contribution of R200. At the time of issue a maturity value of R16 427 was projected. The actual maturity value amounted to R20 297,12. Without taking tax relief into account this represents an average return of 21,1 percent a year on contributions, compared with an average inflation rate of 15,8 percent over the term of the policy.

So, an RA after retirement could be the key to a prosperous second retirement.



Credit curbs yet to bite

58

S Times 25/2/90

By Ian Smith

TOUGHER action to restrain bank lending has been largely brought about by the Reserve Bank's own actions.

This is clear from an analysis of the BA9 returns for the final quarter of last year.

New credit on lease agreements and hire purchase in the year appears to have totalled about R9-billion after allowance is made for payments on the year's advances.

Banks involved in suspensive sale and leasing lifted their receivables by R1,284-billion in the final quarter to show an increase of R5,5-billion for the year.

Early last year the Reserve Bank asked banks to keep credit extension to 1% a month of total receivables — but the 29,4% overall increase is well over the 13% limit.

Nedfin Bank managing director Ron Rundle says: "This measure has not worked in curbing credit. The authorities have taken a harder line in controlling liquidity in the money market, curbing the prime overdraft rate and introducing punitive interest rates at the window."

He believes the Reserve Bank's policy will be maintained until bank advances are reduced to within the limits spelt out by the authorities.

Mr Rundle says that although last year's final-quarter increase does reflect some levelling off in bank instalment credit lending, it is still too high for the Reserve Bank's comfort.

He predicts that demand for credit will continue, but at a reduced level

"The current quarter reflects steady demand for corporate credit although retail sales of durables, such as cars, are down on the previous quarter."

Mr Rundle says it will be another three or four months before banking margins are sufficiently restored to allow a reduction in the prime overdraft rate.

High interest rates bring insolvencies, but financial institutions are equipped to handle the casualties, he says.

Banks seek solution to coming capital crunch

BIDay 26/2/90. (58)

GRETA STEYN

BANKS are looking at strategies to deal with the capital crunch the sector faces in the next few years.

One spin-off of the need to reach capital adequacy in terms of the Banks Act is that credit growth will be kept to much lower levels than the surge seen in 1988 and 1989. Curtailing asset growth is an obvious option to deal with the problem — and is First National's current strategy.

But bankers say other options — debentures, preference shares, rights offers, larger general debt provisions, increasing dividend cover — are being discussed. Standard Bank Group chief accountant Henry Shaw said banks, as financial intermediaries, would prefer not to curtail asset growth too much.

Solutions would depend on conditions in the different markets and the economic cycle, he said.

The banking sector's capital constraint is highlighted in a recent report by J D Anderson analyst Gerald Prosalendis which looks at the implications of phasing in an 8% capital-to-assets ratio over a period of three to five years, which will bring SA banks in line with the standards set by the Bank for International Settlements (BIS).

The report finds that, theoretically, "banks would have to freeze asset growth for five years, implying a shrinkage of the sector relative to the real economy of 15% a year" to achieve the BIS target, and then only in 1994.

The report notes the sector must more than double its return on assets (ROA) from 0,68% (March 1989), and slow its asset growth to below 10% to achieve both capital adequacy by 1996 and maintain an increase in earnings of 20% a year.

According to Prosalendis, banks' strategies will include reducing the size of the balance sheet through securitisation, and increasing "second tier" capital — reserves, amounts arising from the revaluation of tangible fixed assets and general debt provisions.

"The obvious source of capital is transfers to reserves from after-tax profits, that is, ploughbacks. Banks have already begun discussing possible dividend cuts. Approaches have also been made to the Reserve Bank to facilitate banks issuing scrip dividends," the report says.

Stronger

The ceiling imposed on individual shareholding will make this last option difficult to implement. However, Shaw commented to Business Day that the new Deposit Taking Financial Intermediaries Bill, once it becomes law, will facilitate this option by increasing the ceiling on bank shareholding to 49%.

The JDA report notes some banks are better placed than others because of a stronger capital base.

Building societies, however, are in a far more comfortable position and will be able to sustain and even increase asset growth because of surplus capital.

No scope for gambling, as the results are predict

(58)

B Day 26/2/90

able

THE one financial market which is all but devoid of speculation is the money market. There might be a handful of institutional dealers prepared to take a small position, but gambling, prevalent in most other markets, is absent — not because the money market is peopled only by the holy and the high-minded but because, at present, movements in the market are predictable.

Rates rise and fall during the month almost as consistently as the phases of the moon. They are high at the beginning and the end of each month, dipping from the peaks into a valley before climbing again.

This week rates will rise.

The market as a market has been throttled by the Reserve Bank's single-minded determination in its war

IN THE MONEY MARKETS

Harold Fridjhon

against inflation, using the most effective weapons: high interest rates and starving the market of liquidity. And the latest money supply figures show clearly the battle is still far from won.

Last month, the banks' total debt to the Reserve Bank reached about R5,5bn. Of this the banks financed about R4,5bn at Bank rate using their surplus liquid assets as security, but borrowing the balance at penal rates in excess of prime using prescribed assets as security.

When month-end balances are ruled off this week the banks' indebtedness to the central bank will probably be R4,5bn, but the banks won't be more comfortable because their stock of surplus liquid assets has been diminished to about R3,5bn by the redemption of the RSA loan 11,5% 1990. They received cash assets; this might reduce some of their costly overnight borrowing through the money market but, according to market analysts, they might still have to raise R1bn from Pretoria at penal rates.

Last week's reduction in the shortage — the banks' debt to the Reserve Bank — to around R2,5bn, the lowest for two months, reflects that liquidity has been returning to the banking system through the improvement in the gold and foreign exchange reserve and this has, to some extent, posed problems for the Reserve Bank.

Reserve Bank Governor Chris Stals said last week that he was considering allowing excess dollars in exporters' hands to be invested short-term offshore. Apparently the governor will do everything in his power to prevent "excess" liquidity returning to the banking system and undermining his tight money policy. He even indicated that he would induce the Treasury to issue government bonds to mop up liquidity, and then "freeze" the proceeds in a stabilisation account to prevent the cash flowing back into the system through state spending.

Such a move will not have to be made during March. The almost R1bn increase in the banknote issue and the payment of provisional taxes and heavy mining taxes will obviate any drastic action. April, however, could be a critical month for the Stals programme.

Wholesale call rates were 18,5% on Friday, up half a percentage point on the week. This week they will soar. The rate for 90-day liquid bankers acceptance inched up to 18,45% from 18,40% but the rate on 12 months negotiable certificates of deposit (CDs) edged down from 19,25% to 19,10%. An enterprising major bank has issued two-year CDs at 17%. The market reported that this bank tested the market at a rate of 16,75% but found no takers.

□□□

THE bond market was strangely calm and cautious last week. The month, which started with soaring levels of high activity and volatility, appears to be drifting to an insipid close. Stock is hard to find and, as a broker said on Friday, "when you find it no one wants it". Turnover was under R4bn, a very modest level.

With yields largely moving sideways, dealers have been concentrating on option business which does give a little margin, with minimum risk to those who know how to use options. Sellers of options, puts and calls, sell today, buy back tomorrow, taking advantage of whatever volatility is manifested in a becalmed market. This is a game strictly for profesionals.

The flatness of the market can partially be gauged from the closing yields on the Eskom 168. On Monday and Tuesday only two points separated the yields around 15,45%. Later in the week when world markets were trembling, yields were around 15,50%, closing at 15,515%. There were ups and downs each day, but within relatively narrow limits.

AA Life Group appears on JSE

LINDA ENSOR

AA LIFE Group comes to the JSE board today as part of an expansion thrust which includes the recent formation of an offshore reassurance company and the launch of a unit trust fund and an investment company. 810 26/2/90

The listing came via a reverse takeover of cash shell Ocean Appliance Corporation in a deal worth more than R100m. The issue price of the shares was 147,6c.

Also planned in the next few years is a separate listing for AA Life, 95%-held by AA Life Group, when the needs for capital make this imperative.

The backing of Anglo Vaal and the openings this will make available, is expected to give added impetus to the group's expansion and will effectively make AA Life the financial services division of the Anglo Vaal group. (58)

AA Life MD Brian Benfield says limited liability reassurance company Atlantic Reassurance has been established on the Isle of Man to market AA Life's products and to act as reassurers for overseas insurers. Atlantic will not act as AA Life's reassurer.

"The SA public really does not appreciate how advanced SA life products are compared with the US and Europe. We have plenty of expertise to market abroad and we intend doing this in return for

☐ To Page 2

AA Life's debut

810M 26/2/90 (58)

☐ From Page 1

reassurance premiums."

As regards the investment company, AA Life Asset Management, Benfield says it would manage outside funds and AA Life's funds. It was formed out of AA Life's investment division and manages total assets of about R400m, R300m of which are AA Life assets.

The general unit trust fund, to be called AA Life Equity Growth Portfolio (Allegro), will be launched on March 12. The establishment of the fund will, Benfield says, give AA Life greater investment muscle, increase the profitability of the investment company and thereby that of the life office.

Benfield believes the innovative ways of marketing the unit trust through agents and brokers, which have been devised, will enable the fund to achieve greater penetration of the unit trust market.

"I don't believe we have begun to scratch the surface of this market," he says, adding that Allegro has targeted break-even at R15m in its first year of existence.

The link with Anglo Vaal provides AA Life with a good quality image, access to capital, new markets and the expertise of Anglo Vaal's directors, some of whom sit on its board.

Benfield says total growth in net premium income in the eight months to end-December 1989 was 48%.

CAR TIMES 26/2/90 (58)

AA Life in R100m reverse takeover deal

JOHANNESBURG. — In a deal worth more than R100m, AA Life Assurance goes to the market today via a reverse takeover by a cash shell — Ocean Appliance Corporation.

AA Life Assurance's 95% (7,3m shares) of the issued share capital has been acquired by AA Life Group (formerly Ocean Appliance Corporation) in exchange for 67,9m AA Life Group (AALG) ordinary shares at an issue price of 147,6c a share.

The remaining 5% of the issued share capital of AA Life is held by the AA Life Share Purchase Trust.

In the light of AA Life's past and anticipated future dividend stream the directors of the new holding company consider the purchase price "fair and reasonable".

Principally through private placing, initially only 5% of the equity of AALG will be made available to the public, but this will rise to 10% at a later stage in order to fulfil JSE requirements.

The current major shareholders in the group — Anglovaal (which acquired 41,6% last year), Volkskas Merchant Bank, and the Automobile Association will remain unchanged.

Commenting on the background reasons for listing at this stage, MD Brian Benfield said: "We believe that now is a particularly good time to list because life assurance companies, not least our own, are showing considerably improved performances.

"Our own total growth in net premium income in the eight months to end-December 1989 was up 48%.

"We are using a cash shell to list because we do not require to raise capital, and timing is not a particularly important consideration on this occasion.

"What is important to us is that the market should have the opportunity of rating our equity in comparison to that of the other listed life companies, and that the public should have an opportunity to participate in the fortunes of our group.

"The present move is a long planned development which will greatly contribute to the envisaged growth of our group."

Benfield said the next crucial step will be the listing of AA Life itself but "this will depend on capital needs which, in turn, will be determined by the company's marketing opportunities and its rate of growth".

An AA Life listing it is believed, could take place in the relatively near future, possibly together with a merger, takeover or other structural development.

"I want to re-emphasize our determination to move the group into the ranks of the top five assurance companies over the next five years, measured by premium and assets — a position that will be achieved both through organic growth and acquisition.

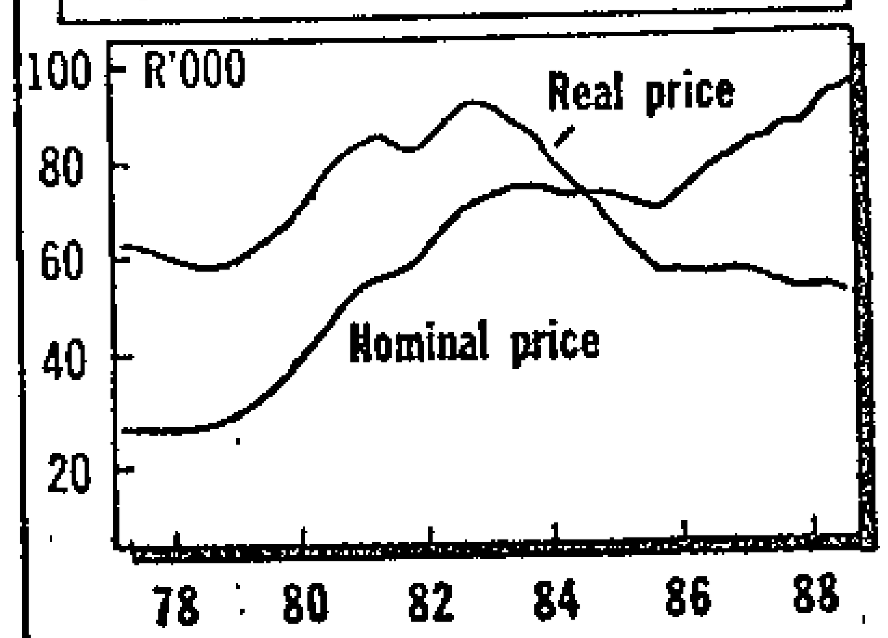
"We are confident of maintaining our growth at between 20% and 25% in declarations of earnings and dividend — and greater rates of growth are a real possibility."

Benfield said that when AA Life itself is listed a "wider public will have the opportunity to participate in our fortunes — from policyholders to our supporting brokers, business associates and staff."

"Our intention is to become blue chip equity among life offices," he added. — Sapa

58

Nominal and real prices of medium-size houses in SA



Based on average price of medium-sized houses (140-220 sq.m)

Graphic: LEE EMERTON Source: UBS

B/Day 27/2/90

'Medium-sized house' prices rise 9% — UBS

NEIL YORKE SMITH

PRICES of medium-sized houses increased 9% last year — about one percentage point less than the 1988 increase, United Building Society's quarterly housing review reported.

In real terms (adjusted for inflation), house prices actually fell 4,8% last year, the review added.

Average prices of medium-sized houses increased at a year-on-year (y/y) rate of 3,5% to about R95 000 in the fourth quarter, the review said.

Prices of larger houses rose 8% (y/y) to around R137 000 in the final quarter, while smaller homes traded for around R76 000, representing a 7% increase.

Prices of new houses fell during the fourth quarter, the review said. New-house prices fell at a quarterly rate of 2%, compared with an increase of about 6% in the third quarter.

Prices of existing houses increased at a quarterly rate of 2,3% in the fourth quarter, reflecting the slowdown in property market activity.

"For the year as a whole, price increases for new and existing houses were 12,5% and 10%, respectively," it added.

The review said substantial price increases were recorded in Johannesburg and the eastern Cape (annual rate of 15%), as well as in the Durban-Pinetown and western Cape areas (12%).

The region which recorded the lowest growth rate was the rest of Natal (3%), which experienced a 2% decline in the final quarter.

"The upward trend in building costs appears to be moderating somewhat," the review said.

Although the 15,5% year-on-year increase in building costs exceeded the inflation rate of 15%, on a quarterly basis building costs declined about 1% in the final quarter.

"Conditions for builders have become increasingly difficult and most contractors are slicing their profit margins," said the review.

CAPE TIMES 27/2/90

Housing out of reach of most

58

Political Correspondent

THE dramatic increase in interest rates had put the cost of a conventional house "way beyond" the reach of the bulk of the population, the Minister of Planning and Provincial Affairs, Mr Hernus Kriel, said yesterday.

Mr Kriel told an SA Housing Advisory Council's workshop in Pretoria that houses built by developers in the metropolitan areas since 1985/86 "cost so much that hardly 30% of the black population can afford it".

The government realised that it could not meet the acute shortage of housing on its own, "and the involvement of the private sector is necessary if we are to make meaningful inroads into the housing backlog of over 800 000 units".

Mr Kriel said the government could not boast about a constant record of satisfying existing housing needs, "but I think we may justifiably be proud of the spirit in which we are dealing with the painful question of housing".

Mr Kriel said the world currently faced "a truly terrifying tendency" among developing nations to attach more importance to fancy technological status symbols than to the need for housing.

For lower-income groups, affordability of housing was the crucial point and the Loan Guarantee Initiative had made it possible to see a regeneration of the black housing market in South Africa.

"By limiting the perceived risk involved in granting loans under R35 000, the banks and building societies, by this unique R20-million loan guarantee fund, will now be able to extend home mortgage finance to 40% more black households

"These are households who can afford housing in the R12 500-R30 000 bracket and for whom no finance has previously been available."

The private sector had the capacity to do between R4 and 5 billion worth of business in the residential housing market.

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The Star Tuesday February 27 1990 21

Set for Life to appeal

By Jabulani Sikhakhane

Set for Life Insurance and Marketing CC and its MD have lodged an appeal against the findings of the Business Practices Committee that its marketing scheme constituted a harmful business practice.

The Minister of Trade, Industry and Tourim, Kent Durr said in a notice in the Government Gazette on Friday, that Set for Life and John Francis Drinkwater had lodged their appeal in writing against the findings.

Mr Drinkwater was marketing a scheme whereby a policyholder, having paid an initial premium of R300 and a fee of R15 for an agent's manual was allowed to market the same product.

The Business Practices Committee, chaired by Professor Louise Tager, found that Set for Life's promotional literature deceived or was likely to deceive consumers. It added that while participants in the initial stages of the scheme may reap magnificent profits, there was no prospect of this being sustainable in the long run.

The committee found that because potential earnings of income were directly and mathematically linked to the number of additional participants, the scheme was equivalent to a lottery.

London merger will benefit FIT 58

BDay 28/2/90

HAROLD FRIDJHON

SHAREHOLDERS in First International Trust (FIT), the offshore investment arm of Liberty Life, have a passive interest in the proposed merging of the two London-based companies in which they are invested, Trans-Atlantic Holdings and The Continental and Industrial Trust.

TransAtlantic Holdings in which FIT has an indirect 49,3% stake has made recommended offers to minority shareholders of The Continental and Industrial Trust in which FIT has an indirect 29,5% share.

TransAtlantic holds 41% of Continental.

TransAtlantic is offering either convertible preference shares or cash for Continental equities and cash for Continental prefs.

FIT and Liberty Life chairman Donald Gordon said yesterday the motive for the takeover was to be able to better employ the £93,7m fixedinterest investments and the £28m cash in Continental's £168,3m portfolio.

Involved

It is unable to use this because of the London Stock Exchange's restrictions on companies listed with investment trust status.

TransAtlantic subsidiary Capital and Counties is heavily involved in property developments, including shopping centres, mainly in metropolitan London.

And borrowed capital is currently expensive in the UK.

Gordon says benefits from these developments and the merger will flow through to FIT.

TransAtlantic's taxed profits, after minorities, increased by 13% to £30,2m in the year to December 1989.

Capital & Counties attributable profit rose by 16% to £36,7m and Continental's profit was 13,3% higher at £10,1m.

Chamber index reflects confidence

'Even softer landing' for SA economy

CNE Times 28/2/90 58

By AUDREY D'ANGELO
Financial Editor

THE economy may be in for "an even softer landing than initially anticipated," SA Chamber of Business economist Keith Lockwood predicts.

His commentary accompanying the February Business Confidence Index — which, at 95,9%, was unchanged since December — was one of four economic forecasts issued yesterday.

Volkskas economist Adam Jacob says in the Economic Spotlight that although we are now in a period of consolidation "we may enter a decade of greater economic prosperity than the 'eighties."

Sanlam chief economist Johan Louw thinks the coming 12 months will bring "more positive than negative consequences for SA", with a strong possibility of foreign debt being rolled over.

But Nedcor economists take a less cheerful view. They forecast, in their latest monthly Guide to the Economy, that "The 'Nineties are likely to be a decade of constraint and monetary and fiscal discipline.

"It will be a period of dilemmas and hard choices, particularly with regard to inflation and growth, and will be accompanied by inevitable worsening unemployment and social conditions.

"In short, SA will remain a wealthy country with growing poverty."

However, they temper this by continuing: "Should world perceptions change and foreign capital become more readily available, the position will become correspondingly easier and more expansionary."

Lockwood says that although "it is perhaps unrealistic to expect much in the way of tax reform" there should be scope for a reduction in individual and corporate tax rates because of the underlying resilience of the economy.

But Johan Louw suggests that tax concessions will be "limited" although they might include a reduction in the import surcharge.

Jacob stresses the need for continuing fiscal and monetary discipline to bring down the inflation rate.

And Nedcor economists suggest that there is likely to be a shift to indirect taxes, with the introduction of value added tax (VAT) "possibly at the 15% level."

Pointing out that the rand has been kept low to boost exports they continue: "The repercussions of this have been inflationary through inflated import prices. Indeed, it may be argued that this is the principle cause of inflation in SA.

"On this basis the problem of inflation will not be addressed until there is stabilisation of the exchange rate which, in effect, means that export industries will no longer be cosseted and will have to face the full brunt of international competition and reduced rand incomes.

"A stable rand will also terminate the rise of foreign exchange losses by the SA Reserve Bank on forward exchange contracts.

"However, prospects for exports in the 'Nineties appear good. World real growth will be maintained and international trade will continue to expand. The long term development prospects for the Far East, Asia, Europe and the USSR, in particular, are good and demand for SA exports will grow."

Nedcor economists are also optimistic about prospects for the gold price. Although fluctuations are inevitable, they say: "The gold price could rise duing the 1990's to very high levels as a result of soaring international oil prices."

But, they warn, if the gold price rises above $500 an ounce, "improved mechanisms will have to be devised to prevent large doses of liquidity being injected into the SA economy."

This could be done, they say, "by holding part of the super-profits of the gold mining industry offshore as either part of the country's reserves or for the redemption of international debt."

FINANCE – GENERAL

1990

MARCH.

Star 1/3/90 (58)

AVI goes from strength to strength

Record first-half results have been achieved for the fourth consecutive year by Anglovaal Industries (AVI).

Bottom-line earnings in the six months to December rose 23 percent to R98,0 million (R79,9 million).

Earnings were equivalent to 346c (321c) a share, the percentage increase not being as great as that for total earnings because of a rise in the number of ordinary shares in issue.

This resulted from the rationalisation of investment structure in 1989 and acquisitions in the six months under review.

All sectors showed improved results, but depressed selling prices, reduced margins and lower consumer demand in a number of the markets had a negative effect on performance.

An eleven-week strike at Consol's subsidiary, Tycon, substantially reduced its profit contribution.

Consolidated turnover rose 37 percent to R3,060 million (R2,228 million), leading to a record operating profit of R308 million (R226,1 million).

R129,3 million (R103,0 million) was deducted for tax.

In the review period, subsidiary Grinaker Holdings disposed of its controlling interest in Grinaker Electronics Holdings to Grintek.

This, together with related transactions within the Grinaker group, resulted in it acquiring an effective 67,7 percent interest in Grintek.

M & PD Electronics has become a wholly owned subsidiary of Grinaker subsidiary Siltek, while Pakco is now a wholly owned subsidiary of National Brands.

Consol acquired the entire issued share capital of Tycon (formerly the Goodyear Tyre & Rubber.

Since the end of the period under review, arrangements between Tycon and Tredcor have resulted in Consol holding 61 percent of each of the businesses.

Consol has successfully concluded negotiations for the sale of its industrial flexible plastics operation. — Sapa.

Workers slice their hours

Star 1/3/90.

By Drew Forrest

The drive by chemical workers for ~~an industry-wide~~ provident fund has led to further industrial action — this time at the Rolfes plant near Johannesburg.

A Chemical Workers Industrial Union (CWIU) statement said that this week 550 workers embarked on daily stoppages of up to three hours over the company's refusal to join the union-initiated Chemical Industries National Provident Fund.

Rolfes managing director Mr Fivos Savvas said management planned to meet the union.

The union says a national fund will maximise investment earnings and save on administration costs. Disputes over the issue have erupted at many firms.

The CWIU said Rolfes had been unable to offer a "coherent" reason for refusing to join the fund.

Bankorp earnings plummet by 25%

BIDay 1/3/90 (58)

BARRY SERGEANT

BANKORP's 81% parent Sanlam has agreed to take shares instead of dividends from its subsidiary for an indefinite period to help address Bankorp's capital starvation problem.

The decision follows today's Bankorp interim results, which show earnings plummeting 25% to 42,9c (57,2c) a share for the six months to end-December.

Analysts' forecasts last night indicated that earnings a share for the full year — when dilution after the recent rights issue begins to show — will fall 38% to 77,7c.

Today's interims show dividends slashed 28,6% to 10c (14c), as attributable income fell 21,5% to R40,5m (R51,6m).

The banking group's crucial equity:asset ratio has increased to 3,8% (3,2%), still below the 5% or more of the other "Big Five" banks — Standard, Nedcor, First National and Volkskas.

Bankorp would need R353m immediately to bring its equity:asset ratio up to 5%.

CE Chris van Wyk cites three main reasons for the poorer Bankorp performance: a sharp increase in operating expenditure — such as salaries and data processing — as assets increased 31,2% to R29,6bn; increasing pressure on interest margins; and higher write-offs of bad debts.

Van Wyk says three matters at wholly owned subsidiary TrustBank have received particular attention from Bankorp.

The first was "abnormal" losses on gilts, written off against contingency reserves (not through the income statement).

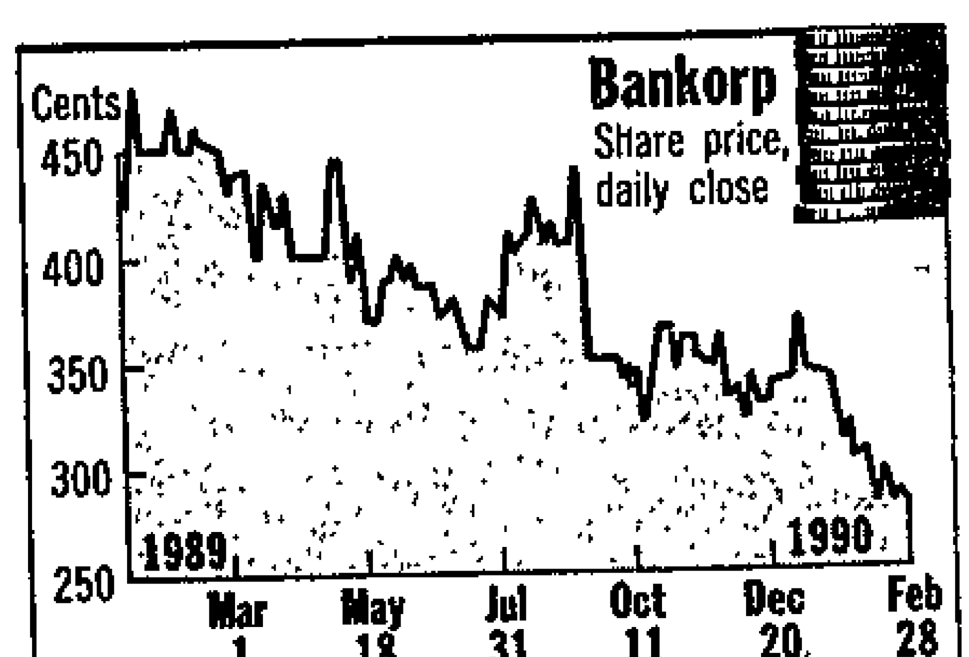
Second, "instances of poor control in the administration of foreign-exchange control measures". And finally, "allegations in connnection with irregularities" relating to debt recovery practices.

However, because Bankorp is on limited disclosure, no figures for the different areas are given.

While Bankorp's asset growth has slowed appreciably, analysts say it had been increasing assets at a time when the economy was moving against it.

In the year to June, for example, Bankorp massively increased its home loans

☐ To Page 2



Graphic: FIONA KRISCH Source JSE

Bankorp

BIDay 1/3/90 (58)

☐ From Page 1

from R963m to R2,6bn.

Analysts say bad debts in this area are "particularly expensive". Van Wyk denies that Bankorp has suffered "material" losses in this area.

The net amount received from the Bankorp rights issue (doubling issued shares to 188,8-million), was R345m.

Edy Rogers & Co Inc analyst David Southey has revised his predictions of Bankorp's 1989 full year attributable income to R110m, down from R153m, after seeing today's interims.

Van Wyk says at year-end on June 30, the number of weighted shares in issue will be about 142-million (up from the 94,5-million in today's interims).

On Southey's forecast for the full year, this will amount to earnings a share of 77,7c, down 38% on the most recent full year's 125,8c

To maintain last year's full dividend of 25c (as indicated in the rights issue documents), dividend cover would have to be cut from 5 times to 3,1 times.

Van Wyk says Sanlam's sacrifice of dividends for shares for the final 1990 dividend will add a forecast R23m to shareholders' equity of R1,1bn In present value terms, it is expected that this will add R50m to Bankorp's equity in a full year.

Marked improvement in insurance lapse rates

BDay 1/3/90

(58)

LINDA ENSOR

LAPSE rates in the insurance industry have improved markedly in the three years since 1986, with 21% (332 745) of the total number of policies in 1988 lapsing, compared to 30% (308 148) in 1986.

In 1987, 24% lapsed.

Figures provided in the Registrar of Insurance's annual reports for these years indicate wide discrepancies between different companies' lapse rates.

Liberty Life and Sanlam performed well. Of total policies written during 1988, 12% and 11%, respectively, lapsed.

High on the list in 1987 was AA Life, which had a lapse rate of 55%, largely because of the negative effect of short-term insurer AA Mutual's collapse.

AA Life's lapse rate improved markedly the following year, falling to 32%.

Momentum Life experienced a worsened lapse rate of 49% (39%) during 1988.

However, the statistics can be misleading, especially for companies involved in providing insurance for employees where policies contracted for and not taken up are counted as lapses.

The lapse rate is detrimental to the policyholder and the life office, which does not fill its coffers with premiums paid on policies falling by the wayside.

Premiums paid during the first two years cover the costs of underwriting, issuing and paying commission on the policy. Thereafter, if a policy lapses through non-payment of the premium, the accumulated funds may be used to pay premiums until they are exhausted or the policy can be converted to a paid-up policy.

"Lapses are a waste of everybody's money," says Willem Opperman, Deputy Registrar of Long Term Insurance. He added that lapse rates tended to rise in difficult economic circumstances when unemployment was high and disposable incomes shrank. However, they could be ascribed to over-zealous selling of policies to people who could not afford them.

SECURITISATION FM 2/3/90

Redirecting flows (58)

Securitisation (conversion of non-marketable debt into marketable or negotiable instruments) has been limited in SA to bankers' acceptances. Now asset-backed securitisation has arrived with the recent listing of R250m mortgage-backed debentures by Mortgages Securities 101 (MS101), jointly owned by United Building Society (UBS) and Discount House Risk Management.

The US, where mortgage-related securitisation started in 1938, now has more than $1 trillion worth outstanding. Markets for other assets like car loans and credit card receivables, which began with computer leases in March 1989 by Sperry, are worth an estimated $45bn and still growing. The UK mortgage-backed industry, which started in 1987, is now worth about £6,7bn. As in SA it is based on variable interest rates — unlike the US, which has fixed interest rates.

Clive Brummer, of the UBS, says: "It will eventually become an established funding

FM 2/3/90 (58)

mechanism, as more institutions follow."

Why has this only now come to SA? "Regulation probably delayed it," says UCT economics professor Brian Kantor.

Julian Knopf, of Discount House of SA, which underwrote MS101, concurs: "A fiscal minefield has to be negotiated to make securitisation viable," he says. Stamp duty, the Marketable Securities Act, Stock Exchange Control Act and Financial Markets Control Act all have to be considered.

Standard Merchant Bank is "close to launching a mortgage-backed security issue," says manager special programmes and projects Burgert Oosthuizen. "But we'd like a regulatory framework sorted out first."

At an Aiken & Peat seminar this week Reserve Bank new Deputy Governor Chris de Swardt may address the regulatory issues.

For now, the market is likely to concen-

FM 2/3/90 (58)

trate on mortgage-backed securitisation. "One reason," says Knopf, "is that tax is a major problem with other assets."

Aiken & Peat's Gee Gunther says securitisation lets banks outgrow capital constraints and helps them to manage interest rate risks.

Standard Bank's John Lloyd warns, however: "US mortgage securitisation was helped by government-backed agencies. The absence of similar structures here means banks/building societies continue to carry the bulk of the credit risk and should hold adequate capital to support this."

Pim Goldby's Robin Marsden, who reckons issues will be R100m-R500m with loan sizes between R10 000 and R100 000, highlights other benefits of securitisation:

- Investment, interest rate, liquidity and credit risk can be separated and allocated to the parties best suited to absorb them;
- Investors gain access to differentiated markets as surplus funds are redirected to markets with surplus demand;
- By offering institutions, other than banks, a quality debt investment, banks will gain access to cheaper funds, now largely in the hands of life assurers and pension funds; and
- The funds become available for relending.

The attraction of mortgage-backed issues is low risk. Knopf says UK rating standards were used as a guideline for MS101, which was selected from the general UBS mortgage pool. The aim was to obtain the widest spread of geographical risk and a selection of

FM 2/3/90 (58)

mortgages with loan-to-value not exceeding 90%. Loan sizes are spread across the board, most being between R50 000 and R125 000.

All are first mortgage bonds over urban residential property to applicants who do not qualify for or have not negotiated a special or lower rate of interest. Interest paid to investors is 1,6% less than the UBS bond rate. ■

F/M 2/3/90 (58)

Industries, announced bids totalled 2 580, worth £85,2bn, against 2 511 worth £60,8bn for 1988.

Warburg led by value and volume for all concluded deals combined with successful defences, with or without BAT Industries.

Kleinwort Benson was leading adviser on a number of other counts, including advising foreign purchasers of UK companies, domestic acquisitions and deals worth more than £100m. Hambro Magan became the first takeover boutique to make an appearance in the league table, handling concluded deals worth £3,1bn.

The pace of takeover activity slowed in the fourth quarter — and last month only 107 deals were concluded worth £1,8bn, against 165 valued at £3,2bn a year earlier. ■

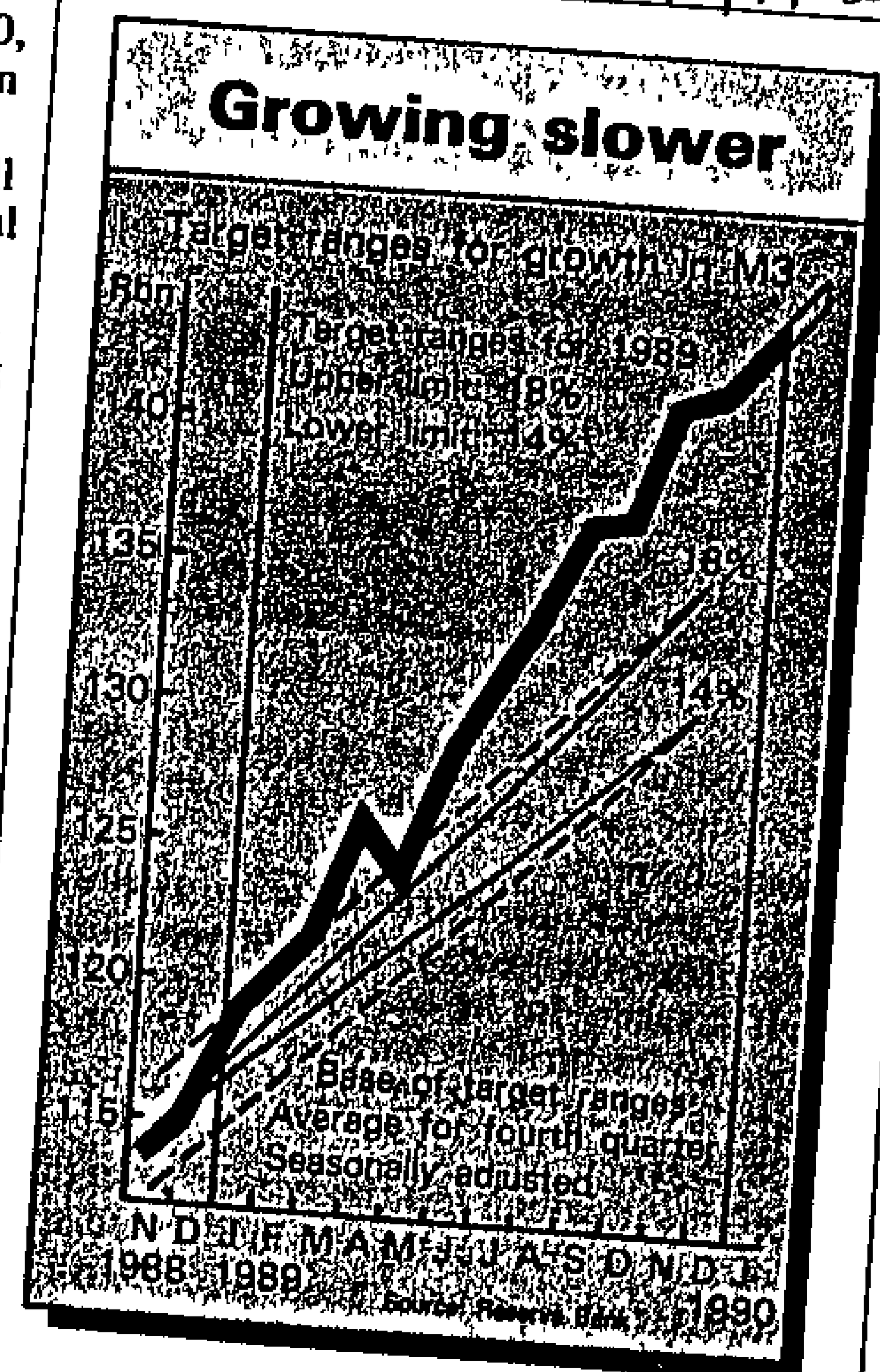
MONEY SUPPLY F/M 2/3/90

New targets (58)

Though broad money supply growth (M3) overshot the 14%-18% target most of last year, the range for the year ahead is expected to be reduced. In its campaign to reduce money supply, and thus curb inflation, the Reserve Bank must signal a firm stance.

The new target has not been announced and the Bank won't give a date. Speculation is that it will be 12%-16%, as in 1988.

The latest figures may be mildly encouraging to the Bank if only because preliminary figures for January show marginally slower growth. Seasonally adjusted M3 grew 22,44% from the base of the target year (23,03% in December) to adjusted R146,3bn (R144,6bn). January M3 actually fell to R145bn (December: R145,8bn). Growth in the year was 21,91% (22,69%).



December preliminary figures have again been revised upwards. Brian Kantor, of the UCT Economics Department, considers this a sign of further growth in money supply. He sees the hike continuing as long as optimism in the "new SA" persists. "The only way to stop money supply growth is to increase the value of the rand," he says. "A stronger rand helps reduce inflation and is also consistent with higher interest rates." (See *Leaders*.)

Econometrix economist Tony Twine believes money supply growth may come down without the economy sinking into a 1985-type recession. Latest figures are promising, he says. M1, which includes coins and banknotes in circulation, cheque and transmission deposits with banking institutions, building societies and the Post Office plus other demand deposits with banking institutions, rose only 10,89% year-on-year in December compared to 18,03% in November.

In times of high nominal interest rates, investors tend to shift to medium and long-term deposits. Because M3 includes these medium- and long-term deposits, it often increases while M1 is decreasing. But it is merely a shift in composition of deposits from the short to the long end and money supply growth could in fact be slowing.

"The much lower growth of M1 in December indicates M3 growth will come down,"

* there is no continuation for this article

HELDERBERG VILLAGE F/M 2/3/90

Going to court? (58)

Last week's offer by the Allied Group notwithstanding, it would appear that the Helderberg Village affair still has some distance to run.

Various imponderables make it difficult to predict the precise outcome of events. These include:

- The nature of Allied's offer. It involves villagers in a further R4,5m commitment to Allied, most notably each villager having to bind himself as surety to Allied. Villagers may be reluctant to take on this commitment;
- The provisional liquidation of the developer, Shemara Holdings. How this will affect the shareblock company, Helderberg Village Share Block Holdings, is not clear.

The liquidators of Shemara may immediately attack the assets of the shareblock company, a move which would have uncertain consequences. There is also some dispute over the state of liabilities between Shemara and the share block company. Dennis Lehmann, share block company chairman, says the latest balance sheet shows Shemara owes the company R7m. However, this figure could be disputed;

- Current court proceedings: will the applications for the liquidation, alternatively judicial management, of the share block company go ahead this week and, if so, what will the impact be?;
- Alternative offers: Peter Meakin of the Board of Executors says: "We are interested,

FINANCIAL MAIL MARCH 2 1990

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but there is nothing we can do until we know how much money is involved." In other words, no bail out offer will be made until there has been an order for liquidation or judicial management.

The respondents are hoping for a further postponement in the judicial management and liquidation proceedings to give the villagers time to consider their options more clearly. Says Lehmann: "We don't think that by the trial date of February 27 we will have a completely clear picture to present to the court." Whether the courts will agree to a further delay is another matter.

Meanwhile, the villagers themselves have taken some action. Lehmann says on February 15 the board resolved to impose a capital levy on all villagers to enable them to liquidate their debt of about R6m, made up largely of mortgage bonds and debentures. Villagers will pay between R13 000 and R28 000 each, depending on the size of their property. The average payment will be R21 000.

The problem is about 50 of the 300 villagers are not in the position to make these additional payments, which means there is likely to be a shortfall of some R1,25m. The plan is to make up the difference by having other villagers contribute to a trust fund. But whether this is feasible is a moot point.

According to Lehmann, the Allied's offer is being seriously considered, but villagers seek more details and assurances. He adds the company has "other ideas that are not incompatible with Allied's. It's a question of getting the best package." For one thing, they are "talking seriously" with DCF Properties about the onward development and management of the complex.

They now believe the village's financial problem and the issue of the further development of the complex should be treated separately. As Lehmann notes: "The prospect of reaching an arrangement with DCF is much closer than reaching agreement on the Allied's proposals." ■

Banks lose as savings to life office coffers go up

B Day 2/3/90

(58)

GRETA STEYN

SAVINGS at banks and building societies have shrunk to less than one quarter of the annual flow of contractual savings as the flow of funds to the life offices swelled.

Rand Merchant Bank economist Rudolf Gouws, speaking at the Aiken and Peat conference on securitisation yesterday, said this massive flow of funds to institutional investors was an obstacle in the way of solving the housing crisis.

Securitisation of mortgage debt is the re-packaging of the debt in the form of negotiable instruments.

Gouws noted contractual savings with life assurers and pension funds had grown at a 26,4% compound rate per annum between 1977 and 1987. Other savings, mainly with banks and societies, had risen by only 8,7% in that time.

He described as an anomaly the simultaneous existence of "a dire shortage" of affordable housing for the lowest income groups on the one hand — estimated at 1,1-million units in 1988 by government and at 1,8-million units by the Urban Foundation — and a massive flow of funds to the insurance companies and pension funds on the other.

"It is this dilemma that has made the securitisation of mortgage bonds and their sale to institutional investors appear to be such an attractive option."

Rejecting suggestions that the life offices be forced to invest in housing, he said: "The financial markets should prove that they are capable of providing market-based answers (such as the successful securitisation of especially small mortgage bonds) for problems that others believe can only be solved by the state."

Economic policy had to be conducted in such a way as to address the underlying reasons for the imbalance. The institutions had been in a position to offer savers protection against the erosive effects of inflation and taxation. Economic policy was now geared towards reversing these trends.

He said that if securitisation could become a cost-effective and practical way of bridging part of the gap between the huge housing fund need and the large flow of household savings to institutional investors, it would have an economic role to play.

BDay 2/3/90 (58)

Securitisation 'must stick to the rules'

● WATTENBG... Picture: ROBERT BOTHA

ROBERT GENTLE

RESERVE Bank Deputy Governor Chris de Swardt yesterday welcomed securitisation — the converting of assets into marketable securities — as an inevitable addition to SA's financial markets.

However, he said this would have to be done within strict guidelines, and that the Bank would not support securitisation schemes used to circumvent prudential requirements.

Under such schemes, he said, assets might simply be shifted off a company's balance sheet without actually transferring the risk.

De Swart was addressing financial experts at the Reserve Bank during a one-day seminar on securitisation organised by KPMG Aiken & Peat.

The key personality at the seminar was US securitisation expert Lona Wattenberg, senior consultant of KPMG Peat Marwick in St Louis, Missouri.

Acknowledging Wattenberg's outline of the growing international importance of securitisation, De Swardt nevertheless spoke of peculiar problems facing its development in SA.

One was that a company set up as a securitisation vehicle — which actually markets the assets — could be affected by new legislation which will shortly go before Parliament.

The legislation, which will regulate the operations of deposit-taking institutions, will repeal the existing Banks Act and Building Societies Act.

De Swardt went on to outline the type of regulations the Reserve Bank would ideally like to see govern securitisation, though he said flexibility would be used in uncertain areas.

The ultimate aim of the regulations would be to achieve a "clean" transfer of rights and obligations from the seller of the assets to the securitisation vehicle buying and marketing them.

In response to a question from the floor, De Swardt said he was satisfied that SA's first mortgage-backed securitisation issue, listed on the JSE last month, largely met these requirements.

That event saw the securitisation of R250m of mortgage debt belonging to UBS. The debt was sold to Mortage Securities 101, which issued the resulting debentures on the JSE.

De Swardt said his only reservation was the fact that UBS had a share stake in MS101, which contravened the ideal "clean transfer" scenario.

Top TrustBank shakeup predicted

BARRY SERGEANT

THE most immediate result of yesterday's poor Bankorp results will be a management shakeup at wholly owned subsidiary TrustBank, analysts predict. BDay 2/3/90

Meanwhile, Sanlam and Sankorp — Sanlam's strategic investment arm — which together own 81% of Bankorp, describe their decision to take Bankorp shares instead of cash dividends as a "positive" move.

Sankorp GM Attie du Plessis was commenting in an interview on yesterday's Bankorp interim results, showing earnings down 25% and dividends slashed 28,6%.

He agreed Sankorp and Sanlam's decision to accept what effectively amounted to a capitalisation issue, hard on the heels of a major rights issue, illustrated a "firm commitment in the belief that Bankorp's future prospects were bright".

He would not comment directly on speculation that changes were afoot at TrustBank, but agreed Bankorp CE Chris van Wyk had a "full time task" also working as full-time TrustBank MD.

Analysts expect Bankorp's attributable earnings for the full year to fall about 40%, as the effects of the recent rights offer, which doubled issued shares, begin to filter through.

Du Plessis said the Bankorp profits announcement "hid nothing and told shareholders everything possible". (58)

Unlike the other big five banks, however, there was no firm indication that Bankorp would either move to full disclosure or indicate as much. Sankorp was underwriter to the recent Bankorp rights issue, which raised a net R345m.

As underwriter, Sankorp coughed up R70m. Du Plessis said the purpose of the rights offer was to address the issue of phasing in capital adequacy laws, which had to be completed by end-1992.

ness by

returning nationalised SA assets

SOME amazing things are happening in Southern Africa.

Who could have guessed that the Mozambican government would be on the verge of agreeing to return nationalised assets to South Africans?

That is exactly what is happening. The famous but run-down Polana Hotel in Maputo is probably the best-known among the assets which will be returned in terms of an agreement being finalised. The Polana is to be returned to its original owners, the Hoffman family.

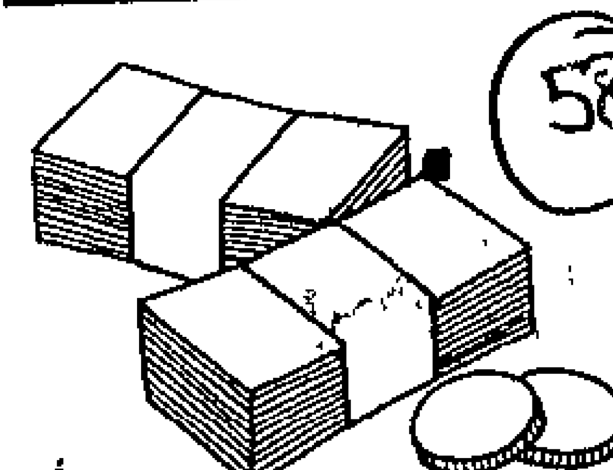
Stan Hoffman, managing director of the Karos Hotels group in South Africa, was in Maputo this week to discuss details.

It is understood that, apart from the Polana, some 200 properties – ranging from city skyscrapers to holiday homes and cattle farms – valued at millions of rands, form part of the negotiations between the South African Department of Foreign Affairs and the Mozambican government.

Many of these properties are dilapidated and as part of the deal South Africa will make export credit available to Maputo to import building materials from South Africa to renovate these properties.

It will cost about R25 million to restore the Polana Hotel to international standards.

All properties to be returned to former owners were nationalised by the Machel government in 1976 as part of its programme to create a socialist state. The present government's policy is far



58

C Press 4/3/90

MONEY TALK

more relaxed and the emphasis has shifted strongly towards incentives to draw foreign investment.

The prime target for these incentives is South Africa, Maputo freely admits.

However, it is acknowledged in Maputo that it would be very difficult to draw South African capital unless the old issue of nationalised assets could be resolved.

Maputo has cleverly linked the return of these assets to new investment.

What it basically boils down to is that the Maputo government will return nationalised properties to the former owners, provided South Africa agrees to help the owners with renovations and repairs.

Among other things, the Maputo government hopes this initiative will help the country's labour-intensive building and construction industry to get back on its feet.

The positive response from local businessmen to the Mozambican government's overtures are apparent from the enthusiastic manner in which Frelimo spokesmen were questioned during a recent seminar in Maputo.

Equity losses mask bigger bond losses

Star 5/3/90 58

By Neil Behrmann

LONDON — Investors worldwide are concerned about shaky equity markets, but the really big losses in the past few months have been in international bond markets.

Depending on the currency, long-term government securities, notably US Treasuries and gilts, yen, Deutschemark and Swiss franc bonds have tumbled 10 to 15 percent from their 1989 peaks.

In the past month alone, falls have exceeded five percent. Exhausted traders, working in the most turbulent conditions for years, have been haunted by worries that Japanese investment houses will dump US Treasury bonds.

In percentage terms, bond losses appear relatively small. Yet they matter since bond portfolios are enormous when compared with equities.

JP Morgan estimates that global bond holdings total $11 000 billion, so the value of bond assets has slumped by more than $1000 billion in the past six months.

While most attention was focused on jittery share markets and the shaky $200 billion US junk bond market, investors and portfolio managers last year seemed largely indifferent to the risks of rising interest rates.

"Swiss fund managers buy top-rated government bonds because they believe they are safe, secure investments," says a Zurich-based portfolio manager. "Yet their timing has been appalling and their funds have been devastated."

To be fair, however, investors did well in Triple A bond markets in the 1980s. After peaking at the beginning of the decade, yields tumbled and capital values of bonds soared.

After a hiccup in the years 1982 to 1984, the bond bull market resumed and, as a result, holders of quality bonds reaped exceptional gains.

Bonds did well because the monetary squeeze at the beginning of the 1980s almost wrung inflation out of the system. Then inflation accelerated once again.

At first the bond tide refused to turn after central banks began raising short-term rates to curb inflation and stop their currencies from falling.

The yield curve sloped downwards as high and rising short-term rates exceeded the return on bonds by a wide margin.

In spite of the warning signals, the extraordinary bond bull market continued well into the third quarter of last year.

Investors continued to buy government bonds because they assumed the disinflation of the 1980s would continue into the 1990s. What fund managers did not foresee was a return to stagflation, albeit on a smaller scale than in the Seventies.

Moreover, events in Eastern Europe raised fears of inflation in West Germany and the yield on 10-year German government bonds soared to nine percent last week from 6,8 percent last August. This is the highest level since 1981.

Worries about stagflation and soaring German bond yields affected bonds elsewhere.

Long-term US Treasury bond yields jumped to 8,66 percent from 7,8 percent in the middle of last year.

Ten-year yen bond yields surged to 7,05 percent from 5,1 percent in May 1989 and four percent in 1988.

As yields rise the price of bonds falls, and the sharper the increase and longer the life of the bond, the more extensive the losses.

The crunch in the bond markets, however, should be nearing its end. The US economy is slowing down and Europe should follow suit in the second half of the year, says Brendan Brown head of research at Mitsubishi Finance International.

Moreover, with the exception of oil, most raw-material prices have fallen in the past few months.

International money supply has tightened considerably and except for sterling and Swiss francs, bond yields are at last exceeding short-term rates.

Fedsure shows 24% growth in attributable earnings

BIDay 5/3/90 (58)

LINDA ENSOR

FEDSURE, the holding company for life assurer Fedlife, achieved a 24% growth in attributable earnings to R19,1m (R15,4m) for the year to end-December, benefiting from the expansion in its life and pension business and strong support from its traditional markets.

On earnings of 28,6c (23c), a final dividend of 12c (9,75c) was declared, bringing the total dividend for the year to 20,25c (16,50c).

Total group assets rose 22% to R3,4bn (R2,8bn).

Most of Fedsure's earnings and assets are derived from Fedlife, which has experienced a 28% increase in recurring premium income to R423m and a 32% increase in investment income to R352m, an amount which includes the profit of its short-term insurance arm Fedgen.

Annualised new business premium income increased by more than 50% to R123m.

The lapse ratio for individual life and retirement annuity business was about 10%, excellent by industry standards.

Grew

Group CE Arnold Basserabie expressed pleasure at the results saying they reflected the continued support of Fedlife's traditional markets.

New business in the life and pensions division grew by about 50% last year.

"We were successful in attracting a couple of fairly substantial industry-based pension schemes and experienced a substantial increase in our industry-based division providing employee benefits to trade unions, industrial councils and employer groups," Basserabie said.

In the second half of the year, he added, Fedlife reaped the benefits of a restructuring of its investment management team and portfolios which took place in the first half, substantially strengthening its asset base.

As for the future, Basserabie maintained this year's financial results would benefit from the introduction of the 100% equity and cash-based retirement annuity and from packaged products to informal groups of people, such as professional associations.

Syfrets forecasts gloom

Business Day Reporters (58)

THERE was likely to be widespread economic pessimism soon, Syfrets said in its latest Money Matters publication. B\Day 5\3\90

While political progress had led to increased investor confidence, reflected in stronger bond and stock prices, strict monetary policies implemented in the past 18 months were starting to bite hard, Syfrets said.

"The evidence of slower economic growth was significant," the article said. Capacity utilisation was down to 80% from 84,5% during 1989 and consumer spending was also on a downtrend. The fears of a rise in interest rates which affected Wall Street and Tokyo last week could also affect SA's economy.

Syfrets Managed Assets research head Matt Brenzel said SA could be forced to raise interest rates if foreign rates rose, or importers would stop financing their trade credits offshore.

Nationalisation: Third World path

DANIEL SIMON

THE nationalisation of banks and gold mines for the purpose of redistributing wealth would be the surest way of reducing SA's economy to Third World status, Human Sciences Research Council's (HSRC) Prof D J J Botha said.

This was because these industries were not compatible with political interference.

Botha, who heads the HSRC's Centre for Economic Analysis, also called on politicians not to embrace the concept as it would amount to nothing more than a programme of "national handouts".

He was speaking at the HSRC sponsored Population Trends and Consequences in Southern Africa seminar in Pretoria on Friday.

It seemed "some politicians" had not been able to adapt to the new world situation, hence their claims that banking and the gold mining industry should be nationalised.

