FINANCE – GENERAL

1990

AUG. – SEPT.

Life industry concerned about draft Bill

LINDA ENSOR

STRONG measures to protect the consumer — contained in the draft Long Term Insurance Bill circulated to the industry last week — have raised concern in the life industry. B Day 1/8/90 (58)

Insurance Registrar Piet Badenhorst says the Bill contains stronger measures to deal with undesirable practices. The Bill requires the Finance Minister to take steps against undesirable practices, if so recommended by an advisory committee.

Life Offices Association (LOA) deputy director Urie Wessels says at first glance it would seem the powers given to the registrar to act "in the public good" were too wide.

In terms of the draft Bill, the registrar is entitled to request a life assurer to withdraw undesirable advertising and to require that the marketing of a product — deemed not in the public interest — cease.

To do so was a lengthy process requiring ministerial approval and a notice in the Government Gazette — the Set for Life scheme was eventually prohibited by a committee established in terms of the Harmful Business Practice Act.

Wessels says an LOA delegation will be discussing the draft Bill at its routine meeting with Badenhorst on Friday.

Gilts system delay after banks protest

B Day