"This is the surest way of quickly reducing the whole SA economy to the level of a Third World country. Few industries could be less suited to nationalisation than these two.

"Not only self-interest but also, and especially, the very precise and critical calculations of margins and productivity are absolutely essential in both these industries," Botha said.

"The development of new technology is not something that one associates with a nationalised industry."

Botha said nationalisation had been suggested as part of a general strategy of redistributing wealth.

"It has been suggested that this be done in what can only be described as a crude manner: taking away from the rich to give to the poor.

"If this was done once only, the net effect would be negligibly small.

"If done repeatedly, entrepreneurship would be discouraged, production disrupted, unemployment would increase and in due course the economy would settle at a lower level of activity, productivity and wealth."

A reduction in the "wide disparities" in income should receive the priority from whoever was in power.

"It should not be done by decreasing the wealth of some to the benefit of others. It should be done as part of a programme of increasing wealth all round by putting more people to productive employment," he said.

AA life launches new unit trust

CAPT-TIMES 6/3/90 (58

By ARI JACOBSON

AA Life has introduced full media exposure to complement its new equity growth unit trust called "Allegro" to broaden appeal and increase accessibility, says assistant GM Investments Stephen Japp.

At the launch of the product in Camps Bay yesterday, Japp said the Allegro direct response campaign allowed the SA investor the convenience of being a (toll-free) phone call away from a new unit trust fund.

The main feature of this unit trust is the concept of using innovative marketing strategies to encourage participation from the relatively unsophisticated investor.

The lack of aggressive marketing in unit trusts has been highlighted in a recent unit trust survey undertaken by the Graduate Business School in Pretoria.

"As the new SA emerges more and more people are looking to join the ranks of investors, all sharing the wealth of this country, with an investment in a unit trust the best way for the man in the street," says Japp.

He said the current political and economic climate was ideal for the introduction of a new fund.

"Allegro will serve to widen consumer choice with only 31 unit trusts available to the local investor."

The strategy will be a managed blend of investment in larger companies with growth stocks.

"While the impetus will be on the renowned stocks the blend includes suporting "future" blue chip shares."

Japp placed Rusfurn, Southgold and W & A (FSI stable) in this potential blue chip category.

Since the 1970s unit trust holders in SA have grown from 200 000 to 570 000, with sales rocketing from R42,3m for the year a decade ago to about R1,38bn registered in turnover last year.

In line with AA Life's innovative touches, a new Duet Plan was also announced to provide policyholders with the advantages of long-term savings through the VitaSave life endowment policy while having funds to draw on from the Allegro unit trust.

Money market

Speculation boosts De Beers shares

CAPE TIMES 6/3/90 58

Own Correspondent

JOHANNESBURG. — De Beers stole the thunder on the JSE yesterday as the shares surged to a record high in heavy trade on speculation that the diamond giant will exceed market expectations when it reports results later today.

The market was also rife with rumours that De Beers might float off the Central Selling Organisation (CSO), consider a possible share split, or that chairman Julian Ogilvie Thompson will announce a restructuring of the group when he speaks to the international media in a telephone conference link-up from his Cape Town office.

The shares surged 250c (3,5%) to close at R74 after touching a high of R75 to surpass the previous early February peak of R72, with 336 350 shares worth almost R25m changing hands in 297 deals.

There was also talk of a possible increase in the price of diamonds, but analysts said any price rise would be in line with the slight firming in the US dollar.

Speculation sweeping the market was that De Beers would report an earnings increase of about 33% for 1989.

Some dealers said the results had already been leaked in London.

"This always happens as the security there does not seem to be as good as in Johannesburg", a trader added.

Hennie Vermeulen, of stockbrokers Simpson, Mckie Inc, was forecasting equity accounted earnings (including retained share of asssociated companies) of 925c (780c), non-equity earnings of 615c (550c) and dividends of 225c (200c).

He based this on a diamond account margin of 28% after a margin of 35% in the second half of last year.

"De Beers results are determined by two factors," he said.

These were the diamond account margin and the exchange rate. The rate the company uses was based on the exchange rate at the end of 1989 which was 7% up on the rate of 1988.

"My forecasts are on the lower side as the small increase in the exchange rate means profits must have come from the diamond account. But I think the share price is running more on speculative grounds than on fundamentals," he said.

Peter Davey of stockbrokers Frankel Kruger Vinderine, said: "If rumours on the earnings rise are correct, there will be a big cash inflow into Anglos which conservatively derives about 18% of its income from De Beers."

Analysts at stockbrokers Martin & Co estimate equity accounted earnings of 1 150c, non-equity earnings of 800c and dividends of 270c.

Anton Rupert retires from Remgro board

Cape Times 6/3/90

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Own Correspondent

JOHANNESBURG. — Anton Rupert, 73-year-old founder of the Rembrandt Group of companies (Remgro), has retired from its board.

However, he has been appointed to the relatively less active role of Rembrandt Controlling Investments chairman.

The move, announced in a statement yesterday, is part of a key shake-up — effective from April 1 — which sees the appointment to the board of 11 senior executives from important Remgro operating companies.

Included are such names as Peter H Flack (chairman of Fraser Alexander), Dawid E Mostert (Dorbyl group CE), Neil J Morris (chairman of Hunt Leuchars & Hepburn) and W J C Vermeulen (MD of International Tobacco Co).

A Remgro spokesman said the new members of the Remgro board reflect the diversified nature of the group.

The Remgro board was now more of a managing board, while that of Rembrandt Controlling Investments was more of a controlling one.

This view was echoed by an analyst from stockbroking firm Martin & Co, who called it was more of an operating board.

An analyst from stockbroking firm J D Anderson said. "The significance of the move is that Anton is retiring from the group board."

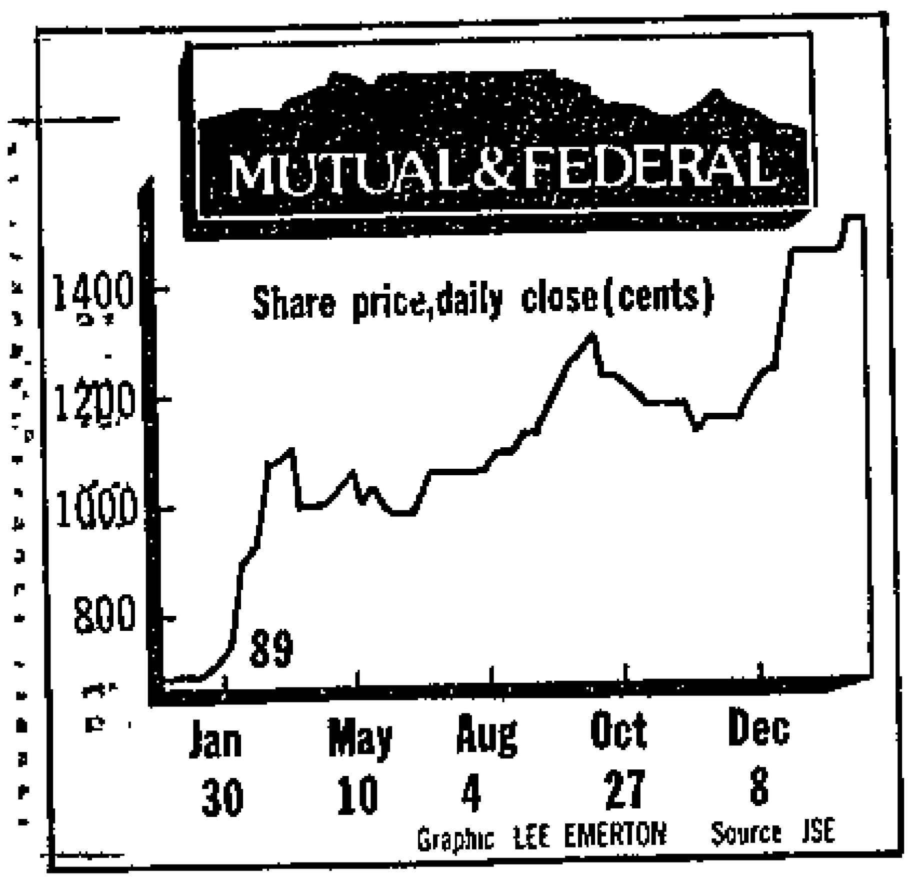
He added that with the increase in the number of Remgro's investments over the past five years, the newcomers to the board probably reflect the need for a more hands-on approach to group business.

Anton Rupert's appointment as chairman of Rembrandt Controlling Investments means former chairman D W R Hertzog now becomes vice-chairman.

On the Remgro board, itself, Anton Rupert's brother J A "Koos" Rupert takes over as executive chairman, while his other brother, Johan Rupert, remains a director

The fully reconstituted Remgro board reads: J A Rupert (executive chairman), J P Rupert, Dr E de la H Hertzog, W J C Vermeulen, A W J Marren, E N Brink, M H Visser, P H Flack, N J Morris, D B Mostert, T van Wyk, D M Falck, D Prins and A C van As.

Anton Rupert



Mutual & Federal suffers from rise in cost of claims

LINDA ENSOR

SHORT-term insurer Mutual & Federal (M & F) was hard hit by a dramatic escalation in the cost of claims as well as a soft rates market in the six months to end-December.

The underwriting surplus plunged 62% to R14,9m (R39,4m). Further pressure is expected in the second half as the economy falters and M & F MD Ken Saggers says underwriting's prospects look "gloomy". B/Day 6/3/90

However, a reduction in dividend cover, from 8,5 to 6,3 times, resulted in a 33,3% increase in the dividend to 16c (12c) on a slight decline in earnings to 101,1c (102c) a share.

The buoyant investment climate meant that the decline in the underwriting surplus was offset well by a 37% growth in the investment income to R54,5m (R39,8m).

A sharp drop in the tax rate to 32% (40%) also meant the damage to the bottom line was contained to a fall of 0,8% to R47m (R47,4m).

The investment strategy placed strong emphasis on equity investments and at interim's end the market value of assets stood at more than R1,5bn.

Competition (58)

Gross premium income rose a modest 8,6% to R411,2m (R378,5m) and net premium income lifted — due to well-contained cost increases below inflation rate — 10% to R349,5m (R317,2m).

Saggers said he was "not unhappy" with the results. They reflected the industry's stiff competition on rates and the effect of inflation and imports' costs on the cost of claims, which rose 40% across the portfolio.

This was especially the case for the motor portfolio — which represented 40% of the total — where significant losses were suffered.

While there were no catastrophes, claims for storm damage tripled to R21m though the number of claims only rose by 50%. M & F was, however, able to pay its way on its fire, accident, engineering and domestic portfolios.

M & F's solvency margin is 130%, well in excess of the statutory 15% and it has provided in full for the new contingency reserve requirement of 10% of net premiums.

Alistair Macmillan has taken over the chairmanship of M & F following the retirement of Old Mutual chairman Johannes van der Horst, and Mike Levett takes over as deputy chairman.

Finrand plummets

Cape Times 6/3/90

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Own Correspondent

JOHANNESBURG. — A reneved bout of bearish sentiment gripped the financia: rand market yesterday to send the investment currency plummeting almost 4% from Friday to $0,2617 (R3,82).

The finrand was quoted as low as $0,2578 by one bank and at these levels is back to where it was before its climb on foreign optimism about SA's political future.

The currency peaked at $0,32 before the about-turn — sparked mainly by political fears but also fuelled by a belief that SA golds were over-priced.

Dealers said financial rands were being created by the sale of SA equities in London.

The market started yesterday long of financial rands, and with no buyers in sight in a nervous market, dealers did not want to hold on to rands.

They stressed the market was thin — sales of small amounts triggered exaggerated price moves.

On the gilts side, market talk is that most of the SA capital market stock held by foreigners is now in the hands of individuals.

Insitutional investors in SA gilts are switching out of gilts into the money narket.

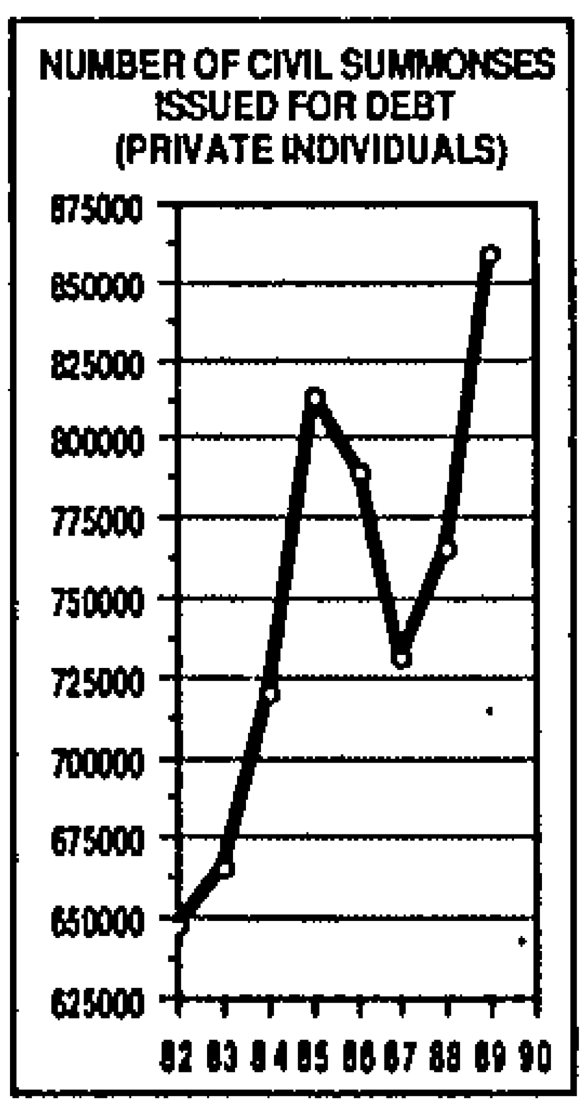
One banker said a large scale move into one-month deposits at banks had taken place, mainly because the yields in the money market were higher than in the capital market.

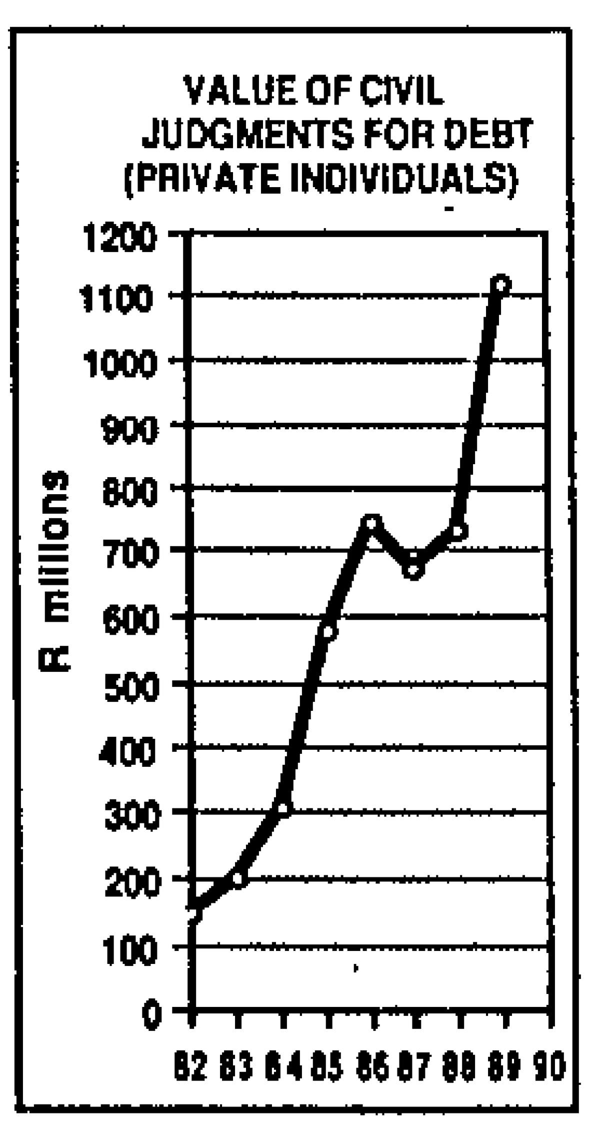
This switch of investnents by institutions has had no effect on the finrand. It was the result of a new marketing focus by banks to make foreigners aware that investment in the SA money market was allowed.

Star 6/3/90 (58)

Debt summonses soar to 860 000

R1 b paid out to creditors in 1989





By Michael Chester

South African consumers overladen with debts were forced by court orders to hand over R1 billion to creditors in legal actions last year — and massive debt problems have spilt over into 1990.

Tens of thousands of cases were still waiting to be heard and debt summonses flowed out faster than they came to court.

The full extent of the debt dilemma has been exposed by the Central Statistical Service in a final 1989 count of civil cases triggered by creditors seeking settlement from debtors.

The number of debt summonses sent out to private individuals in the 12 months soared to the highest annual total on record at almost 860 000 — far worse than the 1985 peak which was considered the consumer disaster of the decade.

If the summonses issued to business enterprises is added to this, the total leaps to nearly one million.

All in all, the amount of debt involved in court judgments broke the R1 billion barrier for the first time and climbed to more than R1 238 million.

The load to be cleared by private individuals in court orders weighed over R1 120 million.

Of the more than 400 000 court judgments that hit individual debts, 150 000 were concerned with clearing R124 million in unpaid bills for goods charged to open accounts run by shop-keepers.

But the heaviest debt load of all had to be cleared by 43 000 people who had failed to repay R560 million in cash loans — many of them in the hands of money lenders.

Another 28 000 faced the courts with over R110 million in bounced cheques and over-spending on credit cards.

Yet the worst may not be over. Mrs Ruth Eliosov, executive director of the Advanced Credit Bureau, estimates that no fewer than 8 000 names are being added every month to blacklists of consumers with persistent bad records of writing out dud cheques or trying to dodge settlement of bills.

De Beers share sparkles on JSE

CM 7/3/13 7/3/90

(58)

Own Correspondent

JOHANNESBURG. — JSE flagship De Beers set the market alight yesterday as investors piled into the shares to sweep the price up a massive 13,5% or R10 to close at a record R84.

Propelled by better-than-expected results and an announcement that it is to form a new, Swiss company to house its foreign interests, De Beers shares touched a peak of R85,25 before profit-taking trimmed the gains in frenzied trading.

Yesterday's trade of 583 414 shares worth just over R49m changing hands in 541 deals lifted the total value of De Beers shares traded over the last six days to almost R135m.

Attributabole equity earnings in 1989 surged 37% to 754c, while the striking 40% increase to 280c a share in total dividend payouts for the year exceeded the top range of analysts forecasts.

On the back of the rise in De Beers shares, associate companies Anglos, Minorco and Johnies closed sharply higher, while market sentiment was also boosted by perceptions that the gold price has bottomed.

Renewed buying interest in gold shares lifted the JSE all gold index 4,1% to 1 974 to help take the overall index up 3,1% to 3 201.

While gold shares were signalling that the metal was set to go higher, analysts suggested that this might still be premature as world-wide high interest rates and the recent strength of the dollar would weigh on gold in the short term.

CAPE TIMES 7/3/90

NBS to provide R50m for Mossgas housing

58

JOHANNESBURG. — The Natal Building Society (NBS) has agreed to provide R50m to finance an employee housing scheme for Mossgas.

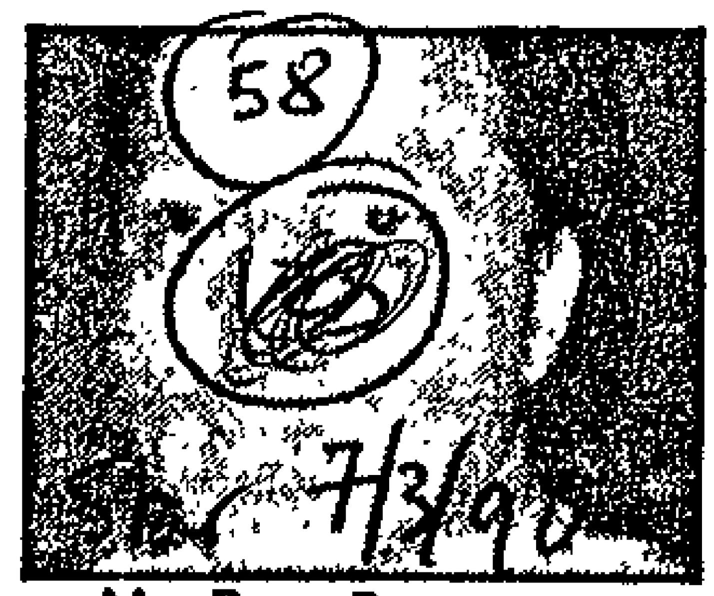
The agreement will fund the purchase of between 800 and one-thousand new and existing houses in Mossel Bay and the surrounding areas.

It is envisaged that the entire project will be completed in six to eight months.

The GM (operations) of Mossgas, John Theo, said that this was an important step for Mossgas, as it reinforced the company's long term Commitment to the exploration project. He said that Mossgas felt that the injection of R50m into the area would have a positive spin-off. — Sapa

Interest rates 'to hit smaller man'

High interest rates continue to be a bugbear for the smaller investor in commercial and industrial property and if the bond rate continues to rise, the situation will be aggravated and the "small man" will be squeezed out of the market completely.



Mr Ron Berman.

This is the view of Mr Ron Berman, a director of Landmark, who says: "Prices have risen over the past 18 months and an acquisition has to show a yield of at least 15 percent to be viable.

"Sellers, on the other hand, are not keen to sell at this high yield which means that prices have to drop to match the required gearing."

Mr Berman, who was a star salesman at the holiday resort Sanlameer on the south coast in the late 70s before moving into the commercial and industrial sectors, sees a continuation of rental rises because of high rates.

He endorses the view of other property pundits that once the political situation stabilises the market generally can expect boom conditions, particularly with the increasing interest from foreign investors.

Japan, which has a mountain of cash available for investment, is sure to channel some into South African property.

PBTC aims to fill gap in banking sector, says Ball

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EDWARD WEST

B/Day 7/3/90

"OPPORTUNITIES arise out of inefficiencies in markets," says Private Bank Trusts Company (PBTC) CE and former First National Bank CE Chris Ball.

● BALL

Ball was commenting in the Executive magazine on conclusions drawn by some financial publications in London that PBTC's launch there was yet another "rich man's whim". Ball, a dedicated analyst of global banking trends, had a different explanation. He said PBTC, by virtue of its size, structure, mission and target market, was different from its competitors.

Ball said changes in the past 15 years had transformed the retail end of banking.

Because of new information systems and delivery techniques, branch managers had tended to become vendors of centrally generated banking products.

On the corporate side, merchant banks concentrated on security transactions and making deals. The relationship with the client became unimportant and some banks no longer bothered with relationships, Ball said.

Between the retail and corporate sectors, there were "clients who are active, who have assets, but also needs beyond those that can be supplied by a branch manager, and don't like the deal-driven approach of merchant banks".

Ball told the Executive that PBTC was dedicated to filling this gap.

"What they want is a bank run by skilled people with modern information systems, to deal with their needs on a global basis," says Ball.

These needs and services were described by PBTC director Leonard Kingshott as "offering old fashioned merchant banking support, financial services, — lending, trade finance, estate planning, treasury and asset management — in combination with business advice".

One of the enduring myths of private banking was that it was all about the discreet servicing of old money of families who had been wealthy for several generations.

To an extent this was still true of some private Swiss banks, but the modern dynamic face of private banking was backing the successful entrepreneur, said Ball.

BDay 7/3/90 (58)

Unit Trusts firm CFM is launched

LINDA ENSOR

A NOVEL unit trust portfolio management company, Consolidated Fund Managers (CFM), which will give individual investors a spread of unit trust investments, was launched in Johannesburg last night by JSE president Tony Norton.

CFM is the first investment company in SA to intercede between the individual investor and the range of unit trusts available.

Norton, addressing a gathering of about 260 stockbrokers and fund managers, said CFM's product was "sound and sensible", as it constructed portfolios of existing funds "so as to further bring to bear the important canons of spread, research and sound performance".

CFM claims that through its analysis, research and constant monitoring of unit trust performance, it will be able to maximise and stabilise long-term investment returns.

The parameters of its potential performance are evident in the fact that for the past 12 years, the difference between the best and worst unit trust performances is 122%, giving a wide margin for professional selection.

Charge

A crucial question is whether the additional fees of an extra intermediary will offset the greater returns. MD Clive Fox says CDM will charge a one-time opening charge of R85, and thereafter 0,2% of the average market value of investments per quarter with a minimum of R30 per quarter.

Unit selling prices will, Fox says, be well below the 5% maximum initial charge most often levied by unit trusts, which charge a service fee of 0,5% a year of the value of funds administered.

Fox says the market value of unit trusts has grown 91,5% to R6,6bn in the two years to end-1989. Average long-term growth has exceeded 20% a year.

CFM has been registered with the Registrar of Financial Institutions.

Chairman of the CFM is Colin Waterson, former Barclays MD and a present member of Times Media's board.

Strong Protea lists underwriting drop

B Day 7/3/90 LINDA ENSOR (58)

REFLECTING the performance of other insurance companies, composite insurer Protea Assurance gained strongly in its investment income but experienced a deficit in its underwriting in the year to end-December.

Earnings rose 15,4% to 172c (149c) and a final dividend of 33c brought the total to 53c (46c).

While net premiums written showed an 18,5% rise to R150,7m (R127,2m) and investment income shot up by 37% to R19,6m (R14,3m) due to high interest rates and healthy dividends, underwriting fell by 163% to a loss of R1,6m compared to the previous year's profit of R2,6m.

The life division's contribution to profits rose 15% to R431 000 (R374 000).

The balancing of these elements resulted in an after-tax profit rise of 15,5% to R13,6m (R11,7m).

Protea's financial base has strengthened with shareholders' funds up 48% to R140,9m, and net asset value up to R26,51 (R17,91) a share. The free solvency margin has similarly strengthened to 123,3% (100,7%).

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BUSINESS DAY, Wednesday, March 7 1990

Mercantile Bank results show solid start

EDWARD WEST

MERCANTILE Bank, which commenced trading on March 1 1989 after being founded by a team of former TrustBank general and senior managers, showed a pre-tax profit of R284 000, while total assets grew from zero to R123m by December 1989.

Mercantile MD Derek Cohen and executive director Alistair Cohen, with other staff, were shareholders along with Lifegro/Momentum Life and Unidev, a Mercantile Bank statement said yesterday.

Cohen said in a statement the sound liquidity was reflected in aggregate cash, short-term funds and overnight corporate call advances of R85,19m relative to deposits and other accounts of R87,61m.

Cohen was confident 1990 would be a year of continued growth. Although interest margins would probably remain thin, he expected the changing political climate would help to create sound business opportunities for Mercantile.

Taking a new road towards financial self-sufficiency

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ROBERT GENTLE

BDay 7/3/90

A NEW financial development has arrived in SA with the potential to shrink balance sheets, improve financial returns, release idle capital and use the billion-rand cashflows of institutions for black uplifment.

It is known as securitisation, and, says Discount House of SA manager Julian Knopf, is possibly the most important development in the SA financial markets.

Its arrival is all the more timely in that it offers the private sector the chance to throw the nationalisation argument back at the ANC and prove that market-based solutions to structural imbalances are possible.

Securitisation is defined as the repackaging of a given amount of a company's assets into liquid securities. The resulting securities are then marketed like any other commercial paper.

As an illustrative example, United Building Society (UBS) last month completed the securitisation of R250m of its mortgage portfolio (an asset on its balance sheet) by selling it to another company, Morgtage Securities 101.

MS 101 issued R250m of debentures against the mortgages and listed them on the JSE. The resulting mortage-backed debentures were picked up by investors, mostly prominent life institutions. The cashflows from the monthly mortgage payments (that UBS continues to service even though it no longer owns them) serve to provide regular interest payments to the holders of the debentures.

UBS thus simultaneously shifted R250m of assets off its balance sheet and received a R250m cash injection to invest as it pleased (the money will help fund housing).

On UBS's balance sheet, the capital/asset ratio improved, the asset mix changed, idle capital held to cover the risk on the R250m exposure was freed and the interest rate risk on the mortgages was transferred to the market. At one stroke, UBS had R250m it did not have before, the life companies had in their portfolios low-risk, interest-yielding paper they did not have before, and South Africans obtained access to loan capital no one may have been willing to lend them before.

Ignoring the cut everyone took along the way (nothing is free), cash-flush institutions are effectively making money available that otherwise might simply have ended up in the JSE or government bonds.

Rand Merchant Bank (RMB) group economist Rudolph Gouws clearly sensed the political importance of securitisation when he opened a seminar on the subject at the Reserve Bank last week.

"The financial markets should prove that they are capable of providing market-based answers for problems others believe can only be solved by the state," he said.

"The Freedom Charter states 'there shall be houses'. While adequate and affordable housing is a goal we can all identify with, it is unfortunately not one to be reached by decree. The evidence that has recently come to light about the hopelessly inadequate and low standard of mass housing in Eastern European countries, in comparison with that in Western Europe, makes this point very clear."

Gouws went on to praise government for reducing prescribed asset requirements rather than yielding to pressure for new requirements that would have forced institutional investors to invest in housing.

Indeed, it is this abolishing of prescribeds that may well increase the attractiveness of securitisation issues as cash-flush institutions seek alternatives to government paper.

With more privatisation on the way and an expected decrease in government funding requirements, there will soon be a dearth of government paper anyway, a point made by a senior portfolio manager from a large Cape-based institution. "We are very serious about securitisation. I think any institution that ignores it is foolish."

The bottom line for institutional investors, he adds, is low risk and decent returns, both of which largely apply to securitised paper.

Echoing this view is an investment GM from another Cape-based institution. "If it was junk bond debt, investors wouldn't touch it with a barge pole. But mortgage debt is low risk," he says.

So indeed, is a lot of the debt tied up on the books of SA commercial banks — credit card debt, car instalment loans, commercial leases. The consistency with which it is repaid is clearly marketable.

"Virtually anything that isn't nailed to the floor can be securitised so long as you have good loan underwriting policies and procedures, as well as strong borrowers," says Lona Wattenberg, US securitisation expert from KPMG Peat Marwick.

A number of SA banks say they are now seriously considering securitising some of the debt they have on their books, a move that could raise millions for fresh investment without a single rights issue.

"We should not close our eyes to this possibility," says a spokesman from Nedfin, which, like Stannic and Wesbank, has huge instalment and leasing portfolios.

First National Bank (FNB) GM Corporate Banking Johan Meiring says: "Within the next year or two, most banks will have entered the securitisation market."

Nudging them in this direction, he reasons, will be the higher capital adequacy requirements likely to result from the legislation that will supersede the Banks Act and the Building Societies Act.

The present approximate figure of 5% will probably rise to 8%, he estimates, meaning that more capital will have to be tied up in covering credit card debt, car loans and the like. Securitisation would automatically free that idle capital.

Eventually, he adds, one could even see the securitisation of retail credit from stores like Edgars, Russells and Morkels, which face similar financing problems to banks.

Meiring cautions, however, that a successful securitisation issue hinges around factors from inflation and money supply to prevailing interest rates, and should be carefully debated within an organisation. Another problem is that excessive securitisation can erode a company's better class assets.

Either way, the SA financial market, having already embraced futures and options, appears set to meet yet another challenge on the road to financial self-sufficiency.

LETTERS

Property lending market aggressively seeks clients

B/Day 8/3/90

PIERRE DU PREEZ

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LENDINGS initially structured at substantially below prime lending rates on commercial and industrial properties were not exceptional, the Syfrets Investment Research Team said in its February investment newsletter.

The financial services group said until recently the property lending market was catered for by relatively few niche-orientated financial institutions, like trust companies and building societies.

Borrowers had had to comply strictly with the ruling lending requirements of the institutions and generally had to pay rates in excess of the ruling prime rate, in addition to raising fees ranging up to 3% of facilities received.

Today the opposite was true. There was aggressive marketing for borrowers by competing financial institutions, with facilities being offered at closer to prime and raising fees reduced substantially to about 1%, the newletter said.

Syfrets said factors such as the breaking up of the "banking cartel" and the scrapping of the "register of co-operation" between banks were responsible for this turnaround.

But changes in the Building Societies and Banks Act "blurred" their functions, resulting in increased competition to a point where SA was generally accepted to be overbanked.

There had also been a change in risk perception regarding property, caused by inflation adding to its value, and the fact that in SA's growing economy and population explosion, property was a scarce and finite resource.

According to Syfrets, the increased "attractiveness" of the JSE as a source of funding for the corporate market had shifted the emphasis of the banking industry to other avenues of lending.

More competitors had thus entered the market.

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Short-term insurers suffer as motor rates nosedive

LINDA ENSOR

UNDERWRITING surpluses of short-term insurers have taken a hard knock and it appears those with the highest exposure to motor insurance will report huge losses.

Motor rates had nosedived over the past year as competition in the industry intensified.

Underwriting surpluses of those insurance companies which have already reported their results show marked declines.

SA Eagle showed a drop of 46%, Mutual and Federal 62%, Commercial Union 45% and Protea Assurance 163%.

Their bottom lines were maintained only by the good returns from investments, the continued performance of which are dependent on interest rates remaining high and on stock market buoyancy.

The four companies with the greatest motor exposure are IGI (76% of its total portfolio), General Accident Insurance (59%), Santam (53%) and SA Eagle (43%). These breakdowns are contained in the 1988 report of the Registrar of Financial Institutions.

Premium income from the motor accounts of these insurers in 1988 were R269m for IGI, R103m for General Accident, R351m for Santam and R232m for SA Eagle.

IGI financial director Martin Capper dismisses speculation that the company's results will be disastrous.

He says a policy of not cutting IGI's rates — which have run at about 50% higher than other insurance companies — will ensure IGI achieves "a modest underwriting surplus, without any trimming of additional reserves" in the year to end-March.

IGI had raised motor premiums by 10% towards the end of 1989 and by a further 15%-20% as from April 1, he said.

IGI's solvency margin stands at 41% and, says Capper, it has just re-negotiated its reinsurance treaties on more favourable terms.

According to the Registrar's report, motor premiums in 1988 totalled R1,94bn, or 35% of total gross premiums for all lines. The percentage has normally been 50% but has declined due to lower rates.

Exacerbating the situation of short-term insurers are the industry's losses on the fire account which traditionally has served as a major profit generator.

Industry statistics show a sharp escalation in commercial fire losses in the first quarter of 1989.

From 43,52% in 1986, 46,56% in 1987 and 44,68% in 1988, the losses rose to 82,41% in 1989, indicating a need for a revision of fire rates.

Fire and peril claims for 1989 — including the Sasol fire claims — equalled R1,054bn (R87m).

A 60%-65% ratio of premiums to claims is the generally regarded break-even point for the industry to cover fire policy costs.

Brokers, too, are said to be feeling the pinch as revenues from commissions have fallen.

Highveld Steel a major contributor to Amic earnings

Cape Times 9/3/90 (58)

By ARI JACOBSON

ANGLO AMERICAN INDUSTRIAL CORPORATION (Amic) notched up a 26% increase in attributable earnings to R653m (R517m) for the year end-December with a major contribution from its subsidiary Highfield Steel.

This translated into earnings a share of 1 211c (963c) with total dividends for the year jumping 21% to 350c (290c) a share — covered 3,5 (3,3) times by earnings.

Amic's chairman Graham Boustred, said in his annual statement, an extremely buoyant first half led up to a slowing in earnings growth towards the year end.

"This reflected subdued demand in the local market, and lower commodity prices in world markets, although the latter were offset by the weakening of the rand/dollar exchange rate."

● Highveld Steel was a major contributor to the group's improved performance. Attributable earnings increased by 165% to R322m, equivalent to 450c a share.

These results were brought about by high levels of output for all Highveld's products and by exceptionally favourable prices realised for steel and ferro-alloy products, particularly vanadium.

● Scaw Metals' earnings for the year increased by 24% from R62m to R77m. These earnings were supplemented by a commendable performance by Haggie, in which Scaw has a 35,3% stake.

● Weaker demand for paper and timber products locally and softening world prices for pulp and paper towards year-end saw Mondi Paper's operating earnings increase at a lower rate than last year. Mondi's attributable earnings increased from R162m to R163m.

● Boart International experienced a severe downturn in demand for its exploratory drilling equipment and services brought about by substantial reductions in prospecting activities.

As a result, attributable earnings fell from R97m to R87m.

● AECI increased earnings by 23% from R255m to R314m with the group experiencing a firm demand in most divisions and a substantial increase in exports.

Construction of the R920m Sua Pan soda ash plant in Botswana has commenced and is scheduled for completion in early 1991.

● In its year to March 1989, the Tongaat group increased earnings by 32% to R157m. The group has forecast earnings of R176m to March.

Substantial development programmes are under way at core businesses in the Amic group particularly at Mondi, Highveld and Scaw.

In spite of high levels of capital expenditure the debt:equity ratio of the group was reduced to 20% (25%).

The initiatives undertaken by the State President and the political process which is now underway will hopefully result in the normalisation of SA's relationships with its overseas trading partners, says Boustred.

"While it is not possible to forecast when sanctions will be lifted, once Amic's exporting companies are able to trade freely throughout the world, particularly in North America and Europe, the group should benefit significantly."

BANKORP FM 9/3/90 (58)

Question of Trust

Fewer than three months ago the Bankorp group raised R345m from shareholders — an amount supposed at the time to provide enough capital to comply with progressively tightening capital/asset ratios — and the deeply troubled Trust Bank was absorbed by the group and hidden more fully from public view. Now there is the blunt admission that capital is far from adequate, that Trust's management systems have failed badly and that "irregularities" are being investigated.

The JSE's judgment is unequivocal — Bankorp's shares are trading at 275c against the 340c rights issue price. Investor confidence is waning and banking analysts predict further falls unless the group soon opens itself more to public scrutiny. If this seems a harsh judgment, it is not unjustified.

The question that must be answered is whether the admissions of failure in the in-

Bankorp's Van Wyk ... some admissions of failure (58)

FM 9/3/90

terim results understate the extent of Trust's problems.

The rights issue circular promised a maintained dividend this year and said the acquisition of Trust's entire share capital and the rights issue would "have considerable strategic, financial and operational benefits for the Bankorp group in the longer term." Now the interim dividend has been cut, though CE Chris van Wyk tells me a 15c final is planned to honour the rights document promise that this year's total will equal last year's 25c.

Surely management must have been aware of the problems in December when they were blithely making promises to shareholders being courted for more capital. Forex and gilts problems had been aired in the press but were ignored in the rights offer document.

Arguably the least serious problem is managerial shortcoming, exemplified by the recent risible failure to exercise maturing gilt options and the consequent forgoing of a R3m potential profit. Van Wyk concedes that rapid growth has "placed much stress on administration systems and staff, increased the cost of overtime and had an adverse effect on labour turnover." And he says controls have had to be tightened and that considerably more staff training is needed.

But worse, as far as the bank's reputation is concerned, are the growing rumours of dubious business practices. Now Van Wyk says: "Allegations were received in connection with irregularities in connection with past debt recovery practices." The irregularities are being investigated.

Rumours swirl around Trust, and I would be the last to ascribe truth to them. But confidence is a fragile thing and Van Wyk and his management team will have to take hearsay into account as they try to restore the group's image. One unsubstantiated accusation is that some bank officials wrote off bad debts and then bought those debts at nominal prices for eventual collection at a profit through nominees. Another is that

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Trust foreclosed on some customers who overshot their overdraft limits, and seized their assets which were then sold at less than their real value by auctioneers to others acting for some bank executives.

Then there are the forex irregularities, which went on for months and cost SA's reserves a bundle. The fact that the irregularities were not picked up is a sad reflection on Trust's management controls and it adds to the impression that some of Trust's officers are out of their depth. Enormous undisclosed gilts loans have been suffered, sharply eroding the group's inner or hidden reserves.

Add that to massive bad debt losses as the bank chased lending business and the catastrophe is compounded. The extent of the gilt and bad debt losses can only be guessed. But the rights issue was supposed to provide sufficient capital to accommodate the growth. Now, a short three months later, more capital will be needed and controlling shareholder Sanlam has agreed to take shares in lieu of cash dividends until capital is up to scratch. The price at which the shares will be issued is not disclosed, but one banking analyst reckons that justice would be seen to be done if Sanlam accepted shares at the 340c rights issue price.

It has been suggested Sanlam should take out the 19% minority shareholders, but that's a lousy option if total ownership of a poorly managed banking group leads to concern about the effect on the insurer's policies.

If Van Wyk and new chairman Derek Keys hope to restore confidence the very least they can do is to be more open. Shareholders, customers and analysts need reporting of the quality provided by First National and SBIC, and the absolute minimum would be disclosure of the interest income, cost of capital, tax payments, general and specific bad debt provisions and divisional trading performances. It will take a great deal of courage as openness is not something, Van Wyk admits, which forms part of Bankorp's corporate culture. But anything less will reinforce the market view that Bankorp still has skeletons in its closet.

Still, there is some light at the end of the tunnel. Van Wyk tells me the question of improved reporting standards has not yet been addressed by the board, but that it will be before final results are published in August. But he warns that Bankorp will not go for full disclosure immediately. A gradual approach will be adopted. *Jim Jones*

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RESERVE BANK FM 9/3/90

Rating risk

(58)

Sweeping changes are expected in the way commercial banks report to the Reserve Bank. "New legislation presented the opportunity for a fresh look at the role of bank supervision and the type of information required to perform it," says incoming Registrar of Banks & Building Societies Hennie van Greuning. "The focus will be on data concerning risk management rather than on balance sheet and related statistics only."

The proposed deposit-taking Institutions Bill, due to be tabled in parliament this session, is, among other things, intended to bring SA closer to international banking standards on risk management.

The Bank has a pilot study under way, involving 14 banks, to establish the best format for some statutory Banks Act returns. Proposed returns, which could reduce paperwork considerably, consist of:

- A balance sheet and income statement;
- Analysis of the maturity structure of assets and liabilities (which focuses on the liquidity risk); and
- Currency, credit, interest rate and trading risk schedules.

This requires more disclosure to the authorities from banks. However, the information is treated as confidential, says Van Greuning. It could also mean greater involvement of management in the data supply to the supervisory authorities, because it is management accounting-orientated.

Says Van Greuning: "Effective bank supervision must focus on the same information top management uses in making decisions. We want to ensure management is aware of its risks and manages them proactively."

This market-orientated approach aims to build up a close relationship with financial market players to keep up to date with views and, at the same time, build up the level of banking supervision skills.

"At the end of the day our task is to ensure the health of the deposit-taking system." ■

FM 9/3/90 (58)

FINRAND SPIRAL

Buying by local institutions of foreign-held shares on the JSE, particularly De Beers, was one reason for the dip in the finrand on Monday. "This led to a creation of finrands," a dealer says, "and demand slackened." The investment currency was then pushed lower by traders selling out of long positions and fell from its opening level of US27,10c to 25,75c.

A London dealer believes the market was overbought and eased when demand slackened for both finrand and SA gilts.

Local dealers feel the finrand has now become attractive again. "Because of this, the currency should rebound and consolidate around 27c." On Tuesday it had rallied to just above 26c.

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BANKING FM 9/3/90 (58)

Finding a niche

Since being founded a year ago, Mercantile, a specialised merchant and corporate bank, has followed a conservative path by building up slowly and steadily. Results to December show the strategy has been successful with pre-tax profit of R284 000 (after formation and start-up costs) and growth of total assets from zero to R123m.

Founded by a group of ex-Trust Bank senior and general managers, led by Derek Cohen as MD and Alistair Laughland as executive director, it is seen in the market as a lean, mean operation, one of the few banks that does not deal in high-risk securities.

Instead, 86% of loans are to companies listed on the JSE main board, while 90% of deposits come from corporations and institutions. The bank aims to keep relatively high liquidity, to match liabilities and assets, and build a wholesale liabilities and asset portfolio. Figures provided by the bank show aggregate cash, short-term funds and overnight corporate call deposits of R65m, with total deposits of more than R87m.

Cohen says Mercantile has established itself in the area of natural resources, evaluating and structuring transactions in mining and related areas. It provides funds and advice as well as bringing interest groups together in mergers, acquisitions, management buy-outs and venture capital projects.

Cohen believes an advantage of Mercantile is that management holds about 40% of the shares, with Unidev holding 42% and Lifegro/Momentum Life the balance. ■

FOREIGN LOANS FM 9/3/90

Tea and sympathy

A roll-over of 50% of maturing bond issues could effectively save R1,3bn worth of foreign exchange this year, says Eskom's Francois Botha. And a recent study estimates this could add as much as 0,5% to the growth rate, he adds. (58)

Botha believes prospects for refinancing are encouraging. Just returned from a trip abroad, he foresees "a new phase in international relationships. On previous occasions we received lots of hot tea and warm smiles but were, together with other SA borrowers,

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cut off from international funding."

Now: "Recent developments in SA have definitely made it easier for banks to reconsider. Most European banks appear to be reviewing policies towards SA . . . Though we must not expect immediate change, initial moves are in the right direction. Conversations in Europe, the UK and, to a lesser extent, the US, hinged not on whether further sanctions should be imposed, but on ways of lifting existing sanctions."

Botha says there is "strong demand in Europe for high-yielding SA paper."

Though Eskom is in "a comfortable funding position," it is eager to exploit any possibilities for the long-term benefits of returning to international markets. "In the years in the financial wilderness, we were always conscious we could lose the fine reputation built up over years. A borrower can't afford to be absent for any length of time and still expect a first-class rating."

The cost of being out of step with the world is more than the R30bn capital outflow since 1985. It must also be counted in "the loss of many former friends who finally decided we're not good company."

SECURITISATION F|M 9|3|90

Approach flexible

Though the Reserve Bank has given the nod to asset-backed securitisation, it prefers issues to be privately placed with institutions and corporates, rather than offered to the public. These would need to be regulated by a body like the Bond Market Association, or under the Stock Exchanges Control Act, as was MS101. (58)

If securitisation is construed as deposit-taking, the securities cannot be distributed to the small investor. So securitisation of credit card receivables and car loans, which may be

FINANCIAL MAIL MARCH 9 1990

of most interest to the small investor, is some way off. Activity is likely to be confined to mortgage-backed issues for now.

The Deposit-taking Institutions Bill may clarify these issues. Deputy Governor Chris de Swardt outlined the Bank's stance on a regulatory framework at a KPMG Aiken & Peat seminar last week. Because securitisation is still a new development, he said, the Bank would have to be flexible.

"We'll have to look at proposals case by

F|M 9|3|90 (58)

case as we don't want to kill the concept by introducing requirements too strict to be met in practice," said De Swardt.

Securitisation could help solve the housing shortage. Rand Merchant Bank economist Rudolf Gouws points out SA has inadequate savings to finance housing on the one hand and massive flows of funds to institutional investors on the other. Securitisation can be a cost-effective, practical way of closing the gap.

Potential investors are cautious — but positive. ■

LD FM 9/3/90 (58)

CIB/CORBANK FM 9/3/90 (58)

New start

A new team will reactivate the domestic trading operations of Corporate Bank Group, holding company of Corbank, Johannesburg. This follows the merger with Cape Investment Bank Holdings (CIBH), which is still to be renamed (*Fox* February 9).

"Corbank shut its trading operations last year as they weren't profitable," says Bill Pienaar, Corbank executive chairman from next month. "It lacked adequate decision support systems to monitor risk exposures."

CIBH subsidiary Cape Investment Bank is now providing these. Incoming Corbank deputy chairman Andy Swartz sees technology interchange as a major benefit of the merger. The trading teams will operate separately in Cape Town and Johannesburg.

Also from April 1, André Pretorius will be deputy GM treasury, responsible for money market activities, including funding, trading and short-dated gilts, BA futures and swaps. He was in UAL's treasury.

Cape Investment Bank has established a reputation as an innovative and active trader, particularly with new instruments. Two of its team will move to Johannesburg:

- ☐ Ian Visser, deputy GM gold and equities, who will head all trading activities relating to equity-based futures and options, Krugerrand, dollar-gold future and other related instruments (Elfi, Elci); and
- ☐ Pam Davies, who has been appointed deputy GM capital market division, responsible for bond trading activities, futures and options on bonds.

The team will report through Swartz to Pienaar.

The line-up from April 1 will be: Laurie Korsten chairman; Jan Pickard Jnr CE and chairman of Cape Investment Bank; Pienaar executive chairman of Corbank; Swartz deputy chairman and CE of Cape Investment Bank and deputy chairman of Corbank; and Sjoerd Lohle, previously GM money market, MD of Cape Investment Bank. ■

FREE MARKETS

Acid test

The greatest hope for eastern Europe's economic development is the diversity of its reform movements, says the latest issue of Union Bank of Switzerland's *International Finance*. "If some reformers are seen to succeed, others will follow."

Some central European countries are well ahead of the Soviet Union, "while hard-line planners in East Germany, Czechoslovakia and Rumania held out until the very end."

Countries with a head start include Hungary and Poland.

"These countries have well-formed plans, worked out with the IMF, World Bank and Western governments ... Even where reform is most advanced (however) private activity is heavily repressed. These markets retain monopoly elements — State and collective enterprises, union barriers and so on. Moreover, capital markets remain heavily controlled, with only about 10% of enterprise capital raised on market terms. State and collective firms account for more than 75% of national output.

"Experience suggests that half-solutions

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Life offices 'should carry annuity risk'

LINDA ENSOR

A STRONG appeal for responsibility by the life industry as regards 100% equity-linked retirement annuities was made yesterday by joint chairman of Liberty Life and chairman of the Life Office's Association Dorian Wharton-Hood.

Speaking at a function of the Institute of Life and Pension Advisers (Ilpa) in Johannesburg, Wharton-Hood said it was his opinion that it was the responsibility of life offices to carry the risk of a retirement annuity. As 100% equity-linked policies provide no investment guarantees, this risk was passed on to the policyholder.

"In a 100% equity-linked contract there are no investment guarantees. I believe this is totally wrong and I think we are being irresponsible. I think we must be very careful about being caught up in this wave of euphoria that the 100% equity link is the answer."

It was better to have something like an 80% equity link with investment guarantees.

"A study in the UK has indicated that as you increase the equity content of your portfolio — that is the risk — the expected return does tend to rise, but it flattens off once you reach 80%.

"Any additional exposure above 80% does not add to the expected return, it simply increases the risk. If you go beyond that point and you have to take the guarantees away, then we have to ask ourselves what the true role of this industry is."

Wharton-Hood said a scheme to allow municipalities to invest in life policies — which they had been banned from doing since early 1988 — was being considered.

The new type of life assurance product would probably revive the "sinking fund" business which was removed from the Insurance Act in 1980.

It would be introduced solely for non-tax paying companies defined by Section 10 of the Income Tax Act.

Proposals were in the process of being drafted for the changing of the Insurance Act and the Income Tax Act to make the scheme possible.

Wharton-Hood said the likelihood of these being accepted looked quite promising and he hoped the measures would be passed by Parliament by August this year.

Abuse

"The product we have structured looks like the right vehicle. In effect we want to treat municipalities and Section 10 companies in the same way that we treat pension funds which are entitled to have policies with life offices."

Municipalities were banned from investing money with life assurers on account of the widespread abuse which took place. Life policies were used by these bodies as investment policies in the name of token assured persons.

Clarification had at last been obtained from the Commissioner of Inland Revenue on the accounting for training expenses, namely that they would not qualify as new business expenses. New business expenses formed the basis of the 55% of expenses which could be deducted from income for tax purposes.

Training expenses would be considered as part of renewals with only commissions considered as new business. The LOA was happy with this, Wharton-Hood said.

Small investors get raw deal

Sept 10/3/90 LYNNE PEACH SB

MORE and more brokers are saying "no thank you" to business offered by small investors because the size of the deals provides little profit incentive and, in some cases, results in a net loss.

"Such rejection of the man-in-the-street is immoral," says one investment adviser who feels small investors have an essential role to play in the market.

He believes brokers have a moral obligation to accept all orders unless the creditworthiness of the client is in question.

JSE President Tony Norton disagrees, saying broking firms are run according to free enterprise principles and, therefore, reserve the right to decline business that is not sufficiently profitable.

He says there are some firms which accept small orders and that the JSE passes this information on to interested parties.

Another sensitive issue is that big clients and cash-rich institutions pay less for their shares than small investors.

For example, if a share is bought at a price of 100c, the shareholder who takes 500 000 will will pay about 102c a share, while the buyer who wants 100 shares will have to fork out about 104c.

An investment adviser knocks the system, saying it is unjust for the less affluent to pay more for their shares than wealthier clients. If the latter were charged a higher rate, brokers would be in a better position to accept small unprofitable orders.

Getting back to areas of concensus, one point is that the JSE needs greater participation by the man-in-the-street.

For a number of reasons, including the limited number of firms willing to accept small orders, tax uncertainty and lack of education, a much lower percentage of South Africans owns shares than is the case elsewhere.

Without support from the small investor, most new listings and rights issues would fail, and most of share prices, particularly in the development capital market and venture capital boards, would stagnate.

Mr Norton says the JSE is reviewing brokerage rates, in particular the basic charge, in an effort to make small deals more attractive to brokers.

Market research is being undertaken to determine the best way to educate blacks on the strengths and pitfalls of investment.

Mandela calls for funds

NELSON Mandela has called on the international community to provide funds to resettle thousands of returning South African exiles.

C Press 1/3/90

In a speech to diplomats and representatives of international organisations at the OAU headquarters in Ethiopia on Friday, he said: "We will need tremendous resources to find jobs and accommodation for thousands of exiles and political detainees still held in South African jails.

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"We rely on the international community, particularly the African states, to provide resources."

Afterwards, he returned to Tanzania to complete his six-day visit with a tour of ANC training camps. He leaves for Sweden today to visit ANC President Oliver Tambo, being treated in a Stockholm hospital, but will cut short his trip by two days due to unrest in the South African homelands.

Mandela will be met at Stockholm airport tomorrow by Prime Minister Ingvar Carlsson and during his stay will receive courtesies usually reserved for a visiting head of state.

A meeting in Stockholm between Mandela and British Labour Party leader Neil Kinnock, seen as a rebuff to Margaret Thatcher, is still scheduled for Wednesday. – Sapa-Reuter-AP

See Page 10

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Rate war hurts more insurers

By Robyn Chalmers

TWO big players in short-term insurance posted disappointing results this week as the rate war continued.

Mututal & Federal and the short-term division of Protea Assurance joined Commercial Union (Cusaf) and SA Eagle by reporting sharp decreases in underwriting profits.

The main cause is the rate war, described as the most devasatting yet experienced by insurers.

M&F's underwriting surplus plunged by 62% to R14,9-million from R39,4-million in the six months to December.

Protea reported an underwriting loss of R1,6-million in the year to December — a 163% decrease from the previous year's profit of R2,6-million.

Protea managing director Tony Crank says the deterioration in the underwriting result was caused by intensifying competition, which dictated unrealistic rates out of pace with inflation.

"At the same time, the average cost of claims has risen at least in line with inflation. In some cases, particularly in motor claims, costs have outpaced inflation."

Surplus

M&F managing director Ken Saggers echoes Mr Crank's comments on increased competition resulting in reduced rating levels and the rising cost of claims, which jumped by 40% across the whole portfolio.

SA Eagle experienced a 6% drop in earnings a share to 392c (417c), and the underwriting surplus fell by 46% to R20,6-million from R37,9-million in the year to December.

Cusaf suffered a similar setback for the year to December. Its short-term underwriting surplus fell by 45% to R11,5-million from R21,3-million, and managing director Bill Rutherford does not expect the market to firm before 1991.

Quest Insurance chairman Denzil Curgenven believes the rate war could have cost insurance companies more than R500-million.

Mr Curgenven says the previous rate war, which resulted in the collapse of the AA Mutual, was not nearly as intense as the present one.

He believes that the real effects of the rate war will be felt in the current year.

The war has kept premium increases well below inflation for several years. With inflation averaging about 16% and claims costs and vehicle repair costs rising, motor premiums are expected to rise by between 20% and 40% this year.

Guardian has increased its premiums by between 10% and 12,5% in the Transvaal and by 7,5% in the Free State and Cape.

Auto & General increased premiums by between 10% and 15% last September.

M&F is expected to raise its rates by 15% to 20% at the beginning of April.

Mr Rutherford says Cusaf will increase its premiums by 20% from the same date.

House owners will not escape the premium jump either.

DIAGONAL STREET

AA Life makes units look user-friendly

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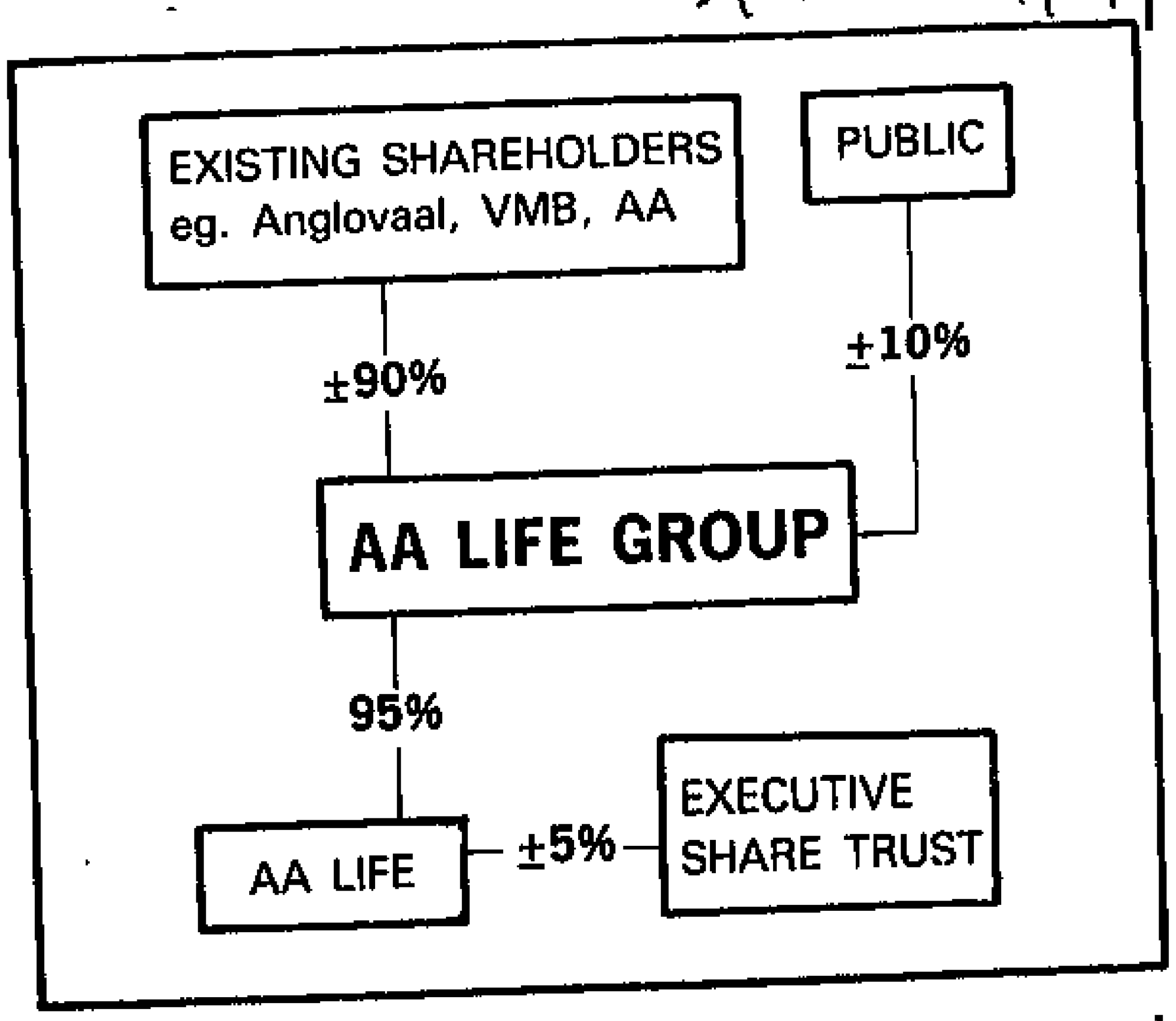
S[Times 11/3/90

CONVENIENCE investment takes on a new meaning with the launch of AA Life's unit trust Allegro — see it on TV and order it by phone.

Managing director of the recently listed AA Life Group Brian Benfield believes that there is high potential for new unitholders among investors, yet how to go about buying unit trusts is not widely known.

"Many people would become investors if unit trusts were more user-friendly. Direct response television advertising will make it easy."



TARGET

To catch as wide a spectrum as possible the minimum monthly investment in Allegro is only R25 — about hald the industry norm. A single lump sum of R100 can also be put into the new general equity fund.

TV1 viewers will be the primary target of the campaign, but Dr Benfield believes that the black market will become a force.

Allegro will also be sold through radio advertising as well as by conventional brokers and the company's own salesforce.

AA Life is considering linking retirement annuities to Allegro's performance. Such schemes are sold by several of SA's life offices on the grounds that the contribution to an RA is tax deductible, thereby providing a tax-efficient way of investing in unit trusts.

Coupled with Allegro's launch is Duet, which combines an endowment policy with the unit trust. After 10 years, the proceeds are tax free.

So far so good. Unit trusts have been sound investments since the 1970s, outpacing inflation in most cases. But the funds' performances can only be as good as the managers.

It is intended that Allegro will house investments in larger companies with growth stocks. Assistant general manager of investments Steve Japp plans to buy growth stocks which will become tomorrow's blue chips.

Some say tomorrow never comes. AA Life's investment record did not show up too brightly in the latest Richard Wharton Hood survey — almost the industry's bible.

Expectations are high — if the performance of the share price since listing is any measure.

AA Life Group did not wish to raise capital when it was listed, and believed that the cash-shell route was the most efficient.

It used Ocean Appliances, in which the minority shareholders were offered 148c a share by Fedvolks when Fedvolks took control of Ocean's operations. The price is now 230c.

SPREAD

It already has a small spread of shareholders, the major stake of 42% being held by Anglovaal. Volkskas Merchant Bank and the Automobile Association also hold equity. The JSE requires a higher number of shareholders which has probably already been met.

The group's investment is 95% of AA Life, the balance is held by an executive share trust.

AA Life has 180 000 policyholders, being about 1,5% of the market. Dr Benfield believes that share could easily double without making waves among other life offices. The target market has traditionally been the salaried employee.

The share price has climbed to a high of 235c in only two weeks on big volume. Dr Benfield believes it could be rated on a dividend yield of 4,5%, which corresponds to a price of 250c on the dividend forecast.

AA Life's market capitalisation is R168-million, close to Commercial Union's (Cusaf) R165-million and Fedsure's R258-million. Cusaf's dividend yield is 5,8% and Fedsure's 5,3%.

Dr Benfield's aims for a higher rating will need to be justified by good performance.

Housing sector hampers Time

BD 12/3/90 NEIL YORKE SMITH (58)

HAMPERED by a depressed housing market, Time Holdings increased attributable earnings by 11% to R8,9m (R8m) for the year to December 31.

The property and insurance group boosted turnover 27% to R231,3m (R182,5m) but recorded a 13% fall in trading profit which reached R10,6m (R12,3m). It was only the lower tax rate which enabled the group to boost attributable earnings.

Executive chairman Colin Hibbert said in an interview he was disappointed by the poor housing results, but emphasised the whole SA housing industry was depressed.

"Other operations, including Time Life and the commercial property division, performed exceptionally well," he said.

Rough divisional contributions to attributable earnings were: insurance 15%, housing 20%-25% and commercial property 50%-60%, Hibbert said.

"Unlike some competitors we kept housing operations going," he said, adding in the longer term this would boost market share in an industry set for growth.

An annual dividend of 10c a share was maintained on earnings of 25c (26c). Trading at 75c a share on the JSE, Time offers earnings and dividend yields of 33% and 13% respectively.

Scope for rerating exists, especially given the value of Time Life, Hibbert said.

B/Day 12/3/90

FINA

Rates show no signs of dropping

MONEY market rates are softening, but this easier tone does not presage an early reduction in Bank rate and probably not in the banks' prime rates either.

Across the full spectrum — from overnight call to assets stretching from three months up to a year, and beyond — rates were trimmed last week. Even the Reserve Bank-controlled Treasury bill rate shed one point to 18% from 18,01% as private sector buyers bid strongly in Friday's tender for the first time in 10 weeks.

Liquidity appears to be trickling into the market. Corporate and institutional investors, denied extraordinarily high rates on overnight call money by the banks acting in concert, have been bidding the banks and the building societies for negotiable certificates of deposit (CDs) for periods ranging from four months up to one year. Overnight call is down to 18-

IN THE MONEY MARKETS

Harold Fridjhon

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18,25%, an 18-week low.

With this demand for assets, the banks have been pruning their offering rates. Six months CDs, 19,65% two weeks ago, dropped to 19,55% earlier in the week, then to 19,40%, with the market talking to 19,25% at Friday's close.

In the one-year area, rates have tumbled from 19,20% to 18,90% and investors were bidding 18,75%, at which some business was written, but the banks have withdrawn. They are apparently waiting for the pressure of demand which will enable them to issue closer to 18,5%.

There is also a demand for four-month CDs at 19% at which price issuers might be interested.

The improved liquidity has seen the market shortage fall to R3,7bn, which banks can manage with their stock of surplus assets, but the Reserve Bank is tightening the squeeze.

To forestall expected heavy government end-of-fiscal-year spending flooding the market, the Bank is mopping up rands by selling dollars spot to the banks on forward buying contracts said to amount to about R1bn.

This is a clear indication that Reserve Bank governor Chris Stals is not yielding an inch.

The Star
Finance

Cemenco offers good yield, long-term growth potential

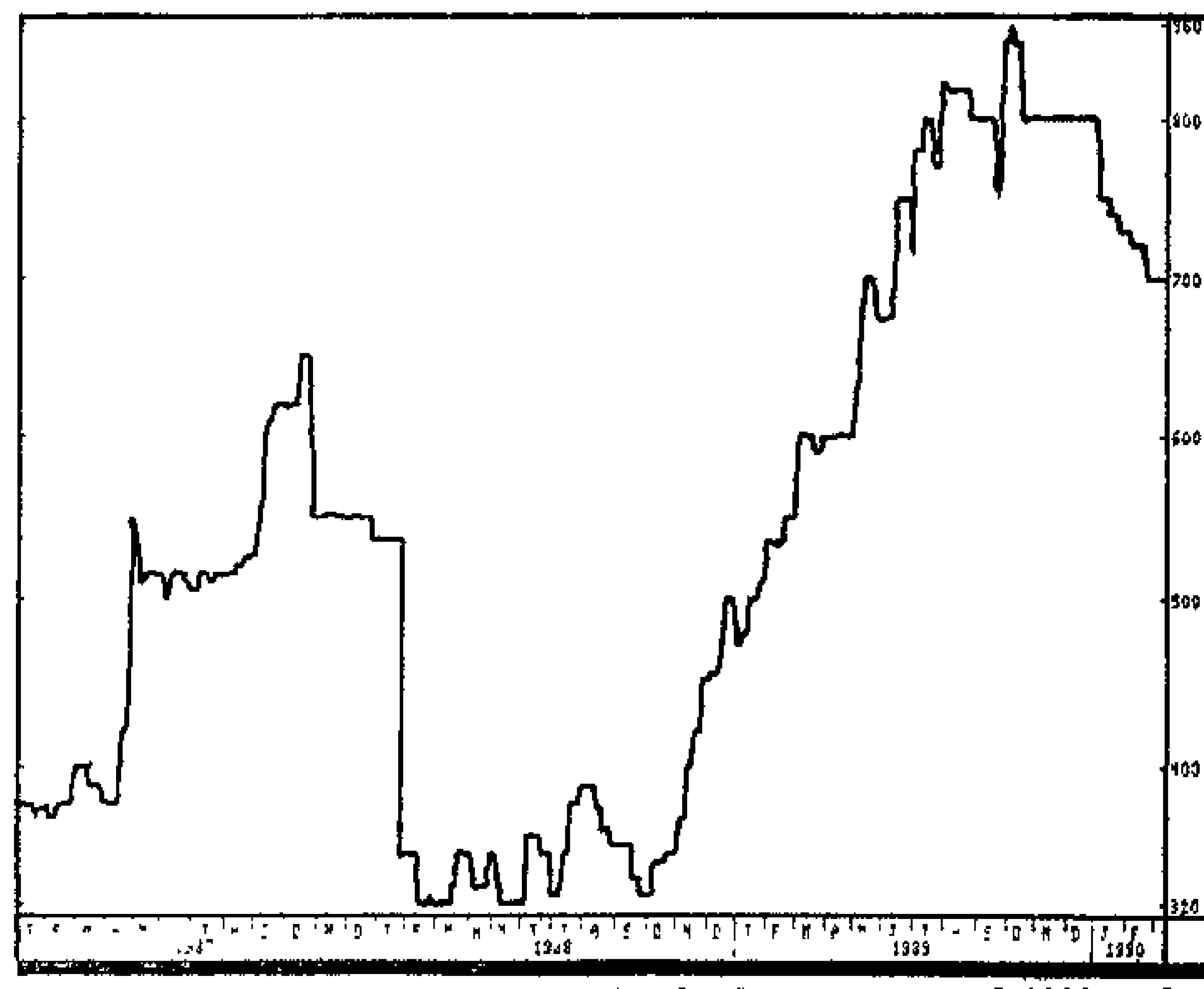
Star 12/3/90

By Lynne Peach

While Cemenco's earnings should continue to advance this year, stockbrokers expect the rate of growth to be negatively affected by the current economic slowdown which they predict will continue for most of 1990.

Furthermore, they point out that when the economy starts picking up, other shares, such as consumer stocks, are likely to react quicker to the recovery than Cemenco.

However, Cemenco is trading at 700c on a price-earnings ratio of 4,5 and provides a dividend yield of 10,7 percent. Brokers believe the share is worth holding on to in view of the above-average dividend yield and favourable long-term growth potential.



Cemenco's price peaked at 860c in the last quarter of 1989 and at the start of this year the charts confirmed that a downtrend had begun. In the past five months, the share has also been a relatively weak performer in the JSE engineering index. Until a trend reversal takes place, accumulation is not recommended.

Mining industry

The group is a holding company with its subsidiaries engaged in a wide spectrum of general engineering and contracting operations, principally for the infrastructure and mining industry.

The GFC Mining division provides various services to the mining industry including deep level shaft sinking, mine development, tunnelling and major surface and underground drilling contracts.

Chairman RT Shaw comments in the latest annual report that although local mining houses have numerous major projects in the planning stage their contractual demands in the year ahead are unlikely to result in any major upturn.

The mechanical engineering divisions include heavy press forging operation Cemenco Forgings and Cementation Engineering and Cemenco Steel Structures.

The latter two divisions undertake structural and fabrication work, light, heavy and precision engineering as well as production and manufacturing contracts.

The activities of other group companies include the manufacture of track equipment, maintenance and construction of railway track, production of ferrous and non-ferrous castings, manufacture of electronic products and marketing of a range of tiling adhesives.

In the year to September 1989 group turnover increased by 6,5 percent from R314,2 million to R334,7 million.

Better operating efficiencies pushed operating profit up 14 percent from R19,4 million to R22,1 million.

The 28 percent rise in the interest bill from R4,1 million to R5,3 million was more than offset by a decline in the effective tax rate from 37 percent to 27 percent. This pushed after-tax profit up 28 percent from R9,6 million to R12,2 million.

After deducting outside shareholders' interest and preference dividends, attributable profit increased 29 percent from R8,3 million to R10,7 million.

Earnings a share rose from 120,5c to 155c. The dividend for the year was 75c, compared with 42c in financial 1988.

Preference shares

The dividend exceeds the triggering figure of 62,5c which automatically converts the preference shares into 2,1 million ordinary shares with effect from October 1 1989.

This transaction results in GFSA direcly holding 23 percent of the total issue of 9 million ordinary shares.

The balance sheet showed a deterioration in gearing from 63,7 percent a year ago to 67,1 percent and a decrease in cash resources from R18 million to R11 million.

Net asset value appreciated 11 percent over the year from 737c a share to 816c.

Nedcor chief takes over at troubled Bankorp

Star 13/3/90

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By Derek Tommey

Gencor's dynamic executive chairman, Derek Keys, has acted in character by moving boldly to restore the tarnished images of Bankorp and subsidiary TrustBank.

In a development that has taken the banking industry by surprise, but will generally be welcomed, he has appointed top banker Piet Liebenberg, who is deputy chairman and chief executive officer of Nedcor, as executive chairman of the troubled Bankorp.

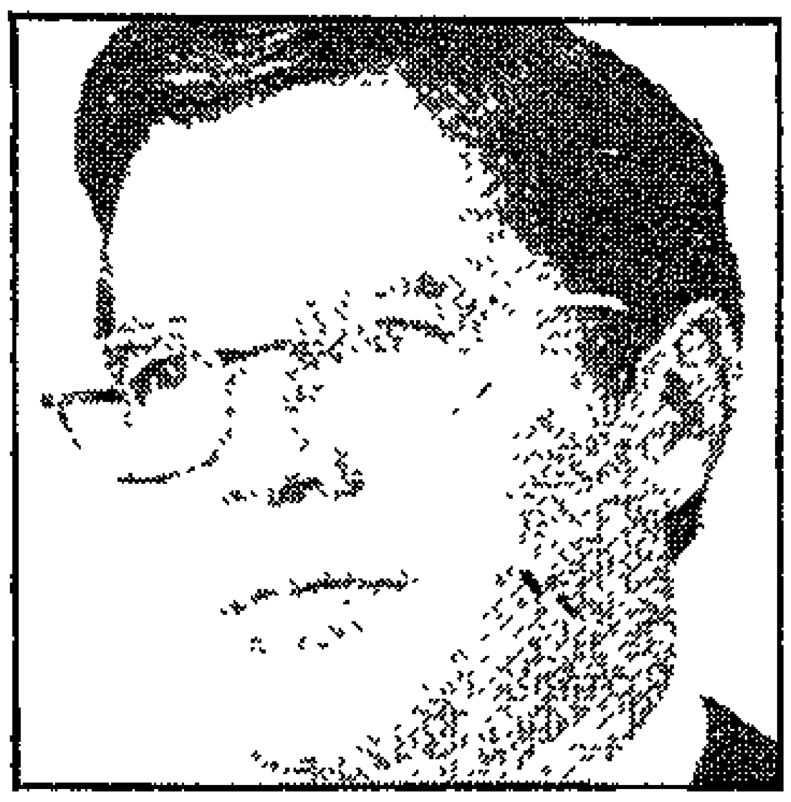
Mr Liebenberg will take up his new post on July 1.

Dr Chris van Wyk will continue as managing director of Bankorp.

Mr Keys, at present chairman of Bankorp, will remain on the board after July 1.

Initial reaction from the market is that the move is an excellent one. Mr Liebenberg has a reputation for getting results.

He rapidly turned around an ailing Nedbank and is confidently expected to do the same at Bankorp.



Piet Liebenberg

The announcement of Mr Liebenberg's appointment follows the publication by Bankorp just over a week ago of extremely disappointing interim results.

Bankorp reported a sharp drop in profits, a 25 percent drop in earnings from 57,2c to 42,9c a share, and a 29 percent cut in its interim dividend.

Its also reported abnormal losses in its gilt options market, instances of poor control in the administration of foreign exchange and that allegations had been made — which are being investigated — of irregularities in its debt recovery practices.

Statements such as these do little to help confidence in the bank.

Mr Liebenberg was an official of TrustBank when in 1970 he and some of his colleagues bought a banking licence and started their own merchant bank.

Finansbank, as this venture was called, flourished and by 1987 had more than R700 million in assets.

In 1987 Nedbank brought in Mr Liebenberg as managing director after buying out Finansbank.

This followed three years in which Nedbank's profits had fallen from R121,6 million to R79,7 million.

By last September, Nedbank was reporting profits of R387,5 million and earnings a share almost three times their 1986 level.

Dr John Maree, chairman of Nedcor, says he regrets Mr Liebenberg's decision, but that the bank has a depth of management talent from which to draw.

Mr Liebenberg has resigned with immediate effect as he feels it would be invidious in the circumstances to stay on as chief executive.

Dr Maree was appointed chairman three months ago after being a board member for nine years.

He says Nedcor has been reviewing its strategies to become a dominant force in the financial sector.

"We are a long way down the track and I'm confident that Necaor has the resources, and particularly the people, to achieve its long-term growth objectives," he says.

INVESTMENT

Argus 13/3/90 58

'Pull-out' cash floods retirement annuities

By David Cumming

JOHANNESBURG. — Triggered by the new all-share contracts and a flood of money from "disinvesting" Namibians, investments in retirement annuities have soared to record highs in recent months.

Although final figures are not yet available, all the major life offices report an avalanche of funds which are believed to run into hundreds of millions of rands.

And they are looking to more of the same this year as the public responds to a wave of new products and possible tax relief for retirement annuity holders in the Budget on Wednesday.

Prominent among the factors which boosted "normal" business was the scrapping of prescribed asset requirements which allowed the institutions to switch out of low-return government securities into blue chip equities.

"Abnormal" business was boosted by a major inflow of single-premium business from members of government pension funds in Namibia as the independence process got under way.

Major beneficiaries are thought to have been Sanlam and Old Mutual, although they are maintaining a low profile on the issue because of sensitivity in Namibia, where some of the administration believe this money was "stolen" from the fledgling country.

They point out, however, that the money belonged to the contributors to the pension funds anyway and that the Namibian economy will benefit when payouts are made on maturity — assuming that the contributors have remained in the country.

The inflow reached its peak last month as investors sought to gain the tax benefits of RAs before the end of the tax year.

Dave Hudson, assistant general manager marketing at Old Mutual says it has undoubtedly been a "blockbuster" of a year for RAs.

"And we are particularly pleased that not all the new business was in the equity-linked products which means they have not been oversold.

"Another pleasing feature has been the interest among categories of people with whom RAs have not traditionally been popular — this includes accountants and medical practitioners."

He estimated an industry surge of between 20 and 30 percent which would put new premium business at about R300 million.

Dave Johnson, senior manager (life marketing) of Southern says of the Namibian money "Even without final figures we have noticed a dramatic increase and this one-off feature will definitely distort figures."

He adds that there has also been a great deal of interest in all-equity portfolios after the abolition of prescribed assets.

Sanlam's marketing actuary Jacques de Villiers confirms these trends and believes a high level of interest will persist this year.

"Leaving aside the distortion of the single-premium business, I believe the range of new products on the market has raised interest among the general public and we can look forward to improved business, he said.

Herschel Mayers, assistant general manager, product development at Liberty Life, says the scrapping of prescribed asset requirements has enhanced the RA as an investment and the company's 80 percent equity-based portfolio has been tremendously popular.

"In fact our annual premium income for the years to date is up 45 percent."

PROPERTY

Nedcor shaken as CEO resigns to take over troubled Ba

BARRY SERGEANT

B/Day 13/3/90

NEDCOR CEO Piet Liebenberg has resigned with immediate effect to take up the position of Bankorp executive chairman from July 1.

Bankorp chairman Derek Keys, who will become a Bankorp director from July 1, said yesterday he regarded the appointment "as being of paramount importance for the group. A business of this magnitude and complexity needs a full-time leader in the chairman's seat and we are particularly glad to be getting a person of Liebenberg's proven calibre".

Liebenberg became Nedbank (as Nedcor was then) MD and CEO on February 1 1987. His appointment was the culmination of Nedbank's purchase of Finansbank for R70m.

Payment for the Finansbank deal to the shareholders, executives and senior managers was in Nedbank shares at 630c. These are now quoted as Nedcor shares, which closed yesterday at 1 135c.

It was speculated at the time of the takeover Liebenberg was the largest single shareholder.

Yesterday's announcements said present Bankorp CEO Chris van Wyk, who is also MD of wholly owned subsidiary TrustBank, would stay on as Bankorp MD.

Attie du Plessis, GM: Investments of Sankorp, Bankorp's immediate parent, told Business Day: "We were looking for a man who was both an experienced businessman and banker and have found him in Piet Liebenberg."

Last night industry sources and analysts expressed astonishment at the move by the conservative, wealthy, highly successful banker. Analyst David Southey of Edy Rogers Inc described the move as "absolutely extraordinary" as Liebenberg was moving to the lowest-ranked "Big Five" bank.

A senior banker said that Bankorp had made Liebenberg "an offer he couldn't refuse". Liebenberg was not available for comment.

Nedcor chairman Johan Maree said a successor to Liebenberg would be announced after a Nedcor board meeting towards the end of the month: "It was not a move we had anticipated."

On the question of whether executives who had been attracted to Ne benberg to Bankorp, Ma foregone conclusion." A particular executive wa Leon Porter, who was re hind a number of Nedc gies.

Maree said that while benberg's departure, N management talent from

Industry sources last korp management shak the year to end-Decemb dends down 28,6%. A se was "simply too busy to l

□ To

Bankorp

B/Day 17/3/90

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□ From Page 1

chairman of a troubled Bankorp at a time like this".

After Bankorp's 1:1 rights issue which doubled its share capital, Sanlam and Sankorp, together holding 81% of Bankorp, announced last week that they would take shares instead of dividends from Bankorp, to help Bankorp's capital starvation. The results showed Bankorp's new equity-to-asset ratio at 3,8%, below the 5% or more of the other Big Five.

Nedcor's market capitalisation of R2,1bn puts it second among the Big Five, after Stanbic's R3,1bn. Bankorp is rated fifth at R529m, after First National (R1,7bn) and Volkskas (R570m).

Yesterday only Nedcor and Bankorp changed prices on the JSE, Nedcor shedding 5c to close at 1 135c and Bankorp gaining 15c to close at 300c, afer last week's 12-month low of 265c.

Maree, who is also chairman of Eskom, and director of numerous companies, has been a director of Nedbank for nine years. He took over as Nedcor chairman on January 1 when Owen Horwood retired. Maree said he had been engaged in meeting staff and management. "As part of this exercise we have been examining our strategies to achieve our goal of becoming a dominant force in the SA financial sector."

B/Day 13/3/90

Housing scheme would need 'another R55,7m'

EDWARD WEST

GOVERNMENT needs to provide an extra R55,7m to the first time home-ownership subsidy scheme once the Urban Foundation's housing initiative — expected to mobilise an initial R1bn in home loans — gets off the ground.

That projection was made by Llewellyn Lewis of Business Marketing Intelligence (BMI) building research strategy consulting unit.

The housing initiative was developed jointly by the Urban Foundation, the Mortage Lenders Association and the short-term insurance industry last year to unlock institutional finance to alleviate SA's housing shortage.

Affordability was a major problem facing blacks and the initiative could only succeed if funds available for the subsidy scheme was increased, said Lewis.

He said the increased subsidy scheme would be the key for the initiative to provide an additional 40 000 homes at an average price of R20 863 a home and unlock an intial R834,5m in home loans from financial institutions.

The initiative was expected to provide loans of between R12 000 and R35 000. With every R1m invested into housing, 186 jobs would be created, said Llewellyn.

SA Housing Trust MD Wallie Conradie agreed the scheme would need to be increased as the initiative would allow more people to own homes. However, he had not seen projections of by how much government would have to increase funds.

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Speculation

Mortgage Lender's Association chairman Bob Tucker said the initiative was on target for April 1, but he could not comment on increases for the scheme as it was under extensive revision by government.

A senior Planning and Provincial Affairs Department spokesman last night dismissed the BMI figures as speculation, but added the department had only been responsible for housing policy since March 1. He said he was not yet familiar with all relevant issues.

Meanwhile, Bifsa said in its Building Review, released yesterday, that business conditions in the housing market remained unsatisfactory in 1989 due to high mortage rates and the deceleration in personal disposable income.

Central Statistical Service said the value of building plans passed during the first 11 months of 1989 increased 18,8% to R8,5bn, while the value of buildings completed during the same period increased by 28,9% to R4,9bn.

Non-residential and alteration building plan values increased, but those for homes decreased by 5,1%, while plans for flats and townhouses decreased by 2,3% compared with 1988.

Of 36 668 houses built in the first 11 months of 1989, 39,1% were built for whites, 30,4% for blacks, 22,0% for coloureds and 8,5% for Asians, the CSS said.

Lewis said the CSS statistics reflected changing housing trends in SA. In 1982 to 1985, only 3% of all houses built were for blacks. In 1988, 37% of the houses built were for whites and 40% were built for blacks.

BMI forecast that in 1990, 28% of all houses built would be for whites and 48% for blacks.

Bifsa's review forecast a real negative growth rate of 8% in the residential building market during 1990.

More tax relief for car allowances

Star 14/3/90

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By Sven Lünsche

Higher tax deductions for car allowances have been introduced by the Ministry of Finance.

A new table published in Friday's Government Gazette has deductions eight to 18 percent higher than in the previous table gazetted in 1986.

The deductions have been made retroactive to March 1 1989, the start of the 1989/90 tax year, but do not apply to company cars.

In terms of the new scale, the fixed cost of the car, the fuel costs per kilometre and the maintenance costs per kilometre have been adjusted for the calculations of the car allowance deductions.

If your car is valued between R24 000 and R26 000 the fixed cost is now R8 877, the maintenance costs 5,8c a kilometre and fuel costs 11,7c a kilometre. For a car valued between R45 000 and R50 000 the respective figures are R16 119, 6,4c/km and 12,9c/km and for a car of between R70 000 and R80 000 in value the costs are R24 245, 6,9c/km, 14,1c/km.

If a car allowance has not been received for the full tax year, the deductions can be averaged out, although the Government Gazette says this will be replaced in the 1990/91 tax year by a scheme where such amounts can be prorated.

Also in the current tax year a new formula will be used to claim for car allowances if the distance travelled for business does not exceed 6 000 km.

Changes to mining taxation mooted

JSE buoyed by optimism

Cape Times 14/3/90 58

By AUDREY D'ANGELO
Financial Editor

AS stock markets in other parts of the world continued to decline yesterday, the JSE went against the trend by firming in spite of a lower gold price and a steep fall in the financial rand.

Stockbrokers and analysts said it was buoyed by hopes of a change in mining taxation in today's Budget — which some thought might be mildly stimulatory — as well as by the weaker financial rand.

Shortly before the close, the overall index was 21 points higher at 3 253, following a 60-point rise on Monday to 3 232. The all-gold index rose briefly to 2 039 before closing at 2 019 compared with Monday's 2 009. The industrial index firmed to 2 954 compared with 2 942.

The financial rand fell 18c to R4,07 to the $1, more than 26% down from the heights it reached six weeks ago.

And gold was fixed at $397,25 an ounce in London yesterday afternoon — down from $401,25 on Monday.

Jan Calitz, executive director (investments) of Southern Life, said he believed the gold price would rise "in the course of this year".

He explained: "At some stage US monetary policy will have to be relaxed. US interest rates will come down and the gold price will rise."

Meanwhile, weakness in the Tokyo stock market, which had fallen steeply back to the level it had reached a year ago, had impacted on other markets around the world, including the JSE.

But the weakness of the financial rand, caused by lack of demand for the currency due to unrest and jitteriness about the nationalisation issue, had helped to keep up prices on the JSE this week.

"And feelings are positive about the Budget from the tax point of view, particularly where the mining houses are concerned."

However, Calitz warned, if these positive expectations were not met the market would turn weaker after the Budget.

Frank Brewer, at the Claremont office of Frankel, Kruger, Vinderine, said he thought the firmness of the market was due to a combination of optimism about the Budget — with particular hopes of lower taxation for the gold mines — and the weakness of the financial rand.

"I believe it is going to be a good Budget. We appear to be getting inflation under control. He may let the reins off and allow the economy to pick up a bit.

"I don't imagine he will throw caution to the winds, but we may get a mildly stimulatory Budget."

Philip Eyles of Davis, Borkum, Hare said: "I think the market is telling us there is a very good chance of a reduction in mining tax. It is obviously expecting something very positive."

But he doubted whether there would be any reduction in company tax, which would stimulate industrial shares.

Business Report

Southern Life improves growth

Cape Times 14/3/90

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Financial Staff

SOUTHERN LIFE'S Managegrowth pensions portfolio gave an annual return of 40,6% for the 12 months to December 31.

Life portfolios also showed improved growth, with returns ranging from 33% to 41% due to variations in product features and tax structures.

The equity component of the portfolios, which account for about 60% of the Southern's assets, out-performed the share index and yielded a return of 56% over the same period.

Holdings which made a major contribution to this performance included De Beers (which rose by 48%), Anglos (up 78%), Rembrandt (up 76%), Gencor (up 79%) and Barlows (up 65%).

But although equities made a strong contribution to the Southern's overall portfolio performance, other sectors also gave solid returns. Interest-bearing assets yielded 23% and property gave a return of more than 23%.

Executive director (investments) Jan Calitz said that correct reading of the outlook for gold shares early last year helped Southern Life to achieve highly competitive returns.

"Following the sudden surge in the gold price in the fourth quarter to reach a high of nearly $420 an ounce in December, our markets recorded spectacular gains and the Southern was well positioned to take advantage of this upsurge.

"The portfolios benefited from the strong run on gold towards year-end because of the relatively heavy weightings in mining financial and gold shares.

"Direct gold shares significantly outperformed industrials in the fourth quarter with the total returns for gold shares being 24,4% against a mere 2,7% for industrials."

However, Calitz stressed the long-term nature of managed funds and cautioned against too much emphasis on short-term performance.

He said that based on a single investment in the Managegrowth portfolio, which had assets in excess of R2,6bn, the compound annual growth rate had been 20,9% over 10 years compared with an inflation rate of 14,6%.

"The return of 40,6% for the calendar year 1989 was more than double the inflation rate and provided a meaningful return for investment."

Southern Life portfolios excel

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LIZ ROUSE

CORRECT reading of the outlook for gold shares in early 1989, coupled with astute share selection and rationalisation of portfolios, lifted Southern Life's investments to new highs. BDay 14/3/90

The Managegrowth pensions portfolio posted a return of 40,6% for the 12 months ended December 1989. Life portfolios also showed improved growth, with performances ranging from 33% to 41%.

The equity component of the portfolios — accounting for 60% of Southern's assets — outperformed the all-share index and yielded a 56% return in the year to December. Holdings which made a major contribution to this performance were De Beers (which increased by 48%); Anglos (up 78%); Rembrandt (up 76%); Gencor (up 79%) and Barlows (up 65%).

While equities made a strong contribution to overall portfolio performance, other sectors also posted solid returns — interest-bearing assets yielded 23% and property's return was more than 23%.

Executive director Jan Calitz said following the sudden surge in the gold price in the fourth quarter to a high of nearly $420 an ounce in December, the equity market recorded spectacular gains.

The portfolios benefited from the strong run on gold towards year-end because of the relatively heavy weightings in mining financial and gold shares.

Insurance scheme for panelbeaters

58

LINDA ENSOR

A SCHEME for insuring panelbeaters — who took a battering with the AA Mutual crash — has been devised by the SA Motor Body Repair Association (Sambra) to provide for losses in the event of an insurance company collapse. B\Day 14\3\90

Panelbeaters, whose major clients are insurance companies, lost up to R10m in the AA Mutual crash, says John Manners, MD of Credit Underwriting Agency, which together with Corfin Insurance Intermediaries is launching the scheme for Sambra, a subsidiary of the Motor Industries Federation.

In terms of the scheme, R20m worth of insurance will be taken out for the biggest single aggregate of exposure to a single insurance company. The aggregate would be split into 2 000 units and made available to panelbeaters in units of R10 000 each and they will take out units on the basis of their own exposure with a maximum of R100 000 to any one insurer.

Blocks of units would each represent cover to the value of R10 000 and would carry an annual premium cost of 5% of the cover capacity.

LOA probes role of individual policies in provident funds (58)

THE funding of provident funds with individual policies is being investigated by the Life Offices Association (LOA).

The aim of the investigation, according to joint-MD of Liberty Life and LOA chairman Dorian Wharton-Hood, is to make recommendations to the Registrar of Financial Institutions on the circumstances in which individual policies will be acceptable and what the commission regulations should be on those individual policies.

Chris Bösenberg, Sanlam's senior manager of group benefits: valuations, said it had become increasingly attractive for employers to invest in provident funds on behalf of their highly paid employees on a "sacrifice salary" basis because of the tax advantages on retirement.

These arrangements were often funded by individual endowment policies which could then be ceded to the member at retirement and not paid out as was normally the case with provident funds, but left to accrue further.

The appreciation would presumably not be taxable in terms of the Sixth Schedule of the Income Tax Act.

LINDA ENSOR

Commentators said the practice could be seen as a tax-dodge as it carried too many advantages, namely those of provident funds and endowment policies, and furthermore, lent itself to abuse.

Wharton-Hood said recently one of the major difficulties concerned the tax status of individual policies.

"If you allow individual policies to fund provident funds, because provident funds are tax free, those individual policies will have to have a tax-free build-up.

"The problem would then be that an existing individual policy which is a taxable policy which is taken into a provident fund would have to be changed to become a tax-free policy and then when the person retired from his provident fund and took his policy with him, the nature of that policy would have to change to become a taxable policy.

"That has all sorts of administrative complications," he said.

Also, a commission incentive to fund provident funds by individual policies might result in no one buying taxable policies.

Gilt market volatile after Budget news

15/3/90 By John Spira

Diagonal Street's capital market fell sharply after the statement by Mr du Plessis that the state financing requirements of R11,8 billion for the 1990/91 was to be funded "mainly from the sale of domestic stock of R11,25 billion, which included investments by the Public Investment Commissioners."

Dealers feared the sale of so large a sum of government stock would severely depress gilt prices, despite the Minister's assurance that "although stock to the value of about R2 billion had been sold in advance... the remaining borrowing requirement of R9,25 billion should not exert undue pressure on the capital market..."

Subsequent clarification of the Budget's intentions — to the effect that most of the borrowing requirement would be satisfied by the PIC — reversed the market's negative trend.

Dealers were disappointed the state had not seen its way clear to establishing a two-way market in gilts.

Mr du Plessis said the state would continue to act only as a seller of stock. If it was also required to buy stock, it would have to buy large volumes of gilts at a time when it might not be desirable to expand liquidity.

Discount houses set for change

Finance Staff

The role of the discount houses will change fundamentally this year, says Finance Minister Barend du Plessis.

He said that a new bill, the Deposit-Taking Institutions Bill, would be tabled in Parliament during the current session to replace the current Banks Bill.

In view of the changes in the traditional functions of discount houses, provision would be made in the proposed Bill for the phasing-out of the investment channel facilities which they offered to banks and building societies.

The discount houses would be given the option of registering as deposit-taking institutions in terms of the proposed legislation.

St 15/3/90

Tax on fringe benefit cars goes up sharply

Star, 15/3/90 (58)

By Derek Tommey

Recipients of company "perks" will pay more tax The Minister of Finance has sharply increased the amount which users of company cars and recipients of low interest or no-interest loans have to pay to the Treasury.

He has increased the determined value of a fringe-benefit cars by 50 percent for tax purposes. But even at the new rates, most people will think a company car still worth having

The determined value is the sum on which tax has to be paid. An individual in the maximum marginal tax bracket, would have to pay the Receiver 44 percent of this figure.

The determined monthly value of a R25 000 two-litre car will be raised from May 1 from R238 to R357 and that of a R50 000 three-litre car will go up from R411 to R616. The determined monthly value of a R100 000 car bigger than three litres will increase from R675 to R1012,50.

Tax experts say that in spite of the latest increase in determined value the figures are well below the true value. However, the Government is following the Margo Commission's recommendation that these values be adjusted annually until "more realistic" values are achieved.

Mr Bert Wessels, chief executive officer of Toyota South Africa, said he was most disappointed by the move.

A major factor in the development of the South African car industry had been the demand for company cars

The increase in the determined values was not welcome at a time when the industry was making heavy capital investments to meet the new local content requirements

Mr du Plessis also increased the taxable benefit of low-interest or interest-free company loans from 16 to 19 percent.

This means that the taxable value of a R100 000 housing loan will be lifted from R16 000 to R19 000 and will raise the tax on an individual in the maximum bracket by about R1 320 a year.

Mr du Plessis announced two minor tax changes. The rebate for the over-64s is to be increased from R1 450 to R2 100, which should help pensiones

On the other hand, he is phasing out the R120 rebate for taxpayers between 60 and 64. The withdrawl of the rebate for people in this age group suggests that the official retiring age could be on the point of being lifted from 60 to 65

Star 15/3/90

Savings to be encouraged with a higher tax ceiling

By Sven Lünsche

The Government has finally grasped the seriousness of the persistent dis-saving of the last few years.

In his Budget speech to Parliament yesterday Finance Minister Barend du Plessis announced a number of important steps to promote individual savings.

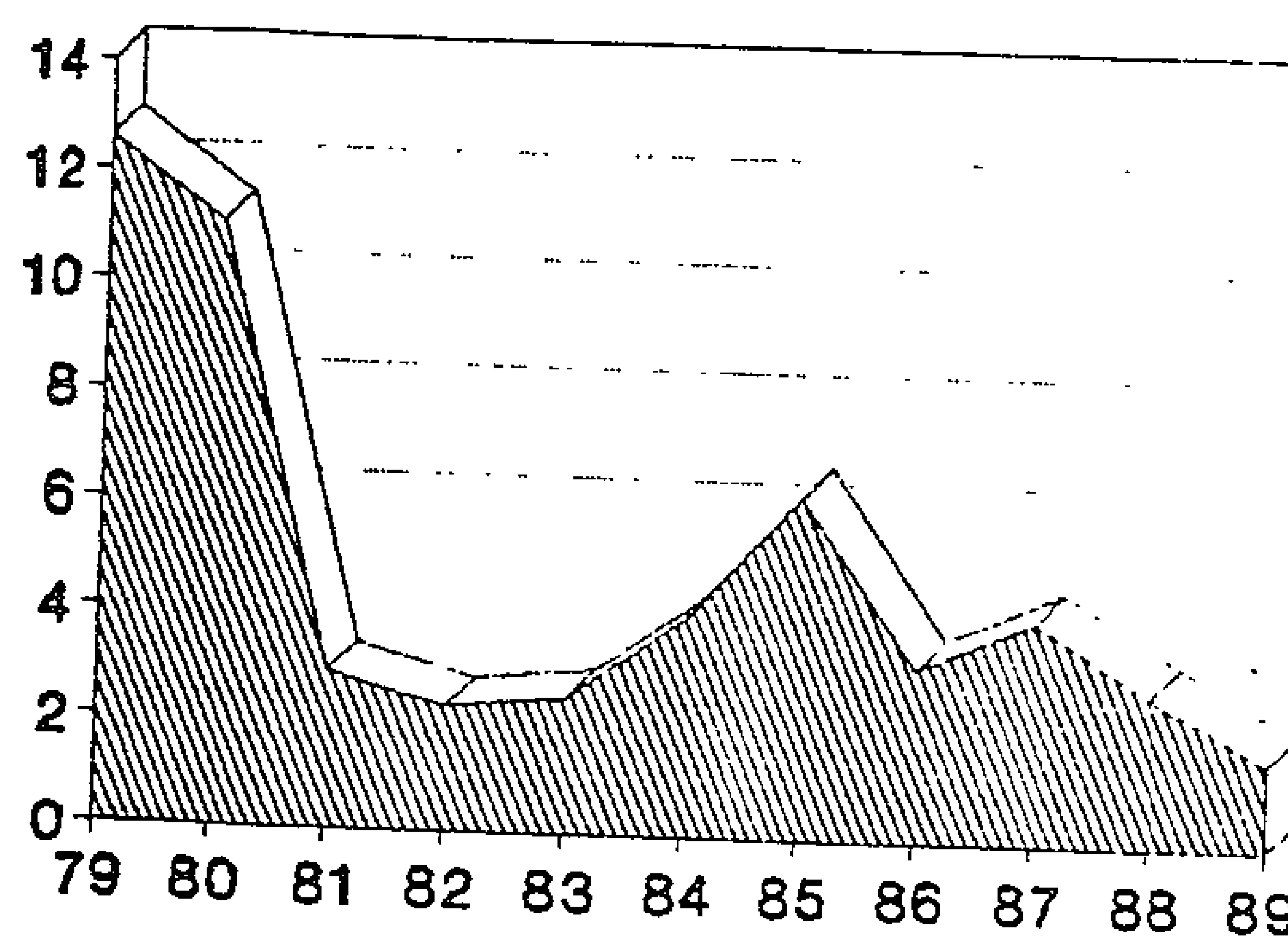
On the subject of individual income tax, he said it was of the utmost importance for the promotion of economic growth that discretionary personal savings be encouraged where possible.

For this purpose he recommended that the present exemption to individual taxpayers of the first R1 000 of interest and building society dividends be doubled to R2 000.

Other dividend income will be fully exempted from normal tax in the hands of individuals and close corporations, thereby eliminating the present double taxation of such dividends.

These measures should boost personal savings by about R650 million in the 1990/91 fiscal year, Mr du Plessis said.

The tax incentives to individuals, to the tune of R4,5 billion, should also prove a significant boon to savings.



Personal savings as percentage of disposable income

The measures have come at just the right moment.

Personal propensity to save (Personal Savings as a percentage of Personal Disposable Income) in 1989 fell to 1,6 percent last year — its lowest level in years.

In the late 70s, this figure was running at a healthy 13 percent (see graph).

In nominal terms personal savings declined for the second year in succession, according to figures released in the statistical bulletin accompanying the Budget.

From R4,133 billion in 1987, they fell to R3,151 billion in 1988 and to R2,059 billion in 1989.

Renumeration of employees at current prices increased by 18,4 percent in 1989, against 16,7 percent in the previous year.

Despite this, and including sharp increase in transfers from abroad, current income rose by only 16,2 percent in 1989 (17,5 percent).

Since direct taxes as a percentage of current income remained virtually the same, personal disposable income increased by 16,2 percent.

Although the increase of 17.6 percent in private consumption expenditure in 1989 was lower than in 1988, personal savings declined for the second year in succession, the bulletin says.

Commenting on the savings proposal, United Bank MD Nellie Bosman said scrapping tax on individual dividend income was welcome and would boost savings at building societies in particular.

He added, however, that at current interest rates of about 18 percent on wholesale deposits "it does not take huge amounts of savings to push up interest income above R2 000.

"We certainly had expected more on this front."

High revenue an 'embarrassment'

Star 15/3/90

By MAGNUS HEYSTEK

The Government suffered from an embarrassment of riches during the 1989/90 financial year as revenue collections, from individuals in particular, raced far ahead of estimates.

Total tax revenue for the 1989/90 financial year exceeded the budgeted estimate by no less than R6,3 billion, rising to R61,385 billion.

Tax collections from income tax on individuals are estimated to have exceeded the budgeted amount by R2,190 billion, or no less than 36,6 percent.

Several factors contributed to this flood of money.

Higher salaries

Salary adjustments in the private sector were higher than predicted, which, together with the effects of fiscal drag, resulted in an avalanche of revenue which surprised most commentators. More than R3 billion of this surplus will now be used to reduce the losses on forward cover transactions.

Another factor was that tax collections were much more effective as a result of the introduction of SITE, which greatly improved cash flow to the Receiver of Revenue.

Good profit performance from companies in 1988 continued into 1989 and this, along with the third provisional tax payments for the 1989/90 year, resulted in an increase in the estimated revenue from non-mining companies of R1,5 billion over the budgeted amount.

The import surcharge, announced in August 1988 and revised in May last year, also boosted Government's income. An original amount of R1,3 billion was estimated but the continued high levels of imports saw Government rake in an additional R1,3 billion.

Government also raked in R240 million more than estimated as a result of higher fuel consumption, a result of the buoyant state of the economy.

Other noteworthy increases above the budgeted amounts are to be found in stamp duties and fees (R109 million), marketable securities tax (R120 million), departmental operations R232 million) and interest and dividends.

Although described by officials of the Department of Finance as "exceptional circumstances", which were unlikely to be repeated during the current financial year, it nevertheless increased the total tax burden.

Total tax collections during 1989/90 increased to 24,9 percent of gross domestic product (GDP). This is significantly higher than the average ratio of 18,8 percent in the 1970's and the average of 21,4 percent in the 1980's.

Another disquieting figure is the sharp rise in the relative contribution to overall Government revenue made by individual taxpayers and non-mining companies.

In the 1970's the contribution to total tax was 23,1 percent and 23,4 percent respectively. This situation changed drastically in the 1980's: individuals' average contribution in those years was 27,2 percent as against 17,6 percent by non-mining companies.

Individuals taxed more

Since 1983/84 income tax from individuals has invariably been over 28 percent of total tax revenue and for 1989/90 it is estimated at close to 31 percent.

In the case of non-mining companies the position is the reverse. since 1983/84 their income tax was always less than 17 percent of total tax revenue, although for 1989/90 it rose marginally to 18 percent.

For all companies the average contribution to total tax revenue in the 1970's was 32,5 percent, as against 27,3 percent in the 1980's. Since 1987/88 it has been below 25 percent and for 1990 it is estimated to be as low as 21,8 percent.

Liberty in ten-for-one share split

Star 15/3/90 (58)

By Ann Crotty

Liberty Life has announced a ten-for-one share split in a move that's designed to increase the marketablility of the share.

At around R220 a share, Liberty Life has limited attraction for anyone other than large investors.

A ten-for-one share split should initially reduce the price to just over R20, making it accessible to a wider group of investors.

But in line with other instances when expensive and popular shares were split, it is likely that the split Liberty share will move beyond the R22 level as increased marketability will enhance its attraction.

At the current pre-split share price of R220 it is on an historic P/E rating of 25 times based on the 889c a share earned in the 12 months to December 1989.

The historic dividend yield is 2,9 percent based on financial 1989's dividend of 643c a share.

On the basis of these very high ratings it is difficult to see much scope for a further advance in the Liberty share price. The average for the sector (which is heavily influenced by the highly rated Liberty shares) is a P/E of 16,1 times and a dividend yield of 3,2 percent.

Donny Gordon

Despite these considerations, the feeling in the market is that the increased marketability of Liberty will enhance its share price.

Highlights of Liberty Life's results for the 12 months to December 1989 included a 22 percent increase in net taxed surplus per share to 889c (730,2c); a 21 percent hike in dividend to 643c (530c) a share; total income of R3,1 billion (R2,5 billion) and total assets up to R18,8 billion (R14,4 billion).

(The total effective dividend per share was up 24,9 percent to 662c when adjusted for the capitalisation issue which was undertaken on the basis of five new ordinary shares for every 100 held).

Net premium income rose 22,2 percent to R1,8 billion (R1,5 billion), while income from investments (and sundry income) shot up 33,5 percent to R1,4 billion (R1 billion) to give total income of R3,2 billion (R2,5 billion).

The balance sheet shows shareholders' interest shot up to R2,5 billion (R2 billion). The R510 million increase is equivalent to R24 per Liberty Life share.

Life funds, which include actuarial liabilities under unmatured policies and investment surpluses, increased to R15 billion (R11 billion), bringing the total to R18,8 billion.

The bulk of investments comprise shares and mutual fund units, which total R11,1 billion — up 48 percent from the previous year's R7,5 billion.

Government and semi-government holdings was little changed at R3,5 billion.

- Liberty Holdings reported a 28 percent hike in EPS to 262,8c (204,7c) and declared a final dividend of 92c (68c), bringing the total to 150c — up 29 percent on the previous year's 116c.

Despite the uncertainty — social, political and economic — both locally and internationally, it is difficult not to see Liberty being able to sustain the strong annual profit growth that it has provided for investors over the past 26 years.

As Donald Gordon said in his chairman's statement, Liberty Life has combined shareholders' funds and policyholders' free reserves of almost R6 billion, which "will provide a vital cushion to protect the interests of policyholders. This may be critical in the tumultuous years that lie ahead".

Cape 15/3/90 (58) CT

10-year-old JSE shares placed in 'safe haven'

Profits realised from shares listed on the Johannesburg Stock Exchange that have been kept for more than ten years would be exempted from income tax under certain conditions, the Minister of Finanace, Mr Barend du Plessis, said in his Budget speech yesterday.

Uncertainties about the distinction between capital and income were an important reason for the low turnover on the JSE and the phenomenon that large financial investments were not released for application in other fields of investment.

The Tax Advisory Committee had consequently recommended the introduction of a so-called "safe haven" for shares listed on the JSE for more than 10 years. Profits from the realisation of such shares would be exempted from income tax.

These recommendations were acceptable to the Government under certain conditions and the adjustments would apply as from yesterday.

The conditions were that profits and losses made on the realisation of shares listed on the JSE would be deemed to be of a capital nature if it took place 10 years after their acquisition.

Listed shares that have been acquired by exchange and were subject to Section 24A of the Income Tax Act would not qualify for this concession. The onus would be on the taxpayer to prove he had held the shares for the required period.

The results would be monitored to determine whether a more efficient system could be developed.

The higher turnover of shares should lead to an increased revenue of about R15 million from the marketable securities tax.

It had also been decided in principle to phase out the present 1,5 percent tax on marketable securities over a period of three years. For revenue reasons this phasing out would commence only in the 1991/92 financial year. — Sapa.

The Star
Finance

Star 15/3/90 (58)

Ring-fencing move disappoints mines

By Derek Tommey

Mining industry officials have expressed disappointment with the limited relaxation of "ring-fencing" announced by the Minister of Finance.

The move might encourage the development of small shallow mines, but it would do nothing to stimulate the opening of the large deep level mines South Africa so badly needs, Gary Maude, managing director of Gengold, said last night.

The Minister said 25 percent of the tax base of an existing mine could be used to write off a new mine's development costs in cases where both mines were the property of the same taxpayer.

Mr Maude said there had been no change in the ruling that the tax benefits of such concessions would apply only when the new mine reached production.

This meant, in the case of a deep level gold mine, that the tax benefits might not accrue for 10 to 12 years.

Capital allowance

Mr Marius van Blerck, Anglo American Corporation's group tax consultant, welcomed the increase in the existing capital allowance for new gold mines from 10 to 12 percent.

He said this meant that any capital expenditure that could not be offset against a mine's tax base could be carried forward to the next year and increased by 12 percent.

He also welcomed the announcement of the second step in the phasing-in of a lower tax formula for gold mines and in the phasing out of the surcharge on other mines.

He said it was a further step in the right direction. It reduced the maximum rate of tax on a gold mine from 73 to 71 percent and the maximum tax rate on a non-gold mine from 56 to 54,5 percent.

He believed the conditional exemption from tax of profits from the sale of shares held for more than 10 years would have a considerable effect on the cash flow of the mining houses and other institutions.

They would be able to sell their mature investments to insurance companies and other non-risk investors without penalties and raise substantial sums of money for new investments.

Spur to new mines

The Chamber of Mines has broadly welcomed tax concessions for the mining industry announced in the Budget speech as a spur to the development of new mines, reports The Star's Labour Reporter.

At the same time, National Union of Mineworkers' economist Martin Nicol warned that the concessions were part of a process set in motion by the Marais committee on mining taxation which would lead to the mining of less marginal ore and fewer mining jobs.

"We are seeing a move away from the preservation of mineral resources to a strict emphasis on short-term profit," he said.

Chamber of Mines economist Ivor Leibowitz said the most significant government move was the lifting of tax on the sale of shares held for more than 10 years.

This would enable the mines to sell off large blocks of mining shares where such revenue would previously have been taxed at marginal rates.

Although the partial lifting of "ring-fencing" was to be broadly welcomed, in terms of cost and high risk involved in developing new mines, the 25 percent write-off was too low, Mr Leibowitz said.

Economists applaud spending cut

By Claire Gebhardt

Cit 15/3/90

Economists have welcomed the long-term contractionary effects of the Budget, but fear that Mr du Plessis's tax relief may be too generous in the short term.

Also of concern is the fact that Mr du Plessis may have been over-optimistic as far as cuts in government expenditure are concerned.

All, however, praise the Minister's efforts to restrict state spending and gradually roll back government intervention.

Head of the Department of Economics at Unisa, Professor Phillip Mohr, says one has only to view the expected 11,9 percent increase against last year's expenditure increase of 16,5 percent to be a little sceptical.

He believes the Budget over the full year is contractionary if the cutbacks on the expenditure side are realised.

"But the tax cuts will mean that a lot of people will have cash in their pockets and, though they may repay debt, they may equally well go out and spend.

"So the pressure of looking after the balance of payments will still be the responsibility of the Reserve Bank.

Rand Merchant Bank economist Rudolph Gouws says the basic approach of the Budget cannot be faulted.

"The Budget will do what it has set out to do because it is a solid supply side budget which reduces government intervention, encourages saving and reduces tax.

"This will result in faster private fixed investment and will stimulate job creation."

He cautions, however, that the substantial tax cuts could lead to too much stimulus on the demand side and result in interest rates having to stay at present levels for that much longer.

JD Anderson's Dr Piet van Schaik says Mr du Plessis has presented a very clever Budget by going the supply-side route in an attempt to lower inflation and increase productivity.

"The R6,3 billion, or two percent of GDP, which is being pumped into the economy can be seen as too stimulatory, but Mr du Plessis is reducing the Government's stake in the economy to the tune of that percentage.

"There is going to be a gradual redeployment of spending towards social and security from police and defence and one gets the impression that politics and economics, as far as Exchequer spending is concerned, will go hand in glove.

"The deficit before borrowing is not very high, certainly under the magic three percent, but above the magic 2,5 percent. But it is a pity Mr du Plessis is still funding R2,9 billion of current spending by issuing loans of one kind or another.

"If capital expenditure is R5,1 billion and the total deficit R7,8 billion, the difference is obviously spending of a current type of nature," he says.

Volkskas's Adam Jacobs says the concessions made to individuals repreent a real lowering in tax and are welcomed.

"However, we were only expecting tax relief of R2,5 billion and we hope people will not go on a spending spree."

United's Dr Hans Falkena says the increase in the tax-free portion of interest income from R1 000 to R2 000 is too low and will not give a stimulus to savings.

He also believes the 10-year period to qualify for capital exemption is too long.

Southern Life's Mike Daly says the Budget is going in the right direction structurally.

"It is not only a good Budget for the man-in-the street, but it will also give a boost to the unit trust industry.

Senbank's Dr Johann du Pisane says if one looks at the expenditure side it is a contractionary Budget as government expenditure is part of total domestic expenditure and Mr du Plessis is budgeting a decrease in real terms.

"On the other hand, looking at the tax cuts, consumption expenditure could be stimulated as more disposable income is left in the hands of the individual.

But he believes it will be a popular Budget holding something for the poor as well as for the wealthy.

"For the poor there is a substantial increase in social services, including education, while the reduction of income tax will be concentrated on the lower- and middle-income groups The wealthy will benefit from the reduction of tax on interest and the abolition of the tax on dividends."

He sees the creation of a state fund dedicated to the removal of socio-economic backlogs as supporting monetary policy.

"In terms of stabilisation the transfer of R6 billion from the 1989/90 surplus means this amount will be sterilised.

"This will maintain interest rates at the present high level until we can be sure that our foreign reserves are well-protected. In terms of an anti-inflation policy this is the correct thing to do."

Bill to protect, supervise banks (58)

Sowetan 15/3/90

A BILL allowing for the regulation and supervision of banks and building societies in a way more adaptable to the dynamic environment in which they operated would be tabled in Parliament this session, the Minister of Finance, Mr Barend du Plessis, said yesterday

The measure would be the Deposit-Taking Institutions Bill, which would consolidate the existing Banks Act and (Company) Building Societies Act.

It would incorporate the traditional aims embodied in existing legislation.

In drawing up this legislation the authorities had taken note of the emergence of new credit instruments in the financial markets, which increased the risk posture of financial institutions, and of the fact that inequitable competition between banks and building societies still remained.

They had also recognised the fact that greater international attention had been paid to, and cooperation achieved in, the supervision of deposit-taking and related institutions to protect their solvency and liquidity and ensure fair international competition.

In view of the changes in the traditional functions of discount houses, provision would be made in the proposed Bill for the phasing-out of the investment channel facilities which they offered to banks and building societies.

These took the form of call money deposits which enjoyed liquid asset status.

COMPANIES

ARGUS 15/3/90 (58)

Liberty Life in 10 to one share split

From ANN CROTTY

JOHANNESBURG. — Liberty Life has announced a 10-for-one share split in a move that's designed to increase the marketability of the share.

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But in line with other instances when expensive and popular shares were split, it is likely that the split Liberty share will move beyond the R22 level as increased marketability will enhance its attraction.

At the current pre-split share price of R220 it is on an historic P/E rating of 25 times based on the 889c a share earned in the 12 months to December 1989. The historic dividend yield is 2,9 percent based on financial 1989's dividend of 643c a share.

On the basis of these very high ratings it is difficult to see much scope for a further advance in the Liberty share price. The average for the sector (which is heavily influenced by the highly rated Liberty shares) is a P/E of 16,1 times and a dividend yield of 3,2 percent.

In spite of these considerations, the feeling in the market is that the increased marketability of Liberty will enhance its share price.

Highlights of Liberty Life's results for the 12 months to December 1989 included a 22 percent increase in net taxed surplus per share to 889c (730,2c); a 21 percent hike in dividend to 643c (530c) a share; total income of R3,1billion (R2,5billion) and total assets up to R18,8billion (R14,4billion). (The total effective dividend per share was up 24,9 percent to 662c when adjusted for the capitalisation issue which was undertaken on the basis of five new ordinary shares for every 100 held).

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B/Day 15/3/90 (58)

MIKE ROBERTSON

Discount houses hit by new Bill

CAPE TOWN — A Bill to be tabled in Parliament this session would have a substantial impact on the operation of discount houses and the investment facilities they offered banks and building societies, Finanace Minister Barend du Plessis said yesterday.

Du Plessis said in his Budget review that supervisory authorities had taken note of international developments in the supervision of deposit-taking and related institutions to protect their solvency and liquidity.

It was intended to table the Deposit-Taking Institutions Bill in Parliament this year. The Bill would consolidate the existing Banks Act and (Company) Building Societies Act.

Apart from incorporating the traditional aims embodied in existing legislation, the Bill would allow the regulation and supervision of these institutions in a manner more readily adaptable to the changing and dynamic environment in which they operated.

The Mutual Building Societies Act would also be suitably amended to take account of the principles adopted in the new Bill.

Du Plessis said that in recent years a gradual change had occurred in the role played by discount houses in the management of liquidity of banks and as a channel which they provide to the Reserve Bank for the purposes of accommodation.

"The development of an inter-bank market for call deposits, and the tendency of banks to obtain accommodation directly from the Reserve Bank, has reduced the role of discount houses as a vehicle in the management of the money market."

"It has also reduced the role as a channel for the implementation of monetary policy," Du Plessis said.

However, he said, discount houses still performed an important function in creating an active secondary market for financial assets and derivatives.

BDay 15/3/90. (58)

Bill welcomed as spur to competition in banking

ROBERT GENTLE

THE new Bill which will consolidate the existing Banks Act and Building Societies Act and which is to be tabled in the present session of Parliament has been welcomed in the industry as a spur to competition.

No longer would one kind of institution have access to certain forms of investments from which another was largely excluded.

Equally, certain banking operations would no longer be the sole preserve of a given type of institution.

The Bill, called the Deposit Taking Institutions Bill, was described by Finance Minister Barend du Plessis in his Budget address as reflecting recent developments in the financial markets.

A treasury spokesman from Standard Merchant Bank said it would promote a more efficient situation which would benefit the country as a whole.

Echoing this view, First National Bank GM Corporate Banking Johan Meiring said: "It is excellent news. The government is trying to get the playing fields as level as possible."

Both said the Bill would tend to blur the line between banks, building societies and discount houses, making them virtually indistinguishable.

Discount houses have traditionally been the outlet for the short-term funds of the banking system, investing these deposits in a range of risk-free, short-term negotiable securities.

Until about a year ago, banks were obliged to go through a discount house to access borrowings from the Reserve Bank in case of a market shortage. The entire monetary policy of the Reserve Bank was effectively conducted through discount houses.

However, said Du Plessis, this had changed because of the development of an inter-bank market for call deposits and the tendency for banks to deal directly with the Reserve Bank.

The proposed Bill would phase out the investment channel facilities offered to banks and building societies.

National Discount House director M G Kotze said the Bill would merely formalise a de facto situation.

R36,7bn in gilts were consolidated

LESLEY LAMBERT

(58)

CAPE TOWN — Of a total nominal amount of R44,8bn of gilts which qualified for a stock consolidation scheme introduced during the last quarter of last year, R36,7bn, or 82%, was consolidated.

The nominal amount of the consolidated stock rose by R659m to R37,4bn after consolidation.

The holders of gilts were offered the opportunity to replace their holdings with new, more marketable, issues created by the consolidation.

Finance Minister Barend du Plessis said in his Budget speech that he was encouraged by the results of the consolidation. It was not yet possible to quantify the direct outcome of this exercise on public debt costs because of fluctuations in the capital markets.

But, the increased marketability of the stock should contribute to lower rates of interest on state loans.

Du Plessis said the state would not yet introduce a two-way market in gilts. Such a market would mean that the state would have to buy large volumes of government stock at a time when it may not plan to expand liquidity.

B/Day 15/3/90

Life assurers 'dismayed'

BDay 15/3/90 (58)

LINDA ENSOR

THE life assurance industry is dismayed that the exemption of individual dividends from tax does not apply to life offices in terms of the trustee principle which was adopted by government last year.

This means that life offices will continue to pay tax on two-thirds of dividend income.

Life Offices' Association (LOA) chairman Dorian Wharton-Hood said the matter would be taken up with Deputy Finance Minister Org Marais in a meeting next week.

"It is very unfair as life offices pay tax on behalf of policy holders."

LOA executive director Dick Geary-Cooke said that in terms of the trustee principle, life offices were supposed to be taxed on the same basis as individuals.

But now a divergence had been introduced because Finance Minister Barend Du Plessis, said that the status quo regarding life companies would be maintained, he said.

"When the new tax dispensation was introduced, the government said it had accepted the Margo Commission's recommendation that the trustee principle be applied to life offices, namely that they be taxed on the same basis as policy holders. The Budget speech is a breach of the trustee principle and is therefore a mistake," Geary-Cooke said.

"In terms of this principle, life offices should be exempt from tax on all dividends."

Wharton-Hood said the provision for a safe tax haven for capital gains on shares held for 10 years or more was a healthy development as it created certainty and would free up the stock exchange.

He expressed disappointment that there was no provision for an increase in deductable percentage of tax permissable as a retirement annuity contribution.

Exemption on share profits after 10 years

Budget unlocks billions from JSE

CAPE TIMES 15/3/90 (58)

Own Correspondent

JOHANNESBURG. — The creation of a 10-year tax-free safe haven for shares listed on the JSE, which will release massive funds, was hailed as tremendously important for the equities market by JSE president Tony Norton.

He was commenting on Finance Minister Barend du Plessis' statement that profits realised from shares listed on the JSE that have been kept for more than 10 years would be exempted from income tax under certain conditions, effective immediately.

Norton said huge funds would pass from the hands of the financiers into the hands of the "money engineers".

He estimated that at least R13bn would be released from the share coffers of the mining houses, which would now sell surplus stock held over many years.

This would mean a tremendous boost to the JSE's liquidity, said Norton.

However, Norton expressed some disappointment that the period of tax-free release could not have been shorter, as hoped for by the JSE.

Uncertainties about the distinction between capital and income were an important reason for the low turnover on the JSE and the phenomenon that large financial investments were not released for application in other fields of investment, according to Du Plessis.

Norton also hailed the phasing out of marketable securities tax (MST) over three years, starting next year, as a boost for the JSE. He said both measures indicated government was taking capital investment seriously.

Overall, Norton considered the Budget as an "extremely competent balance of exercise of interest", based on sound economic principles of fiscal strength and economic development.

Both measures would oil the wheels of the JSE to the benefit of unit trusts, which cater for the small investor, said UAL Management Co MD Clive Turner.

A more liquid market and tax exemption of dividends to individuals would encourage funds from the small investor to flow into unit trusts, Turner said.

In order to encourage discretionary personal savings the Budget proposes dividend income be fully exempted from normal tax in the hands of individuals and close corporations, thereby eliminating the present double taxation of dividends. Previously only a third of dividend income was tax-exempt.

Turner said the phasing out of MST meant that the pricing of unit trusts would be marginally lower as MST was a built-in factor in the price of units.

He said the measures were obviously aimed at encouraging savings and that unit trusts, as the man in the street's door into the equities market, would benefit from a greater inflow of funds.

However, in line with Norton, he expressed a measure of disappointment about a 10-year tax haven in view of previous expectations that profits from shares would be tax-exempt for a reasonably short period, thereby releasing more funds for development.

A more low-key view of the effects of the Budget on the immediate investment outlook was taken by Old Mutual senior portfolio manager Rowland Chute.

Although he welcomed the encouragement of realisation of investments and the freeing of funds for new development, he said there were no announcements in the Budget which were likely to significantly alter any investor's outlook for the next 12 months.

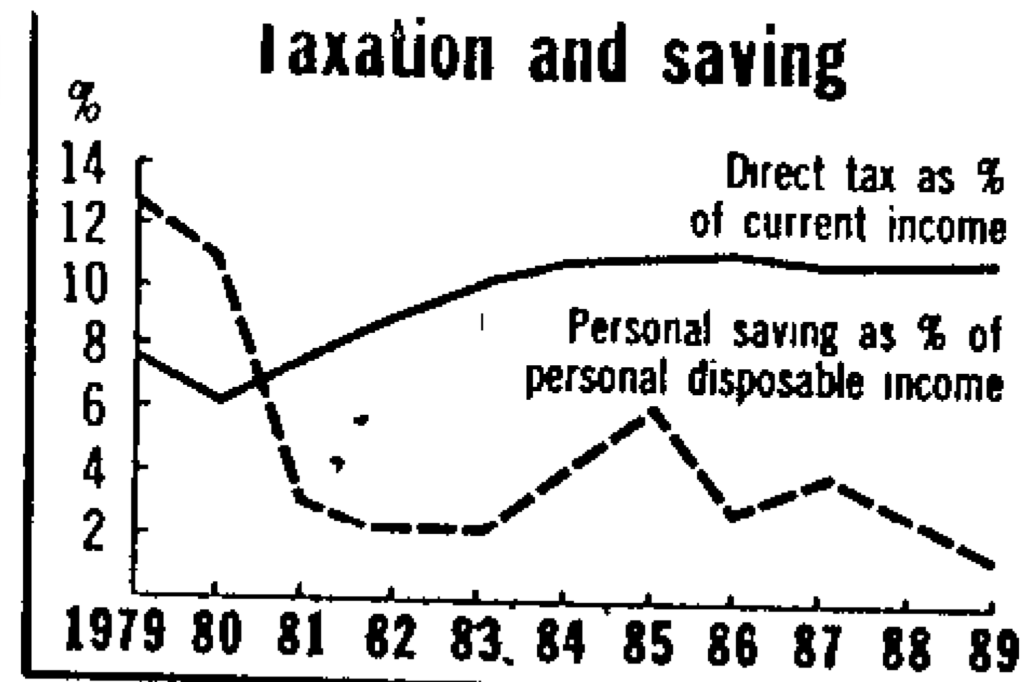
Overall, the slowdown in the economy looked set to continue with the resultant declining growth rate in corporate profits.

However, the partial relaxation of the ring fencing and further implementation of the Marais Commission should prove positive for mining companies in the longer term, said Chute.

The intention to phase out MST should be welcomed as it would significantly reduce transaction costs, hopefully increasing the turnover of the market and creating greater liquidity, said Chute.

He welcomed the abolition of tax on dividends in the hands of individuals although he felt it would, at best, have a marginal influence on the market.

In general, Chute believed the Budget indicated the government was moving in the right direction to stimulate economic development over the longer term.



Graphic: FIONA KRISCH Source: DEPT OF FINANCE

Boost in savings vital for welfare

SF LESLEY LAMBERT 58

CAPE TOWN - An increase of at least 40% in the average domestic savings ratio and productivity of capital would be needed over the next five years to relieve unemployment and increase average welfare, Du Plessis said in his speech. S[Day 15/3/90

The paralysing grip of inflation and other price distorting factors on economic growth and employment was reflected in the capital-output ratio and several savings ratios.

If these trends continued, economic growth would probably fall further to below the average rate for the 1980s — about 1,6%. In this case, the economy would be unable to meet the demand for work and rising living standards.

Policy-makers and the private sector bore the responsibility, by way of structural adjustment programmes and policy measures, for promoting the greater availability and the better utilisation of the country's scarce production factors.

The average personal savings ratio (personal savings relative to GDP) had fallen by more than 60% between the 1970s and 1980s. Excluding contractual savings like life insurance policies and pension funds, personal savings had shown negative growth since the early 1980s.

This, coupled with dissaving by the public sector since 1984 and the use of corporate savings to maintain existing assets, meant the ratio of total domestic savings to GDP (excluding depreciation) fell by nearly 30% during the decade.

SA probably would be unable to rely on long-term foreign loans to augment domestic savings for some time and would probably continue to be forced to apply a part of its domestic savings to debt repayment.

The use of capital had deteriorated over the past two decades, with the output-capital ratio declining by about 33% since the 1960s — leading to a sharp increase in capital intensity.

BUDGET

ARGUS 16/3/90 58

Tax move threatens life offices

Business Staff

THE Budget decision to abolish tax on dividends is one that threatens the life assurance industry by reducing the investment attraction of many life insurance policies.

The Life Officers' Association (LOA) has expressed alarm that assurers would continue to be taxed on two-thirds of dividend income, an apparent departure from the trustee principle of life assurance taxation

It said that acceptance of this important principle could have placed South Africa in the forefront of finding a fair and scientific tax formula for life assurance.

According to the association, the Minister explained a year ago that he could not allow life assurers to deduct more than 55 percent of their expenses in determining taxation income. This was acceptable to the industry as an interim measure.

"It is a major disappointment that in this year's Budget, not only was the expenses percentage not adjusted to make it more equitable and fair in comparison with other savings avenues, but people who use life assurance products to save towards retirement or to ensure the financial safety of their dependants, have to pay an unfair dividends tax," said the LOA.

"The imbalance in the tax treatment of life assurance and other forms of saving has been enlarged by this Budget. Life assurers carry a much heavier tax burden than other savings."

While welcoming steps taken to encourage discretionary savings the LOA said that since long-term, contractual savings really formed the financing source for capital formation, an appeal would be made to government not to neglect this form of saving.

The "tax haven" for listed investments after 10 years was welcomed and the LOA would encourage government to consider shortening the waiting period and/or introducing a scale whereby the taxable portion of a capital gain on investments was reduced over a given period of time.

Investment advisers say the abolition of the tax has greatly reduced the investment attraction of many insurance policies.

Before the Budget the only way an investor could accummulate a capital sum without paying tax was to invest his money in a 10-year endowment policy.

But with dividends no longer taxable, the need to invest in an endowment policy to accummulate a tax-free capital sum falls away.

Mr Bob Tucker, head of the Perm, said the abolition of the tax would have a major impact on the flow of savings. He expected them to move away from life offices to banks and building societies.

Mr Mike Hyslop of the Board of Executors said the ruling meant investors who wanted long-term capital appreciation and did not want life cover were likely to chose some other route than buying an insurance policy.

AA LIFE FM 16/3/90 (58)

Outside doors

Newly listed AA Life is establishing a reassurance company on the Isle of Man to gain access to US and UK life assurance markets. "In exchange for our direct mail products, which companies abroad can endorse and use as their own, we will ask them to place reassurance premiums with the offshore company," says deputy GM Rob Williams.

"SA life products are often more advanced than those in the US or the UK. There is no equivalent to AA Life's terminal illness benefit policy overseas, for instance." Other products offered include an accident annuity which insures against accidental death; a senior security life assurance plan, offered both via mail and as a direct response to TV ads, and dread diseases benefits.

Williams says product design, pricing and packaging will be done in SA, with the Isle of Man as a marketing base. "It is ideally suited to the type of company we are setting up because of location as well as legislative requirements."

The Isle of Man insurance supervisor has already approved the company structure and capital base. It will open as soon as formalities are completed. ■

Soft market affects Guardian

LINDA ENSOR

(58)

GUARDIAN National's gross premium income rose a strong 34% in the year to end-December, but, as with other short-term insurers, suffered under the soft market and recorded a 45% decline in underwriting profit.

Guardian National is 44,4% owned by Liberty Life.

A healthy 46% growth in investment income to R36m (R24,7m) and a significantly lower tax rate of 33,7% (39,5%) also contributed to a rise in earnings per share of 19,7% to 301,2c (251,6c).

The lower tax rate stemmed from the tax-deductibility of the amount allocated to the contingency reserve.

A final dividend of 65c brought the total to 110c (90c).

Underwriting profit fell to R9,2m (R16,9m).

MD Keith Nilsson says he is very satisfied with the results considering the rates war and the fact that 1988 was an exceptional year.

The personal lines business — 20% of gross premium income of R423m (R316m) — was especially badly affected. B/Day 16/3/90

Corporate insurance was also affected by foreign competition on the local market. Nilsson expects the corporate portfolio to continue to be difficult this year.

BANKORP/NEDCOR

Crossing the floor FM 16/3/90 (58)

After talking for years about changes in strategy and refocusing operations, Sanlam is finally taking radical action to bolster top management at Bankorp.

The acquisition of the proven Piet Liebenberg as chairman must come as a relief to long-suffering shareholders and much of management. Bankorp is acquiring its fourth chairman in little more than a year and the accession of Liebenberg as executive chairman should instil needed stability. The death of Fred du Plessis last March was followed by the fleeting tenures of Tjaart van der Walt and Derek Keys as non-executive chairmen.

Now Nedcor, whose turnaround and restructuring Liebenberg presided over as CE, faces succession problems — as well as possible losses of other senior staff. A swing in sentiment was reflected in the shares. By Wednesday, Bankorp had gained 40c to 325c, while Nedcor shed 30c to R11.

Whether hints of early rerating will prove realistic remains to be seen. Bankorp has a large asset base but has unveiled a litany of disappointments (*Fox* March 9) and a convincing turnaround will not come swiftly. Nedcor has been effectively restored as a well managed and firmly capitalised group. It could cross this hurdle without delay.

Banking analysts see Keys's fingerprints etched all over the new appointment at Bankorp. "Keys was in the chair long enough to decide that the group simply must have a highly reputable, full-time chairman," says one analyst. "They went out to get a good outsider."

After the long run of bad news present Bankorp CE Chris van Wyk clearly was not attracting the high-calibre executives needed. Bolstering the Bankorp management ranks is bound to be one of Liebenberg's first priorities, perhaps even before he assumes office on July 1. He vacated his Nedcor office when the announcement was made on Tuesday.

That could spell more complicated problems for Nedcor. The pattern that followed Keys's own appointment at Gencor and, indeed, Liebenberg's move into Nedbank, must offer a hint of things to come.

Over a few months, a number of the Old Guard at Gencor moved out or indicated such plans; there were also several senior departures from Nedbank Group, as it then was, before Liebenberg put his stamp on the group. Keys, with salutary effect, brought in some of his own men such as Grant Thomas — together with Malbak — and some outsiders like JCI's Brian Gilbertson. Sol Kerzner did the same at Sun International.

Nedbank acquired Liebenberg and his management team by buying Finansbank, of which Liebenberg was controlling shareholder and chairman, for about R60m. So the Nedcor board — and controlling shareholder Old Mutual — is faced not only with choosing a new CE but also a damage control exercise.

Bankorp's Liebenberg ... will others follow?

A dent to morale seems hardly avoidable. In 1986, taxed income slumped 13% to R79,7m and a R345m rights issue was announced; since the Finansbank deal the group pulled off a successful merger with the SA Perm and in 1989 lifted taxed income to R387,5m. John Maree, who became Nedcor chairman on January 1, today considers the Finansbank acquisition a "worthwhile investment."

Except that at least one of the key assets has walked out. In more sedate days, banking operated largely on gentlemen's agreements, with restraint of trade agreements virtually unknown. Golden handcuffs have been appearing among smaller banks. Now one of the big five is learning that top executives can be lured elsewhere.

Maree says there is no defined line of succession to the CE's office. Possible candidates include senior GM Leon Porter and GM Hennie van der Merwe, as well as the chiefs of the operating arms. These include Nedbank MD Chris Liebenberg, Perm MD Bob Tucker, UAL CE Geoff Richardson, Finansbank CE Johannes Hamman and Nedfin CE Ron Rundle.

Most logical CE candidates, analysts believe, are Chris Liebenberg (55) and, possibly, Tucker (43) who some think could have an important role in the long term. But Chris Liebenberg — like First National's Barry Swart — is popular with his staff and has extensive experience running a commercial banking operation. The board will be aware that the choice may influence other departures. Perhaps most vulnerable will be former Finansbank men, Porter (49), Van der Merwe and Hamman; Porter, in particular, is seen as a close confidant of Piet Liebenberg. His functions include risk management and internal audit, areas the new Bankorp chairman will want to address.

Nedcor may well have enough resilience to recover within the year. Martin's Richard Jesse suggest that any price weakness during this period will be a buying opportunity. Analysts are seeing a more protracted restoration for Bankorp, with financial turnaround unlikely before 1992. The group may also need a large infusion of talent in middle ranks; though more spadework might have been done than the market, understandably, will yet recognise.

After Bankorp's years of travails, there seems little downside risk for Liebenberg's reputation. It remains possible that in a few years he and Sanlam, holding an incongruous stake of some 80% in Bankorp unless part is placed elsewhere, will decide a merger is the only solution.

The question then is whether Liebenberg, with intimate knowledge of both Nedcor and Bankorp, might approach Mutual with merger proposals. If old wounds have not yet healed then Sanlam could seek an arrangement with Rembrandt and look for a deal with Volkskas or UBS.

Andrew McNulty and Ethel Hazelhurst

DE BEERS/CENTENARY

Discount flattens

De Beers' share price has leapt after the restructuring announced last week but has yet to reach the levels brokers are now targeting. Whether that will happen soon will depend on the market's willingness to eliminate the SA-discount on the group's foreign earnings and assets. FM 16/3/90

Through much of the Eighties, De Beers has been deriving a diminishing percentage of its profits from SA. In 1983, 52% of taxed profits came from SA, 14% was from Namibia and 34% was from elsewhere; by 1988, only 18% was from SA, with 5% from Namibia and 77% from elsewhere.

According to last week's announcement, 80% of the 1989 attributable earnings and 60% of the equity accounted earnings would have come from the new Swiss-based company, Centenary AG, which will hold the foreign interests. The shift towards foreign earnings largely reflects the importance of the trading operations of the Central Selling Organisation (CSO), but also the high profitability of the Debtswana mines.

If it is assumed the foreign earnings are accorded the average 12 times earnings multiple now ruling in London, then a value of

Share split sends Liberty soaring

BlDay 16/3/90

(58)

LINDA ENSOR

LIBERTY Life's share price surged 13,6% (R30) yesterday to establish a new high of R250 on the back of news that ordinary and convertible preference shares are to be split on a 10-for-one basis to enhance their marketability.

The share is expected to scale further heights as sellers are asking R275 and buyers are prepared to pay R255.

Chairman Donald Gordon announced the split yesterday along with the group's record annual results.

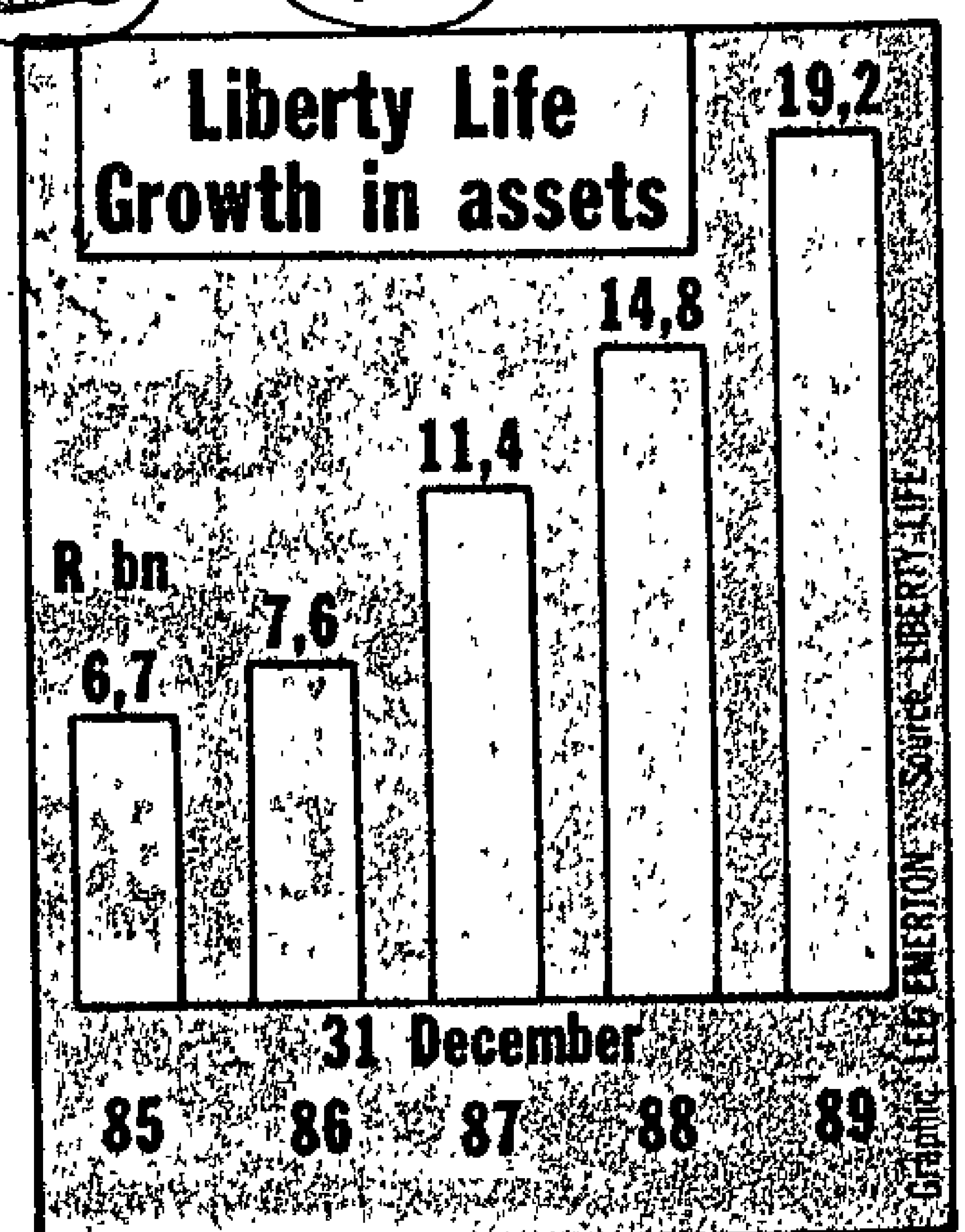
Liberty, which now has consolidated assets of R19,2bn (R14,8bn), notched earnings per share of 889c (730,2c) in the year to end-December — a rise of 21,7%.

A final ordinary dividend of 378c (310c) was declared bringing the total to 643c (530c) for ordinary and preferred ordinary shares.

Taking into account the new ordinary shares issued as part of the capitalisation issue — which participate in the final dividend — the total effective dividend per ordinary share is 662c (530c).

Because this is above the dividend for preferred ordinaries, there will be an automatic conversion of the 2,5-million preferred ordinary shares into ordinary shares as from April 27.

The strengthening of the rand during 1989 meant a drop in long-term liabilities accruing from offshore arm, First International Trust (FIT), to R399,6m (R441,6m). But it also meant the contribution of FIT to Liberty contracted.



Net premium income rose 22,2% to R1,78bn (R1,46bn), while investment income shot up by 33,5% to R1,38bn (R1,03bn) due to the increase in Liberty's share portfolio. Investments total R18,3bn (R14,2bn). This gave a total income increase of 26,8% to R3,16bn (R2,49bn). Attributable income rose 38,8% to 180,5m (R130m). The tax bill was R97,5m.

Gordon says new business figures were

☐ To Page 2

Liberty

BlDay 16/3/90

(58)

☐ From Page 1

"a remarkable feat", rising 40%.

Liberty Life's total capital and reserves increased by R311m over the year to reach R3,3bn, reflecting the growth in investments in blue chip shares. The actuarial liabilities under unmatured policies increased by R3bn, R2,36bn of which represented the cost of bonuses to policyholders as well as capital augmentation of property- and equity-linked contracts.

Liberty Holdings — which has a 56% (52,2%) stake in Liberty Life after the R140m acquisition of shares from Prudential Corporation plc and after the capitalisation issue — declared a final dividend of 92c (68c), resulting in a total of 150c (116c). Earnings rose 28,4% to 262,8c (204,7c) on after-tax profit of R119,7m (R93,2m).

● See Page 6

Budget news restores shareholders' morale

Inside Out

ANNE CROTTY

(58) (80)

Star 17/3/90

MYLES thought the budget was mildly positive for the market... to the extent that there was nothing in it that was definitely negative.

He didn't think scrapping of tax on dividend income would cause a stampede of individuals into the market.

But that, the phasing out of marketable securities tax and the clarification of the tax position on equities held for more than 10 years did seem to have provided a bit of a gee-up for the shareholders' camp where morale has recently suffered a knock from all the nationalisation talk.

De Beers had another good run this week — it was the most actively traded share, but there was little price movement.

Little bit

Some players in the market are waiting for an easing in the price on the basis that anything that goes up that fast has to come down — even if it's only a little bit and for a little while.

Then, when it's down around the R80 level, they'll move in.

But in the longer term, the share is expected to pass the R100 mark.

Liberty got a lot of attention during the week.

The share reached a high of R300 yesterday following Wednesday's announcement that there was going to be a 10-for-one share split.

Myles spent most of Wednesday and Thursday trying to work out whether or not there was scope for the price to move, given its high rating ahead of the news.

Meanwhile, the share moved from R220 to R250 to R270... and Myles still couldn't come to a definite conclusion.

Bankorp moved up quite strongly during the week, reversing a trend that its shareholders had long become familar with.

Obviously the market feels that Mr Liebenberg will be able to give the organisation some sort of direction.

But Myles says that even at the end of the week most of the punters were expressing surprise at Mr L's move from Nedcor and he wondered if the boys down at Pinelands were as surprised.

The Fedvolks share suffered a bit of a knock during the week) following the announcement that the group's earnings would be significantly down on earlier management expectations.

Seems that Fedmech and Tek are the culprits.

The drop in the share price wasn't too steep, given the extent of the damage to earnings.

Tedelex, which is in a market that faces the same sort of difficulties as Tek, dropped 30c during the week.

At the beginning of the year there was speculation about a deal involving Tedelex that could see it moving from the Malbak stable. No news on this front in recent weeks.

Myles heard some talk of AVI buying out the minorities in Claude Neon.

This sort of move wouldn't surprise him as there doesn't seem to be much justification in having a separate listing for that company.

It does need an injection of capital. The current market price is around 230c, compared with a net asset value of about 330c a share.

Myles wonders, if the reports are accurate, whether AVI will demonstrate its usual generosity and offer a NAV price.

Seems that the Landlock cautionary could refer to a change of control or a rights issue.

The company is in great need of new funds to get its borrowings down to less horrific levels — gearing of around 100 percent is a fairly traumatic management experience, given current interest rates.

If it's a rights issue, one possibility is that the controlling shareholder (UK-based BBA) might renounce its rights in favour of a specified party who would then become the underwriter to the issue.

Depending on the size of the issue, this could result in the party getting a considerable stake in Landlock without an obligation to make an offer to minorities.

In time BBA may or may not decide to offload its stake in the original equity. Myles seemed uncertain about the need to make an offer to minorities in such a situation.

Arontex hit another new low this week amid reports of serious problems at the company and news that Senbank has had its guys in "assessing the situation" for some weeks.

Myles says that things must have gone badly wrong to justify a 5c share price.

Results to February 1989 showed EPS of 8,6c, a dividend of 3,2c and NAV of 31,9c a share.

C Press 18/3/90

Economic growth needs participation by all

By PATRICK MAFAFO

58

THE people of South Africa can only share in higher income and wealth if they create that income and wealth.

Addressing a budget seminar this week, specialist economic adviser Dr Japie Jacobs said for this to happen, the Government will have to remove laws restricting black economic activity.

"We have to respect the economic aspirations of black people in South Africa. They should have an equal opportunity for economic participation.

"Remaining inequalities impeding such participation must obviously be eliminated."

He pointed out that this policy cannot be followed in a sanctions environment.

He said South Africa's short term goal will be to halt the fall in living standards by reducing inflation. Its long-term goal will be to increase the country's growth performance and provide employment opportunities.

"This requires new factories, mines, shops and other commercial areas of growth."

He said the budget should be measured in terms of its broader effect on the economy.

Through tax reforms and by restricting growth in Government expenditure, it aims to lay the foundation for more rapid growth over the long term.

"The objectives are to promote personal saving, efficient functioning of the money markets, entrepreneurship in the informal sector and the productive use of resources.

"The budget addressed socio-economic problems. On the taxation side it attempted to address the needs of the modern and developing sectors of the economy, while on the expenditure side greater stress was placed on the provision of socio-economic services to the underprivileged – which is an accepted method of redistributing income."

Jacobs said it was unfair to describe the Budget as favouring the rich.

Giving the example of the reduction of import surcharges, he said one should look at the broader implications at stake, which in various ways affect all people.

He said special care has been taken to ensure people in lower and middle income groups benefit most from the tax adjustments.

Changes in government spending patterns also indicate important changes in priorities, said Jacobs.

"Expenditure on defence shows a decline, whereas expenditure on education and socio-economic services is rising and now comprises almost one-fifth of total expenditure."

Jacobs said the high priority given to education, training and entrepreneurship will enable a broader spectrum of the disadvantaged to participate in developing the economy.

He said the R2 billion allocated from this year's surplus is for the further pursuit of these objectives.

Rent boycott may hit the East Rand

C/Press 18/3/90 (58)

By LULAMA LUTI

A LONG "cold war" over the rent issue on the East Rand could soon give way to a rent boycott similar to that which plagued Soweto two years ago.

KwaThema residents have been called to a meeting at the local stadium today and are expected to decide on a plan of action against high rent and service charges in the township.

Spokesman for the local civic body, Bangilizwe Solo, said an unofficial estimate of the number of people in the township's housing waiting list was 7 000.

He said the policy of the civic body was that putting up shacks was not a solution to the housing backlog in the township.

"Already people are being asked to pay R590 towards the allocation of sites for shacks.

"The area that has been set aside for the building of shacks – known as "Fresher fresher" – is a refuse dumping site on the outskirts of the township and it is unacceptable as it is a health hazard.

"People are being charged exhorbitant prices for services and are also made to pay for an 'electric maste plan' when some of the areas do not even have electricity."

He said people could put up shacks as a last resort, but the authorities should shoulder the responsibility of building houses for people in the low income group.

Solo expects residents to come up with a concrete programme of action for tackling the problem at the meeting.

Local mayor Ezra Radebe confirmed the area set aside for housing development was being used as a refuse dumping site.

He said his council had taken a unanimous decision to allow people to put up shacks in some areas of the dump while they waited for the building of their houses to start.

Contrary to the number given by Solo, Radebe said a rough estimate of people on the waiting list was about 3 000. He denied KwaThema residents were paying high services charges.

"It's not true, and in fact some areas are even paying 100 percent more than we do.

"Our rentals have been standing at a constant R20 and has not been increased since 1985," he said.

■ The Transvaal Provincial Administration has agreed to conduct a commission of inquiry into allegations of maladministration and misconduct in the Daveyton Town Council.

A report back rally on the meeting held recently between the Daveyton People's Delegation and TPA regional director PJV Du Toit, will be held at the Daveyton Sinaba Stadium today.

☐ SHARPEVILLE

Remembering one of our great tragedies

City Press 18/3/90

58

Wednesday is Sharpeville Day – a significant event on the black political calendar which becomes a bond of unity among most black political organisations. SANDILE MEMELA spoke to a range number of political organisations on the significance of the tragedy which hit the country's political scene 30 years ago.

ALL BLACK political groups agree that March 21 – Sharpeville Day – has special significance for the political liberation of South Africa.

This will be the first anniversary in almost 30 years that African National Congress, Pan Africanist Congress, Azanian People's Organisation and the United Democratic Front have been united in commemorating the deaths of more than 60 residents of Sharpeville, near Vereeniging, who died in a pass protest called by the PAC.

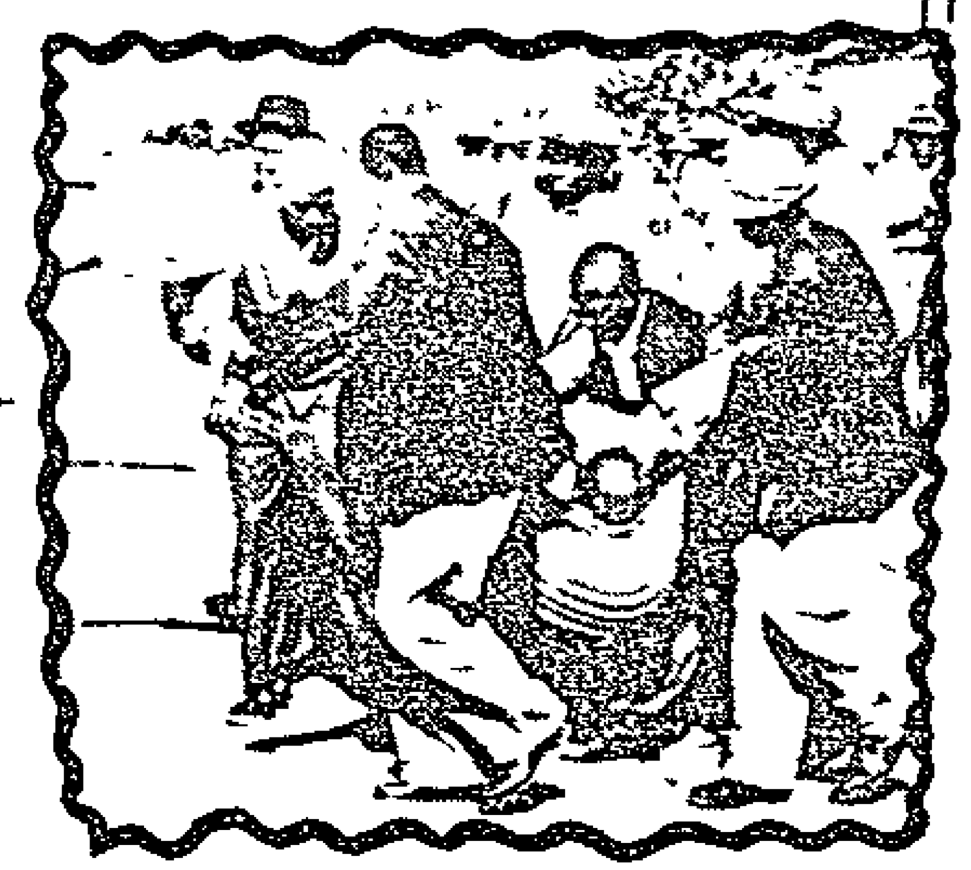
The name Sharpeville and sad memories will come to the minds of millions countrywide and abroad as the adherents of different political ideologies reflect on the events in Sharpeville 30 years ago.

UDF publicity secretary Patrick "Terror" Lekota said Sharpeville Day would always be important in the history of the liberation struggle.

He said it was a landmark in the resistance struggle by the black people of South Africa.

"The day is important as it forms the historical change in the resistance struggle of the black people of South Africa.

"We hope that it will see our people put aside their differences to pay homage to their fallen heroes." Azapo publicity secretary Strini Moodley said: "It has been policy and practice for all our members to observe the tragic events of the day as Black Consciousness was the first movement to initiate the commemoration of the day."



Sharpeville 30 years ago . . . an injured rioter is dragged away.

He said this year Sharpeville Day assumed special significance as it coincided with Namibian independence.

"Thus we shall unavoidably relate this day to our historical past and indicate to the world that freedom from colonialism will not stop," said Moodley.

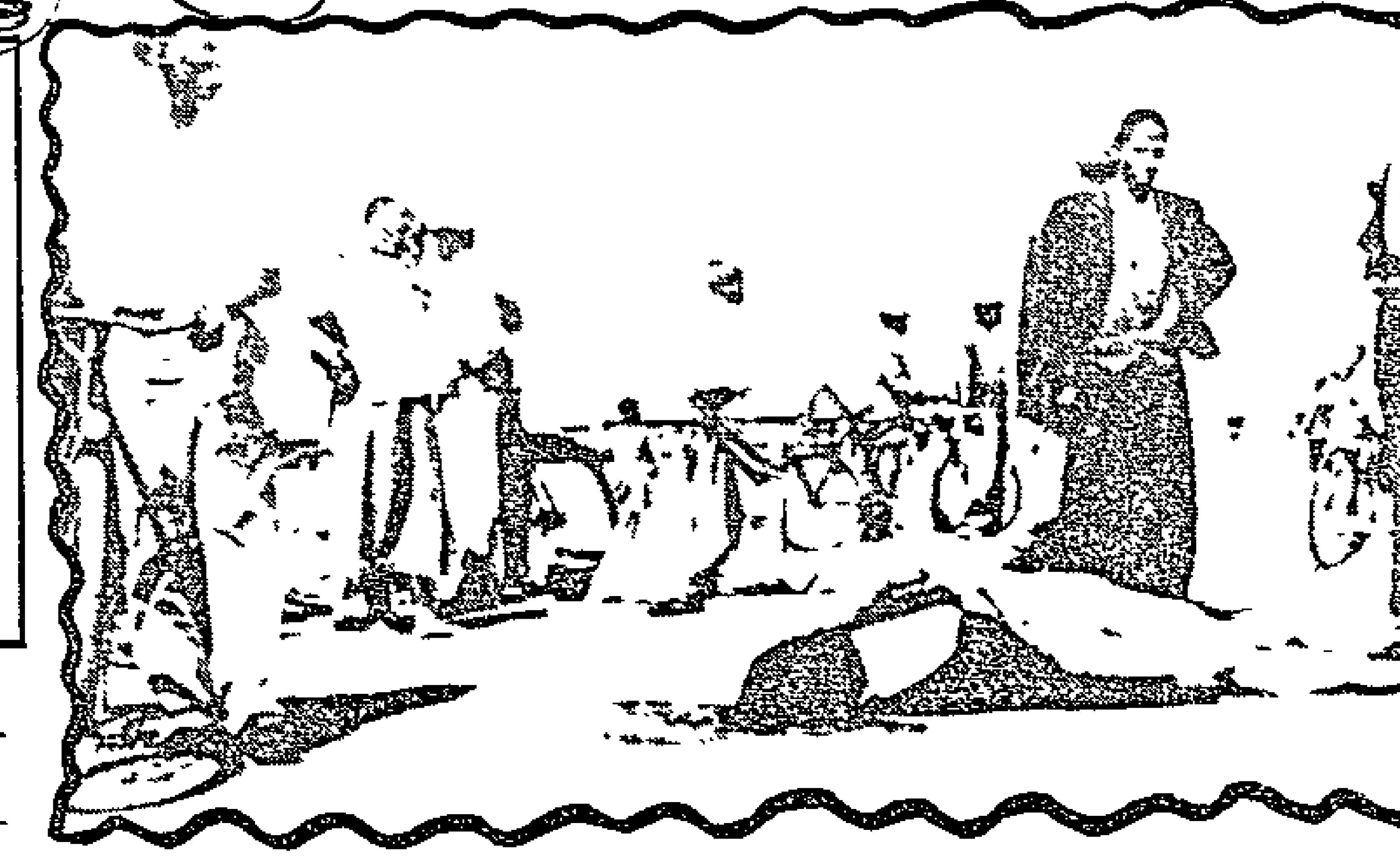
The day would be marked by services and rallies throughout the country, he said "We hope that this year, especially, the day will be marked by joint celebrations to encourage a spirit of unity among all the oppressed groups in the country."

Moodley also said Azapo will send a special envoy to the Namibian independence celebrations this week with a message of solidarity to the Swapo leadership.

The Pan Africanist Movement, which organised the march in 1960, has pledged to mark the day at a rally in Sharpeville on Wednesday by staging a replay of the events of that fateful March 21, 1960

"We do not doubt that the tragic day marked the end of the non-violent struggle as popularised by the congress alliance in the 1950s

"The shedding of our people's blood and loss of life ushered in a new era that completely changed the nature of the struggle in South Africa," said PAC internal assistant general secretary Philemon Tefo.



Amid the confusion, the body of a dead man lies ignored by shocked residents of Sharpeville after the shooting.

Permission has been granted to hold the rally at Sharpeville's George Thabe Stadium, and the highlight will be the keynote adress by PAC president Zeph Mothopeng.

Sharpeville Day is important as political action initiated by the PAC is still relevant to the needs of present-day South Africa.

This was echoed by PAC Youth Wing general secretary Carter Seleka "At Sharpville we changed the strategy of the struggle from protest politics to direct challenge of the status quo.

"Since then the pace of the struggle has not changed and we continue to carry that spirit of resistance and defiance."

Exemption discrimination dismays LOA

By Robyn Chalmers

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LIFE ASSURERS have accused the Government of financial discrimination by not extending the exemption of individual dividends on tax to them.

Old Mutual legal services manager Abri Meiring, speaking to thousands of businessmen throughout the country via a special M-Net broadcast, said it was "either an oversight or an indefensible anomaly".

S Times 18/3/90

Life offices say the move is a major break with the trustee principle of life assurance which was introduced by Finance Minister Barend du Plessis in his 1989 budget speech.

According to this principle, the fact that life assurers invest policyholders' savings on behalf of those policyholders means they should be taxed at the same rate as those policyholders would have been taxed if they had invested the savings themselves.

The Life Offices' Association (LOA) has expressed alarm at the apparent departure from this principle.

As a result of Mr du Plessis' decision not to include life offices in the tax exemption which individuals will enjoy, they will continue to be taxed on two-thirds of dividend income.

Liberty shares jump on news of big split

S/Times 18/3/90 (58)

By Julie Walker

LIBERTY LIFE's share price jumped by R50 to R270 on news that it aims to split its heavyweight shares 10 for one.

The group's predictable growth repeated itself in the year to December 1989, with attributable income 39% higher at R180-million. The conversion of preference into ordinary shares and the 5 for 100 capitalisation issue reduced the growth in earnings per ordinary share to 22%, or 889c.

The dividend a share is 643c — effectively 662c accounting for the payment of the final dividend on those shares resulting from the capitalisation issue.

Since the ordinary dividend exceeded that of the preferreds (PO), the PO's will become ordinary shares from April 27.

Liberty Holdings increased its stake in Liblife by buying 800 000 shares in it from Prudential plc for R140-million. Libhold now owns 56% of Liblife. Its shares added 50c to R55 on the announcement.

First International Trust's earnings grew by 27% to 37,3c a share and the dividend by 2c to 18c. Chairman Donny Gordon says he does not believe investors buy FIT for dividend income.

Everything in the Liberty garden is roses. Mr Gordon is particularly impressed by an arrangement with France's leading insurer UAP, which owns 25% of Sun Life.

Liberty owns 49% of TransAtlantic which in turn owns 29,9% of Sun Life.

In return for not making a bid for control of Sun Life, TransAtlantic has acquired the right in perpetuity that, at any time, it may require UAP to buy its Sun Life shares at the price TransAtlantic asks for.

If UAP declines, it becomes obliged to sell its own Sun Life shares to TransAtlantic at the same price.

Part of the arrangement requires each party to hold between 26% and 29,9% of Sun Life. Under either scenario, control would change.

TransAtlantic has made an offer to the minority shareholders of Continental Trust.

FIT owns 29,5% of Continental, and will be paid partly in cash and partly in scrip for its stake. The cash will be used to reduce FIT's borrowings of £98-million, possibly by as much as £20-million.

His elder son Richard has joined the Libhold board as a non-executive director as a "representative of the Gordon family interests and to secure continuity of the Gordon family".

Liblife's Gordon warns on policy of nationalisation

19/3/90

By Sven Lünsche

The policy of nationalisation is misguided and unproductive given the failure of this approach in Africa and elsewhere, says Liberty Life's Donald Gordon in his 1989 chairman's statement.

"It is vital that the economy be structured in a manner to achieve a high level of growth which will in turn facilitate job creation and ultimately a higher standard of living for all," Mr Gordon says.

"Given the massive amount of funding which will be sought from the Western World for the rebuilding of Eastern Europe, the level of funds available to African countries is likely to be drastically curtailed.

"This represents a special challenge for South Africa to restore credibility and good relationships with its neighbours."

Mr Gordon also announced the appointment of his son Richard to the board of Liberty Holdings as a non-executive director to represent the Gordon family interests.

● Liberty Investor's earnings per share rose from 14,6c to 16,8c in the year to end-February. The total effective dividend was raised to 11,3c (10c).

Nationalisation talks 'misguided and unproductive'

CT 7/7P 19/3/90 (58)

Own Correspondent

JOHANNESBURG. — Talk of nationalisation is "misguided and unproductive", says Liberty Life chairman Donald Gordon in his chairman's review published today.

He says it is vital in the forthcoming negotiations that "the economy be structured in a manner to achieve a high level of growth, which will in turn facilitate job creation and employment opportunities and ultimately a higher standard of living for all".

At a news conference last week, Gordon said nationalisation could never work as those who would take over did not have the requisite skills to run highly complex business organisations.

SA entrepreneurs with high levels of expertise, much sought after in the world, would not be prepared to work in nationalised bodies. If a new government wanted access to more funds it would make more sense to impose higher taxes.

In his chairman's review, Gordon welcomes President F W de Klerk's bold initiatives and says "major and traumatic reappraisals of the very fabric of SA society" would result from the widespread fundamental changes which lay ahead.

SA was well-positioned to assume the role of economic leader and powerhouse of the sub-continent.

"Given the massive amount of funding which will be sought from the Western world for the rebuilding of Eastern Europe, the level of funds available to impoverished African countries is likely to be drastically curtailed. This represents a special opportunity and challenge for SA to restore credibility and good relationships with its neighbours."

Commenting on the international economic scene, Gordon warns of the possibility of a serious recession in the US. An economic slowdown in Pacific Rim countries was already apparent. The UK and Western Europe, however, had sound financial and economic infrastructures and should "weather the stormy conditions which lie ahead".

While the future of the British property market looks uncertain because of a development boom and resultant overcapacity, Gordon believes Capital & Counties, the cornerstone subsidiary of TransAtlantic, has considerable scope to outperform the overall property sector because of its investment in out-of-town shopping centres which will comprise just over 50% of C & C's portfolio by the end of 1991.

Turning to the investment activities of Liberty Life, Gordon says the group increased its holdings of prime industrial, financial and mining counters in 1989. During 1989 it acquired 20% of unlisted Gold Fields SA Holdings, which owns 43,7% of Gold Fields.

Holdings in the R18,3bn investment portfolio include TransAtlantic (R1,7bn), SA Breweries (R1,4bn), Standard Bank Investment Corporation (R946m), Gold Fields and GFSA Holdings (R910m) and Anglo American (R604m).

DBSA board sanctions first capital market issue

EDWARD WEST

THE Development Bank of SA (DBSA) board has approved a first capital market issue to raise nearly R300m during the new financial year in support of the bank's development programme. B/Day 19/3/90

The DBSA's development programme amounted to R750m of disbursements during the financial year to March 31.

This was apart from more than R500m made available to the bank in the 1990/91 Budget, DBSA chairman and CE Simon Brand said in a statement.

DBSA GM, resources and support services, Andre la Grange said on Friday the issue would be spread over the year, but first transfer to the market would be in May. About half of the R300m to be raised was needed in the first quarter of the new financial year.

Resources mobilised by the bank are used to give developmental support for a wide spectrum of projects to develop urban and rural regions in southern Africa.

Commenting on last week's Budget, Brand said the bank welcomed the new development fund to address socio-economic backlogs.

He had previously proposed that a major portion of the proceeds from the privatisation programme be allocated to such a fund.

"I fully support this decision to make available additional resources for development and it is the DBSA's firm intention to play a key role in supporting the management of the new fund in carrying out their responsibilities."

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He expected appropriate guidelines and procedures for co-operation between the new fund and established development institutions like the DBSA would be agreed upon.

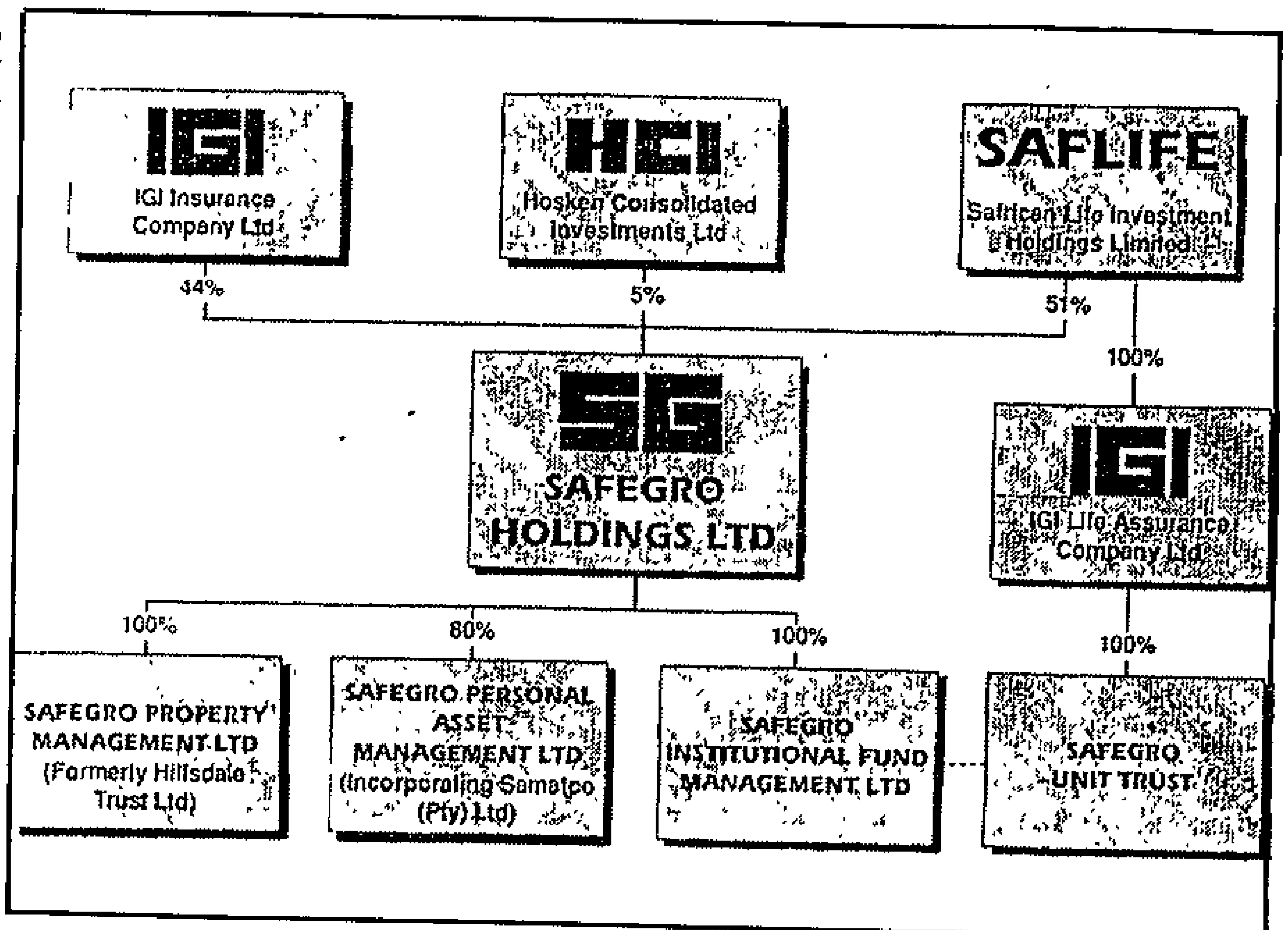
Within such guidelines and procedures the management of the new fund would be able to draw on the capacity and experience of established institutions.

The DBSA had accumulated experience in this respect in the building up of a portfolio of development loans of R2,5bn on a wide variety of development projects, he said.

New investment group launched

Cape Times 19/3/90 58

By ARI JACOBSON



A new investment group Safegro Holdings, jointly owned by Hoskins Consolidated Investments (HCI), IGI Insurance and Safrican Life — boasting funds of over R1bn — was launched today.

It comprises three operating divisions, made up of institutional fund management, property and personal asset management.

In addition, the Safegro unit trust is to be established.

Chairman Michael Lewis says scope for an innovative investment group exists as a result of large funds generated by the short-term insurers and life offices coupled with the access such a group will have to the important investor market segments.

"The success of this venture hinges on the quality of the personnel — an experienced senior management team has been assembled," says Lewis.

Two existing companies within HCI, Hilldale trust — a property management company — and Samatco — a personnel portfolio management company — with combined portfolios of R240m were incorporated into the Safegro stable.

The institutional portion of Safegro has amassed R780m from associated companies, institutions and pension funds.

A comprehensive service, to the institutions and pension funds, is provided through a full treasury operation, equity portfolio management and gilt, options and futures trading.

The personal asset section caters for the private investor market with portfolio management and personal financial planning services.

"Through its association with HCI, IGI and Saflife the group has a strong base and powerful marketing network," says Lewis.

He says a JSE listing is part of future planning to give clients the opportunity of participating in the profits generated from managing their investment funds.

Billions leaving SA — Melamet (58)

Insurers' tax havens face strict clamps

B/Day 19/3/90

LESLEY LAMBERT

CAPE TOWN — The activities of tax-protected, off-shore insurance companies operated by SA corporations could be severely curtailed as a result of the second Melamet Commission of Inquiry's recommendations.

The off-shore, short-term insurance companies, which have taken billions of rands in premium income out of the local industry over the past few years, are a major focus of the report, tabled in Parliament on Friday, of the Commission of Inquiry into the Flow of Short-Term Insurance Premiums out of SA and the Operation of Captive Insurers.

The inquiry arose from suspicions that these "captive" companies were being used to evade income tax and defeat exchange control regulations.

To curb the significant outflow of insurance premiums, and to provide some protection for the local short-term insurance industry, the commission recommends that a committee represented by the Reserve Bank exchange control department, the Registrar of Financial Institutions and the Commissioner for Inland Revenue be established immediately.

The committee would investigate control measures and, later, approve new applications and — where necessary — withdraw approval granted to existing off-shore captives.

The most significant and potentially punitive of the control measures recommended by the commission for the committee's consideration are a premium tax on direct insurance placed overseas, and the repatriation of some funds accumulated in the off-shore captives.

The report discloses that R2,5bn out of an estimated R10,9bn in insurance premiums collected in SA was remitted overseas in 1987 and 1988.

In a breakdown of the various categories of insurance, it shows that out of R1,2bn collected in reinsurance premiums for fire cover, R435m was ceded to international reinsurers while R810m was retained by local reinsurers.

In addition, the report says that during the same period an estimated R500m in premium income was remitted directly or through fronting insurers to the off-shore captives.

Over the past two years, permission has been granted for off-shore captives only on condition that their funds are held in non-resident rand accounts in SA.

A captive is defined as a company which only insures all or part of the risks of its parent company. There are an estimated 21 South African off-shore captives, established largely by the major mining and industrial corporations. The SA parents argue that the captives provide more cost effective cover and service, and more capacity than the local industry.

However, the commission argues that

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Insurers

B/Day 19/3/90 (58)

☐ From Page 1

the captives appear to have been established for the purpose of laundering money to evade income tax.

Premiums paid to the captives are claimed as tax deductions. A portion of the premiums is used for reinsurance, and the balance is invested in funds built up from pre-tax earnings and returned to the parent companies as tax-free dividend.

"On analysis, save and except for the amounts actually expended on reinsurance and retrocession, this would appear to be laundering of money to evade income tax," the report says.

"In such cases, the risks being insured often fall within the capacity of the local industry," it adds.

Mr Justice Melamet warns that the local short-term insurance industry should not be over protected, and says it does not appear to do everything it could to improve its competitiveness.

However, he says, the remedy does not lie in taking business elsewhere to the possible future detriment of the insurance industry and the country as a whole.

Recommendations by the commission regarding captives include:

- ☐ the disallowing of premiums paid to captives as tax deductions;
- ☐ the licensing of captives and the submission of their annual returns to the committee; and
- ☐ the creation and maintenance of prescribed reserves.

In an attempt to protect local insurance and reinsurance companies, the commission recommended that:

- ☐ direct insurers not be permitted to cede to foreign insurers or reinsurers more than 50% of their reinsurance;
- ☐ preference be given to local professional reinsurers in the method of calculating their insolvency margins;
- ☐ excessive preferential support to overseas parents be reviewed by the Registrar; and
- ☐ fronting, including fronting by Lloyds of London, be prohibited by the Registrar.

R1bn investment group to be listed

(58) B/Day 19/3/90

LINDA ENSOR

A NEW investment management group, Safegro Holdings, which will administer R1bn in funds in its first year of operation, has been formed by Hosken Consolidated Investments (HCI) and its subsidiaries IGI Insurance and Safrican Life Investment Holdings (Saflife).

An application for a JSE-listing of the new group will be made soon.

The group, with three divisions to deal with institutional fund management, property management and personal asset management, will be 51% owned by Saflife, 44% by IGI and 5% by HCI.

A licence to establish Safegro Unit Trust — to be run under the aegis of Safegro Institutional Fund Management — has also been obtained and will be marketed through Saflife's and IGI's marketing network of agents and brokers.

Chairman of HCI, IGI and Saflife, Mike Lewis, will also act as Safegro Holdings' chairman. Rob Luscombe will be MD.

Safegro Property Management incorporates HCI subsidiary Hilldale Trust, a property management company with a portfolio in excess of R200m. Safegro Personal Asset Management will consist of HCI's Samatco, a portfolio management company with R40m in funds under administration.

Safegro Personal Asset Management will handle the private and small business investor market, providing portfolio management and personal financial planning services.

Safegro Institutional Fund Management, under MD Kevin Cockroft, has already attracted R780m in funds from associated group companies, other institutions and pension funds.

It has currently 20 portfolios under administration.

It offers a full treasury operation as well as equity portfolio management and gilt, options and futures trading, and is complemented by Safegro Property Management which will handle the property aspects of investors' portfolios.

"Through its association with HCI, IGI and Saflife, the group has a strong pedigree as well as a massive and potentially very powerful marketing network at its disposal," Luscombe says.

Equity futures turn over R1,6bn in a day

ROBERT GENTLE

Bday 28/3/90

A STAGGERING R1,6bn in turnover was recorded on equity-related futures last Thursday when the March contracts expired, statistics by futures clearer Rand Merchant Bank show.

This was the largest volume recorded since the futures market first started nearly three years ago.

It dwarfed total JSE turnover for the day of R156m, according to figures released yesterday.

The high figure, three times what the market was expecting, was largely the result of the expiry of the March contracts in all share, gold and industrial index futures. (58)

Significantly high volumes are a natural phenomemon in all futures markets at expiry.

That is when investors and speculators close out (cash in) open contracts, taking their profits or losses.

Of the R1,6bn turnover, R554m resulted from actual close-out trading.

Modest gain for Sage

Star 28/3/90 Finance Staff (58)

Sage Holdings' earnings in financial 1989 rose a modest seven percent to R26,5 million (R24,8 million) after adverse trading conditions experienced by the homebuilding section of its property subsidiary.

Earnings per share rose seven percent to 121,41c (113,53c), while the total dividend has been maintained at 60c, in line with the target of a twice-covered dividend.

Total assets over the year rose by 26,9 percent to exceed the R2 billion-mark for the first time.

The directors say Sage Financial Services, which was listed in June last year, exceeded its forecast earnings by reporting a 64,5 percent improvement in profits to R29,2 million.

However, Sage Property Holdings, the group's property and construction division, raised its earnings over the period by a mere 7,7 percent to R7,8 million.

"Fixed-property activities have performed very satisfactorily, but the homebuilding activities have faced a very difficult and challenging period as a result of high interest rates, pressure on affordability and building cost escalations," the directors say.

Melamet ideas under fire

(58) LINDA ENSOR

THE recommendations of the Melamet Commission of Inquiry into the outflow of premiums and captives "smacked of protectionism", SA Risk Insurance Managers' Association (Sarima) chairman Mike Jones said yesterday.

"I don't believe that is good for free enterprise in SA," he said, adding that corporate risk managers would be meeting soon to formulate their response to the recommendations. B/Day 20/3/90

The commission recommended control measures be imposed on captives to prevent tax evasion and exchange control irregularities and to provide some protection for the local short-term insurance industry.

Jones said bona fide captives were being punished for the one or two who had acted illegitimately. He did not believe one could legislate to cover the exceptions. It was unlikely that large corporations would attempt to evade the law, he said, and most had complied with the legal requirements.

An estimated 21 corporations in SA use captive insurers which Jones said are necessary because the local insurance market neither has the capacity or the pro-

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Melamet

B/Day 20/3/90 (58)

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ducts to cope with the insurance needs of large enterprises.

Barlow Rand risk manager Des Vernon said it appeared from newspaper reports of the commission's findings that government's policy of deregulation and free enterprise had been ignored.

He said if given effect, they would constitute "an unwarranted intrusion into private enterprise. It appears to be a poorly disguised attempt to protect the local insurance market and goes against world trends".

Vernon refuted allegations made in the report that captives were used to evade tax. One abuse, which had previously been investigated, had given all captives a bad name.

"Captives are important risk management tools," Vernon stressed. "The local market has no capacity to write insurance for large corporations like Anglo American and Barlow Rand. If this mechanism is removed from us, we will have difficulty placing our risk.

"Premiums paid to insurance companies are tax deductable and I fail to see why a captive insurance company should be treated any differently."

Vernon said it appeared the commission had failed to consider that premiums flowing out of SA attracted funds into the country to pay for claims. Also, money left the country whether reinsurance was negotiated with a local reinsurer or through a captive.

The difference was that local insurers collected a commission and charged higher rates.

An Anglo American spokesman said the corporation had established its captive in 1987 for normal commercial reasons when there was a 16% shortage of capacity in the local market.

BDay 20/3/90

Banking arena changes

ROBERT GENTLE

THE proposed Deposit Taking Institutions Bill, to be presented in the present session of Parliament, could well see discount houses tie up with larger banks or building societies, industry sources say.

This would enable them to exploit their particular skills which banks and building societies lack — namely an intense activity in the marketing of short-term instruments and derivatives.

The impetus behind such a move would flow from the fact that the Bill will level the playing field between building societies, banks and discount houses, in effect driving them into one another's areas of expertise.

"We do most of what discount houses do, but not with the same intensity," says Allied Group MD Kevin de Villiers. "There is a case for discount houses coming under the wing of a big bank or building society."

That view is echoed by Rand Merchant Bank MD Laurie Dippenaar: "We have an open mind on associating with a discount house. But the problem is not to have duplication of skills."

One recent merger that typified good synergy, Dippenaar says, was the one between Corbank and Cape Investment Bank.

58

Enormous

The former's expertise in traditional and corporate banking complemented the latter's expertise in derivatives and capital market trading.

Indeed, the operations of discount houses are already closer to those of merchant banks than commercial banks. Discount houses are therefore unlikely to embrace retail banking with any enthusiasm.

"We would rather move towards small Rand Merchant Bank/Cape Investment Bank type operations," says Mike Haskins, MD of Securities Discount House.

"Retail banking is highly competitive and the infrastructure costs enormous."

Haskins does not see any immediate rationalisation on the horizon, but does not rule out the possibility.

Discount House of SA executive chairman Colin Dunn says he can envisage an eventual association with larger banks, but not neccesarily a straight takeover.

"We may fall within a broader banking group. Our shareholding may change."

An example, he says, is the case of broking firm Greenwich Futures, which operates under the wing of Finansbank, providing it with trading expertise in derivatives.

Meanwhile, discount houses are expected to continue consultation with the authorities over the next 18 months, during which time their new broader financial role will be gradually phased in.

B Day 20/3/90

Bumper year expected for unit trusts

LIZ ROUSE 58

THE unit trust industry was heading for a bumper year in the wake of the Budget dividend and interest tax concessions, Old Mutual assistant GM for unit trust and sales development Bastiaan van der Westhuizen said.

Disclosing yesterday that the total assets under management by Old Mutual unit trusts rose to R2,5bn after reaching the R2bn mark four months ago, he said government's decision to make dividends tax free would improve the attraction of unit trusts.

"If one considers that apart from dividends being tax free, the Minister has doubled the interest exemption from R1 000 to R2 000 and further interest concessions are likely, unit trusts are a tremendous investment.

"Investors in unit trusts will not pay any tax on dividends received from their units. This will help to maximise capital growth, particularly where investors re-invest the tax-free dividends to purchase further units. Previously this could have created cash-flow problems as a result of tax paid on money not physically received, but re-invested."

Haven

Non-residents who did not carry on business in SA were liable for non-resident tax (NRST) on all dividends received from a SA source and would continue to pay NRST of 15% on dividends received from unit trusts.

"The Minister also announced a so-called sale haven for listed shares on the JSE held for a period of more than 10 years. This means that any profit on the realisation of these shares will not be taxed. This safe haven does not appear to apply to unit trusts.

"The normal rules of capital and revenue are applicable, but in most cases where an individual sells units they are not subject to income tax."

"It should be noted that the R2 000 interest exemption was announced as an interim measure while the government investigates the feasibility of substituting a final withholding tax. This tax which will be levied at a low rate will presumably apply to unit trusts as well."

He said Old Mutual's Investors' Fund — the largest unit trust — was performing well.

Reserve Bank intervenes in forex market

STAR 24/3/90 Finance Staff (58)

The Reserve Bank has intervened actively in the foreign exchange market in the face of huge US dollar inflows to keep the rand lower and interest rates at stable levels.

It is estimated that up to $400 million were added to the market last week and instead of simply buying up the dollars, which would have pumped additional rands into the system, the Reserve Bank has arranged swap deals with commercial banks.

In terms of these deals US dollars with the banks are placed on deposit at international banks at interest rates of about 20 percent while the Reserve Bank simultaneously buys the dollars forward to pay its forward commitments to exporters.

The intervention has resulted in the rand dropping by about two percent against the US dollar over the last month and kept liquidity in the money market at tight levels, therefore allowing the Bank to maintain high interest rates.

The rand yesterday fell only modestly against the US currency, as the dollar surged on international foreign exchange markets. The rand closed at R2,67 to the dollar, 5c down on the day.

However, the surging dollar played havoc with the gold price, which fell by about $8,50 in New York yesterday to a close of $392,45. In Hong Kong gold opened at $393,25 this morning.

Gold falls $10 in rush for dollars

Star 23/3/90 58

Finance Staff

The gold price fell by almost $10 yesterday to close at $392,45 in New York, as international investors rushed into US dollars following a 1 percent rise in the key Japanese discount rate.

Bullion rose slightly in the Far East today — it opened at $393,25 in Hong Kong — but dealers expect a further rush into dollars as dealers liquidate their position in precious metals. Gold had closed at over $399 in London yesterday before the decline started in early US trading.

The US dollar rocketed in heavy trading yesterday, benefiting from profit-taking in West German marks and in the Japanese yen. Intervention by several central banks aimed at shoring up the sagging yen failed to alter the dollar's course. The banks reportedly sold dollars and bought yen.

The rand fell slightly against the US currency to R2,61, but bullion's fall came too late to affect JSE trading.

● See Page 16

FSI posts 38% rise in profits to R64,3m

CAPE TIMES 21/3/90

58

JOHANNESBURG. — Continuing the strong growth pattern that has been exhibited since its listing, FSI Corporation posted a 38% increase in attributable profit to R64,3m after turnover topped R2,5bn, an increase of 33%.

Financial results for the year ended December, released yesterday, show that earnings a share increased by 20% to 132c after a 15% increase in the weighted number of ordinary shares and preferred ordinary shares in issue.

A final dividend of 23c was declared making a total dividend of 35c, an increase of 17%.

FSI'S pyramid, FS Group, yesterday reported a 20% increase to 66c in earnings per share, and a 17% rise to 17,5c per share in dividends on the ordinary shares.

Releasing the results, Jeff Liebesman, chairman and CE of FSI, said the 1989 results were built on the solid organic growth of FSI's operating companies in the manufacture and distribution of basic consumer and industrial goods.

Turning to the figures, he said the 25% effective tax rate is in the range that is expected to apply in the medium to long term, as a result of the nature and geographic spread of activities.

"The 38% rise in attributable profit was diluted by the 15% increase in the weighted average number of shares on issue, resulting in a 20% increase in earnings per share — in line with the 1988 annual report forecast of achieving growth in excess of the rate of inflation."

On FSI'S development policy, Liebesman said that during the '80s, FSI expanded globally with 32 factories and 850 distribution points on five continents. — Sapa

Crulife lifts dividend 25%

Star 21/3/90 (58)

Finance Staff

Crusader Life has raised its annual dividend by 25 percent to 14,38c in financial 1989, after increasing new business written by 49 percent and raising gross premium income to R85 million.

Chairman Don Rowand says overhead costs were reduced substantially and contributed to the improvement in results.

The group does not expect a contribution until 1992 from its R7 million UK investment in Pegasus Life, which will seek a JSE listing in due course.

R52-m a month changes hands in blacks' urban buying groups

Sow 21/3/90 (58) (63A) (3559)

By Jabulani Sikhakhane

An estimated R52 million for stokvels (communal buying groups) is changing hands every month in the black metropolitan areas, according to a study by Markinor.

The study found that about 680 000 black adults, or one quarter of the black metropolitan population, are members of stokvels.

Peter Scott-Wilson, director of Markinor research group, says the outcome of the study indicates that buying groups are popular institutions which can exert powerful buying muscle.

Markinor found that of the estimated 24 000 black stokvels in the metropolitan area, 41 percent are savings clubs and 20 percent are burial societies.

Burial societies have an average of 80 members contributing R39 ar month, while other types have an average of 16 members, making a contribution of R106.

But since burial societies have more members they have the highest monthly income and contribute 43 percent of the total R52 million.

An estimated R17,5 million is contributed by savings clubs, with other stokvels collecting about R12 million.

The stokvels movement has developed a significant presence with the formation of the National Stokvels Association of South Africa (Nasasa), comprising 7 000 stokvels groups with an average of 12 members to a group.

Sage Prop weathers setback

Star 22/3/90

58

By Jabulani Sikhakhane

Despite difficult conditions in its home-building division and a 35 percent decline in pre-tax profit, Sage Property lifted earnings in financial 1989.

Earnings per share, before extraordinary items, increased 7,5 percent to 21,6c and a final dividend of 7c (6c) has been declared, bringing the total for the year to 11c.

Profit attributable to ordinary shareholders showed a 7,5 percent rise to R7,785 million from R7,230 million in 1988.

Sage Property Holdings controls and manages a broad spectrum of activities in the property and construction industries.

Directors say the group's general property activities performed satisfactorily, but the home-building division went through a difficult period, largely because of high interest rates, pressure on affordability and escalating building costs.

At the interim stage directors said internal audits had revealed that over a period of time profits had been overstated in certain home-buidling activities outside the PWV area and on certain major contracts awarded on tender basis.

These amounted to R8 million and would be treated as extraordinary items after deducting possible recoveries, the directors said.

In the preliminary statement yesterday the directors said further details on extraordinary items amounting to R557 000 would be included in the annual report to be issued next month.

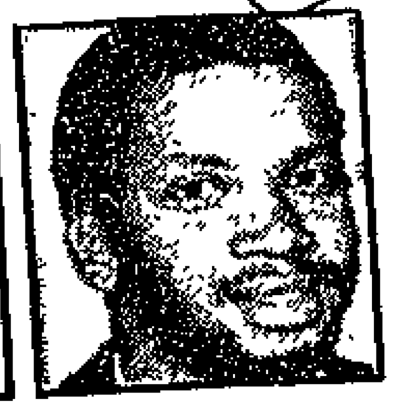
CG Smith looking better than parent

58

Str 22/3/90

Diagonal Street

JABULANI SIKHAKHANE



The shares of food group CG Smith have soared by 30,5 percent since the beginning of the year, far in excess of the industrial index which has risen by only 9 percent over the period.

Analysts attribute this perfomance to expectations by investors that CG Smith will show steady growth for the year to September, despite the downturn.

They say investors could be switching from parent company Barlows into CG Smith because they expect the former to be hurt by its steel interests and higher interest rates.

Earlier this year, Barlows CE Warren Clewlow warned that Middelburg Steel might contribute less than it did last year to bottom-line earnings because of falling steel consumption locally and abroad.

Middelburg Steel was the star performer for the Barlow group last year, contributing R215,7 million, or 21,6 percent, to bottom-line earnings.

Also analysts expect 1990 to be a tougher year for Barlows, particularly with continued high interest rates on borrowings, which are set to rise further, along with the take-up of the group's Rand Mines rights offer allocation.

Barlows' share price has remained virtually unchanged at R44,50 after reaching a peak of R48,50 in mid-January.

CG Smith appears currently to have a higher rating. At a price of R88,75 it is trading on an historic P/E ratio of 11,8 times, while Barlows is on one of 8,9 times.

While Barlows might show lower earnings than last year, CG Smith is looking only at a slower rate of growth.

Mr Clewlow told shareholders in January that while first-quarter earnings for the period to December 1989 were similar to corresponding first-quarter figures last year, gains in Barlows' divisions could be offset by Middelburg's decline.

However, in CG Smith the effects of the economic downturn could be offset by increased moves towards value-added products and exports.

Exports rose sharply in financial 1989 to over R1,4 billion, or 12 percent of turnover.

A large proportion of these exports are higher value-added products, rather than agricultural products.

Patrick Ho, analyst at Max, Pollack & Freemantle says the major contributors to CG Smith earnings are CG Smith Food and Nampak.

Mr Clewlow says in his forecast for 1990 that the food and packaging sectors are less prone to volatile cyclical swings in consumption and demand.

Consequently, CG Smith expects a year of steady growth, although the growth in earnings is likely to be at a lower rate than that of 1989.

Mr Ho says CGS Food has shown remarkable strength lately, having gone up 40,7 percent since the beginning of January to the current price of R38.

With CGS Food being the largest contributor to CG Smith's attributable profits, any increased strength will impact positively on CG Smith.

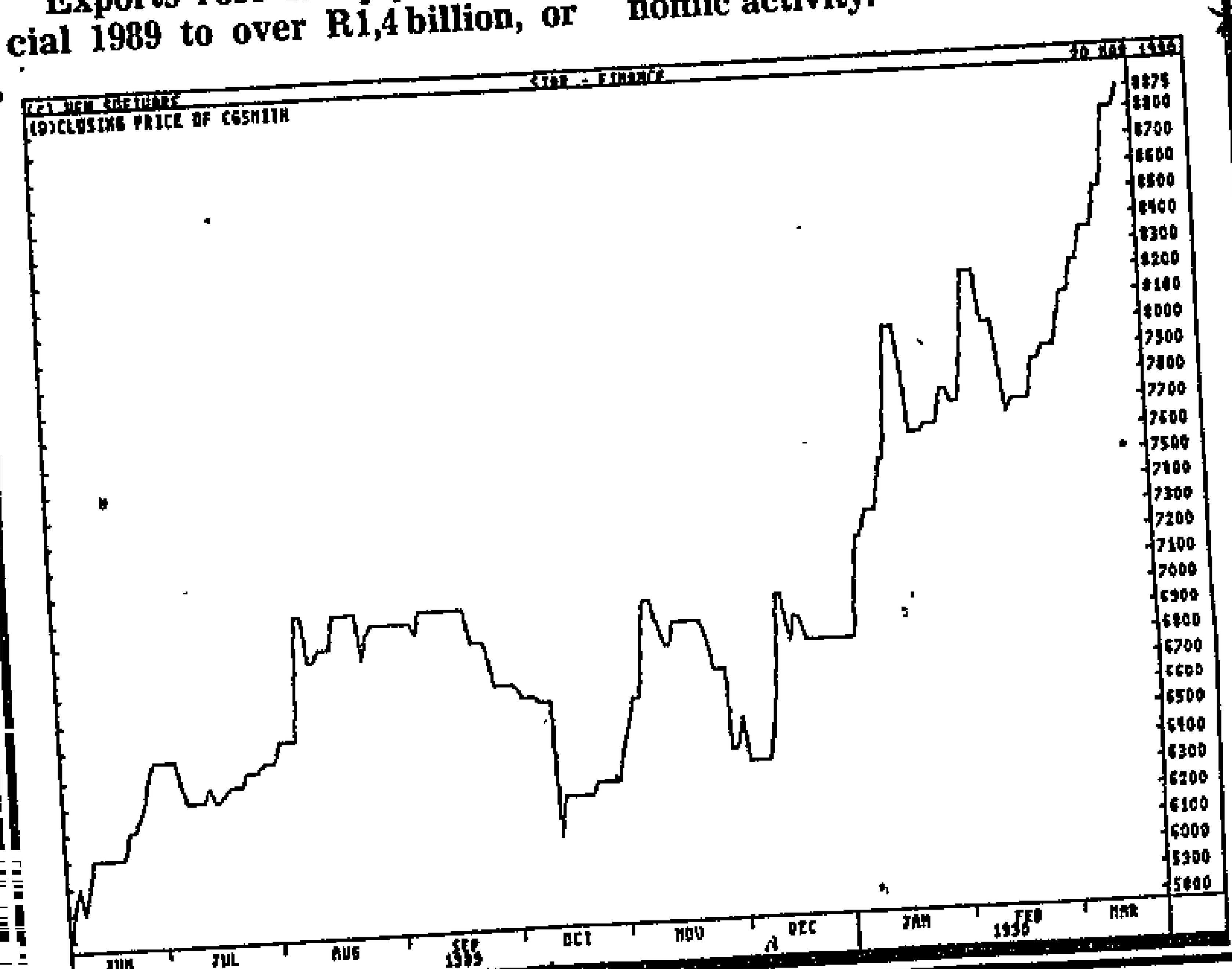
For financial 1989, CGS Food contributed R180,8 million, or 30 percent, to CG Smith's attributable profits, followed by Nampak with R137,6 million and Romatex with R30,8 million.

Mr Ho attributes the strength in CGS Food to the expected good performances by two of its major subsidiaries, Tiger Oats and CGS Sugar, in the wake of the rising international sugar price.

CG Smith's packaging interests, held through Nampak, should also show real growth this year.

In their forecasts, directors said in the 1989 annual report that the packaging industry was less sensitive to economic trends than other sectors thanks to its strong links with the food and beverage industries.

Mr Ho says that while the packaging sector may be the first to be hurt by a downturn, it is also the first to indicate an upturn in economic activity.



Strong dollar behind gold's decline

By Neil Behrmann

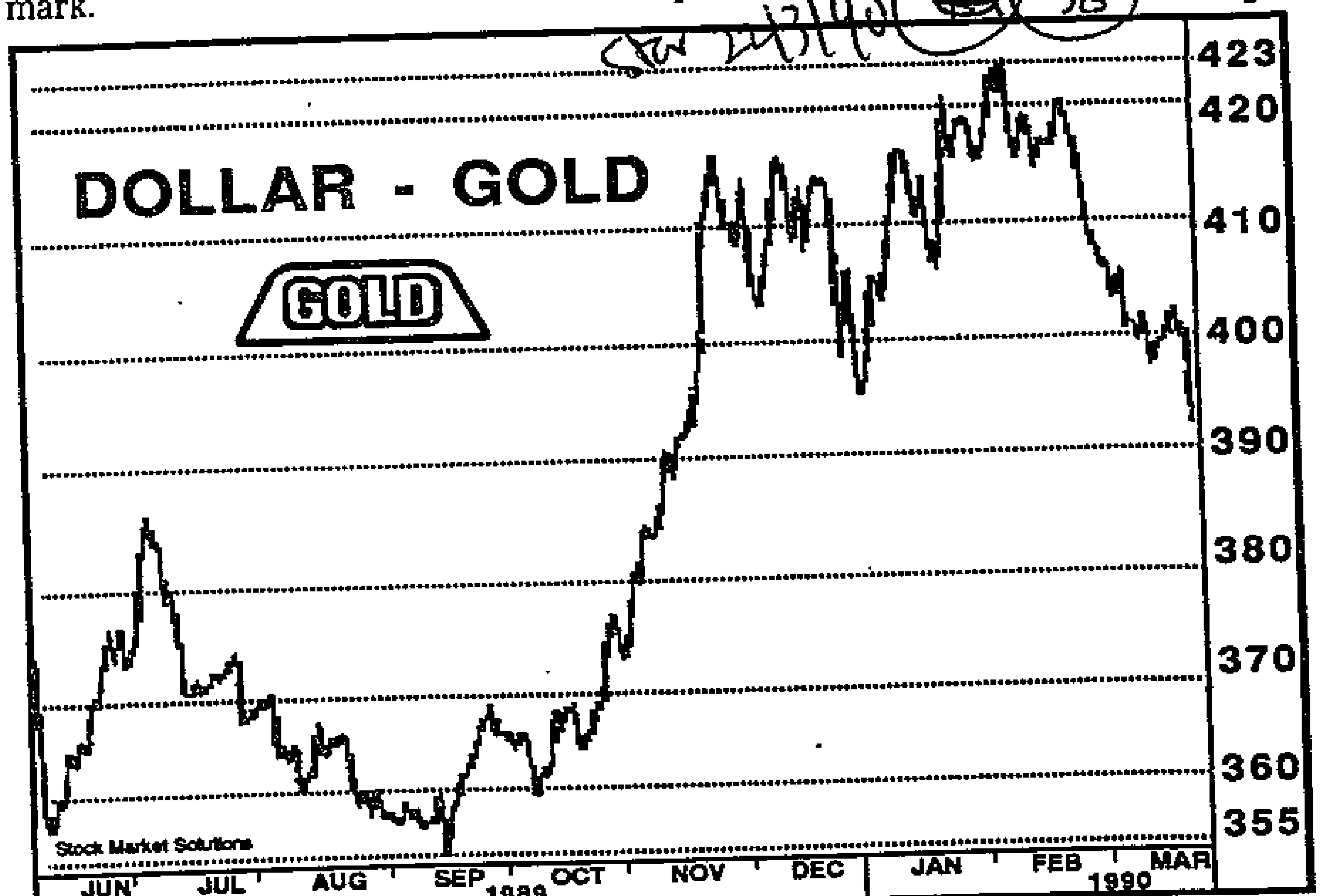
LONDON — A strong dollar has unsettled the gold market, but dealers expect jewellery and fabrication demand to improve at prices below $400.

Gold plunged to $392 yesterday when the dollar rose to a three-year high of 155 against the yen and recovered its recent losses against the Deutsche mark.

The improvement of the dollar was surprising, considering that the US merchandise trade deficit swelled to $9,25 billion in January from $7,68 billion in December.

Currency dealers, however, decided to buy dollars because the 7,3 percent jump in imports to $41,32 billion reflected a 44 percent surge in oil imports.

SW 27/3/90 58



The oil price has weakened in recent weeks and most economists expect US imports to decline in coming months.

Also, the December trade deficit was the smallest in five years and US officials were expecting worse figures in January.

Regardless of the level of the dollar, however gold has failed to match the expectations of the bulls.

After failing to break through $425 several times, speculators and investors grew wary and sold holdings.

High real interest rates and slower international economic growth have reduced gold's attractions.

Moreover, gold has become expensive in yen, the weakest of the major currencies.

At present rates, gold costs 60 555 yen an ounce. When gold was at $360, the Japanese price was 52 000 yen.

"The great hope of the gold market now rests with the Japanese non-life insurance companies and the investment public," says Ewin Arnold metals analyst of Merrill Lynch.

The non-life companies have been given permission to invest three percent of their assets in gold — equivalent to 310 tons.

Yet few people expect the non-life companies to rush into gold, he says.

Last year Japanese gold imports fell to 284 tons (292 tons in 1988).

Imports for January this year fell sharply to 16,44 tons after 25,66 tons in December and 25,66 tons in January 1989.

Mr Arnold has lowered his gold trading range by $35 to a band of $415 to $385.

His reasons are "poor physical demand versus steady supplies".

Import figures monitored by Gold Fields Mineral Services for the main importing centres in Asia and the Middle East show declines ranging from 20 to 40 percent, says Mr Arnold.

Taiwanese gold imports plunged to a seven-month low of 5,83 tons after 19,23 tons in January and 16,57 tons in February 1989.

Last year Taiwanese imports declined to 160 tons from 355 tons in 1988.

The drop in physical demand has been accompanied by 35 to 40 tons of gold loan sales in the past ten weeks, says Mr Arnold.

In a recent speech in Australia, Robert Guy, a director of NM Rothschild, said physical demand should support the market at prices below $400.

Given political and economic uncertainties, gold should remain a safe haven for investors for some time to come, he said.

Sageprop expects R8m losses from discontinued operations

CHARLOTTE MATHEWS

DIFFICULT conditions in its home building activities pulled Sage Property Holdings (Sageprop) profit down before tax for the year to December by 35% to R10,4m from R16m in 1988.

In its interim announcement, the directors said profits had been overstated in some home building activities and major contracts.

They forecast losses of about R8m from discontinued operations.

An extraordinary item of R557 000 shown below the line in today's results represents the net figure from this item after losses from discontinued operations were balanced by the surplus on the disposal of fixed assets.

Sage Properties manages a variety of activities in the property and construction industries through its subsidiaries Sage Properties and Sage Schachat.

The directors said further details would be supplied in the group's annual report due in April.

Tax payable fell to 6% from 40% and profits attributable to an outside shareholder in subsidiaries fell to R107 000 from R367 000. (58)

Earnings increased by 7,7% to 21,6c (20,1c) a share and a final dividend of 7c (6c) was declared.

This brings the total dividend for the year to 11c (10c) on a slightly reduced dividend cover to 1,96 times from 2,01.

"The group's general property activities have performed very satisfactorily, but the homebuilding activities have faced a difficult and challenging period," the directors said.

"This is as a result of, inter alia, high interest rates, pressure on affordability and escalations in building costs."

Sage shares were unchanged at 200c on the JSE yesterday, a level reached earlier this week. In January the shares were quoted at 152c. At 200c they offer a historical dividend yield of 5% and a p:e of 9,8 times compared with a sector average of 9,5% and 12,9 times respectively.

Today's results raise the dividend yield to 5,5% and the p:e to 9,25 times.

B/Day 22/3/90

Corporate cover

BDay 22/3/90

Ciskei rioting to cost Sasria R70m

58

THE South African Special Risks Insurance Association (Sasria) — formed at arms length from the rest of the insurance industry in 1979 to cater to the potential high-risk area of politically-inspired riot damage — has achieved an extremely sound base.

One industry commentator described Sasria — incorporated in terms of Section 21 of the Companies Act as an association not for gain — as "one of the wealthiest insurers in the country".

Sasria MD Rodney Schneeberger says only that it is "financially sound".

Claims experience during 1988 and 1989 was more favourable than anticipated and led to the recent announcement of a rate reduction on Sasria's three main cover areas — motor vehicle, residential and non-residential property.

The reduction seems less appropriate in the light of the sudden spate of riots, unrest and violence throughout the country, with the coup and subsequent rioting in Ciskei being the most serious.

Sasria expects Ciskei claims will amount to as much as total annual claims in the worst year of its 11-year history — R70m paid out in 1985 after that year's sustained bombings.

"We are very alert to the fact that we are providing an essential service, so we go as far as we can to meeting our insured's needs," says Schneeberger.

Civil war

While "political terrorism" has been recognised as a peril since World War 2, it has traditionally not been one covered by the private sector.

"It is a peril equated with civil war and seen as a nation's burden.

"Following the 1976 Soweto riots, it was recognised there was a need for this sort of cover, but the insurance industry felt it couldn't insure such risks. To encourage foreign investors, it was vital the service be offered so government requested the SA Insurance Association to look into it.

"After a feasibility study showed an infrastructure of about 750 people would be needed to handle a new organisation, we decided to handle all policy issuing and claims receiving through SAIA members.

They handle the routine functions for an administration fee."

The enormous base covered by Sasria can be seen in the fact that it has both a vast personal market — all housing bond lenders insist on Sasria cover — as well as the commercial market, which forms the bulk of its premium income.

A milestone in Sasria's history was in March 1985, with the extension of cover to include "consequential loss" — covering standing charges such as wages and rent.

In April 1987, cover was again extended to include "damage arising from non-political riot" to deal with incidents such as labour demonstrations or soccer hooliganism and in April 1988 cover was made available in TBVC countries, says Schneeberger.

Corporate cover

Business Day SURVEY

*The effects of the rates war on SA's short term insurance industry is beginning to show up in company results. Corporate clients complain of a lack of imaginative solutions to new insurance problems and many are self-insuring and looking overseas for solutions. **SUSAN RAMWELL** reports.*

MAJOR LOSSES IN SA

	Rm
Sasol Fire (Jan)	170
Sasol Fire (May)	266
AECI (Interruption/Sasol)	10
Holiday Inn Fire (Jan Smuts)	11,5
JCI Fire (Rustenburg)	21
East Drie Fire	14
Eskom Fire (Ermelo)	20

Fire/storm losses over R250 000 reported to insurers in 1989 (11 Months) R603m
Figure for the same period in 1988 - R172m

Graphic LEE EMERTON Source BARLOW RAND

More corporations turning to foreign insurance help

58

MAJOR SA corporations with annual risk cover requirements amounting to billions of rands are increasingly seeking risk-funding solutions outside of the local short-term insurance industry.

Despite the problems of competition with international reinsurers which face the local industry and the measure of relief recommended by the newly released Melamet Commission report, the country's top risk managers do not foresee the industry as being able to meet their requirements for corporate cover.

The Melamet Commission has sought to impose controls on the operation of "captives" to prevent tax evasion. SA Insurance Brokers Association president Jimmy Vickers says that this is "not before time" and that there have been isolated cases of abuse.

But the SA Risk Insurance Managers Association has slammed the commission's recommendations as "punishing bona fide captives" and said they "smacked of protectionism". The response has to be seen in the light of client criticisms of the short term insurance industry.

There is no doubt there are certain multi-million risks too large to be insured locally. However the local insurance market seems to be missing important corporate risk areas which would be within its capacity — simply because the products are not offered.

First Bowring national director short-term insurance Richard Austin says: "Not all insurers are into the big-risk arena. Lloyds will give anything a go at a price. But when it comes to the more exotic cover, the local market won't try anything beyond present experience."

Pollution

Areas of risk which are increasing in importance in SA, but which are not easily available here and do not have an extensive claims history include cover against industrial pollution, such as the Sappi spill in the Eastern Transvaal, computer fraud, nuclear power station hazards and product liability.

But there seems to be little attempt on the part of local insurers to match policies to changing times to minimise the loss of premium income which self-insurance presents or to prepare for a future which demands sophisticated risk management and funding.

Corporate customers are crying out for a more flexible approach. Many have millions of rands to spend. Yet local insurers complain that due to a stagnant economy they can expect no real growth.

Chairman of the SA Insurance Association Ron Carter says: "The pie is not getting any bigger."

Guardian National MD Keith Nilsson says: "There are no new corporate risks to insure."

Is this a case of marketer and market missing one another?

Both corporate clients and brokers describe the attitude of local insurers as "stodgy" and "lacking in imagination in coming up with new solutions".

"They're quick to say anything new is 'uninsurable'. One feels like shaking them at times," says the risk manager for one major corporation, softening the criticism with the adjunct that he does understand the industry's problems.

The industry's problems are many. The limited size of the SA market has to be considered.

SA insurers are competing in an international marketplace and often cannot match premium prices offered by foreign reinsurers.

Sanctions and inflation have taken a toll. Most crippling, however, is the current rates war — the most prolonged and serious experienced which is believed to have knocked as much as 30% off premium income this year.

At the same time, claims experience has been markedly up this year.

Fire and peril insurance claims totalled R1,54bn in 1989 compared with the R87m in 1988. The 1988 figure, however, is a particularly low one, described by Fedgen's Ron Carter as a "freak year".

Although necessity demands rates must harden, most companies believe competitive pressures will see the soft market continue for a while.

The total short-term gross premium income placed with direct insurers was R5,6bn in 1988, according to the Financial Institution's Office. R546m was placed with reinsurers.

Companies in the league of Eskom and the Barlow Group are increasingly funding a large portion of their own risk — in some cases up to almost 50%.

Eskom insurance manageer Hilary Gildenhuys says: "The insurance industry does not seem to perceive the trend for corporate buyers to self-insure as the product phenomenon that it is.

Sophisticated

"They are losing business — and not even to a competitor."

Barlow Rand group risk insurance manager Des Vernon says the group — which has one of the world's most sophisticated risk management programmes — funds only 30% of its total risk through conventional insurers.

Self-insurance accounts for 47%. The remaining 23% is spent on risk control.

Vernon says it is conceivable major buyers may one day entirely by-pass insurers, placing the risk they wish to transfer directly with international reinsurers.

Underwriting results plunge, but crunch is expected in 1991

58

B/Day 22/3/90

A SIGNIFICANT drop in underwriting profits of short-term insurers following the rates war now in its third year, exacerbated by a high rise in the cost of claims, is evident in results for 1989.

Growth in gross premium income for the industry is expected to stay at about 12% on average — well below inflation in terms of cost of claims, which is in the region of 18%.

Mutual & Federal's results published early this month showed a 62% drop in underwriting surplus in the six months to end-December — to R14,9m (R39,4m).

On an increase in gross premium income of 8,6%, M&F lifted net premium income by 10% helped by contained cost increases.

June 1989 reporting companies SA Eagle and Commercial Union recorded respective drops in underwriting surplus of 71% and 20%, while Fedgen went from a 1988 underwriting profit of R1,3m to a loss of R8,2m.

Quest consulting group chairman Denzil Curgenven said results are what he expected.

"1989 was a bad year. 1990 will be worse, but the crunch will come in 1991. The short-term insurance industry will be in crisis and it only has itself to blame.

"As far as I can see, the planning has been wrong. We warned rates would have to go up some time ago. If increases had been introduced gradually it would have been accepted.

Now, with dramatic increases in rates in the region of 20% to 25% necessary, many policy holders will simply take fright and cancel," said Curgenven.

Chairman of the SA Insurance Association and MD of Fedgen Ron Carter says a lot of hope had been pinned on high interest rates boosting investment income, but this would not continue to offset poor underwriting results.

"Competition in the commercial and industrial insurance markets will not abate. But, nevertheless, rates must firm if we are to avoid dissipating reserves.

"If investment rates come down, they will no longer be able to balance underwriting losses. Sound underwriting according to risk exposure rather than exclusively market conditions has to be practised.

"Trading conditions will continue to be difficult, so insurance companies simply have to be selective. At present, the base is being eroded by both claims and expenses," says Carter.

Guardian National MD Keith Nilsson says its underwriting results to be released soon will be "in line with the rest of the market".

"Until the current cycle improves, underwriting results will remain under pressure."

SHORT-TERM INSURERS PERFORMANCE LEAGUE, 1988.

(AMOUNTS EXPRESSED IN R'000)

COMPANY	GPI	% MARKET SHARE	NPI	NPI AS % GROSS PREMIUM	CLAIMS INCURRED	WRITTEN LOSS RATIO	EXPENSES	EXPENSES AS % NET PREM (EX COMM)
M & F	732299	16,6	589407	80,5	366788	62,2	63144	10,7
SANTAM	668872	15,2	599708	89,7	418873	69,8	75327	12,6
SA EAGLE	543935	12,4	448084	82,4	273940	61,1	54180	12,1
IGI	354288	8,1	288880	81,5	182029	63,0	45138	15,6
CU	340381	7,7	220733	64,8	135890	61,6	22433	10,2
GUARDIAN	312745	7,1	188489	60,3	116545	61,8	23771	12,6
AEGIS	216951	4,9	149318	68,8	98139	65,7	16751	11,2
GA	175988	4	160854	91,4	96644	60,1	21770	13,5
PROTEA	172359	3,9	127225	73,8	74540	58,6	24395	19,2
NEG	131242	3	93454	71,2	53447	57,2	14416	15,4
SENTRABOER	123319	2,8	101658	82,4	66350	65,3	19199	18,9
ALLIANZ	107614	2,4	58804	54,6	43952	74,7	10044	17,1
STAN GEN	86256	2	39065	45,3	27071	69,3	7093	18,2
CONCORD	85818	2	25951	30,2	12873	49,6	4809	18,5
AII	83281	1,9	24669	29,6	111222	45,1	9511	38,6
FEDGEN	80304	1,8	53759	66,9	28731	53,4	13859	25,8
AUTO & GEN	77560	1,8	46498	60,0	25039	53,8	17735	38,1
HOLLARD	64581	1,5	47441	73,5	31478	66,4	2416	5,1
PRESIDENT	23542	0,5	19341	82,2	11531	59,6	4418	22,8
ACA	18659	0,4	17665	94,7	11452	64,8	4164	23,6
TOTAL	4399994	100	3301003	75,0	2086434	63,2	454573	13,8

Cover now available for latent defects

58

B Day 22/3/90

A WELCOME introduction for commercial property owners is "latent building defects" cover — a new product to be launched by builders, civils and engineering underwriting managers BCE and Fedgen next month.

BCE MD David Taylor says international demand has arisen from building owners for such cover in the wake of a spate of building problems arising from latent defects.

These are not generally covered by standard all-risks policies nor by the usual fire or specified perils insurances.

"With a policy such as this, a claim can be settled quickly and without argument as there need be no dispute over the value. It is simply the value insured," says Taylor.

Citicorp Insurance Brokers provide an Inherent Defects Insurance (IDI) Policy or Decennial Insurance — a 10-year non-cancellable policy. The policy covers:

- Destruction of premises or damage which renders them unstable;
- Threat of imminent collapse arising from inherent defects;
- The cost of demolishing and removing debris resulting from such damage;
- Reasonable legal, professional or consultants' fees incurred in connection with destruction or collapse;
- Additional costs of repairs or reinstatement.

The Citicorp policy is available only in certain countries, mainly in Europe, and only for new buildings.

Stokvels attract over R50m — survey

EDWARD WEST

THE estimated 24 000 stokvels in major metropolitan areas attracted about R52m in contributions to purchase goods and services, according to a Markinor survey.

Research during October to determine the prevalence and profile of stokvels involved nearly 1 300 blacks, a Markinor statement said. B/Day 22/3/90.

A stokvel is a communal group who contribute to a central fund for the benefit of the group or group members.

About 680 000 black adults, a quarter of the black metropolitan population, were members of a stokvel. Of an estimated 24 000 black stokvels in metropolitan areas, 41% were savings clubs and 29% were burial societies, which had the greatest membership. (SS)

Most members were employed and in the higher income bracket.

A member's average monthly contribution ranged from R39 to R106 a month.

Economists worried by low fixed investment

B|Day 22/3/90

NEIL YORKE SMITH

HIGH interest rates, poor tax structures and restrictive government policy contributed to the low rate of growth in SA's capital assets last year, economists said in interviews yesterday.

Gross domestic fixed investment in SA increased by 4% in real terms to R26,37bn last year, less then half the 8,6% increase during 1988.

This rate of increase was inadequate if SA was to fulfil its underlying long-term growth potential, they said.

JCI economist Ronnie Bethlehem said productive fixed investment, which created jobs, improved output and stimulated growth, was vital if the economy was to strengthen in the long term.

"A country which reduces fixed investment spending is effectively eating its seed-corn," he said. This would weaken its basis for growth, he added.

Nedbank economist Edward Osborn was disappointed at the low rate of increase in growth in capital formation.

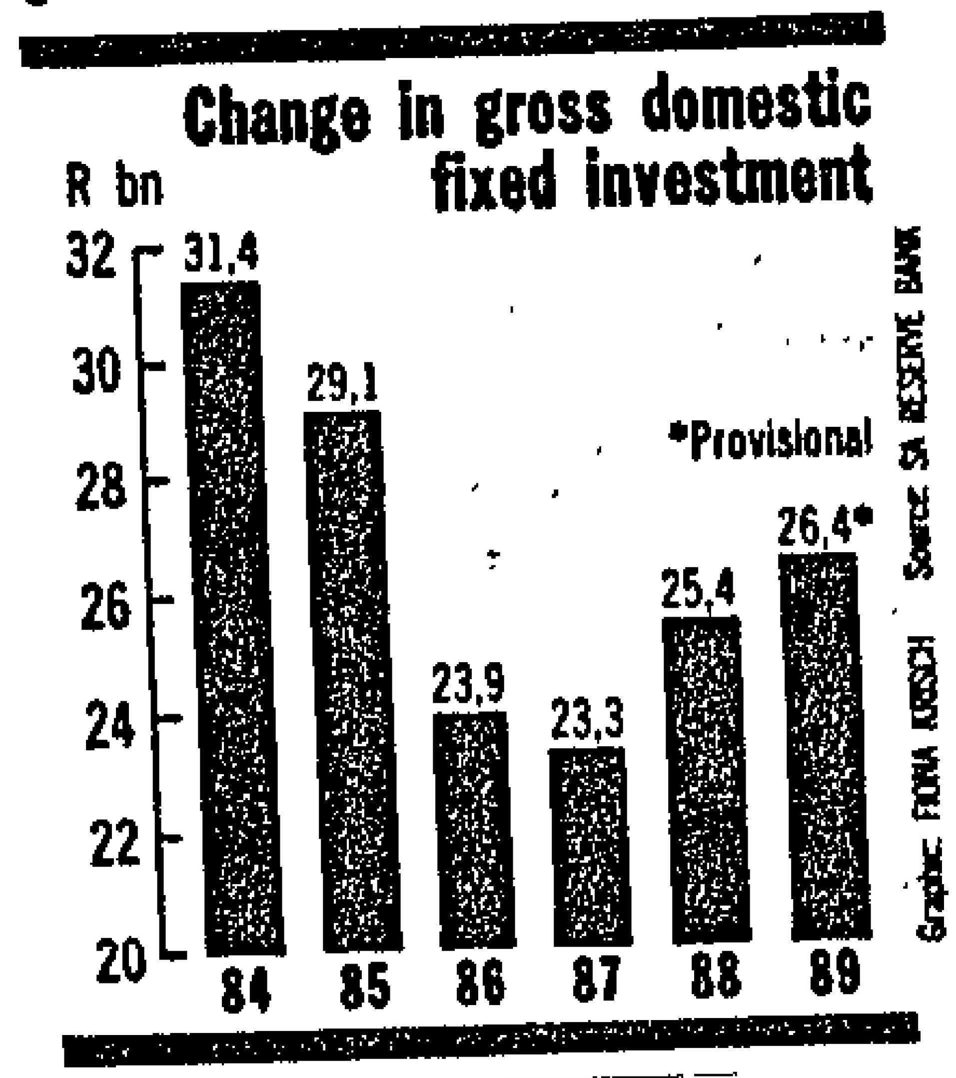
"However, it is encouraging to see relatively large increases in investment in the mining (6,7%) and manufacturing (14,9%) sectors."

Many manufacturing concerns were already operating at high levels of capacity and needed capital investment to improve production, he said.

Bethlehem said the problem was that SA, which did not generate sufficient domestic saving to finance capital formation, was denied access to foreign capital by financial sanctions.

SA Chamber of Business economist Bill Lacey said the low rate of growth did not augur well for job creation facilities.

Those interviewed attributed low growth in fixed investment spending to high interest rates, poor tax structures and restrictive government policy, including the import surcharge and the loan levy.



Osborn said government had been trying to consolidate the economy and protect the balance of payments.

Econometrix's Azar Jammine said existing tax structures encouraged mal-investment.

"Because of tax structures many firms are chasing paper assets, investing in areas they would otherwise avoid and not lookng at long-term projects."

The long-term implications were that the production of goods and services would become more difficult as SA's capital resources were eroded, he said.

The view generally seemed to be that the recent Budget left little scope for increased fixed investment spending.

Bethlehem said the Budget was not designed to stimulate the corporate sector.

And Osborn said: "Also, given the BoP constraint, current interest rates are likely to remain until the balance of payments situation improves."

However, changes relating to the mining industry, particularly regarding taxation of listed investments held for more than 10 years, could free some capital for redirection into capital investment, he said.

20% (10c) to 40c.
REMB BEHEER, up 10c to R11,10,

firmer and only two easier.

MERVYN HARRIS

SFS outstrips pre-listing forecasts

(58)

SAGE Financial Services (SFS), the financial services division of Sage Holdings which was listed on the JSE last year, has outstripped its pre-listing forecasts for attributable earnings for the year to end-December by 12,3%.

Good results from all its underlying interests contributed to the excellent performance. B/Day 23/3/90

Also, while pre-tax profit of R36,8m came in at almost the same figure as forecast, a lower tax rate of 38,6% (43,8%) and a greater contribution of R13m (R11m) from the retained earnings of associated companies, resulted in the attributable earnings rising by 64,5% to R29,2m (R17,8m) compared with the R26m forecast.

A final dividend of 11c brought the total to 18c, while the maiden dividend on the convertible preference shares for the six months to end-December was 10c as forecast.

LINDA ENSOR

On an increased average weighted number of shares in issue, earnings per share rose 63,6% to 36c (32c). On a fully diluted basis, assuming conversion of all the preference shares, earnings were 33,9c (forecast: 30,4c).

Total assets climbed 33,6% to R1,7bn (R1,3bn).

Largest single contributor (48%) to earnings, Sage Life, increased disclosed earnings by 27,3% to R14m, and increased total assets by 30% to R1,5bn.

SFS consists of financial planning and trust group, FPS, two mutual funds, Sage Fund and Sage Resources Fund, Sage Trust, and investment banking arm, Sage Securities.

It is also performs the investment management functions for the group and other institutions and through Sage Strategic Investments holds 10% of Allied and 26% of Rand Merchant Bank.

the six months to end-December 10c as forecast.

Lloyd's capacity rises to £11bn

LINDA ENSOR 58

LLOYD'S has the capacity to accept insurance business totalling £11,07bn this year. BDay 23/3/90

Chairman Murray Lawrence welcomed the increase in capacity at a time when growth figures for the industry seem to indicate an opportunity for a considerable increase in Lloyd's business over the next five years.

Last year, 4 975 members increased their underwriting commitment by an average of £160 000 each.

BDay 23/3/90

Aida chairman has 83% stake

CHARLOTTE MATHEWS

A REPORT in Business Day yesterday on Aida Holdings rights offer incorrectly stated chairman Aida Geffen presently held 60% of the group's shares. In fact she holds just over 83% and will hold just over 60% after the rights offer, so will remain majority shareholder. Business Day apologises for the error.

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Sage MD joins a war of words on RA guarantees

BDay 23/3/90

LINDA ENSOR (58)

SAGE Life MD Morris Bernstein has taken issue with the attack on 100% equity-linked retirement annuities (RAs) recently launched by Liberty Life joint MD Dorian Wharton-Hood.

Wharton-Hood said such policies were irresponsible as they offered no guarantees and passed on all the risk to the investor.

Bernstein agreed that guarantees were essential for shorter term policies.

But, he said, in the longer term a guaranteed return of 4% was meaningless when compared to returns of 15-20% that were commonplace today.

He added that guarantees did not improve an RA investor's position if the market crashed shortly before maturation of a policy.

"The answer to the problem does not lie in performance guarantees. It lies in switching to a more appropriate portfolio in the years prior to maturity, thus preserving the growth in the policy."

Admittedly, 100%-linked policies were high risk, Bernstein said, but they were also "high reward".

"Shares should be regarded as long-term investments. A 100% share or unit trust portfolio should therefore only be selected if the policy has at least 10 years to run," Bernstein said.

He emphasised that the investment term of a policy changed with time, so a 15-year policy with two years to maturity should be regarded as a short-term policy and it was at that stage that the policy should be switched to a portfolio offering substantial guarantees.

LIFE ASSURANCE FIM 23/3/90

Lapse links (58)

Blacks have demonstrated their purchasing power for goods. Now, as affluence increases, they are emerging as consumers of services such as life assurance.

The problem for life offices targeting this market is that lapse rates are determined mainly by the economic stability of policyholders, says SA Insurance Brokers' Association's Gary McCreash. Generally, companies having high lapse rates are those selling to the lowest end of the market.

Broker Richard Wharton-Hood, who sees a huge potential market among blacks, believes that, to make the most of it, an assurer needs trained people who understand clients' needs and can assess their ability to make long-term investments.

Anchor Life Assurance has tried to solve the shortage of skilled sales people by offering a standard package to all clients. This, however, does not address the central problem of matching the product to a client's specific needs. Anchor, catering to blue-collar workers and those lower down the earnings scale, in government and municipalities, had 16 232 policies lapse in 1988, compared to 21 862 new policies issued. This is a lapse rate of 74% (1987: 48%).

A more successful (much smaller) operator at the low end of the market is New Era, which sells mainly in Venda and the non-independent homelands. Lapse rates fell from 51% in 1987 to 29% in 1988 (latest available figures).

Those aiming at high-income groups have fewer lapses: Sanlam 11% in 1988, Liberty Life 12% and SA Mutual 15%.

However, recently listed AA Life, which concentrates on salaried professionals and other white-collar workers, had a high percentage of lapses — 32% in 1988 after a massive 55% in 1987. Director Ken Tew says AA struggled to regain its image after short-term insurer AA Mutual was liquidated in 1986. The association between the two, however distant, resulted in loss of trained staff and customer confidence.

To regain market share, AA Life recruited and trained staff and launched a telephone, TV and mail-order marketing campaign, that brought in clients from the middle of the market. This aggressive marketing resulted in a high initial lapse rate — but now the 10th largest assurer in terms of premiums, AA Life, says it has continued its downtrend in lapses into 1989

Improvements in the middle and upper end of the market were shown by Southern Life, where lapses dropped from 43% in 1987 to 26% in 1988 and Metropolitan Life from 37% to 31%, while Protea Assurance fell from 20% to 11%.

Despite some exceptions there is a definite relationship between lapse rates and profitability. Life Offices Association deputy director Jurie Wessels says: "The cost of putting the policy on the books, medical examinations and administration costs can take three years to recover. In addition, the commission paid to the agent or broker has to be recovered, with the amount returned diminishing as the policy ages."

To keep down lapse rates, assurers have entered into a formal accord, the Replacement Agreement. Wessels says: "Under the agreement, commission for a second policy is paid to the company which issued the first policy rather than the second agent or broker." This discourages agents and brokers from persuading people to drop a policy from one company in favour of a policy from another. "Such transfers are almost always against a policyholder's interests."

It must be noted, of course, that a low lapse rate does not necessarily mean satisfied clients. Protea actuary Geoff London points out it can be achieved through rapid growth in new business — with a high number of new policyholders dwarfing the number of policies that fall away. ■

FM 23/3/90
(50)

Lengthen the options

Abigail Dyer is a consultant to Deloitte Haskins & Sells Financial Institutions Services.

Most domestic corporate debt is now very short term — typically call and BAs of under one year. In my experience, most long-term bank debt was secured from abroad before the 1985 standstill. Most investments are also made on a very short-term basis, mostly overnight call.

A company wanting to buy capital goods with a long economic life and fund at least some of the purchase at fixed rates of interest, to be sure of the project's cost, will find it very difficult to do so.

The potential impact can be serious. For a company with short-term or floating rate debt of R200m, every 1% rise in prime rate means an extra R2m in interest expense.

The ability to raise fixed-rate funds for a variety of periods is a cornerstone of US and European corporate financial techniques, yet the opportunity to add certainty to operating cash flows is denied to SA companies.

Why?

Firstly, there is no corporate bond market, as in the US and Europe. UK rules have recently been relaxed by the Thatcher government and this has been tremendously successful. Many large companies have since raised significant amounts in long-term funds — totalling more than £15bn by the end of 1989.

Secondly, SA banks can't lend fixed rate funds because they can't easily fund themselves for given maturities on the deposit market.

Historically, interest rates have been either negative or marginally positive, which discourages longer-term investment. In many foreign markets, two-way bid offers are quoted for the whole spectrum of maturities up to two years. Maturities beyond this can be funded by bond issues.

But SA corporations cannot easily protect themselves from the risks of volatile interest rates in the longer term.

However, they do have some options. They can use the interest rate swaps market to give a measure of long-term protection. Unfortunately, this market does not have many players and depends heavily on the desire of institutions for floating rate money. As a result, the credit risk (on the interest stream only) is concentrated in a few banks and not many large deals (of more than R100m) are available.

What should we do about it?

Lobby for a change in legislation to allow a corporate debt market to develop. Issuing debentures is legally cumbersome and corporations are reluctant to test the water in case the institutions don't have enough appetite for their paper.

Banking legislation now being drafted is expected to clear some of the obstacles. What is needed is for the Reserve Bank to alter its intervention policies, to encourage the development of a full spectrum deposit market and then use the new opportunities and markets to reduce risk.

Dividends deduction blow

LINDA ENSOR

INDICATIONS from Inland Revenue suggest dividends will not be taken into account in calculating the 15% deduction for retirement annuities now that they are exempt from tax.

Old Mutual legal analyst Lizette Labuschagne said this would mean an effective reduction in the tax-deductible amount of RA contributions. Liberty Life assistant GM: legal and technical marketing Gavin Came said the step would result in a contracting of the retirement annuity market.

Sage Life marketing director Bruce Ilsey said those investors who had used dividend income for their RA contributions would have to reconsider their position if the Income Tax Act were amended on this basis.

Southern Life deputy GM: legal and tax division Tony Davey said the effect would be to discourage personal savings and individual responsibility for retirement and he urged that the Act be amended in a way that allowed dividends to be included.

Life assurers were uncertain about whether dividend income would be included because of the ambiguous wording of this section of the Act, but Ian Meiklejohn, director of legal drafting in the Commissioner's office, said he thought the amended Act would exclude dividends as only taxable income qualified for the 15% deduction.

The uncertainty arose because dividends currently form part of gross income but the whole dividend is not taxable because of an allowable deduction in terms of Section 19 (3) of the Income Tax Act. Some analysts believed dividend income would be included as in the past all dividend income was included, even though one-third was tax exempt.

56

Deduction

They argued that it made no difference if three-thirds were now tax exempt as this section regarded all dividend income as taxable income.

But Meiklejohn said a deduction was not the same as an exemption and so dividends were removed from the calculation before Section 19 (3) was brought into operation.

Ilsey felt the real impact would not be major as he did not believe RAs were sold solely because of the allowable tax deductions.

BD 25/3/1990

SAVINGS F|M 23|3|90 (58)

Flowing out?

Raising the tax threshold on interest and building society dividends to R2 000, for individual taxpayers, will be of value only to

FINANCIAL MAIL MARCH 23 1990

F|M 23|3|90 (58)

EQUITY BOOSTER

Returns on unit trusts and savings

	Fixed interest*	% return	Unit trust	% return
Investment	100 000		100 000	
Interest over 5 years	121 381	16	16 883	
After 44% tax	72 373		13 584	
Dividends after 44% tax	nil		25 119	
Capital growth	nil		143 853	
Investment value before tax over 5 years (no reinvestment of income for unit trusts)	221 381	16	285 855	23,38
Investment value after tax over 5 years	172 373	11,5	282 556	23,09
Investment value after tax, 44% old legislation — dividends taxed and income reinvested	170 173	11,2	294 371	24,1
As above, new legislation, no tax on dividends and income reinvested	172 373	11,5	306 871	25,15

*Fixed interest investment has been compounded at 16% pa monthly and the full R2 000 tax-free concession included. Returns based on UAL unit trust, 5 years ended 31.12.89

Source: UAL Management Company

F|M 23|3|90 (58)

small savers. With dividends on equity now tax exempt, returns are substantially more (**see table**). So only the risk-averse and people who need to stay liquid will have an incentive to keep money in savings.

Banks and building societies see the equity tax concessions as a threat to deposit levels. They fear they may be forced to pay more for funds and this, eventually, would push up interest rates on mortgage bonds.

Greatest beneficiary could be unit trusts, which are more likely to attract traditional savers, as they offer a measure of security in their spread of investments.

Second-line stocks, with a dividend yield of 7%-9%, may draw the more sophisticated investor. "These have been neglected by institutions for various reasons," says a stockbroker, "so could be attractive to the more astute private investor. If so, it would unleash an enormous amount of wealth and give increased capital mobility."

Only consolation for banks and building societies is that eventually, as money moves to the stock exchange, it will increase share prices, thereby lowering the return and making equities less attractive. ■

he ground rules?

FIM 23/3/90 (58)

meeting he slammed setbacks on the Newtown tenders. He suggested that the proposal tendering system used by organisations such as Sats should be adopted.

It seems the proposal system, which works along similar lines to Magid's concept of conceptual presentations followed by shortlisting developers, is gaining increasing acceptance by local authorities.

Cape Town City Council development coordinator Piet van Zyl says, in the main, the proposal-call system of tendering is used by Cape Town for strategic land disposal. "We ran into a lot of criticism, similar to that over the Newtown issue, when we invited tenders for Golden Acre some years ago using the traditional process. In an attempt to avoid a repeat, we introduced this system in the mid-Eighties and it's generally been a success."

One positive aspect of the Newtown retender, according to Magid, was that the revised prices were "quite phenomenal." Most of the interest was concentrated on the two main stands, for which all developers competed.

While price is important, other factors will be taken into account in determining the successful tender. Magid says that in the main category prices previously ranged from R6,1m to R16,8m, with qualifications which would have cost the council money. "This time they rose to R9,5m on the lowest bid to R22,1m at the top end with no strings attached. This was pleasing since our actions, which were morally and ethically correct, will benefit ratepayers to the tune of at least an additional R6m."

Magid adds: "The total delay resulting from the decision to reinvite tenders was only six weeks on what is a multimillion-rand project."

He intends sticking to an undertaking given to spend the money raised through Newtown land sales on upgrading Newtown and the CBD.

Adjudication started immediately after the opening of tenders. The process involves the planning committee making a proposal to the tender board which then passes its recommendation to the management committee, which makes a final selection. Only then will the successful bidder be informed, probably by April 24. ■

ACQUISITIONS FIM 23/3/90

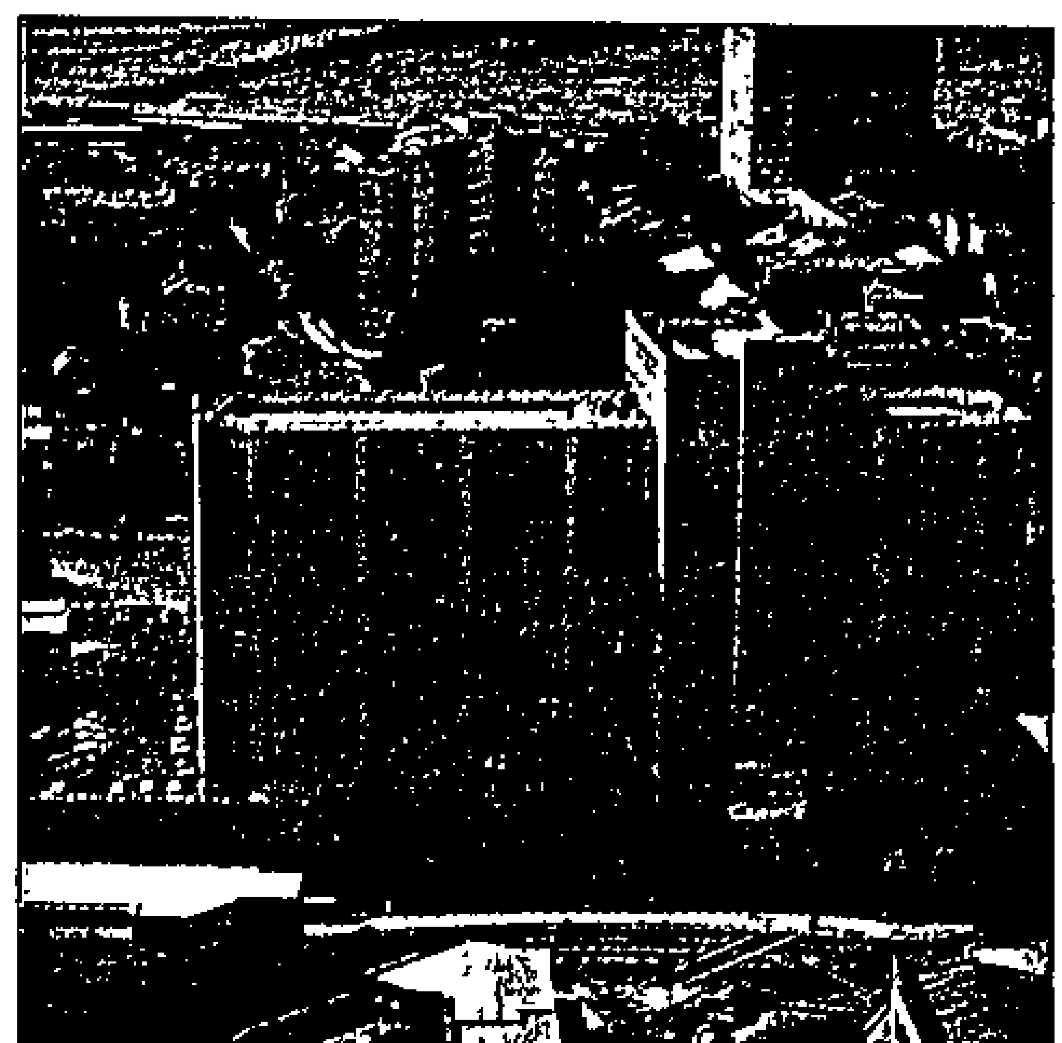
Collective bargains (58)

Sanlam Properties, fresh from its coup over the Gencor Properties buyout, is hitting the acquisition trail again. This time, it has a much bigger fish, the R200m Trust Bank property portfolio, set firmly in its sights.

The sale of Trust Bank's property interests to Sanlam makes sense as it would free a large chunk of capital for use in more traditional banking pursuits. Giving Trust Bank a cash injection would also be in line with rationalisation programmes instituted by Bankorp aimed at improving Trust Bank's performance.

Another advantage is that, being linked to Sanlam, the bank can sell its properties to Sanlam's property company, without the risk of becoming a tenant of one of its competitors.

Sanlam Properties, which became a separate entity within the group last year, believes the acquisitions will probably put it a nose ahead of close rivals Old Mutual Properties and Liberty Life Properties as the country's largest property investment company. Old Mutual and Sanlam both have portfolios worth substantially in excess of R4bn.



Overport City Durban ... one of the properties for sale

It also points to a gradual consolidation of the Sanlam group's fragmented property interests into a single entity under one roof, though this has been denied by the property company.

Though in reality Trust Bank and Sanlam are part of the same group and the portfolio was not put on the open market, the deal is understood to be being negotiated at arms length and the eventual price should approximate market value.

Assuming the price is equitable, the new properties, which include a string of prime commercial developments, should enhance Sanlam's own portfolio considerably.

Among them are the bank's computer centre in Randburg, Nobel Park in Belville, the Trust Bank Centres in East London, Stellen-

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bosch and Kempton Park and Trust Bank Centre and Overport City in Durban. A substantial number of other smaller properties are said to be included in the deal.

Sanlam Properties MD Hendrik Bester confirms negotiations are in progress, but will give no further details. He could not predict when, or even whether a final agreement on the sale of the properties would be reached. (58) ■

offers further hope for a fundamentally sounder economy later. *Andrew McNulty*

LIBERTY/FIT FM 23/3/90 (58)

Pattern maintained

Is Liberty's business thrust changing as chairman Donald Gordon no longer needs to prove his abilities on SA's comparatively small economic stage? At home the insurer's sustained performance needs little embellishment and it makes a great deal of sense to

FM 23/3/90 (58)

emphasise development of the offshore interests while nationalisation remains a threat.

Absolute control of Sun Life, the London life office central to Gordon's overseas ambitions, may appear elusive. But TransAtlantic, Liberty's UK operating arm, has tied up an option over the 25% of Sun Life held by French assurer UAP to reinforce its present 29,8% holding. That represents the window of opportunity. Previously acrimonious relations with Sun Life's board have "improved greatly," Gordon says. So presumably agreement giving him a greater say in Sun Life's direction is not far off.

Liberty's growth was again exemplary last year but now 60,2%-held First International Trust (FIT) is following Liberty's pattern in Britain, at least in its property developments.

Quantifying growth

Liberty's shareholders' funds rose 26%, life funds 37% and total assets 30%. On the income statement, net income from investments rose 33,5% and taxed surplus per share 22%. The value of investments has expanded more than twentyfold over the past decade and the group now controls assets of more than R30bn. The share price has taken off since the announcement of a 10-for-1 split.

Since FIT's restructuring and acquisition of Liberty's offshore interests in 1988, its year-end shareholders' funds have risen 15% in rand terms and were 57% of those of Liberty itself. On a pro forma comparison, EPS were 27% higher but interest payments clipped the dividend increase to 12,5%.

FIT was formed with only a small capital input from SA but large borrowings. They totalled R399m at year's end but are slated to drop below R300m when part of FIT's 29,5% direct stake in Continental & Industrial Trust (CIT) is sold to TransAtlantic for cash.

FIT has 49% of TransAtlantic. It, in turn, owns 69% of the Capital & Counties property group and 42% of the £120m CIT.

LIBERATED GROWTH

Year to December 31	1989	1988
Total assets (Rm)	19 202	14 797
Premium income (Rm)	1 783	1 460
Investment income	1 377	1 032
Earnings (c)	889	730,2
Dividends (effective) (c)	662	530

Real estate provided over 60% of TransAtlantic's income last year and the value of its properties is understated as those being developed are only revalued on completion.

Gordon says the British property market has had a period of remarkable expansion "which happily commenced almost at the moment TransAtlantic assumed control of Capital & Counties in 1985." The boom slowed last year and has resulted in overcapacity in retail developments, which are Capital & Counties' specialisation. Gordon says he is not unduly concerned because rentals are based on turnover, so the initial commitment from tenants is low and increases with the growth of their business.

Regional or out-of-town shopping centres are rare in Britain and will comprise half of Capital & Counties' portfolio by end-1991. Gordon believes the trend is towards them, as in SA where Liberty led such developments with Sandton City and Eastgate. He adds they, too, opened during downturns.

On its 1,5% yield alone FIT is barely attractive, but that ignores its development potential and its rand hedge qualities. Liberty's shares have risen 27% this year after a 51% advance in 1989. It might be foolhardy to predict the advance is nearing its end.

Teigue Payne

allocated R205m, an increase of 38%. ■

MELAMET COMMISSION (58)

Coming home

FM 23/3/90

A limited insurance licence for onshore captives is mooted in the report of the Melamet Commission of Inquiry "into the flow of short-term insurance premiums out of the Republic and the operations of captive insurers." The licence would make it simpler for companies to self-insure but restrict their activities to the risks of the parent.

Appropriate reserves and capital requirements would be prescribed by the Registrar of Financial Institutions. The captive would be taxed the same way as other insurers.

The recommendation aims to reduce the flow of funds to offshore captives as well as end the potential for tax evasion.

But onshore captives are not seen by all as an adequate substitute. CRM Risk Finance Consultants MD Tony Valsamakis points out solvency and capital base requirements — not applicable to offshore captives — will mean cost could outweigh convenience.

Some insureds say they need access to international markets without making their SA origin visible. Melamet suggests an offshore facility should be allowed specifically for this purpose but operate only as a reinsurance conduit, not as a reservoir of SA funds.

SA Risk Management Association spokesman Peter Alexander says his members would accept the proposal provided they had easy access to foreign reinsurance markets when capacity is not available in SA.

Premiums are now tax-deductible but Melamet recommends taxing any amount which exceeds the cost of reinsurance-minus-commission. Valsamakis believes "this recommendation is extreme" and will make it more difficult to build reserves for risks.

The commission also recommends the parent company should submit annual returns to the Registrar and suggests a committee should be set up to:

☐ See what funds accumulated offshore should be returned to the SA parent; and

☐ Refer to the Registrar any unjustified premium deduction for income tax purposes. ■

FM 23/3/90

FLATSPIN AT BORDEAUX

58

The Syfrets-associated property company, H Lewis-Trafalgar, has paid nearly R55m for the 276-unit Bordeaux apartment block in Beach Road, opposite Graaff's Pool, in Sea Point.

The deal, said to be one of the largest residential property transactions for some time, was concluded by local property consultant Cedric Clarke.

Bordeaux is a landmark on what is regarded as Cape Town's prime coastal strip where top apartments have changed hands for more than R1m.

H Lewis-Trafalgar is one of the largest sectional title developers and administrators. It manages more than 15 000 units on behalf of bodies corporate and institutional owners.

The Bordeaux flats are to be sold on sectional title with 90-day options offered to sitting tenants.

Rent boycott verge[s]

Star 24/3/90 (58)

TENSION is rising in the Vaal Triangle, Alexandra, Duduza, Tembisa and other townships as residents take to the streets to protest against the rent deadlock. Some townships are suggesting that they be incorporated into larger metropolitan areas and that a joint tax base created to help finance them. ELIAS MALULEKE reports

THERE is no end in sight to the nationwide rent boycott, and the violent protests that erupted in 1977 are showing signs of being repeated

Township residents are up in arms and are taking to the streets with renewed calls for councillors to resign.

Most are moved by frustration caused by continual threats of eviction over outstanding rent and service charges

Many residents say they would like to repay their rent debts But because the boycott has been in progress for a number of years, their debt has accumulated to alarming proportions and they can now no longer afford to do so

They have asked the Government to write off their debts so that they can start afresh

But the Government has refused and residents are continuing with the boycott

Meanwhile, services are flagging and townships are in a mess garbage litters streets, the few tarred roads are full of potholes, and blocked drains and sewage systems have become a way of life.

The founder member of the Committee of Ten and honorary life president of the Soweto Civic Association, Dr Nthatho Motlana, says it is impossible to administer and finance black townships through rent and service charges only. He says every township is entitled to its share of the money blacks spend and make "for the profit-makers" because they buy and work there.

Townships' dependency

"There is no way a township like Soweto can be financially self-sufficient as a separate, autonomous municipality," he said

Soweto Mayor Sam Mkhwanazi agreed He attributed the rent boycott to "legitimate" grievances. He said blacks could no longer afford to pay escalating rent and service charges.

"We firmly believe that without the Johannesburg Municipality pumping money to help finance Soweto, rent will remain a burning issue in our township

"To solve the problem, my council decided to write off rent debts after consulting with the Soweto People's Delegation. We fixed flat, reasonable rates for services provided by the council and which residents could afford to pay. But the TPA refused to promulgate our recommendations and made it clear to us that rent debts had to be paid That is why we have a deadlock," Mr Mkhawanazi said.

Perhaps the most popular mayor since the 1976 Soweto riots, Mr Mkhwanazi feels honoured to have been acknowledged by the Soweto People's Delegation in negotiations for a settlement, because the prominent leadership of the SPD, which includes Archbishop Desmond Tutu, the Rev Frank Chikane, Albertina Sisulu and Murphy Morobe, among others, reject black community councils as "government-created" institutions. The SPD also held talks with the Transvaal Provincial Administration to try to resolve the deadlock, but the TPA refused to budge.

R350-m in the red

The two PWV councils worst hit by the boycott are Lekoa and Soweto However, more than 30 townships are said to be affected The TPA has conceded that black municipalities are more than R350 million in the red

Mpendulo Khumalo of the Mamelodi People's Delegation and the Action Committee, said the TPA has refused to meet them and residents were planning mass action in their bid to solve the rent boycott

The boycott in the township was sparked in November 1985 after a peaceful protest march ended with 13 residents being shot dead by police and the army. Many others were maimed by bullets.

Mr Khumalo also pointed out that surveys conducted between the buffer township and Pretoria indicated that whites in rich suburbs paid less for their superior infrastructures and services than residents of Mamelodi Among other things, Mamelodi residents are demanding.

- One joint tax base for Mamelodi and Pretoria
- Water and electricity should be obtained directly from the Water Board and Eskom, not from the Pretoria City Council.
- Rent debts should be scrapped
- Flat service rates should be negotiated
- The Mamelodi council should stop taking action against defaulters

Arrears deadlock

Although the former mayor of Lekoa Town Council, Sam Kolisang, lowered rent and service charges to a flat R38 per month, residents continue to boycott rent payments because they wanted their arrears to be scrapped It is estimated that the combined residents of Sharpeville, Bophelong, Zamdela and Boipatong owe the council over R125 million between them

Now marches and protest meetings are starting to grip Alexandra. The mid-1980s saw the ramshackle township turned into a place of weeping during the nationwide rent and anti-community council riots

The discontent is slowly spreading to Ratanda, Duduza, the East Rand and Mohlakeng

Albertina Sisulu of the SPD said. "The ball is in their (the Government's) court, we have done our share"

Those who recall the 1976 uprising may get the message The Government repeatedly ignored calls to scrap Afrikaans as a medium of instruction in black schools Since then, townships have never been the same The unrest was the run-up to the 1977 nationwide rent protests The then Bantu Administration Board had increased tariffs to offset losses incurred in the riots when government-owned bottlestores were burnt to the ground

Councillors were killed, some fled their homes and others resigned, signalling the final collapse of Urban Bantu Councillors But the anarchy continued into the 1980s as black-on-black violence, "the necklace" and "hippos" (armoured vehicles) ruled townships

Community leaders say it was a bitter lesson that should not be repeated

This is a shortened version of the article which appears in the April edition of Pace magazine.

SHADES OF 1977: Vaal Triangle residents, led by priests, stage a rent protest march. There are fears that

How thi

verges on violence

24/3/90 (123)

priests, stage a rent protest march. There are fears that other marches planned could lead to violence. Photograph: Len Khumalo, courtesy of Pace magazine.

NEWS

Star 24/3/90

58

TPA's debt mountain

Taxpayers to foot unpaid Bara bill of R4,4-m

SUE OLSWANG

TRANSVAAL taxpayers will have to fork out about R4,4 million to offset unpaid medical expenses at Baragwanath Hospital and Soweto health clinics.

The province's taxpayers also stand to pay for further undisclosed amounts owed at other provincial hospitals and health care centres.

Mr Mike Ellis, the Democratic Party's parliamentary spokesman on health, yesterday said provincial taxpayers would almost certainly have to foot the massive "unpaid" bill as tax is the only source of income for the Transvaal Provincial Administration (TPA).

It was this week revealed that the TPA had written off R4,4 million worth of monies owed to Baragwanath Hospital and its sister health care centres in Soweto

The Sowetan newspaper revealed that Baragwanath Hospital and Soweto's health care services incurred debts amounting to more than R5,1 million in unpaid medical fees last year.

Written off

Of this, R4,4 million has been written off as bad debts while the balance, about R635 000, will be recovered from patients. The TPA has made no comment about its reasons for not attempting to collect the full R5,1 million.

A Johannesburg debt collection agency has been employed by the TPA to hound about 120 000 people — some of whom owe less than R10 — for the collection of the R635 000

The agency, identified by the Sowetan as Executive Credit Control, apparently charges up to R70 for "tracing and collecting" costs, even when only R8 is ... ment."

But, very little was revealed in an official statement from the TPA.

The TPA's statement said private debt collecting agencies have been appointed by the Government Tender Board to enable the TPA to recover monies owed by patients at "all" provincial hospitals in the Transvaal

"Three reminders are issued to patients before their cases are handed over to a debt collecting agency," the statement said

"If a patient pays his/her medical fees in time, it will not be necessary for the TPA to hand their cases over to a private debt collecting agency."

The TPA also said "this precaution applies to all provincial hospitals throughout the Transvaal".

Specific questions put to the TPA by the Saturday Star were not answered.

No other way

This included a request for clarification on whether Transvaal taxpayers' money was in ... are paying for the outstanding amount because there is no other way the TPA receives funds"

Mr Ellis said the DP must express its concern about the TPA allowing such a huge sum to be outstanding and "it seems very wrong that they have taken so long to act"

Mr Ellis said he couldn't help wondering what the full outstanding figure stands at.

"The R5,1 million represents unpaid bills at Baragwanath and Soweto health centres, but what about other provincial hospitals and health care centres?

"It is also important to point out that debts incurred through the provision of health services can't have happened for the first time now, and one wonders how the State went about this in the past.

"This is very probably a long-standing problem and the TPA should have found a solution many years ago."

Mr Ellis said it was important for the TPA to answer questions put forward to them.

Appalling

Mr Ellis conceded, however, that there was possibly no other way for the TPA to recover monies owed except with the help of a debt collection agency

"But, the point that must be stressed is that it is appalling for the TPA to allow debts to develop to this extent," he said.

"It is clear the TPA needs to address this issue as a matter of extreme urgency. It also needs to urgently look at alternative methods of paying for health services. This doesn't mean we are calling for indigent people not to pay for medical services, but the TPA certainly needs a better method of determining who is indigent and ...

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The agency, identified by the Sowetan as Executive Credit Control, apparently charges up to R70 for "tracing and collecting" costs, even when only R8 is owed to the TPA.

Dr George Louw, chief superintendent of Soweto health care services, would not elaborate on the matter when contacted by the Saturday Star earlier this week.

"The only facts I can confirm are the amounts written off and the amounts owing," he said.

"The debt collection agency has already been employed by the TPA and you will have to approach them for further com-

... to foot unpaid Bara bill of R4,4-m

SUE OLSWANG

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The TPA also said "this precaution applies to all provincial hospitals throughout the Transvaal".

Specific questions put to the TPA by the Saturday Star were not answered.

No other way

This included a request for clarification on whether Transvaal taxpayers' money was in fact being paid to the debt collection agency for its services, and whether the R4,4 million "written off" was also taxpayers' money.

The newspaper also asked why some amounts were written off while others were pursued, and we asked the TPA whether this was the first time it had enlisted the services of debt collection agencies.

The DP's Mr Mike Ellis said: "There is no doubt taxpayers express its concern about the TPA allowing such a huge sum to be outstanding and "it seems very wrong that they have taken so long to act".

Mr Ellis said he couldn't help wondering what the full outstanding figure stands at.

"The R5,1 million represents unpaid bills at Baragwanath and Soweto health centres, but what about other provincial hospitals and health care centres?

"It is also important to point out that debts incurred through the provision of health services can't have happened for the first time now, and one wonders how the State went about this in the past.

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"It is clear the TPA needs to address this issue as a matter of extreme urgency. It also needs to urgently look at alternative methods of paying for health services. This doesn't mean we are calling for indigent people not to pay for medical services, but the TPA certainly needs a better method of determining who is indigent and who isn't."

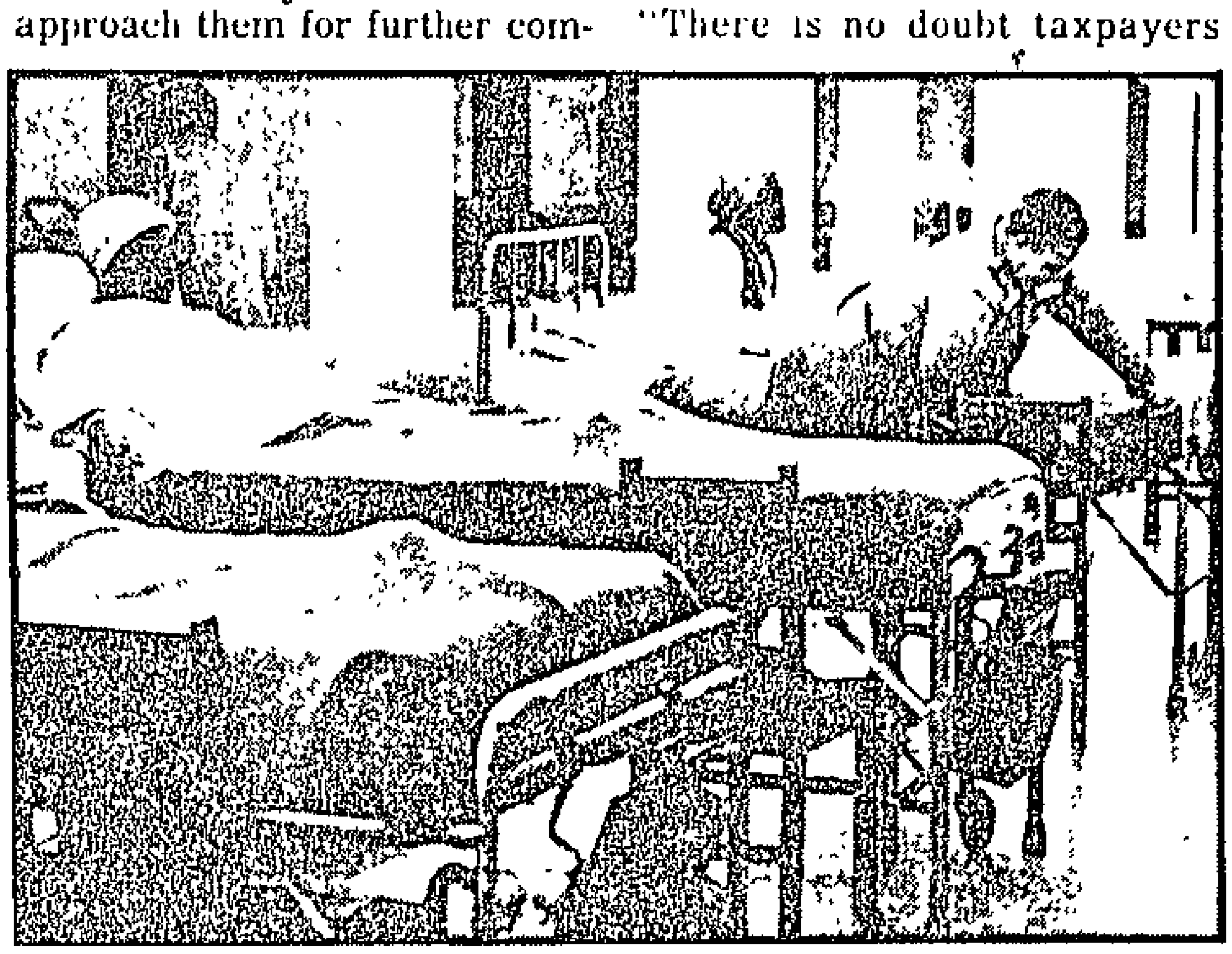
● A Soweto man yesterday disputed claims that three reminders are sent to debtors before their accounts are handed over to debt collection agencies employed by the TPA.

In an interview with the Sowetan Mr Frank Nhlabani, of Pimville, said he received a letter from Executive Credit Control warning him to pay about R13,50 owed to the Pimville Clinic for treatment administered to his son about six months ago. He was also warned to pay a R70 "tracing and collection" fee or face the risk of being taken to court.

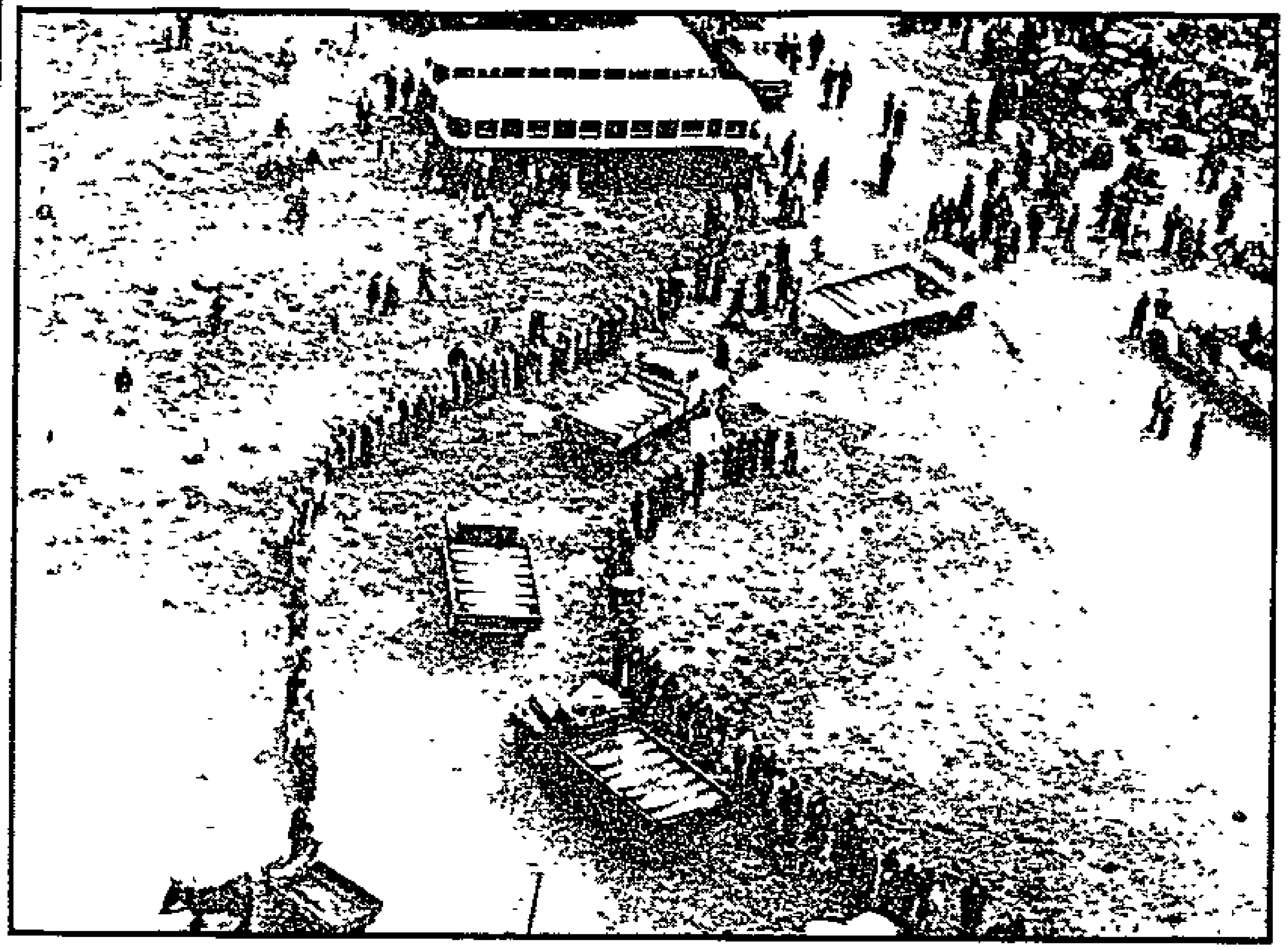
Mr Nhlabani claimed he had never received a single reminder for the account and he challenged the hospital to produce proof to that effect. He also claimed he was sent "threatening" letters even though his medical aid society had already settled the bill.

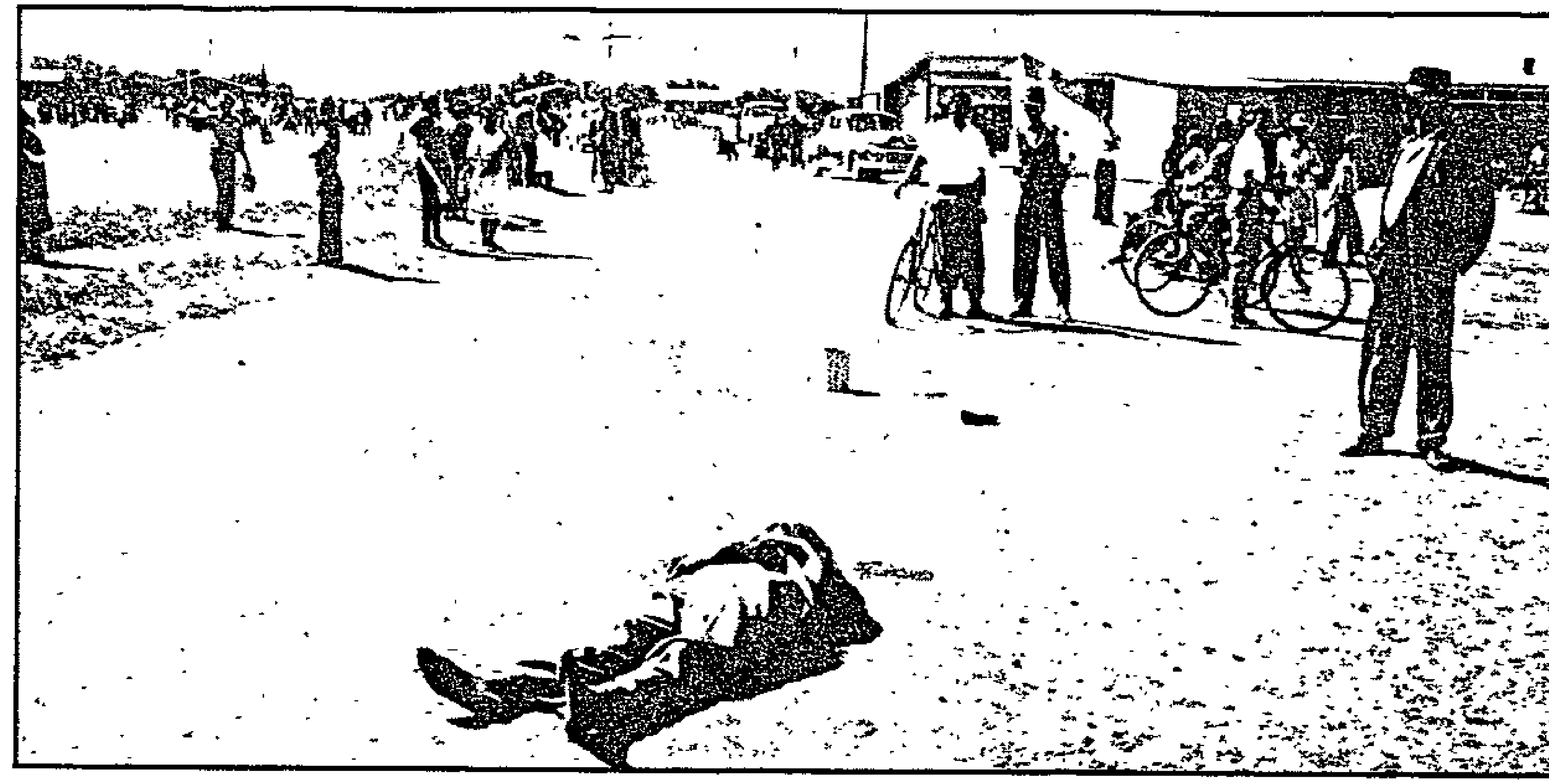
Mrs Maria Motha, a domestic worker from Naledi, also said there had been no correspondence between herself and provincial health authorities.

She said she first heard of her debt when given a final notice to settle her debt of R8 plus R70 for "tracing and collection". Mrs Motha was warned to pay the R78 within five days



CRIPPLING BURDEN: Taxpayers stand to pay millions to offset debts incurred at Baragwanath Hospital and clinics.


MASS FUNERAL: Thousands mourned the victims, some brought in trucks carrying eight coffins each.


DEAD IN THE DUST. One of the victims of the Sharpeville shootings. Post-mortems revealed that 52 of the 67 dead were shot from behind.

Star 24/3/90 (58)

Who gave fateful order to shoot?

IN 1960 the world, and most of "white" South Africa too, knew very little about the Vaal township called Sharpeville — until Monday March 21, when police opened fire on a crowd of protesters, killing 67 of them.

Most people, however, were well aware that black South Africans were forced to carry "dompasses" wherever they went

What they didn't realise was just how much the document, which tore families apart and sent many thousands to jail, was resented.

Letter of warning

Less than a week before the protest, Mr Robert Mangaliso Sobukwe, the then president of the Pan Africanist Congress (PAC), had written to the then Commissioner of Police, Major-General Rademeyer, to warn him of the proposed campaign against the hated "dompass" laws

The campaign called for black men and women to refuse to carry their "passes" on that day People would instead converge at police stations throughout the country to surrender themselves for arrest.

Mr Sobukwe, as chairman of the PAC, started the campaign by inviting his own arrest at Soweto's Orlando police station Similar demonstrations took place in Cape Town, and in Durban 12 people came forward while only five dared to face arrest in Pretoria

In Evaton, near Vereeniging, about 10 000 people were dispersed when military aircraft flew over them at a low level, and in nearby Vanderbijlpark one person was shot dead when a crowd of about 4 000 converged on a police-station An attempt to loot a bread van in the neighbouring township of Bophelong ended in another death

In the meantime, a crowd of between 5 000 and 7 000 people had gathered outside the Sharpeville police-station, where the telephone wires had been cut, to demand their arrest. Police reinforcements were called in from nearby Vereeniging and they battled to disperse the crowd throughout the morning.

There was a force of 130 white and 77 "Bantu" constables in the police station when the commanding officer, Lieutenant-Colonel J Pienaar, arrived from Vereeniging

The black constables were armed with assegais, sticks and batons while each white policemen had a rifle, at this point unloaded.

It was later said the crowd's shouting and singing was too noisy for police warnings to be heard. A baton charge was made during the morning and a few protesters were arrested.

At 1 pm, when a crowd of at least 10 000 were milling around the police station, Colonel Pienaar lined up police on the western side of the station. Most of the police were constables with rifles and near by were a few Sten guns and two Saracen armoured cars.

The men were ordered to load the five rounds issued to each of them, with Pienaar later testifying that his specific instructions were "no shooting without an order to do so".


AFTERMATH: Hats and shoes lie beside the fence of the police station, left by the fleeing crowd.

SUE OLSWANG

The shootings, which brought a barrage of criticism from within the country and from every corner of the world, took place at 1.15 pm soon after the commandant of police, Colonel A T Spengler, was knocked over in a scuffle with "one Molepe".

Then part of the fence at the entrance of the police-station gave way, shots were apparently heard from the crowd and a shower of stones fell among the police

No one, to this day, knows who gave the order to "shoot", but the word was used and a volley of bullets rang out from rifles, Sten guns and Browning machine-guns mounted on the Saracen vehicles

Within seconds 67 people lay dead and 186 wounded, many of them seriously injured. Eight of the dead were women and 10 were children

A few hours after the massacre, the then Prime Minister, Dr H F Verwoerd, promised a judicial inquiry into the events. Mr Justice P J Wessels, of Natal, was appointed as commissioner

Struck from behind

Dr Jack Friedman, then senior district surgeon of Johannesburg, and three other medical officials performed post-mortems on the victims and reported that 52 of the dead had been struck by bullets from behind.

It was alleged that the "riot" had been pre-arranged, with this allegation based on the fact that media people were stationed at strategic points when the shootings began. There was, however, no evidence of intentional violence by the organisers of the event or most of the crowd.

The size of the crowd was said to be "threatening" and "tempers rose with the hours of tension".

The mood of the policemen stationed at Sharpeville on that fateful Monday, now remembered as "Heroes Day", may have been influenced by events of January 24, two months earlier, when nine policemen, including several black constables, were killed by a mob in Cato Manor, a notorious slum in Durban

Mr Benjamin Pogrund, a close friend of Robert Sobukwe and former assistant editor on the Rand Daily Mail, was a reporter on black politics at the time of the Sharpeville massacre He was also one of the four white newspapermen who were in Sharpeville when the shootings occurred

Mr Pogrund told the Saturday Star this week from London, where he now lives: "I was at Sobukwe's home at about 4 am that morning. I had gone there to say goodbye to my old friend, who planned to hand himself over for arrest, when I heard there had been a death at Bophelong

"I went to Bophelong with a photographer and then we moved on to Sharepville, a township I had never heard of before. The police, however, ordered journalists and photographers out of the area but four us, including Mr Humphrey Tyler, who was then a reporter with Drum magazine, defied the police and went back in

"Thousands of people had gathered outside the police station to protest against 'passes', one of the most hated aspects of South African politics The crowd, contrary to later reports and police statements, was friendly and not at all riotous and I, as a lone white face, even sat on the pavement while people told me about their problems

"No one knows who gave the order for the first shot to be fired, or why, but within seconds many people were lying dead and the crowd was fleeing in terror"

fricanist Congress supporters this week commemorat-
·ars ago. ● Photograph: Herbert Mabuza.

'Day of pain' still haunts minds of young and old

Star 24/3/97 53

JOVIAL RANTAO

EVERYWHERE the grass was green and moist from heavy rain the previous night. A refreshing morning breeze swept across Sharpeville as it awakened to remember its fallen heroes.

A crowd of young "comrades", many of whom were born long after the now historic shooting 30 years ago, walked arm in arm, carrying flags of various liberation movements and softly singing songs as they approached George Thabe Stadium where a commemoration service was to be held.

As they filed past, Mrs Elizabeth Ntho, who does not know exactly how old she is but believes she is more than 70, sat outside her house on a wooden chair wishing she could have been part of another crowd of residents, this time on their way to the local cemetery to clean the graves of those who had died in the shooting

She could not do so because her right leg had to be amputated below the knee after she was shot on March 21 1960. The artificial leg which she wears does not help much, she said.

I asked her to tell me about that day She became distant and was quiet for what seemed like a long time "I did not know what was going on that day People told us a leader was going to address us about 'passes'. But before we reached the venue, near the police station, we heard gunfire. I saw people falling down and I ran away."

Mrs Ntho said she took off towards her home but as she went around a corner she fell from the impact of a bullet.

"After a few minutes ambulances arrived and we were taken to Baragwanath Hospital.

"That was a painful night, not only because of the pain we had to endure, but also because of worry about the fate of our children and the people we saw being shot."

Mrs Ntho used to work as a domestic servant. Now she earns a modest living making and repairing clothes.

Another victim was Mrs Magdeline Kgosi (55), Mrs Ntho's neighbour, whose left foot had to be amputated. She said: "On that Monday we were told not to report for work but to attend a meeting near the police station.

"As we approached the place where the meeting was to be held, I saw a white policeman holding a machine gun ... he opened fire and within seconds we were all on the ground."

All that Mrs Constance Maysiels has left to remind her of her husband is a piece of granite stone with his name engraved on it. He was one of the 67 people shot dead.

Every year on March 19, she goes to the local cemetery to clean her husband William's grave and to spend some time alone with her memories of him.

Tears filled her eyes as she recalled the day Mr Maysiels joined thousands of people walking towards the hall to listen to the late Pan Africanist Congress Robert Mangaliso Sobukwe speaking on the issue of "dompasses".

"That was the last time I saw him alive," said the retired teacher, who at the time was expecting the couple's fifth child. "My first son, who was then only 13, is now a married man."

VICTIM: Mrs Elizabeth Ntho had her leg shot from under her. ● Photograph: Alf Kumalo

Stokvels are big business

Sta 24/3/90

58

ABOUT 680 000 black adults — that is, a quarter of the black metropolitan population — belong to a stokvel, or communal buying group, a Markinor survey has found.

Altogether, the estimated 24 000 stokvels in the major metropolitan areas attract contributions of some R52 million a month, which is set aside for buying goods and services.

Markinor research group director Peter Scott-Wilson says the survey, the first definitive study of stokvels, "indicates clearly that communal buying groups are popular institutions which can exert powerful buying muscle".

Some 41 percent of stokvels are savings clubs and 29 percent are burial societies. An average of 80 people belong to a burial society, and an average 16 to other types of stokvels.

Nearly 60 percent of stokvel members are female and 40 percent male. Most members are employed and in the higher income bracket.

SA investors grab golds

South African mines
Foreign investment

wlt 24/3/90

58

By TREVOR WALKER
Business Staff

SOUTH African investors now own more of the country's gold shares than ever before and Mr Mandela's pronouncements concerning nationalistation have pushed the process apace.

Stock Brokers Davis Borkum and Hare said in a paper at the beginning of the year that from a peak of 42 percent in 1979, foreign holdings in the country's gold shares had progressively declined to 24,24 percent by 1989.

The broking house said then that "this phase of gold share sales has left the foreign involvement in the South African mining industry, as far as can be established, at an all time low."

Analysts at Davis Borkum were this week of the opinion that this trend had strengthened following the ANC's reasserted policy of nationalisation.

The market bounded ahead following the government's decision to release Mr Mandela and all that this entailed, but this was sharply curtailed by subsequent ANC policy statements.

So once again South African institutions are "buying back the farm" but on a scale largely different from that which pertained following Sharpville and the Soweto school riots.

South African institutions, with their huge daily cash inflows, are prohibited from investing abroad and this capitive money has to be placed in land, buildings and shares in South Africa.

Analysts said that the investor returns shown by the majors in recent years had been phenominal and the next round of plusses could come from selling gold shares back into the market when it improved.

Namibia was showing what moderation might produce and Mr De Klerk's discussions with leading southern African politicians in Windhoek should not be underestimated.

South African investors had a tradition of being bullish supporters of gold shares and, given the present trends in in Eastern Europe, Mrs Thatcher's difficulties and the excessively strong dollar, the reverse side of the investment coin could yet prove to be very profitable for investors in traditonal hedge instruments.

According to Davis Borkum the four Rand Mines gold mines have a foreign ownership made up, as follows — Blyvoors 76 percent, Durban Deep 48 percent, ERPM 65 percent and Harmony 70 percent.

Certaily talking to institutional investment managers in the City this week it was immediately clear that they were all in the market for gold shares and that in the shorter-term were looking to raise the portion of their total invested funds into gold.

What the future holds

By Robyn Chalmers

BDM Security, the largest local manufacturer of plastic cards, says black South Africans represent a big potential market.

BDM Security chairman Hal Rosholt says the existing market is saturated, with over 11-million cards issued each year.

"When BDM entered the market in 1984 it grew rapidly, mainly because the problems and costs associated with importing plastic cards were eliminated.

Cheaper

"The market is, of course, expanding all the time.

"The future expansion in the use of cheques, bank cards and all forms of plastic cards must be in unlocking the income-generating potential of the black population."

Mr Rosholt says electronic transactions by means of plastic cards are substantially cheaper than paper transactions, which is the main reason why banks have gone this route. S Times

Intense rivalry between banks has seen the introduction of several new cards through the segmentation of products. 25/3/90

The teenage market has been successfully tapped by most of the banks in this way. For example, First National's Bob card has been expanded to include Junior Bob, Bob Save and others.

Mr Rosholt says this has expanded the market considerably and he expects to see other innovative products.

He foresees the manufacture of plastic cards being substantially influenced by the introduction of chip cards in SA, such as the smart card, and beyond that the futuristic laser card.

"Banks are very keen to see the smart card in SA as it's cheap and hassle-free. But the base cost of the product is high compared to other plastic cards because the infrastructure needed is substantial.

58

Tests

"Financial institutions have been conducting tests on smart cards for a while now and there can be no disputing the fact that they work. But we do not foresee them becoming big in SA for quite a while."

Mr Rosholt says smart cards have not yet taken off in the US but are expected to do so within three to five years. He expects SA to be at least three years behind the Americans.

Insurers howling in Welkom's wind

S/Times 25/3/90

58

THE five-minute tornado that devastated Welkom this week could be financially the worst natural disaster ever to hit SA.

Experts say it's too soon to give a hard estimate of damage but they believe it could cost homeowners and insurers between R500-million and R1-billion.

While most of the affected people in Welkom were under-insured and some were not covered at all, short-term insurers are bracing themselves for claims which could top SA's next-biggest natural disaster, the Natal floods.

On that occasion, claims exceeded R400-million.

Many homes will have to be rebuilt from the foundations. In most cases, their entire contents will have to be replaced. Hundreds of cars also fell prey to the ill wind.

Welkom is a wealthy city, insurers say. Because of the affluence of affected suburbs, insurance claims being received are high.

One man's misery is another's fortune. Assessors, charging R3 000 a day, have descended on the wind-flattened town in droves. Builders from as far afield as Cape Town, Port Elizabeth and Johannesburg have arrived en masse to begin work on the destroyed buildings.

Prompt

The insurance companies kept offices open late and arranged special claims points. Chairman of Auto & General, Douw Steyn, flew to the area to oversee prompt payment of claims.

Auto & General, renowned for its aggressive direct marketing, sent a manager with an assessor into the field armed with a cheque book for instant payment.

By the weekend, Mr Steyn said all claims had already been paid. Up to 1 000 claims were made and about R7,5-million paid out.

By Charmain Naidoo

ly will elevate reinsurance costs world-wide.

Most short-term insurance shares were unaffected by the Welkom disaster but those of Mutual & Federal and Santam fell slightly.

Manager of Mutual & Federal's Welkom branch, Pierre Malherbe, says: "We estimate that between 400 and 600 claims have so far been received. Claims could amount to R40-million or more.

"Of course it's a hard knock for us. There's no way that premiums come close to covering this kind of payout. But our reserves are strong."

Mutual & Federal is the main insurer for the SA Perm.

Santam Insurance Welkom manager Bennie Bothma says he has lived through three natural disasters.

"This is by far the worst. We have about 10 000 policyholders in the area. Some claims that we've had have been between R90 000 and R100 000 for repairs to homes. Rebuilding one damaged church is going to cost R200 000.

"It was easier to deal with the floods. There you didn't have to replace complete buildings, with contents," Mr Bothma said.

SA Eagle inspector in Welkom, Tilana Marais, estimates the cost to her company is only R500 000.

Collapsed

"We have about 170 clients. A lot of vehicles were damaged when garages collapsed."

UBS public relations director Kevin McGreggor said several hundred claims had already been lodged "varying from under R2 000 to R100 000".

"In order to alleviate problems arising from large numbers of claims, we already have nine assessors examining properties and processing claims.

"There are so many claims and our assessors are under great pressure. We are sending in a special team from UBS, Johannesburg, tomorrow (Monday) to assist," Mr McGreggor said.

Claims were "still pouring in" so there was no accurate report on the number of homes damaged and the loss suffered by homeowners.

JCI boss in no hurry to take over the reins

S/Time 25/3/90

Business Times Reporter

PAT RETIEF will not rush to take over the chairman's office at JCI when Murray Hofmeyr retires at the end of June.

The present managing director of Johnnies has been on board for a long time, having joined the group in 1962.

After a '20-year gap — which, Mr Retief points out, was filled by three very able men — JCI has a homegrown chief at the helm, not an outside appointee.

Mr Retief has been in charge of the day-to-day operations since Gordon Waddell left in 1987. He will retain executive responsibility but will take a broader view of activities in the challenging socio-political climate.

Mr Retief views this challenge with circumspection. "Some are better at it than others." He pays high tribute to Mr Hofmeyr for his overall contribution to the affairs of Johnnies over the last three years.

No radical changes are on the cards at JCI. Mr Retief divides Johnnies' interests into managed and non-managed investments.

The managed side includes gold, platinum, coal and base metal operations and property. The important investments are in the Premier Group — diamonds, newspapers and Toyota, among others.

Platinum is the most enticing, with the world's swing to a clean air environment. But Mr Retief is quick to warn that he has seen the market collapse several times.

The viability of [illegible]

Sunpak chairman Tubby Gericke at the company's R3-million environmentally friendly plant

Another top exec leaves Fintech

By Ian Smith

NEILL DAVIES, long-time righthand man to electronics supremo Bill Venter, has joined the exodus of top people from Fintech, the computer arm of the Venter empire.

Mr Davies, who retires from his executive positions on July 1, follows Marius Furst, Llew Jones, Clive Jan-

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By the weekend, Mr Steyn said all claims had already been paid. Up to 1 000 claims were made and about R7,5-million paid out.

Mr Steyn told Business Times: "We waived the excess to our clients, giving them the full damage amount with no deductions."

Mr Steyn said Auto & General could carry the claims quite easily.

Massive

A director of independent Quest Insurance Advisory Services, Robert Shaw, says even if total damages run much higher, it is unlikely that the insured losses will be as high as R500-million.

"Under-insurance is prevalent and in a number of cases there is no insurance at all. Final losses to insurers will depend on consequential claims affecting businesses."

He adds that massive insurance claims could push up premiums generally.

"Foreign re-insurers will sustain most of the losses. The bulk of catastrophe reinsurance is carried offshore.

"The financial position of the insurance companies is unlikely to be affected, but they will pay more for reinsurance. That will filter down to policyholders eventually."

Reinsurance costs have been boosted by previous calamities in SA and Sasol's two fires, which cost R400-million last year. Devastating storms in Europe recently will elevate reinsurance costs world-wide.

Most short-term insurance shares were unaffected by the Welkom disaster but those of Mutual & Federal and Santam fell slightly.

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Claims were "still pouring in" so there was no accurate report on the number of homes damaged and the loss suffered by homeowners.

Reserve Bank tightens screws on money supply

Star 26/3/90 (58)

By Sven Lünsche

In line with its efforts to maintain a tight monetary policy, the Reserve Bank on Friday lowered the target range of the broad money supply measure, M3, by three percentage points.

The new guidelines for rates of increase in M3 have been set at 11 to 15 percent from the fourth quarter of 1989 to the fourth quarter of 1990.

Bank Governor Dr Chris Stals said the reduction in the target, first and foremost "signals the determination of the monetary authorities to combat inflation".

"These targets represent a range of increase for the money supply in 1990 that conforms with the Reserve Bank's objectives for overall money supply at this juncture."

The Reserve Bank held back the release of the targets until it had analysed the effects of the Budget on total domestic spending this year.

Economists have suggested that the Budget proposals, in particular total tax alleviations to the tune of about R4,5 billion, could be more expansionary than was foreseen.

As a result, Reserve Bank officials have already indicated that monetary policy in general and interest rates in particular will remain tighter than originally planned.

The new money supply targets confirm this policy, although economists say the importance of these targets in economic policy formulation will diminish under the reign of Dr Stals.

One reason is that actual growth in M3 has always been far ahead of the targeted range.

From the fourth quarter of 1988 to the fourth quarter last year, when the Bank provided a range of 14 to 18 percent, the actual increae in M3 amounted to 23,5 percent, or about R7 billion in money terms.

The Bank's provisional figure for annual M3 growth in January is 21,91 percent, slightly down on December's 22,69 percent, and a continuation of the downturn in money supply over the last few months.

The February figures were expected to be released last week, but have been delayed until this week, says a Reserve Bank spokesman.

Dr Stals said on Friday the lower guidelines were reconcilable with projected growth in real domestic product in 1990 of up to one percent, a surplus on the current account of the balance of payments of at least R6 billion and a gradual rise in the official gold and other foreign reserves.

Dr Stals said that in order to comply with the target range, the Bank would once again ask commercial banks to limit their credit extension to the private sector to one percent a month.

"Not many banks complied with this request last year and discussions will be held with banking representatives shortly to explore ways and means for making this request more effective," he said.

B/Day 26/3/90

Mobilising retirement funds for low cost housing

LINDA ENSOR

THE Urban Foundation is soon to introduce a new debenture in an unlisted property owning company to fund the acquisition of land for low income housing.

This was one of the new developments in the field disclosed at the Southern Life seminar in Johannesburg last week on how to mobilise the millions needed for low cost housing.

Giving details on the debenture, Urban Foundation project finance division GM Franz Pretorius said it was expected that the debenture holder (for instance, a pension or provident fund) would represent a large workforce and be able to offer employees access to serviced sites at an affordable price.

Features of the debenture would be:

- ☐ A variable rate of interest pegged at a fixed margin over a comparable term gilt or semi-gilt yield to maturity fixed and on a quarterly basis;
- ☐ The capital would be compulsorily redeemed as and when the underlying security in the form of serviced residential sites is paid for by qualifying buyers, but within five years;
- ☐ Interest would be cumulative and paid on a pro rata basis with capital redemptions within this period.

The acquisitions, Pretorius said, would be in parcels of about R50m.

The Old Mutual, together with the Urban Foundation, is having talks with the authorities on the integration of housing as a specific benefit in employee benefit arrangements so that retirement fund credits and contributions can be used as deposits and for mortgage repayments

Wits Actuarial Science department head Prof Anthony Asher said the authorities were also looking into the possibility of permitting the capitalisation of interest by retirement funds to assist in low income housing provision.

The Urban Foundation has also launched a pilot project company, a Group Credit Company, which uses the system of rotational credit, or stokvels, as a means of issuing loans.

Company MD Christine Glover said the aim was to test the feasibility of releasing money in loans of between R500 and R5 000 to individuals Loans from the Development Bank and the Urban Foundation are funding the pilot stage.

A further initiative in the lower end of the market is being undertaken by South National Finance which, with the SA Perm, has mobilised retirement funds for the development of site and service stands for Natal fund members. Retirement funds are invested in the Perm, which lends them at normal rates of interest to South National against security of mortgage bonds for the land to be developed.

Peter Goede of the Department of Planning said a shake-up of state subsidy schemes was on the cards to assist purchasers of a serviced site.

What was envisaged, he said, was a capital subsidy on the selling price of a serviced site purchased by a first-time owner where the site is being sold for the first time. The subsidy was aimed at those breadwinners who have a monthly income of R1 000 or less and who are purchasing such a site for the first time.

Subsidies will probably become increasingly important, African Life Homes GM Guy Leitch said.

Sage Holdings lifts earnings

B Day 26/3/90

CHARLOTTE MATHEWS

SAGE HOLDINGS lifted attributable earnings by 7% to R26,5m in the year to December from R24,8m in 1988, supported by Friday's good results from financial services division Sage Financial Services. 58

Sage Property Holdings, improved earnings by 7,7%.

Sage Holdings' pre-tax profits fell by 12,6% to R40m from R46m.

Earnings rose to 121,41c (113,53c) a share on an undiluted basis. The dividend was maintained at 60c.

in the equity market. Whereas there was a continued outflow of funds for a number of weeks after the October 20

direction of the gold price and the action of international investors.

He adds that political factors will be

must never be regarded as anything other than a long-term investment, and that, in the short term, the equity market may decline.

Old Mutual equities increase 75% in value

BDay 27/3/90

(58)

LINDA ENSOR

EQUITIES under Old Mutual's management increased in value by more than 75% to R35bn in the year to end-December.

These equities include on balance sheet investments, as well as funds invested by Old Mutual's unit trusts and on behalf of the pension funds it administers.

Investment GM Johannes van der Horst said eight of Old Mutual's top shareholdings outstripped the all share index last year.

Old Mutual's top 10 shareholdings are in Anglo American (the share price of which rose 77,9% over the all share index rise of 49,5% in 1989), Barlow Rand (63,3%), De Beers (47,5%), Gencor (79,1%), Nedcor (62,7%), Rembrandt (78,7%), Richemont (44,9%), SA Breweries (50%), Safren (81,4%) and Sasol (62,5%).

Only De Beers' (the largest single holding) and Richemont's performance was below the all share index in 1989 but in the two-and-a-half months to mid-March, they both outperformed the 12,3% increase in the index, rising 47,5% and 24,5% respectively. The restructuring of De Beers led to a significant re-rating of the share.

Emphasis

On a three-year term — which includes the 1987 crash — only Sasol underformed the all share index's 50,2% rise, increasing by 35,8%.

During 1989 Old Mutual increased its stake in Gencor and placed greater emphasis on mining shares, though Rustenburg Platinum and Lydenberg fell off the top 10 list.

"Our research has been focused on identifying quality companies and building up core holdings therein that will provide superior returns over the longer term," says Van der Horst.

Van der Horst says equity selection and timing skills will be a major determinant of future investment performance considering that pension and provident funds can now invest up to 65% and in some cases even more of market value in equities.

Old Mutual's investment managers, Hannes Norval and Denzil Burger, said the 1989 market had been supported by a relatively higher gold price, improved foreign perceptions arising out of political developments and changes in the investment rules regarding prescribed assets.

They foresee an economic slowdown in the coming year with a concomitant moderate growth in the value of the share portfolio which cannot be expected to match last year's exceptional growth.

Excessive M3 growth puts renewed pressure on rates

By Sven Lünsche

The failure of the banks to limit growth in the money supply could well lead to further increases in interest rates over the next few months, says the Econometrix research institute.

Econometrix was commenting on the growth in the broad money supply measure, M3, which showed a mild decline in February, but was well above the targeted 11 to 15 percent increase announced by Reserve Bank Governor Dr Chris Stals at the weekend.

"The immediate implication of rapid monetary growth in relation to the new guidelines is that interest rates are likely to remain at their current levels for at least another six months, if not longer," Econometrix writes in its latest *Ecobulletin*.

"Moreover, the possibility of a further increase in rates can no longer be totally ruled out.

"It also reinforces our belief that the inflation rate cannot decline significantly as optimists would have us believe," the economists say.

According to the Bank's figures released yesterday, M3 grew by a provisonally estimated annual rate of 21,96 percent in February compared with a seasonally adjusted 23,63 percent in January and 22,69 percent in December.

Ominously January's M3 growth has been revised upwards from 21,9 percent to 23,6 percent.

In cash terms M3 rose to R148,3 billion in January from R118,8 billion a year earlier and is estimated to increase to R148,9 billion in February.

Furthermore, reflecting the marked increase in hard cash in circulation, growth in the narrowly defined money supply, M1, jumped from 10,2 percent in December to 26,6 percent in January. It is now running at R49,6 billion compared with R39,2 billion in January last year.

M2 money supply in January rose by 28,41 percent to R119,8 billion from R93,3 billion a year earlier. In December M2 increased by 27,41 percent.

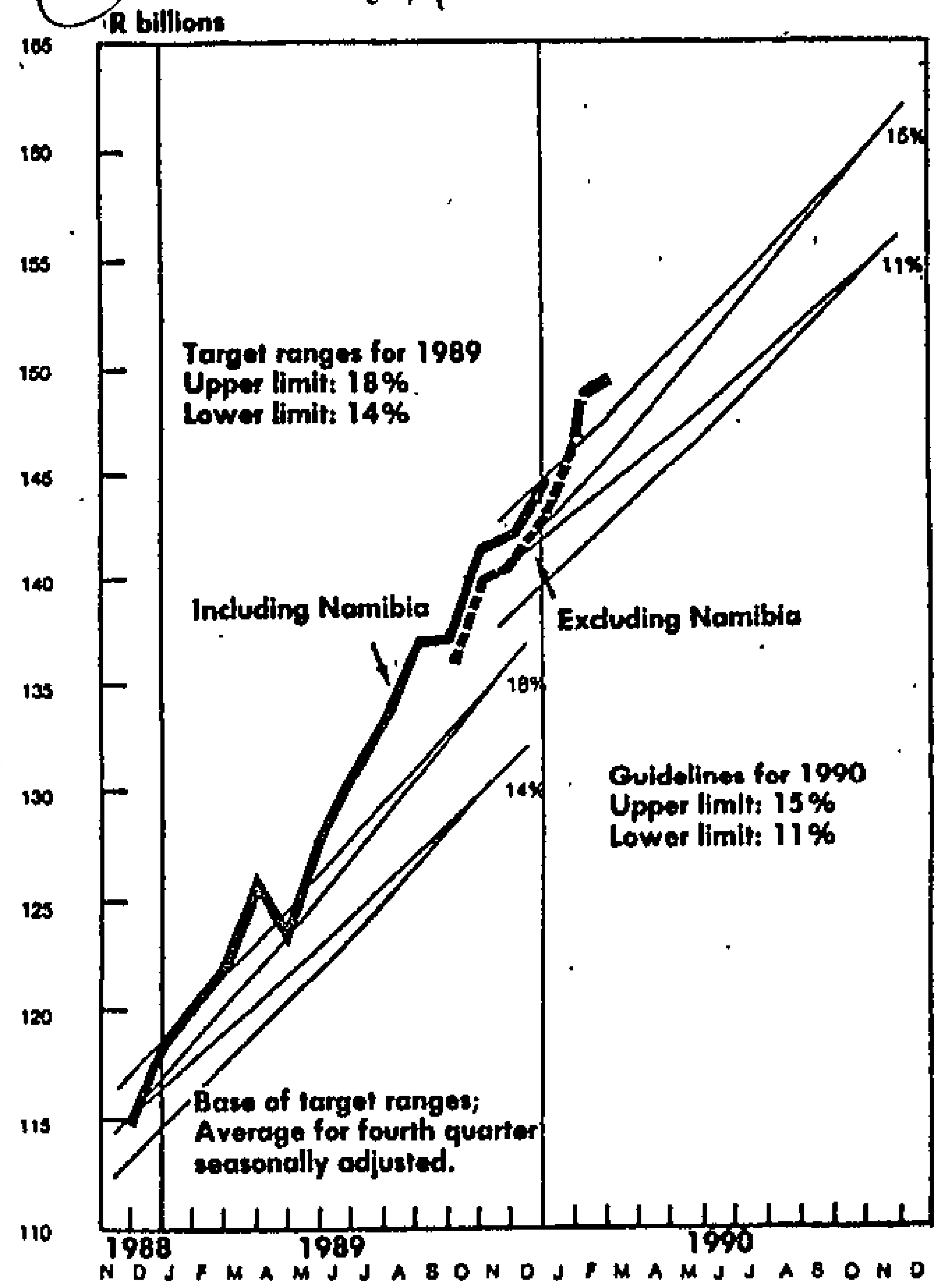
The money supply guidelines outlined by Dr Stals, base targetted growth on average M3 of R145,8 billion in the fourth quarter last year.

February's preliminary estimate is already some 10 percent above Dr Stals's new guidelines.

The Reserve Bank has itself admitted that the targets should not be seen as a strict policy measures, but should rather be seen as guidelines for future monetary policy.

"But," counters Econometrix, "with the non-cash based institutional monetary framework in which we operate, together with the monopolistic banking environment, the Reserve Bank has been conspicuously ineffective in controlling monetary growth, targets or no targets."

(58) Star 27/3/90



Markets expected to become more volatile

SEL 27/3/90 (58)

By Sven Lünsche

Reflecting the recent downturn in share prices on the JSE, the Association of Unit Trusts cautions that for South African investors 1990 looks like being more volatile than the previous two years.

In the Association's 1990 yearbook, chairman Roy McAlpine says this volatility will be particularly evident on the mining board with the ultimate direction of the markets being determined by the direction of the gold price and the action of international investors."

He predicts an economic growth rate this yearof only one percent, unless the price of gold moves significantly higher.

"Accordingly the rate of growth in earnings will certainly be lower...and a cautious view should be adopted for 1990," Mr McAlpine says.

"Political factors will also be a major factor in investment markets this year.

"On the other hand, there is a very tight scrip position in respect of prime financial and industrial shares, which have a track record over many years of providing solid growth in earnings and dividends, which none of the smaller companies have matched," Mr McAlpine says.

He adds, however, that unit trust investments provide better protection than direct investments on the market, if they are regarded as a long-term investment.

Looking at the performance of the industry last year, Mr McAlpine says the total value of unit trusts surged by 53 percent from R4,4 billion in 1988 to R6,6 billion in 1989, while the number of unitholders increased from 494 000 to over 567 000.

Sales of units in 1989 amounted to R1,37 billion compared with R786,6 million in the previous year.

The performance is even more impressive over the last decade. At the end of 1979 the total value of the 12 unit trusts was R576 million. Ten years later the number of unit trusts has risen to 31 and total assets were at R6,6 billion.

"On average the 11 general unit trusts achieved a compound annual growth (income and capital appreciation) slightly in excess of 24 percent compared with the average annual inflation rate of 14,5 percent over the period," Mr McAlpine concludes.

Old Mutual's shareholding worth R35 billion

By Sven Lünsche

The market value of shares under Old Mutual's management has risen to R35 billion, says Dr Johannes Van der Horst, General Manager, investments.

The market value of equity portfolios increased by more than 75 percent last year, with eight of the top 10 shareholdings outstripping the JSE's overall index, he said yesterday.

The single largest holding is in De Beers, which has experienced a sharp re-rating, with an appreciation in price of over 47 percent so far this year.

"Substantial value has been added to the wealth of our policyholders, pension fund clients and unit trust investors," Dr Van der Horst said.

Old Mutual's top ten shareholdings are, in alphabetical order, Anglo American, Barlow Rand, De Beers/Anamint, Gencor, Nedcor, Rembrandt, Richemont, SA Breweries, Safren and Sasol.

They account for roughly 50 percent of the group's total investments.

Providing further details of Old Mutual's investment policy, Denzil Burger, senior investment fund manager, and Hannes Norval, client services investment manager, said the life office was a net buyer of shares in 1988 and 1989.

"However, this year we predict tougher times ahead, with the market moving largely sideways," they said.

"We are still confident that the gold price will average over $400 this year, but as highlighted by the recent fall in the metal's price, the outlook is extremely volatile.

"On the industrial front, the slowdown in the economy is likely to lead to lower earnings and dividend growth for most companies."

Messrs Burger and Norval said, however, that they didn't expect a major correction in the market, "although the recent volatility on the JSE will continue this year".

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S16/27/3/90

	TO 31.12.89 1 YEAR	3 YEARS
ANGLO AMERICAN	77,9	64,4
BARLOW RAND	63,3	128,2
DE BEERS	47,5	78,0
GENCOR	79,1	86,1
NEDCOR	62,7	77,7
REMBRANDT	78,7	287,0
RICHEMONT	44,9	–
S A BREWERIES	50,0	90,5
SAFREN	81,4	116,7
SASOL	62,3	35,8
ALL SHARE INDEX	49,5	50,2

Old Mutual's top 10 shareholdings (percentage price change)

Monetary restraints only answer — Sanlam

Star 27/3/90

58

Because the Budget is not really restrictive, any effort to cool the economy further would have to rely on a strict monetary policy, says Sanlam chief economist Johan Louw.

He says in the Sanlam *Economic Survey* that reductions in short-term interest rates before the middle of the year are highly unlikely. A prime overdraft rate of 18 to 19 percent is envisaged for the end of 1990.

He believes that by the end of the year long-term interest rates could be somewhat lower than now.

The company adds that the actions of foreign investors could have a decisive effect on local capital market rates.

Mr Louw says although tax concessions to mining companies will not have a marked effect on profits in the short term, they should promote new projects in the longer term. The profits of most industrial and commercial companies are unlikely to be seriously dented.

A deterioration in profits can nevertheless be expected later this year as the rate of expansion in economic activity continues to slow down and companies start finding it more difficult to pass increased costs onto the consumer.

"In view of the relatively moderate nature of the cooling-down process, we believe company results reported in the next six to nine months will generally be reasonably satisfactory."

As far as tax concessions are concerned, Mr Louw says net concessions will total about R4,53 billion, of which R3,1 billion appliies to individuals.

"A disappointing feature of the Bud get is the fact that although the trustee principle was accepted by the Minister (of Finance Barend du Plessis) last year as applying to life offices, he did not extend the concession of fully tax-free dividend income for individuals to assurers. He also failed to bring the tax rate for assurers in line with that for individuals."

Mr Louw says: "The Budget is good news for some and bad news for others, but in our opinion the implementation of the proposals will help put the economy on a sounder footing for the next upturn, which should begin by about the middle of 1991."

He says if the moderate salary and wage adjustments announced for the public sector are emulated in the private sector, this will have a healthy effect on the inflation rate as labour remuneration is a very large cost input in virtually all industries.

"The co-operation of the trade unions will be vital in this regard. Unchecked price hikes amid restrained wage and salary adjustments could, however, severely hamper the fight against inflation. It is therefore of the utmost importance that business undertakings keep prices rises as low as possible." — Sapa.

R Bank 'an impediment to economy'

CAPE TIMES 27/3/90

58

By ARI JACOBSON

THE Reserve Bank as overseer of currency flows and controls is an unnecessary impediment in the economy, says Richard Grant of the University of Witwatersrand, Business Economics department.

With the market mechanism — based on demand and supply of credit — as a guide to pricing says Grant, interest rates would fall to a single digit figure in the space of a few months.

"The recipe for a stable currency with no inflation in SA, requires the discount window — which destroys purchasing power through money creation — to be closed."

Grant adds customary routines such as, open market operations — the buying and selling of government securities to manipulate monetary flows — must be halted to prevent the government from monetising its debt and so influencing the amount of money in circulation.

"A gradual process of removing the Bank from the economy is initiated" according to Grant, "by increasing the bank rate to one percentage point above the bankers acceptance (BA) rate."

Borrowers will be compelled to use the market over the cheaper finance at the discount window, he says.

"The bank rate must perpetuate the one percentage point rise for six months and then stabilise at six per-cent above the BA rate for the following six months."

After the completion of these two stages, the Bank should cease all lending operations, says Grant.

"Tacking monetary aggregate (M0) — notes and coins in circulation plus banking system reserves held at the Bank — to a zero growth rate, would allow the liquidity position to improve through lower pricing as economic growth outstrips monetary growth.

"The target of zero also prevents the Bank from the freedom of creating arbitrary ripples in the economy."

Grant adds an increase greater than zero would create a non-neutral effect on monetary growth, month-on-month, and make activities of the Bank harder to monitor.

Anton Theunissen from the University of Cape Town's (UCT) school of economics says, the dismantling of the lender of last resort function leaves the liquidity of the banking system, without guarenteed recource to the Bank.

"An illiquid banking system could lead to insolvency, rebounding on depositors whose savings may be unavailable on demand."

Grant says the illusion the Bank generates savings which bolsters liquidity to the system is erroneous.

"It destroys liquidity by decreasing the value of resources made available through its money creation facilities."

Crashing gold price brings down JSE too

Cit-Times 27/3/90

58

Financial Staff

GOLD'S free fall to a 5½-month low of $362 on aggressive Middle East selling on world bullion markets yesterday stunned investors on the Johannesburg Stock Exchange and left the market reeling.

The metal staged a mild recovery to close more than $21 down on the day at $367,50 in London after one of the most hectic trading days for a long time, dealers said.

After opening lower at the weekend in New York and Hong Kong, gold continued to plunge.

Dealers said the metal was particularly hard hit by selling out of various Middle East centres, especially in the Persian Gulf area.

The gold price fall came only a week after the metal edged back above $400 to lift the overall index to a record high on a wave of bullish sentiment.

"Markets worldwide have changed in that they have become more volatile, showing enormous falls and then bouncing back a couple of days later. It's a sign of the times and gold could thus rebound soon," said a trader.

Traders on the JSE said the firm dollar and high global interest rates, particularly in Japan and West Germany, were the twin factors taking gold lower.

Another dealer said that while gold shares had fallen sharply, prices were in some cases still higher than they were in February when gold was above $400. "The extent of the gold price downturn will probably only dawn on people today and we could therefore see prices go lower."

Rand slumps

The rand weakened sharply against the dollar to close at R2,6518 from Friday's R2,6242 to the dollar and also lost ground against other major currencies. But the finrand investment unit held steady to close marginally easier at R3,8600 from Friday's R3,8500 to the dollar, giving no support to share prices.

However, the slump in the rand was not sufficient to give support to the rand gold price, which declined from Friday's R1 032,66 to R975,86.

ARI JACOBSON reports analysts forecast a further decline in equities, weakened by about a R7,6-billion loss of market value in yesterday's skirmishes.

The gold index triggered the tremor, falling 7% or 142 points from 2 032 to close at 1 890, with the industrial index accompanying the slide, down 1,5% or 46 points at 2 962.

The decay which claimed 3,8% or 124 points of the overall index at 3 165 was initiated by renewed respect in the Middle East for bargains available on the Tokyo stock market — down 25% since the beginning of the year.

The switch to paper asset allegiances was exacerbated by rumours circulating of International Monetary Fund plans to boost gold supply by offloading bullion on to the gold market.

The dollar was, at this time, gaining strength on the back of unconfirmed reports that the US monetary authorities would no longer, through intervention, depress the dollars value.

With escape routes in place, gold crashed through what analysts described as a critical technical resistance level of $387 an ounce, spinning down towards $370 an ounce.

An analyst says: "Investors failed to heed overvalued signals emanating in the market from the time gold bullion ducked under the $400 dollar barrier last week." Gold shares prior to yesterday's slump had discounted a gold price of between $430 and $450 an ounce.

Propped up by institutional intervention the market held up suprisingly well, he said.

Mr Gad Ariovich, a market strategist at Fergusson Bros, Hall, Stewart & Co, is less optimistic. "Gold shares are still discounting a gold price of $400 an ounce — a further fall is imminent."

However, at $370 an ounce, a dealer said industrial demand creeps in to stabilise the unpredictable tide of speculative trading.

This view is supported by Mr Rob Gillam, a gold analyst at Frankel, Kruger, Vinderine & Co who says: "At this level gold shares are undervalued and gold bullion is oversold."

● Gold collapsed — Page 12

Insurers trim (58) tornado figures

B/Day LINDA ENSOR 27/3/90

INITIAL estimates by short-term insurance companies put insured losses arising from the Welkom tornado at more than R40m but nowhere near speculation of R500m-R1bn.

The estimates exclude claims against United Building Society's insurance company, which has not yet determined the extent of its claims.

While emphasising that claims are still coming in and estimates could escalate, insurance companies have given the following breakdown of losses based on present claims: Mutual & Federal (M & F) R19m; Santam R12m; SA Eagle R3,5m; Guardian National, more than R5m; and Commercial Union R1,6m.

These losses are mainly for houses and their contents, commercial properties and cars.

Adequate reinsurance arrangements exist to cover the losses, say insurance spokesmen.

Bruce Campbell, assistant GM at M & F, which has a large branch in Welkom, said commercial property losses were estimated at R4,5m.

Damaged state property would increase the total, but he felt R500m to be an overstated figure.

Guardian National operations manager Jim Fitzgerald said his company faced large business claims.

□ The tornado death toll rose to three at the weekend when one of the injured died in the Ernest Oppenheimer Hospital in Welkom. Nicky Mostert of Virginia died of injuries sustained when his car was swept off the road by the tornado and slammed into a tree, Sapa reports.

Momentum Life on target

BDay 27/3/90 LINDA ENSOR (58)

MOMENTUM Life has declared an interim dividend of 6c and is on target to meet the listing forecast dividend of 12,5c for the year to end-June.

Interim earnings per share of 10,2c were notched on premium income of R378,8m, investment income of R215m and total income of R594m.

Net disclosed taxed surplus after the transfer of R170m to the life funds was R7m.

"The rationalisation of the group is on schedule and the results for the six months are in line with expectations," chairman Herc Hefer says. The amalgamation with Lifegro should be concluded towards the middle of the year.

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...oney supply growth slows, but not fast enough for some

B/Day 27/3/90

NEIL YORKE SMITH

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Responding to the release of money supply growth figures for January (final) and February (preliminary) by the SA Reserve Bank yesterday, economists were surprised that the increases were still so high.

"The high rates of increase indicate the further postponement of interest rate reductions, especially given the current weak gold price," said TrustBank economist Nick Barnardt.

"We now think the fourth quarter of 1990 is the earliest date that prime rate could be reduced," he added.

It was reported yesterday that SA Reserve Bank Governor Chris Stals had tightened money supply growth guidelines to 11%-15% for 1990. Last year's target range was 14%-18%.

Reduced money supply growth is likely to have a beneficial affect on the inflation rate.

However, economists said the long term benefits of tight economic policy appeared further away than was previously thought.

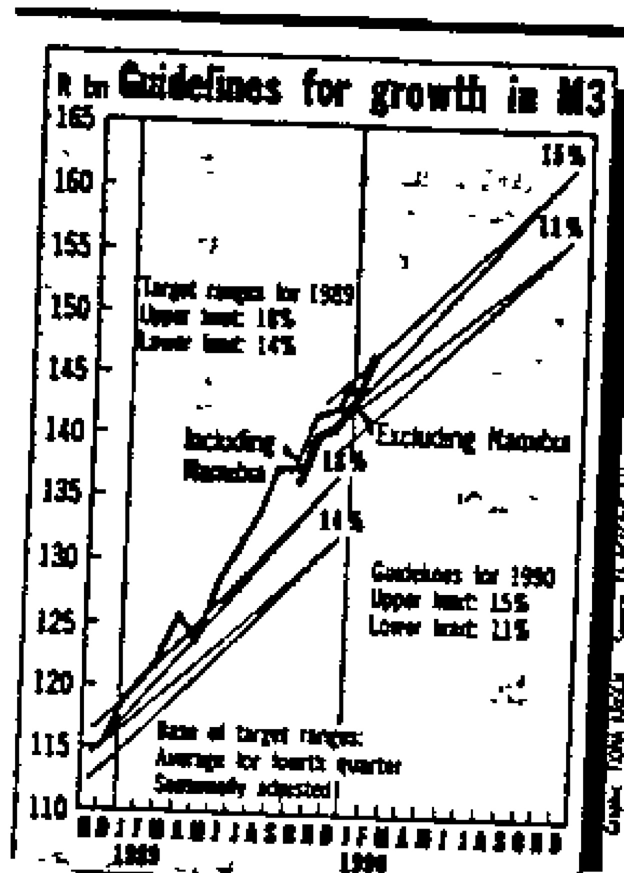
They attributed high money supply growth to continued bank credit extension.

But the rate of increase in credit extension appears to be easing, as borne out by the decline to R143,9bn in total domestic credit extension from R144,1bn in December. It rose from R139,2bn in November as a result of the seasonal Christmas shopping spree.

"Given excessive money supply increases, further interest rate increases are possible this year," said ~~Econometrix~~ economist Azar Jammine. 58

Both Barnardt ~~and~~ Jammine expressed their dissatisfaction at discrepancies between preliminary and final ~~money~~ supply figures in recent months.

"Almost every preliminary money supply figure released during the past nine months has later been revised upwards, hardly a desirable situation," said Barnardt.



Money supply growth slows, but not fast enough for some

BIDay 27/3/90

NEIL YORKE SMITH

GROWTH in money supply is showing signs of slowing, but economists are concerned that the rate of slow down remains insufficient.

January's final figure reflected an annualised growth rate of 23,63%. This was revised upwards from the preliminary figure of 21,9%. But February's preliminary figures showed M3, the broad definition of money supply, increased at an annual rate of 21,96% last month.

M3 comprises cash in circulation and all deposits with banks, building societies and the Post Office.

Seasonally adjusted M3 growth for February was 19,2%, compared to 25,46% for January and 19,12% for December.

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BDay 28/3/90

Govt plans additional steps to encourage personal saving

58

CAPE TOWN — Government expected personal savings as a percentage of personal disposable income to increase from 1,5% to 2,9% this year, Deputy Finance Minister Org Marais said yesterday.

Marais was speaking in the Budget debate in Parliament.

Earlier, in an interpellation, Finance Minister Barend du Plessis said steps announced in the Budget to encourage savings were expected to amount to a R14bn loss of revenue.

In reply to a question from Harry Schwarz (DP Yeoville), Du Plessis said the contribution of private households to total domestic saving dropped from 36,2% in 1971 to 3,9% in 1989. This level was unacceptable in terms of economic progress, he said.

Contractual personal savings

MIKE ROBERTSON

amounted to more than R23bn in 1989, he said.

Asked what steps were contemplated to remove obstacles inhibiting personal saving, Du Plessis listed the following:

- Restructuring of the economy;
- A continued restrictive monetary policy to combat inflation;
- Positive interest rates together with the recent doubling of the amount of interest in the hands of individuals exempted from tax;
- The possible introduction of a low rate, final witholding tax on interest income of individuals;
- The elimination of fiscal drag;
- Scrapping of taxation on dividend income in the hands of individuals or close corporations.

Furntech cash valued at 38,6c a share

(58)

Star 28/3/90

By Ann Crotty

It looks as though investors are looking at 38,6c a share for their Furntech shares. At end-financial '88 the group reported net asset value of 52,2c a share.

This week, an announcement giving details of the sale of WTI showed Furntech's NAV at 38,6c. It said the tangible NAV of WTI at end-December '89 was R11,7 million (intangible assets of R0,5 million were excluded from the transaction).

A revaluation of assets added R2,9 million to the R11,7 million, meaning R14,6 million is payable for the shares and shareholder claims. (There appears to have been no premium attached to the R36 million tax loss that goes with WTI assets.)

Furntech secretary Noel Fitz-Gibbon says the R14,6 million is the cash Furntech is receiving for WTI and that Furntech's liabilities have to be deducted from this — and a few assets added to it.

The major liability (equivalent to around 12c a share) is a R3,5 million loan from the major shareholders (Solly and Abe Krok). This was an interest-free loan made in September 1986. Other Furntech assets add around 0,6c a share.

At end-'88, shareholders' equity was R15,3 million — including ordinary share capital of R9,4 million, non-distributable reserves of R378 000 and retained income of R5,5 million.

The announcement said shareholders' equity at end-'89 was down to R11,3 million. Ordinary share capital was unchanged at R9,4 million. There was no retained income and distributable reserves had increased to R1,9 million.

Mr Fitz-Gibbon says the retained income was more than wiped out by the R6,4 million trading loss in '89 — there was a deficit of R938 000. This amount was deducted from non-distributable reserves, which had been boosted by the R2,9 million revaluation of assets. (This is apparently in line with Furntech's internal accounting policies.)

Also deducted from non-distributable reserves was the R500 000 intangible assets not included in the WTI transaction.

On the dismal trading performance for the year to end-December '89, Mr Fitz-Gibbon says it was worse than expected at the interim stage: "We had one or two shocks and the Cecil Nurse division did worse than expected."

Suspended Projec and WoM linked to UAL finrand 'loss'

Star 29/3/90 (58)

By Ann Crotty

The bulk of the financial rands bought by UAL for an un-named non-resident client might have been used to purchase shares in DCM-listed Projec, which was suspended on Tuesday afternoon at the request of JSE president Tony Norton.

Share dealings in Projec were investigated by the Reserve Bank earlier this year.

Indications are that World of Music (WoM) and World of Leisure (WoL), which were suspended at their own request at the end of last July after poor trading performances, could also be involved.

What is uncertain at this stage is the extent to which minority shareholders have been prejudiced and the precise nature of the irregularities thought to have occurred.

UAL might be exposed to a loss of as much as R20 million by providing — unbacked — financial rands that were in part used to buy shares in a company (Projec) that appears to have few if any substantial underlying assets.

From mid-July 1989 to end-February 1990, 4,5 million Projec shares changed hands — there are only 1,8 million shares in issue.

The share has been trading at R11 since September.

Speculation is that the Projec shares bought with finrands were sold on to a South African associate of UAL's non-resident client, and the proceeds repatriated via the finrand.

But this process is only profitable if the non-resident is able to take a turn on the equity leg of the deal (i.e. if he sells the share for more than he paid for it) and/or the finrand leg (i.e. if the finrand appreciates between the time the share has been bought and sold).

The massive bookovers in the share suggest that the local buyers may have been rolling the shares with the use of revolving lines of credit.

Because of the dearth of information available on Projec it is impossible at this stage to establish at what price the non-resident may have traded the share.

The JSE committee has called for returns related to trading in the share in an attempt to glean this sort of information.

Churning of shares

At this stage it seems that the directors of Projec and their associates are the controlling shareholders of the company and that the churning of shares was done between these parties.

This indicates that control has passed from Interstate Breweries which, at last October, was reported to have 89,9 percent of Projec.

However, Mr Norton says the JSE has not been notified of any change in the control situation.

Mr Norton says the fairly drastic step of calling for a suspension of the listing was done because of very heavy trading in the share and a fear that there might have been some pushing of the share price.

At its current level the share is on a P/E rating of 238 times on a vague estimate of earnings.

And it seems that there is little in the way of substantial assets in the company.

It acquired a 35 percent stake in Project Finance last November for R2,8 million (paid for in Projec shares).

Project Finance is a leasing company that has been operating for less than a year and is believed to have produced some profits, but nothing of significance.

Mr Norton says it is unclear whether any of the original Canvacor assets remain in Projec.

And, as if all of that is not enough, it seems the committee is also disturbed by "a few other matters" relating to the company. This may refer to the Reserve Bank's recent investigation into share trading in Projec.

The committee had hoped that the suspension would provoke some response from Projec, but so far none has been forthcoming.

It appears that at least two of the directors, including chairman BE Bester, are currently out of the country.

WoM and WoL come into the story as a result of WoM's application to the JSE a few weeks ago for a relisting. WoM then said its asset would be a 30 percent holding in Project Finance.

This application was rejected because the committee felt the asset was of dubious quality.

The WoM and WoL connection seems to go beyond this as the contact phone number given for Projec is WoL's listed phone number.

UAL's Chris Pearce would not comment on the story yesterday except to say he believed the finrands had been used to buy listed shares.

He would not indicate the extent of the bank's finrand exposure or the nature and length of its relationship with the non-resident client.

Star 28/3/90

Some central banks face total loss on gold leasing

(58)

LONDON — Unusual gold dealings by some central banks have come to light after the bankruptcy of Drexel Burnham Lambert, the one-time junk-bond king of Wall Street.

Drexel leased $500 million of gold from various sources, including several East European central banks, Portugal's central bank and a Japanese trading company. These institutions may never see their gold again — or the cash.

Gold leasing involves passing title to the metal, usually unsecured, to (in this case) Drexel in return for a fixed rate of interest — anywhere between 1,5 and 2,5 percent.

That more than covers the cost to the central bank of storing and insuring it. The banks sell the gold for cash and cover their liability to repay the central bank from which they lease the metal by buying gold futures.

Drexel Trading, the firm's commodity operation, sold the gold and lent the cash proceeds to its parent company, Drexel Burnham Lambert Group, which is now bankrupt. In effect the leased gold was used to finance Drexel's illiquid junkbond portfolio.

It looks as if the bankrupt parent company cannot repay its subsidiary, as it should do if Drexel Trading is to make good on what it owes to central banks.

Drexel owes Portugal's central bank $120 million, a mere fraction of its $6,4 billion in gold holdings.

However, the Federal Reserve Bank of New York has alerted the State Department to the potential political implication for East European nations, who might not have known their smallish gold supplies were not entirely safe at Drexel.

Poland, rumoured to be one of the countries that transferred gold to Drexel, owns less than 500 000 ounces of gold. or

The Drexel bankruptcy has caused many central banks to review the credit ratings of their partners in gold leasing. Some contracts have been terminated. Will central banks now demand letters of credit or collateral in the form of government securities before leasing their gold and passing title to it? They would be fools not to. — **The Economist.**

Reserve Bank rules out rise in interest rates

Star 28/3/90 (58)

By Sven Lünsche

Although gold failed yesterday to make a substantial recovery from Monday's six-month low, the Reserve Bank has ruled out a rise in interest rates in the near future.

Economists have speculated that the 10 percent plunge in the gold price, coupled with the continued high level of money supply growth, could lead to a further tightening of monetary policy.

But the senior deputy-governor of the Reserve Bank, Professor Jan Lombard, said yesterday the authorities did not envisage a change in their policy stance for the time being.

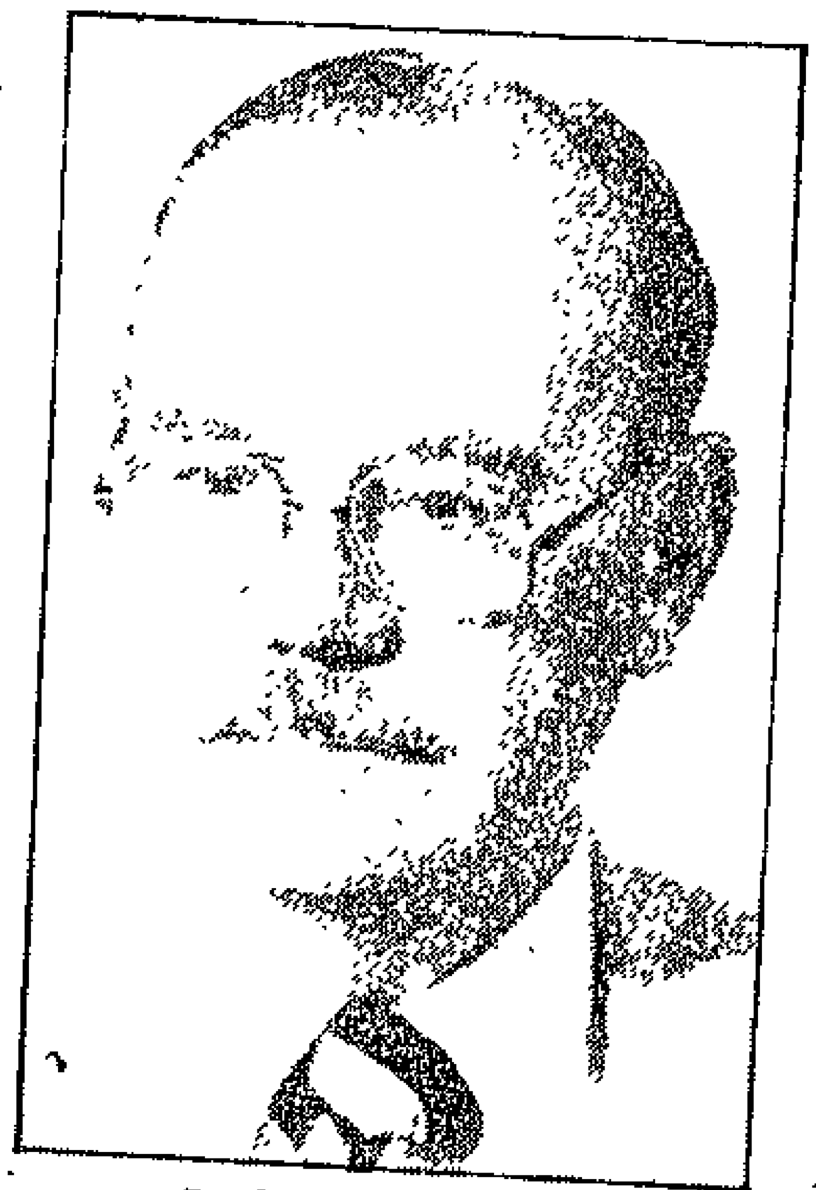
"It will take some time to establish where gold is heading, but my view is that we are witnessing just a temporary drop in price," Professor Lombard said.

"In any case, our policy is geared to weathering short-term windfall gains or losses."

In line with this view, the Reserve Bank doid not intend selling any gold at current price levels and was prepared to build up its gold reserves, Professor Lombard said.

Economists say that under the reign of Dr Stals monetary policy has become more stable and more independent of temporary economic movements.

"The net foreign reserves are being rebuilt, not based on favourable short-term 'hot' flows, but through current account



Professor Lombard

surpluses and long-term capital inflows," writes First National Bank's economist Cees Bruggemans in the bank's *Business Brief*.

"Such a restoration of healthy net foreign reserves will create a buffer against future setbacks that will make it unnecessary to shock the domestic economy unduly and make it possible to stretch out any needed adjustment over a longer period of time without inflicting too much damage," he says.

The view is supported by Standard Bank economist Nico Czypionka, who says the slump in the gold price "is not an immediate threat, although interest rates will most likely stay higher for a longer period than originally estimated".

If gold remains at these low levels during 1989, it is estimated that South Africa could lose some R1 billion in foreign exchange earnings and the surplus on the current account of the balance of payments could well fall beneath the R6 billion required this year to meet foreign debt commitments.

But Professor Lombard says the Reserve Bank used a conservative forecast of the average gold price — in the region of $370 to $400 — when calculating the R6 billion figure.

In addition, says Mr Czypionka, some, if not a considerable portion of the foreign debt is likely to be rolled over, which would allow the Reserve Bank to strengthen its reserves.

Given the strong trade surplus achieved in January and February, the current account in the first quarter of this year could well rise to just under R6 billion, in line with the surpluses achieved in the preceeding two quarters.

And, while a lower gold price will inevitably reduce export earnings, this could be partially offset by the more stable price performance of other metals.

More importantly, says Mr Czypionka, the slowdown in the economy will lead to a further drop in imports over the next few months, thereby reducing the outflow of foreign exchange reserves.

Gold steady after plunge

Gold closed $1 up in Europe yesterday after plunging more than $21 on Monday when a huge Middle East bullion sale hit the market.

The sale of three million ounces of gold, worth $1 billion, by a Saudi Arabian investment syndicate was linked to the acquisition of UK Harrier jets by Saudi Arabia.

Gold closed in London at $368,75 an ounce after ending on Monday at $367,75, its lowest for six months. In New York it closed at $371,60.

On local markets the rand continued to weaken following importer activity in early trade and closed the day at R2,663 to the US dollar. The finrand weakened by 12c in response to sales of gold counters by foreigners and reaction to the unrest in black townships.

The all-gold index recovered 37 points of Monday's 151 point fall. The overall index subsequently rose by 33 points to a close of 3196.

Bullion dealers were divided over the direction of the gold price. Some said it would steady for a while around present levels. Others said it would slide further as its lure faded against the attraction of high interest rates and the strong American currency.

Shift of mining shares into SA hands accelerates

By Trevor Walker

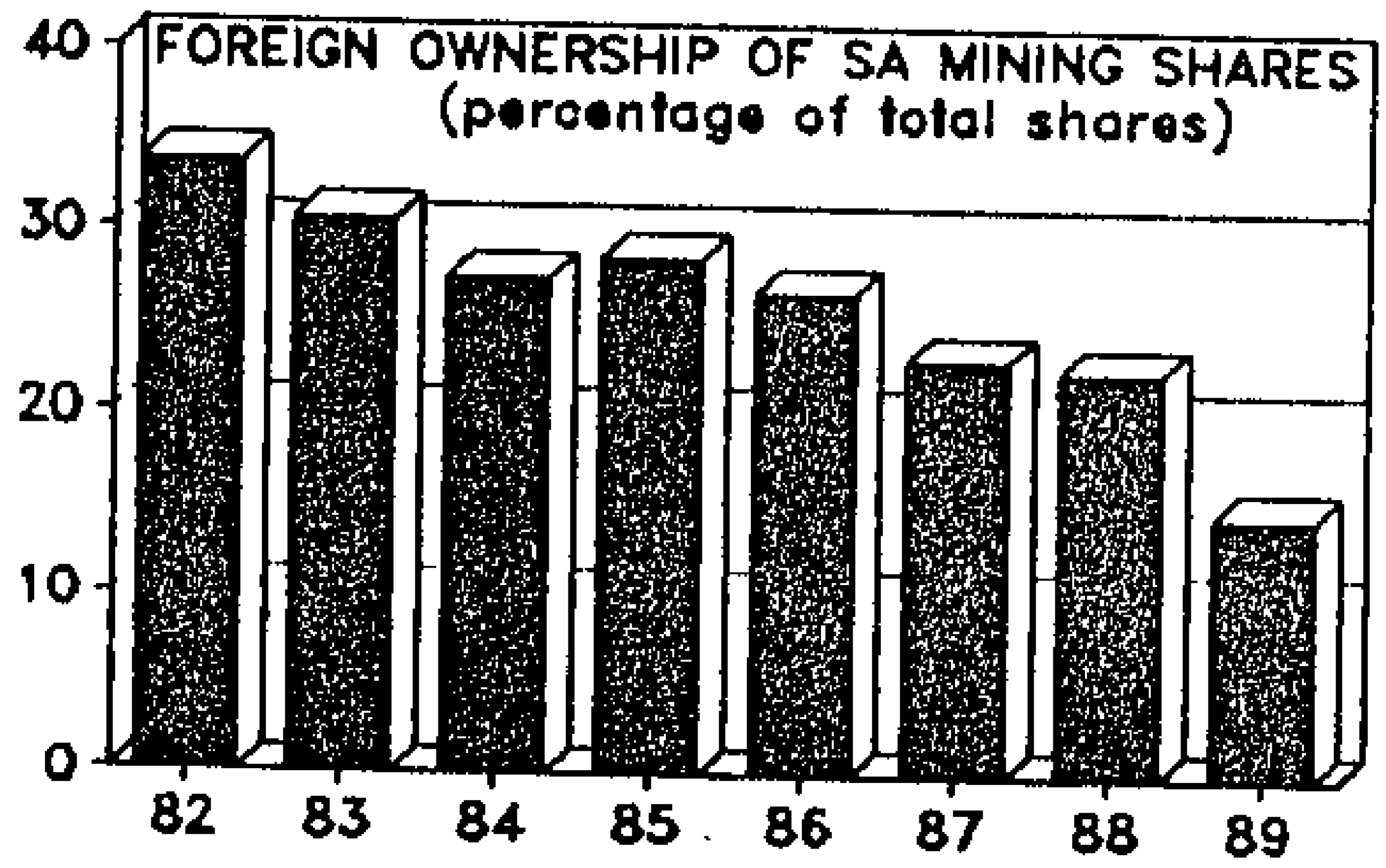
CAPE TOWN — South African investors now own more of the country's gold shares than ever before.

Stockbrokers Davis Borkum Hare said in a paper at the beginning of the year that from a peak of 42 percent in 1979, foreign holdings in the country's mining shares had progressively declined to 14,5 percent by 1989.

Analysts at Davis Borkum this week expressed the opinion that this trend had strengthened after the ANC reasserted its policy of nationalisation and, in particular, the recent slump in the gold price.

The market bounded ahead after the government's decision to release Mr Mandela and all that this entailed, but this was sharply curtailed by subsequent ANC policy statements.

So once again South African institutions are "buying back the farm" but on a scale largely different from that which pertained after Sharpeville and the Soweto riots.



South African institutions, with their huge daily cash inflows, are prohibited from investing abroad and this captive money has to be placed in land, buildings and shares in South Africa.

Analysts say the investor returns shown by the big institutions in recent years has been phenomenal and the next round of profits could come from selling gold shares back into the market if and when it improves.

South African investors have a tradition of being bullish supporters of gold shares and, given the present trends in Eastern Europe, Mrs Thatcher's difficulties and the excessively strong dollar, the reverse side of the investment coin could yet prove to be very profitable for investors in traditonal hedge instruments.

French investors, probably the largest number of small European investors in South African gold shares, have remained fully committed and still constitute a formidable interest in Rand Mines gold mining companies.

According to Davis Borkum Hare, the four Rand Mines gold mines have a foreign ownership made up, as follows — Blyvoors 76 percent, Durban Deep 48 percent, ERPM 65 percent and Harmony 70 percent.

An analyst at the firm says these investor interests have historicaly proved to be very solid and have based their ideas not so much on dividend return as gold price leverage.

At present this could prove to be a profitable bet and local financial institutions appear to be taking a similar view.

Institutional investment managers in the City this week were all in the market for gold shares and said that in the shorter-term they were looking to raise the proportion of their total invested funds in gold.

(58)

BUSINESS DAY, Wednesday, March 28 1990

Credit card charges climb

CHARLOTTE MATHEWS and SYLVIA DU PLESSIS

CHARGES for credit cards and on outstanding credit card balances are being put up by some of the big five banks.

A spokesman from Standard Bank said charges for cards were going up to R24 from R21 a year on ordinary cards and to R50 from R45 on gold cards from April 1.

He said the interest rate on outstanding credit card balances was 29,5% on ordinary cards and 23% on prestige gold cards and had remained at this level since last October.

A spokesman from TrustBank said the interest rate for outstanding balances on premier cards had been raised three weeks ago to 28%, and to 30% on normal credit cards. The petrol card was still free.

FNB senior GM Viv Bartlett said the annual charge for credit cards would rise from April 1.

"It depends on the type. Firstcard is going up to R24 from R21 a year. Other cards are different — rates vary from R15 to R24 a year but they will all rise by the same percentage, about 14%.

"Where the Petrocard is linked with a business it costs R15 and for an individual user the charge is R21 a year."

Bartlett said the charges were reviewed annually and he assumed all the other banks in general terms would be putting up theirs.

From April 1 FNB would no longer absorb the R1,15 charge for the use of Saswitch machines.

"Now customers will have to pay," Bartlett said. "We are the last bank to do this."

Nedcor MD Chris Liebenberg said these charges were reviewed on a continuing basis but there was no policy at present to increase them generally in the immediate future.

Volkskas could not be reached for comment on card charges.

Norwich Life boosts income to R398m

LINDA ENSOR (58)

NORWICH Life, the unlisted assurer, increased its income by 22% to R398m (R325m) in the year to end-December.

Earnings of R2,23m represent only 30% of total earnings, the mainder being retained for policyholders. B\Day 28\3\90

Premium income increased by 19% to R294,5m (R247,3m) and investment income by 32% to R103,4m (R77,7m). Net after-tax income fell slightly to R135,2m (R136,2m).

Consolidated assets for the group grew by 36% to R1,4bn (R1bn).

Chairman Ronald Napier says in the annual report that the two new insurance companies based on the Isle of Man — Claremont Life and Claremont Re — commenced writing reinsurance business during the year. While volumes are not large, the quality is of a high standard.

MD Charles Davies says the group would be consolidating this year, with emphasis on investment and data systems.

"Our premium income is growing fast and it is important that we get our information and investment systems in place," Davies says.

Sasfin's half-year results disappoint

BIPay 28/3/90 BRENT MELVILLE (58)

DESPITE strong managerial assurances that trade and equipment financing group Sasfin would capitalise on its alternative brand of financing, results for the six months to end-December show a no-growth performance.

Net income was R947 000 (R936 000) after a minimal outlay to the taxman of R23 000 (R21 000) due to allowances on export activities and the lower tax rates applicable to overseas subsidiaries.

It is estimated that about half the group's profits are derived through overseas subsidiaries providing a rand-hedge element to the share.

Earnings were at 8,5c (8,3c) a share on slightly more shares in issue.

However, chairman Martin Glatt said the performance was relatively strong when measured against a difficult market.The low gearing ratio of 2:1 compared favourably with the industry norm of 8:1 and would allow for expansion, he said. BIPay 28/3/90

The balance sheet shows a current ratio slightly down at 1,3:1 (1,4:1), and discloses accounts receivable up by 16% at R16,3m (R13,9m). Cash in the bank has dropped to R164 000 (R2,3m).

Glatt said the group — which provides financing facilities across the spectrum of commercial finance — would continue to build up its product, human and computer infrastructure.

Reneging client hits UAL 'for R10m-R15m'

ROBERT GENTLE (58)

UAL Merchant Bank has taken a substantial loss — estimated in the market at between R10m and R15m — after a non-resident client reneged on a major financial rand deal and left UAL to pick up the tab. B\Day 28\3\90

This scenario, the subject of persistent rumour in the financial markets over the past week, was confirmed yesterday by UAL senior GM, treasury, Chris Pearce.

However, Pearce would not comment on market estimates of the extent of the loss. "We cannot quantify it at this stage."

The Reserve Bank confirmed that UAL had brought the matter to its attention, but would not divulge further details.

Pearce said: "Whatever action the Reserve Bank may require us to take will be taken."

According to market sources, the deal could have been struck prior to Nelson Mandela's release in anticipation of a bullish post-release climate, which did not materialise.

Pearce avoided pinpointing exactly when the deal happened, saying only it was "a recent occurrence that has been ongoing for some time".

Subsequently, market sources said, UAL telephoned the non-resident client only to find he was no longer at that number.

Pearce said: "The client failed to deliver on a forward deal. It was not a problem on our trading side. We had a counterparty fail on us."

Asked whether UAL had done the necessary creditworthiness checks, Pearce said: "We went through the normal procedures."

He would not confirm or deny specula-

☐ To Page 2

UAL hit B\Day 28\3\90

(58)

☐ From Page 1

tion that another bank, rumoured to be TrustBank, was involved. TrustBank admitted it knew about the deal, but formally denied it was involved.

Reaction in the market focused on what was described as UAL's failure to ruthlessly check the creditworthiness of the client.

Banks traditionally run exhaustive checks on any prospective client, especially when large sums of money are involved. This was confirmed by spokesmen from Standard Merchant Bank and First National Bank.

"It comes down to knowing your client," said a bond market source, who saw a strong liklihood of at least one key resignation at UAL, where an investigation is now under way.

UAL, SA's oldest merchant bank and now part of the Nedcor group, has been active in the financial rand market since 1988 when local banks were authorised to increase their participation in this hitherto controlled area.

UAL made taxed profits of R27,4m for the year ending September 1989, though operating income dropped 71% to R11,5m (R39,1m).

Download market prices to your PC. R15 per month to Star subscribers. Phone 640-5104.

Market recovers

(53)

Finance Staff

Star 29/3/90

The stockmarket closed firmer yesterday, having recouped further lost ground after Tuesday's rally, but trading was generally thin and cautious, dealers said.

Gold shares led the advance on a spillover from Tuesday's selective demand at the lows amid perceptions that the gold price was set to recover after its recent heavy losses.

Gold held relatively well above $370 after dropping sharply to almost $360 recently, while a weaker financial randprovided added support for share prices, dealers said.

Gold's afternoon fixing of $372 in London was slightly down from the morning fixing of $373,20, but $4 higher than Tuesday's close of $368.

The gold index closed 57 points up at 1975 from Tuesday's 1918 close, while the industrial index was up 16 points to 2987.

Combined, they pushed the overall index up 66 points, or 2,1 percent, to 3264.

The overall index has now made up 99 points of its 3,8 percent, or 126-point, slide on Monday when gold fell by almost $25 to a six-month low.

Heavyweight gold share VAAL REEFS ended 600c higher at R393, but off its day's high of R398, while BEATRIX closed 200c up at R31,50.

Mining financials had ANGLOS 675c higher at R136,75.

Among other leading minings, diamond share DE BEERS gained 375c at R86 and RUSTENBURG PLATINUM 100c to R79.

Among industrial leaders, AMIC and BARLOWS firmed 100c each at R95 and R44 respectively.

● The volume of shares traded was 15,386 million valued at R95,737 million. The number of securities active was 407. The five most active stocks were Dalsig, Saambou, Gants, Oryx and D-Glo.

SA unions set for big battle with privatisation

Star 29/3/90

The labour movement's anti-privatisation push moves into top gear this week. **DREW FORREST** looks at the rationale for the campaign, which has vital implications for South Africa's economic future.

The Government's privatisation thrust, long a bugbear of the trade union movement, is emerging as a major flashpoint on the labour front.

As part of a continuing anti-privatisation campaign, adopted at last year's Cosatu congress, Cosatu unions in the rail, postal, health and municipal sectors are planning countrywide marches and rallies during working hours this week.

A centrepiece of the protests is today's march on the Johannesburg Stock Exchange to warn "prospective purchasers" that a future government may re-nationalise privatised concerns without compensation.

Further action, including overtime bans and stayaways, are also on the cards.

Some union anxieties appear unfounded. For example, Transnet (formerly SA Transport Services) is to be registered as a company with the State as sole shareholder on April 1 and not listed on the stock exchange, as some unionists believe.

As for the post office, draft legislation is being prepared providing for the formation of two companies, one for postal services and banking and the other for telecommunications, owned by the State

In the cases of Transnet and the post office, the stress is on "commercialisation", the creation of profit-making business units.

But the State has singled out these concerns, along with Eskom and the phosphate mining concern Foskor, as long-term targets for privatisation. In Transnet, the airways and road transport could go first.

Business leaders often assume black workers are "capitalists at heart" and agitation on the privatisation issue will subside as they come to see the virtues of private ownership.

In fact, the union objections, part of a wider rejection of the capitalist ethic, seem profoundly rooted and are unlikely to go away.

At their heart is an instinctive revulsion against the surrender of socially owned and controlled wealth, and a belief that privatisation cannot address, and may worsen, poverty and joblessness.

Unionists also claim to see a trade-off between private monopolies avid for new investment, particularly in sectors with a developed infrastructure and a tightly controlled workforce, and a government strapped for cash and looking to shield minority interests under a future democracy.

Job cuts

An immediate concern is that the sell off of state enterprises, and the process leading to it, inevitably entails job cuts. Unionists point to the steady shrinkage of Transnet's workforce and the loss of 16 000 jobs at Eskom since 1985.

"We used to have a state transport service which gave work to 286 000 people," said National Union of Mineworkers' economist Mr Martin Nicol "It now employs 170 000. Privatisation goes hand in hand with building lean, mean companies based on the immediate pursuit of profit."

Linked with this is a concern that the loss of subsidies and the profit motive will bring increased service charges weighing most heavily on the poor. In last year's Cosatu congress resolution, privatisation was seen as a threat to affordable transport, postal services and health care.

But there are broader concerns. Arguing that the National Party historically used the state sector to uplift poor whites, unionists see it as a future instrument of social policy.

"Privatisation removes resources from a future people's government," said SA Railway and Harbour Workers' Union leader Mr Martin Sebakwane "It aims to undermine a new government's capacity to implement programmes of benefit to the mass of South Africans."

Mr Sebakwane said the railways had historically served "apartheid interests" by focusing on the white industrial heartland, while neglecting rural areas

"kaNgwane, for example, has no railway With people's transport, one might want to service workers there."

The point was driven home this week in an address by key union economic strategist Mr Alec Erwin, who argued that the electrification of black areas, a key aspect of development, would be hamstrung by a sell-off of Eskom.

"No private corporation will supply electricity unless it can make a profit This is just not satisfactory. We must have one grid so areas that can pay will subsidise others," he said

Rent boycott keeps Mandelas out of luxurious home

Star 24/3/90

By David Braun, The Star Bureau

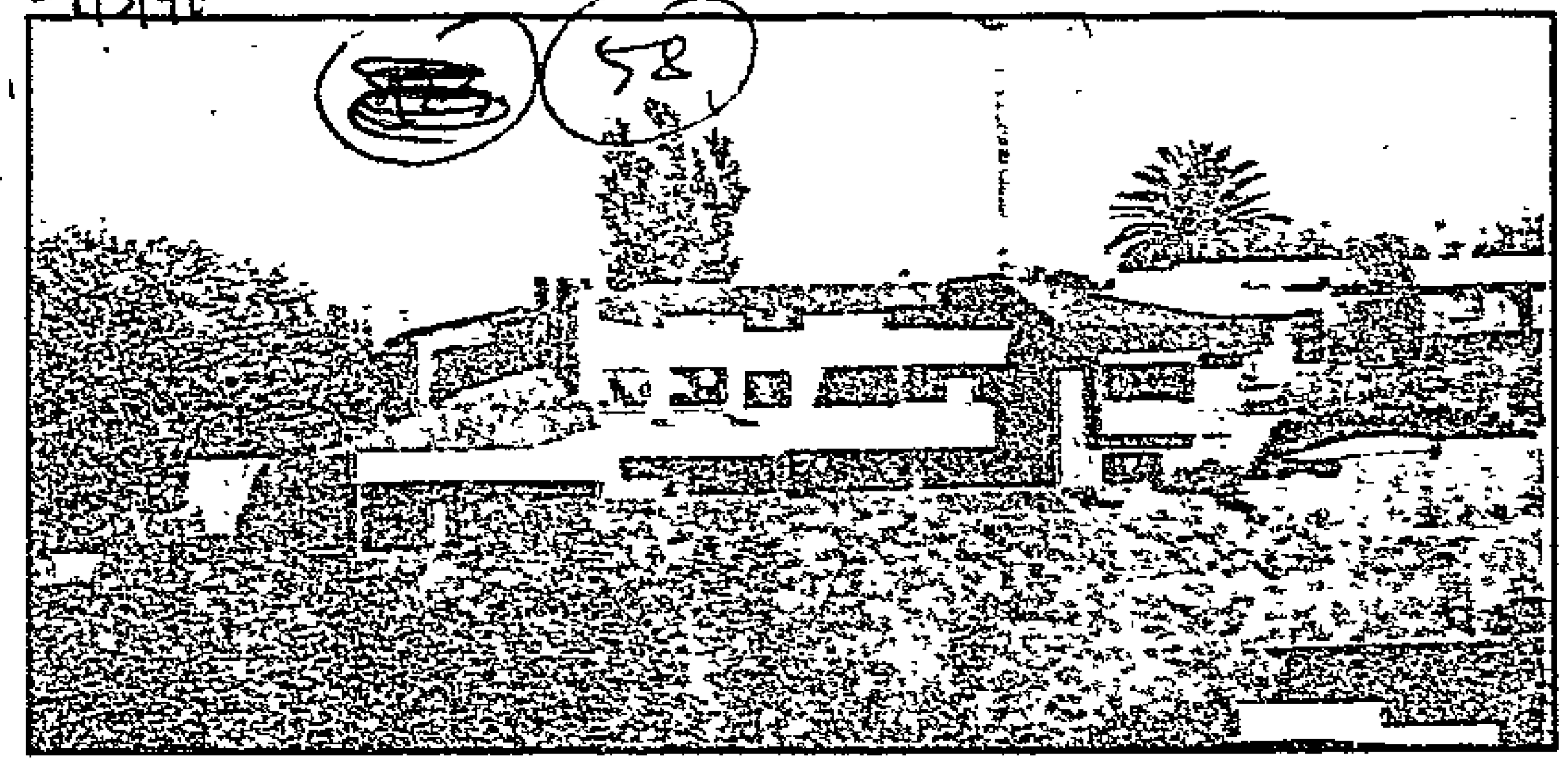
WASHINGTON — The ANC deputy president, Mr Nelson Mandela, and his wife would move into their luxury Soweto home once it has been connected with electricity, water and other services, said the president of the Soweto Civic Association, Dr Nthato Motlana.

But the services could not be supplied until the rent boycott was over.

There was no reason why Mr Mandela should have to live in the ghetto called Orlando merely because it was felt he should live among his people, Dr Motlana told a meeting of the Carnegie Endowment for International Peace in Washington on Tuesday.

Wherever Mr Mandela lived, anywhere in South Africa, he would always be among his people.

Dr Motlana said the Mandelas were living in most uncomfortable conditions in their three-roomed home in Orlando. A great many people visited them, and they often wound up sitting on the bed, the floor and even under the bed.



The Mandelas will move in once water and electricity are connected.

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He said he wanted to take the public blame for what had happened to Mrs Winnie Mandela over the bui ng of the larger house, which wa ubbed by the international media as "Winnie's folly".

"The truth is we formed the Madiba Trust with me as chairman so as to provide suitable accommodat   or Nelson. I myself acquired th property. We got some money from friends in the United States and I signed the contract with the builders.

"Unfortunately, at the beginning of June 1986 the Soweto Civic Association decided to call a rent boycott, and as a result we have been unable to connect the water, sewerage and electricity to the house. Until the rent boycott is resolved, we are going to have a problem accommodating the Mandelas in that house," he said.

Dr Motlana said the ANC had taken the decision that Mrs Mandela should not move into the house because of the unfavourable political reaction to it at the time. That matter now appeared to have been resolved and the Mandelas would move in once the services had been connected.

"We reckon he has made his gesture by returning to Orlando and there is no need for him to live any longer in that house."

JSE stages recovery

By Sven Lünsche Star 29/3/90

The JSE has staged a remarkable recovery since the seven percent plunge in gold share prices on Monday, despite the failure of the gold price to significantly recover from its lows.

The JSE's all-gold index rose by 49 points yesterday to 1967 and has recouped over half of Monday's 151 point plunge. The performance of the overall index has been even better, boosted by the strong showing of industrial shares — it surged by 64 points, or 2 percent, yesterday bringing its gains since Monday to 99 points. The index fell by 126 points on Monday.

Dealers said that cash-rich local institutions were largely responsible for the strong run as they were picking up, what they considered bargains, at the lower levels. The shortage of quality scrip aggrevated the situation.

Foreign investors also cautiously returned to the market following on the 12c drop in the financial rand to R4,00 to the US dollar earlier in the week. The currency failed to recover from this level yesterday.

The gold price fell back to Tuesday's closing level after a brief morning rally in London had pushed the metal to as high as $374.

Bullion closed in London at $372, $4 up on Tuesday's afternoon fix, but fell back later in New York to end the day at an unchanged level of $369,25. In Hong Kong this morning gold opened $1,60 up at $371,50.

Despite the US dollar's fall against the European currencies yesterday, dealers said gold remained underpinned by world events, particularly in Lithuania and South Africa.

But traders said some players were squaring their positions after the dollar's recent gains and their could be some upward potential for the metal over the next few days.

(58)

Discussions on assurers tax position continue

LINDA ENSOR

DISCUSSIONS between the Department of Finance and the Life Offices' Association (LOA) on the tax position of assurers would be continued, Deputy Finance Minister Org Marais said yesterday.

He said no final decision had been taken on whether to appoint a one-man commission of inquiry into contentious aspects of the taxation of life companies.

A reliable source said yesterday that such a committee was on the cards and would investigate three aspects.

Namely, the fact that life companies, as trustees, have to pay tax on dividends whereas individuals are exempt from such tax.

Secondly, the fact that the rate of tax applied to life companies has remained at 45% while the top rate of marginal tax which applied before the Budget has been lowered to 42%.

And lastly, the fact that only 55% of life companies' expenses are tax deductable.

A delegation from the LOA met Marais on March 20 in order to establish whether the trustee principle had been abandoned. Meetings were also held with Finance Minister Barend Du Plessis and the Parliamentary Standing Committee on Finance.

LOA executive director Dick Geary-Cooke said yesterday it was encouraging that the authorities had taken note of the industry's complaints.

"The appointment of people to look into our unhappiness would be a welcome reaction by the authorities," Geary-Cooke said.

He said discussions with the Registrar of Financial Institutions would also be held on the different methods of funding provident funds and how they fit into existing regulations.

"There appears to be a case for allowing membership of provident funds by way of individual policies," he said.

Also to be discussed were the commissions to be charged for the different types of funding, as existing structures favour individual policies which pay salesman over a shorter period of time than group policies.

☐ While no announcement on a replacement for outgoing registrar of financial institutions Theo van Wyk has been announced, it was considered likely by many in the industry that his deputy, Piet Badenhorst, would be appointed in his place.

3104 30/3/90

Heavy buying of Saambou shares ahead of results

NEIL YORKE SMITH 58

HEAVY buying of Saambou shares on the JSE recently probably reflects institutional investment, but it is unlikely the group will fall prey to a takeover bid, analysts said yesterday.

Chairman Hendrik Sloet said yesterday it was more likely that individuals, no longer required to pay tax on dividends, were buying into Saambou's attractive dividend yield.

More than 4-million Sambou shares have traded this week, compared to a monthly average of only 1,4-million for the past 12 months.

Buying pressure forced the share price up to 115c on Wednesday. In early February it traded slightly below 100c.

Saambou is one of the few listed SA companies not controlled by a dominant shareholder. Minority interests account for about 70% of the issued shares, but insurance giant Sanlam and banking group Volkskas each hold about 10%.

It has long been rumoured that Volkskas or Bankorp company TrustBank wanted to acquire Saambou operations; through which they could boost their mortgage lending operations.

"The group has sound management, a good asset base and has had a long time to establish itself," an analyst said.

However, both Volkskas and TrustBankhave already succeeded in increasing mortgage lending so at this stage a deal would make little sense, he said.

"Both already operate in Saambou's market (it is very strong in mortgage lending to civil servants) and are able to increase lending without opening new branches. If either organisation acquired Saambou they would have to close branches."

Saambou is expected to produce solid results for the year to March 31. Interim earnings, after accounting for a R6,7m loss in the capital markets, were R8,4m.

Sloet said earnings and dividends should be maintained. Last year earnings and dividends a share were 21,6c and 11,5c respectively. A share price of 115c places them on an attractive historic yield of 18,8% on earnings and 10% on dividends. Net asset value (with fixed assets at book value) is 235c.

Project Investment connection in UAL's big finrand beating

BDay 30/3/90

58

ROBERT GENTLE

UAL Merchant Bank yesterday disclosed that the estimated R10m-R15m loss taken on a recent financial rand deal was connected with Project Investment, the shadowy DCM-listed company suspended this week for trading irregularities.

UAL senior GM treasury Chris Pearce said: "At least some of the finrands involved in the deal were used to buy shares in Project Investment."

Project shares were unilaterally suspended on Tuesday — a rare form of corrective action — because of unusually heavy activity inconsistent with available information on the company.

More precisely, the number of shares traded in the past six months — much of it apparently done via the finrand with a non-resident client — was almost three times the actual number in issue.

This led to speculation that they were merely being churned — bought and sold repeatedly — for ulterior motives and at increasingly higher prices that bore little relation to their true value.

Supporting this has been the lack of information about the company and its purported shareholders. Telephone numbers are unavailable and the directors are believed to be abroad.

"We cannot contact them at all," said JSE president Tony Norton yesterday.

Norton defended the actions of the JSE stockbroking firms that handled the Project share transactions, saying that they acted responsibly and in accordance with JSE regulations.

Norton would not reveal who the brokers were, though it has emerged that at least three were involved — Lowenthal, Max Pollak Freemantle and H G Crosby.

Lowenthal said it had handled a small deal, then ended the relationship after "certain problems" arose. Max Pollak said it too had booked over a few deals before calling a halt because of suspicions over their frequency.

Crosby would not comment except to say that it had traded in Project shares.

Market sources supported Norton's claims about responsible behaviour by stockbrokers, saying all the transactions appeared to be fully above board; the problem lay with their frequency (which explained the hopping from broker to broker) and the inflated prices at which they occurred.

Similarly, UAL, an authorised finrand dealer, did nothing more than follow the standard procedure of paying the finrands to another authorised dealer, who in turn released the finrands against delivery of the shares.

Sanlic emerging from the woods

STAR 30/3/90 (58)

Finance Staff

Sanlic Holdings, now controlled by Elcentre, has reported a 38,9 percent hike in earnings to 2,5c (1,8c) a share for the six months to December.

The acquisition involved Sanlic acquiring businesses from Elcentre and other parties for a total consideration of R33 million, which was settled by the issue of shares, convertible debentures and cash and resulted in Elcentre having an effective 82 percent controlling stake in Sanlic.

Earnings per share have been calculated on the weighted number of shares in issue and allowing for full conversion of the debentures into ordinary shares.

As restated, the report shows turnover up 275 percent at R36,87 million and operating income improving 244 percent to R3,26 million.

The report stresses, however, that it has been an exceptionally difficult trading period. Chairman Nathan Mowszowski says the problems inherited with the acquisition — notably substantial overstocking — will not be fully resolved before the end of the financial year in June.

Funding of the inventory and higher interest rates have predictably influenced finance costs, which are up 511 percent at R1,76 million, but should drop in line with an improved stock position.

A combination of trademark allowances, pre-acquisition assessed losses and tax deductions of debenture interest resulted in a nil tax liability for the six months, leaving taxed profit up 405 percent at R1,5 million.

The report says earnings in the second half should exceed those of the first, implying earnings for the year at least 42 percent above the previous year's 3,6c.

The company paid a single final dividend of 1c a share in the previous financial year.

Sanlic shares are currently priced at 55c, at which level they yield 6,5 percent and 1,8 percent on historical earnings and dividend respectively.

Star 30/3/90 (58)

Chris Liebenberg takes over at Nedcor

Finance Staff

Nedcor has chosen 55-year-old Mr Chris Liebenberg to succeed Mr Piet Liebenberg as chief executive officer. Mr Liebenberg, who is managing director of the Nedbank division, takes up his new appointment with immediate effect.

Mr Piet Liebenberg created a stir in the banking world when he announced two weeks ago he was giving up his post as deputy chairman and chief executive officer of the flourishing Nedcor group for the position of executive chairman of the troubled Bankorp group.

And in a surprise move yesterday, Mr John Maree, chairman of Nedcor, announced that Mr Hennie van der Merwe, Nedcor group general manager, would be leaving the Nedcor group at the end of March to take up another position.

He is believed to be joining Piet Liebenberg at Bankorp, although Bankorp officials would not confirm this yesterday.

Mr Maree said Chris Liebenberg was an experienced banker, who had been with the group for 38 years and had built up a strong team.

Chris Liebenberg

Richard Laubscher

Mr Richard Laubscher (39) succeeds Mr Liebenberg as Nedbank managing director. He was senior general manager, corporate banking and international division, and has been with the group for 20 years.

Mr Johan Westraat (58) becomes deputy managing director of Nedbank with additional responsibilities.

Duros takeover opens doors to foreign arena

58

By Tom Hood

CAPE TOWN — Tollgate, the Cape transport company, has been transformed into an industrial holding group over the past two years.

Now the company and its pyramid, Duros, are about to step onto the international takeover trail as a result of a R45 million purchase of a controlling stake in Duros.

Joint control has been acquired by London-based South African businessmen Julian Askin and Hugh Biermann and Duros director Mervyn Key, who intend to make use of Tollgate's London listing.

The Askin-Biermann partnership made its mark in Britain by turning loss-making Thomson T-Line into a profit-maker and selling it to Ladbrokes last year.

They are already tackling the group's high gearing by proposing rights issues tc raise R90 million to wipe out debt.

Tollgate's borrowings of R113 million and its subsi diaries' operating debt took R56 million out of the R94 million operating profit.

"We will try and do more for these companies," said Mr Askin, joint chairman of Duros, in an interview this week.

"The balance sheet was well written down.

"We will restructure them and strengthen the balance sheet."

He denied suggestions that the takeover was a rescue bid.

"I have known Mr Key for many years and we have been talking about the companies for some time.

"This was the perfect opportunity.

"There was nothing to rescue as the group is soundly based, but we believe our acquisition was perfectly timed.

"I would not invest in a company I didn't think had prospects.

"Besides raising funds from the rights issues, we will dispose of under-performing assets. We will be fully ungeared very quickly. Borrowings will be taken on for a specific transaction and repaid quickly."

The other joint chairman, Mr Key, said as soon as the restructuring was completed by the end of June they would be "a well diversified group in the business of basic consumer industries such as food, transport, tourism, textiles and property with minimum gearing."

Tollgate's turnover was R1,137 billion and operating profit R94 million for the 18 months to December.

Mr Key's forecast was turnover of R1 billion, operating profit of R120 million and a substantially reduced interest bill for the current year.

"We want to achieve earnings of 30c a share this year and 50c in 1991," he added.

"We see Askin and Biermann bringing their expertise and London connections with financial institutions to broaden Tollgate Holding's activities."

'Minimal' effects from loss

BARRY SERGEANT

58

B/1049 30/3/90

UAL Merchant Bank MD Geoff Richardson disclosed yesterday that the effects of a UAL deal that had been the subject of considerable speculation in financial markets would have minimal effects at parent Nedcor's level.

RICHARDSON

In an interview Richardson said the effect of the loss-making deal concerned would reduce UAL interim earnings to about R11m, compared to R13m last year.

He said the loss had been taken directly through the income statement.

"It was bad judgment on our part. The loss has been classed as a normal bad debt, and been treated as such for accounting purposes. The effect at group level would be insignificant: last year Nedcor earned R387,5m net income."

Nedcor results for the year to end-September showed an 84,8% increase in net income to R387,5m. Of this, UAL contributed R27,4m, an increase of 13,2%.

New Nedcor CE Chris Liebenberg said that apart from the deal concerned, UAL interim results would have been "superb".

Richardson said that the amount lost on the particular deal excluded possible future income from "clawbacks from the sale of assets attached that may take a long time to realise due to legal processes".

Such "profits" would be accounted for as and when the amounts flowed to UAL, Richardson said.

Bank seeks 'acceptance'

Cape Times 30/3/90 (58)

Political Staff

THE semi-official Development Bank, which has channelled millions of aid into black community projects, has made contact with extra-parliamentary groups to win at least tacit endorsement for its programmes.

It has also admitted that recent dramatic political developments had raised questions about the institutional structures with which the bank had interacted.

In the latest issue of its newsletter Headway, the bank said one of its main objectives was to establish independently the community acceptance of and support for projects and programmes under consideration.

It said this included not taking sides "in the political tug-of-war or to curry favour with particular groupings", but to ensure "the tacit endorsement of as wide as possible a cross-section of the communities involved was assured for bank-supported projects and programmes".

"The integrity of the bank's approach to development matters is increasingly recognised across the wide Southern African political spectrum.

"The bank's mission — working towards improvement in the quality of life of all people in the region through a more equitable distribution of opportunities and resources — and its focus on the poorer people and communities in Southern Africa as its real clients will not only remain valid in the changing circumstances but are likely to increase in relevance."

Nedbank MD Richard Laubscher, left, and Nedcor CE Chris Liebenberg.

B1 Day 30/3/90 Picture: CATHERINE ROSS.

Nedcor appoints new executive chairman

BARRY SERGEANT 58

CHRIS Liebenberg, 55, has been appointed Nedcor CE with immediate effect.

Making the announcement yesterday, after a board meeting on Wednesday, Nedcor chairman John Maree also said Nedcor group GM Hennie van der Merwe, who three months ago moved from Nedcor subsidiary Finansbank where he was MD, is leaving the bank. Analysts speculate that Van der Merwe will join Bankorp.

Liebenberg replaces Piet Liebenberg as executive chairman, who announced on March 13 that he was leaving the bank with immediate effect to become Bankorp CE from July 1.

Maree said Richard Laubscher, 39, would succeed Chris Liebenberg as Nedbank MD. Johan Westraat, 58, is to become Nedbank deputy MD with additional responsibilities.

In interviews yesterday, Maree said he was delighted that Nedcor could make the promotions from within the group; Chris Liebenberg agreed Piet Liebenberg's leaving had created uncertainty

The Nedcor share price has dipped sharply since Piet Liebenberg made his exit from Nedcor. And this week, analysts said speculation about losses incurred in Nedcor subsidiary UAL Merchant Bank added a further bearish factor.

Stockbrokers said large parcels of Nedcor shares had come onto the market. The share lost 20c yesterday, closing at 1 000c.

Chris Liebenberg said he takes up the Nedcor post at a time when the group's assets are in a strong position, and when its capitalisation already complies fully with regulations being phased-in.

B/Day 30/3/90

Sun Life to expand into other fields

JOHN CAVILL and LINDA ENSOR

58

SUN Life Assurance, in which Liberty Life's UK arm TransAtlantic Holdings has a 29,8% stake, is to expand its financial services activitites beyond long-term insurance.

To facilitate its expansion, Sun Life is to create a listed non-insurance holding company, Sun Life Corporation, on the London Stock Exchange and will itself be delisted.

Sun Life, announcing its 1989 results yesterday, also disclosed plans to enter the southern European market with unit-linked savings policies.

The life assurer increased earnings to £28,3m (£23,2m) in 1989 and increased its dividend by 14% to 44,11p (38,7p).

Liberty Life and TransAtlantic chairman Donald Gordon said yesterday the restructuring would free Sun Life from Board of Trade and Industry regulations restricting the activities of insurance companies in the UK and give it more flexibility.

"The diversification of the group's activities beyond long-term insurance business had made it increasingly inappropriate that the principle holding company of the group is a registered insurance company," a Sun Life spokesman said yesterday.

There would be no capital restructuring necessary as Sun Life shares would be exchanged on a one-to-one basis with those of its holding company. L'Union des Assurances de Paris (UAP), which holds 25% of Sun Life, has approved the proposal which was vetoed by TransAtlantic in 1986 on the grounds that its percentage stake could have been diluted.

The proposal in 1986 came at a time when Sun Life chairman Peter Grant and Gordon were engaged in a battle over board representation and allegations that the SA group was trying to take over Sun Life through the "back door."

ARTICULATED RIG >25,000kg [13] D200 (DRIVERS SECTOR)

FM 30/3/90

DEALING ON TRUST

58

Sanlam Properties has finalised negotiations to buy a substantial portion of Trust Bank's property interests (*Property* March 23).

Sanlam Properties' Hendrik Bester says the deal, involving a package of 16 buildings held by Trust Property Corporation, takes effect on April 1.

"This transaction offers us the opportunity to obtain a good portfolio of properties which yields an income immediately. It also fits in well with our existing assets and investment policy," he adds.

The properties include five Trust Bank cash centres and offices countrywide, the computer centre in Randburg, office blocks and shopping centres in Kempton Park, Durban, Port Elizabeth, East London, Cape Town and Stellenbosch.

Trust Bank senior GM Jan Kühn says: "The sharp rise in interest rates exacerbated the negative margins between cost of funds and the return on property investments. Long-term property investments do not form part of our business activities. Selling these properties is a further step in the rationalisation strategy aimed at enhancing profitability. We can achieve much higher returns on advances than on property."

Bankorp Property Services, which managed Trust Property Corporation's assets, will continue to manage buildings transferred to Sanlam Properties.

INSURANCE F|M 30/3/90

Welcome claims (58)

Within three days of the Welkom tornado Auto & General settled 600 household insurance claims, worth about R3m, says chairman Douw Steyn. It approved another R3m motor claims which will be paid once panelbeaters have finished work.

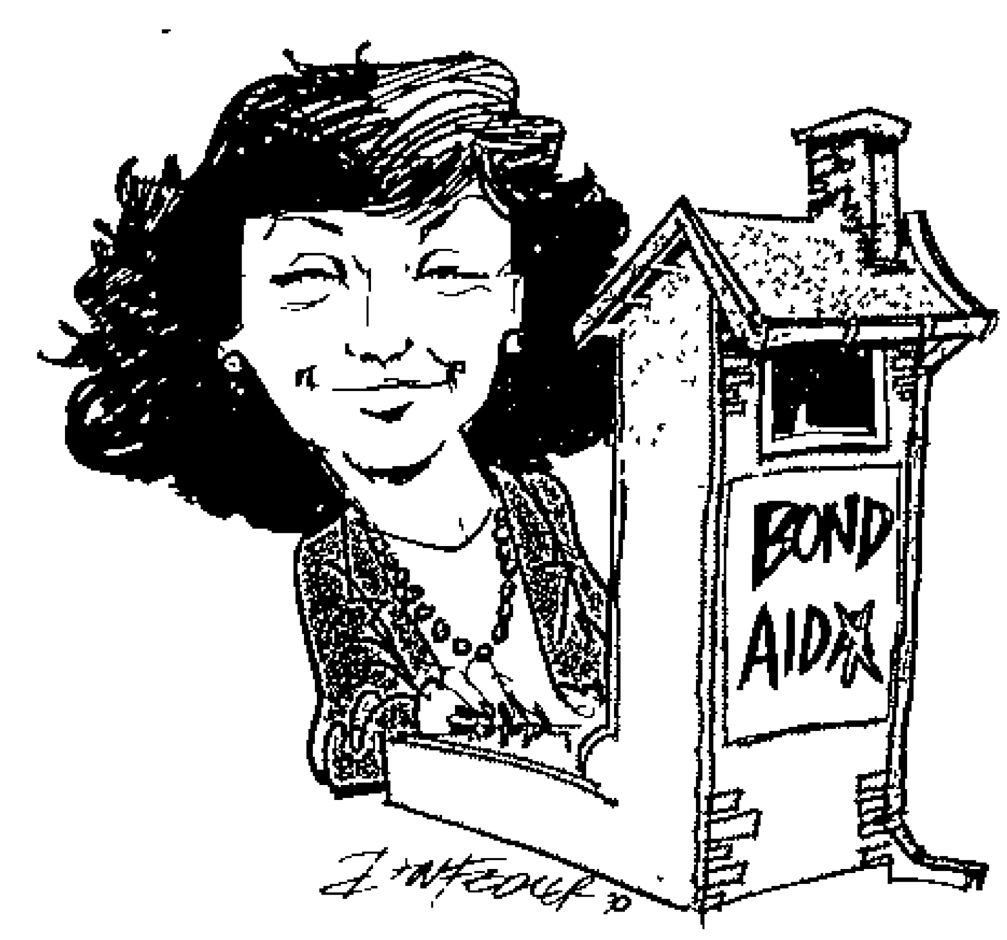
"So many claims coming in at once would have slowed our normally efficient system," says Steyn, "so we decided to show clients we are serious about service." He and five other executive directors left for Welkom last Thursday followed by 15 assessors and 10 administrative staff.

FM 30/3/90 (58) 4

A&G announced its plans over the radio "As telephone lines were down, we asked radio stations to get people to contact our Welkom office so we could pay them out," Steyn says.

Other insurers are responding more slowly. One is said to be sending assessors only in a month's time. Once paperwork is completed clients may get their payments in another two to three months. ■

FM 30/3/90 (58)



AIDA/UBS FM 30/3/90 (58)

Forming links

Aida and UBS appear to be joining forces in the increasingly competitive real estate market. UBS is underwriting Aida's R1,03m rights issue of 2,28m shares at 45c a share, on the basis of 19 new ords for every 100 held.

MD Aida Geffen will waive her rights in favour of UBS and will sell additional shares to UBS, thus ensuring it of a 25,29% holding after the issue. Geffen declines to comment on the selling price of the additional shares. Her holding will fall from 83% to about 60%.

UBS assistant GM Kevin McGregor declines to comment on reasons for the acquisition, which is described as an investment. But the holding in Aida and the purchase by UBS of a 33,3% stake in Multi Services (which offers computerised home-buying and selling information available to affiliated agents) for R5m in August 1989, with representation on both boards, suggests the group is securing its share of the competitive bond financing market.

Geffen says the R1,03m received through the rights issue will be used to develop and improve infrastructure needed for servicing the increasing number of franchisees. Here, too, she does not give details. She says an announcement will be made in August concerning a number of projects in the pipeline.

Geffen says that two major capital projects affecting Aida will be financed externally. Firstly, she says, there is the computerisation of the group. Secondly, there is the new corporate head office in Illovo, Johannesburg, which will be financed by Geffen. She will lease the building in her private capacity and provide space to the group at "market-related rentals."

Despite poor half-year results, Geffen is confident the group will show strong growth in the next two years and wants to list Aida on the main board. She expects the number of franchisees to increase from 51 to 75, and turnover to respond accordingly. Turnover comprises joining fees, royalties (4%-5% of gross commission subject to a minimum monthly fee), training fees and advertising fees. Net profit before tax is expected to rise from R1,3m in 1988 to at least R2,5m-R4,5m in 1991. The share currently trades at the 45c level reached last September, when a link with a building society was rumoured.

Pam Baskind

 (58) FM 30/3/90

Tilting at competitive advantage

■ New taxes again load dice against life offices

It's unlikely SA will ever see the likes of a demonstration which briefly mesmerised Australia's financial centres five or six years ago. The spectacle of top executives of life offices parading in downtown Sydney in protest at new tax legislation and carrying banners declaring: "New taxes unfair to policyholders" was splashed across TV screens.

The demo's effect was unexpected. Canberra's tax policymakers were unmoved but the life offices suffered a flood of policy surrenders. Policyholders took fright believing the tax changes — marginal at worst — threatened to make their life cover worthless. The experience has not been wasted on SA's life offices, which goes some way to explaining why their public responses to the 1990 Budget's tax change proposals are muted.

Finance Minister Barend du Plessis' Budget proposals on withholding taxes and tax relief on dividends and interest received by individuals can readily be viewed as again tilting the playing field against the life offices.

Of course the life office managers are concerned but are reluctant to express their concerns publicly while trying to negotiate better treatment with the finance ministry. Still, that does not mean there is no activity in the boardrooms of Pinelands, Belville, Braamfontein and Newlands.

Last week, the Life Offices Association (LOA), the life assurance industry's representative body, started to put its case to the parliamentary Joint Committee of Finance and Deputy Finance Minister Org Marais. And it is now busy preparing further representations to be made to Marais and Du Plessis.

But, now, the life assurers seem to be in a dilemma as their hopes of better tax treatment were ignored in this year's Budget and at a time when the Cabinet is deliberating Wim de Villiers' confidential report on the economy's structural problems. The life offices seem unwilling to take the plunge of new products which could help improve mobilisation of savings until the savings industry's waters are less turbid.

Geary-Cooke

Levett

Central to the De Villiers report is a section on the country's savings industry — central because mobilisation of domestic savings remains a priority while SA remains excluded from foreign capital markets and as the Western world's investment funds become directed increasingly towards an eastern Europe shrugging off communism. What the Cabinet has to address is how to redynamise a savings industry hampered in its ability to attract funds because of difficulties in offering savers real or inflation-beating returns.

Trouble is the Cabinet appears caught in a mind-set inherited from the days of Owen Horwood's tenure at the finance ministry. That was when it first became convenient to finance an increasingly profligate government by milking the life assurers and, indirectly, the bulk of savers. This is a process which has continued under Du Plessis, reaching an apogee in 1988 when the Budget increased the taxable portion of the life offices' investment income to 70% from 40%. With company tax at the time of 50% that meant an increase in the effective tax rate on investment income to 35% from 20%.

Relief proposed by the Margo Commission — that life assurers' dividend income should be tax-free — has not yet materialised, though the Budget granted some relief by calculating a new formula for taxable income of revenue minus expenditure. Even this went only part-way towards redressing some of the imbalances. Only 55% of the annual average selling expenditure for the current and four previous trading years, and 55% of all other expenditure in the current year, could be deducted from revenue when calculating taxable income.

Understandably, the life offices are pushing for all expenditure to be deductible for tax purposes. They are also hoping to persuade government that the proposed withholding tax principle should be applied to all interest payments, not simply interest paid on bank and building society accounts. Essentially, the life offices are concerned that if banks and building societies can offer savings accounts on which interest is paid net of a comparatively low tax, the competitive advantage will again be shifted from the life assurers. The assurers realise that regulation (or over-regulation) makes it difficult for building societies to offer inflation-beating financial products.

This past 20 years, since inflation became a real factor in SA, the life assurers and pension funds have dominated the market for inflation-beating savings instruments. In the process the life companies have come to control large parts of the private sector — a development criticised by those concerned with what they believe to be the growing concentration of economic ownership.

The mutual fund industry has followed the life assurers but conservative savers remain just that — financially conservative. According to the LOA life assurers and self-administered pension funds pulled in almost R24bn in contributions or premium income in 1988 — the last year for which complete figures are available. That level of contractual savings compares with net sales by the mutual funds of only R377m in 1988 (in 1987 the figure was R985m), an increase of R5,1bn in the building societies' total deposits and a R17,6bn increase in the total domestic deposits with commercial banks

Rand Merchant Bank group economist Rudolf Gouws argued recently that the authorities were largely to blame for private savers' shift from conventional savings with banks and building societies towards con-

ANNUAL FINANCIAL FLOWS

South African households (Rm)

	1977	1987	Compound annual growth (%)
1. Financial assets acquired	3 790	24 264	20,4
2. Contractual savings	1 918	19 954	26,4
3. Other financial assets acquired (gross discretionary savings — mainly deposits and investments with banks and building societies)	1 872	4 310	8,7
4. Less: Total borrowings	1 568	18 536	28,0
5. Mortgage loans	633	5 723	24,6
6. All other credit	965	12 813	29,5
7. Equals: Net financial investment	2 222	5 728	9,9
8. Consumer price index (1985 = 100)	36,6	137,7	14,2

Source: Rand Merchant Bank

W/Mail 30/3-4/4/90 (58)

Stokvel loans bring money to the poor

By HILARY JOFFE

A NEW company is using the *stokvel* concept to grant very small loans for housing, which will allow poor people to upgrade their shacks or houses or buy serviced sites.

The Group Credit Company lends to groups of between 10 and 25 people, rather than to individuals. In turn, the group decides the amount of the loan to which each of its members is entitled, and peer pressure ensures members make their repayments on time. Individuals stand surety for each other and the group stands surety for them all.

The company, an Urban Foundation subsidiary, was set up with R1,5-million loan capital from the Development Bank and start-up funding from the UF. It is running a two-year pilot project for the scheme, during which it expects to sign up about 40 groups. It advanced its first loan in November and already 12 groups (174 individuals) are participating, according to Group Credit Company manager Christine Glover, who outlined the new scheme at a conference on Low Income Housing in Johannesburg last week.

Loans to individuals range from R500 to R5 000, with an expected average of R3 500. The loans are for up to five years, with fixed monthly repayments. Each group has to put down a 10 percent deposit, at any bank or building society, to secure the loan. The Group Credit Company grants each loan group a credit limit, raising it at four-month intervals if the group's repayment performance proves good.

Glover says in the three repayment months since the scheme began, monthly payments have been received in full and on time.

The interest rate charged on the loans is 33 percent. This is the maximum allowed by the Usury Act but is well below the 100 percent to 1 000 percent *per annum* interest rates charged by informal moneylenders, whom the UF found were one of the only sources of small loans for the poor.

The other major source of finance for the poor was found to be rotational credit or collective savings schemes, such as the *stokvels*, which enable members to afford to buy consumer goods. It is this concept which the new company is now extending to housing finance.

The private sector finance available at present addresses, at most, the 40 percent of urban black people who can afford conventional houses costing upwards of R12 500. The Group Credit Company aims to develop a form of private sector finance for the other 60 percent, many of whom are in casual employment, the informal sector or domestic work. These people usually do not have access to employer housing subsidies and can only afford "informal" houses (shacks) on which they cannot get bank or building society bonds, especially for the small amounts they might require to upgrade their homes.

Glover said all the groups participating in the scheme so far are in Cape Town's Khayelitsha, where borrowers are using their loans to register 99-year leaseholds, to provide R500 deposits on new houses for which they can get bonds from the Perm, or to upgrade their existing shacks, for example by insulating these. Some are adding two to three rooms to their homes.

Less taxing times ahead for savers

Star 31/3/90

(58)

THE Government's proposed new deal for savers is encountering opposition.

The Minister of Finance, Mr Barend du Plessis, announced in his Budget 10 days ago that the Government intended to change the way it taxes interest paid to individuals by banks, the post office and building societies.

At present this interest is taxed at the recipient's maximum marginal tax rate. It means that many people lose up to 44 percent of the interest they receive.

In these highly inflationary times this has become a major disincentive for the saver who is not getting back enough to cover the erosion of his capital throughinflation.

To overcome this problem, the Government plans to allow this interest to become tax free, except for a low withholding tax of probably 10 percent, which would be paid to the Government by the financial institutions.

Attractive

This would dramatically increase the attractiveness of investing in building societies, banks and the post office.

At the moment anyone in the top tax bracket investing R10 000 in a bank or building society at say 18 percent will receive a net return after tax of R1080. Under the proposed new arrangement he will get R1620, a 50 percent increase.

More importantly, it will give the depositer a return greater

DEREK TOMMEY

than the inflation rate. So, for the first time in a decade, people investing money in fixed deposits could start growing richer rather than becoming poorer.

The proposal helps not only the rich but also people in the lower income groups, because even they are subject to fairly high tax rates these days.

However, the proposals are now coming under fire in some Government circles. One reason is the high cost to the Treasury in lost income. A rough calculation suggests that the State's tax haul on interest paid by building society alone could drop from around R1,2 billion a year to R400 million.

The insurance companies are also clamouring for the same deal.

They maintain that interest payments by them to policy holders should also be subject to a 10 percent withholding tax. If they get their way the Treasury could lose further billions of rands.

As a result some say the concession announced in the latest Budget should be sufficient alone to encourage savings. This concession doubled from R1000 to R2000 the amount of tax-free interest income a family can receive.

At current interest rates this will enable a family to build up a tax-free investment of R10 000. It can be argued that this is about all most families can save anyway. Only the "fat cats" save more it is claimed and, reflecting the strong streak of socialism that emerges from time to time in Government circles, the question is being asked why should they be let off the hook.

South Africa's personal savings rate is appalling. Last year it was around about 1,5 percent of disposable incomes, the Deputy Minister of Finance, Dr Org Marais, said in Parliament.

Japanese

In marked contrast Britons save 5 percent and Americans 6,2 percent of their disposable incomes. While these rates might look good to South Africa there is some concern in those two countries because the Japanese save 13,5 percent and the West Germans 8,9 percent.

To counter their comparitively low domestic savings rates the British and American authorities have or are planning to introduce further tax concessions for savers.

How important a high savings rate is for a country can be gauged from the fact that the Taiwanese date their economic upsurge from the time the tax structure was altered to encourage saving.

The need for faster economic growth in South Africa, together with the need for South Africans in the light of a statement in Parliament this week to provide for their old age themselves, would seem good enough reason for the Government to speed up the introduction of further concessions to savers.

SAVERS: Maybe the money won't come raining down on you but the Government is considering further tax concessions to help you save for that rainy day.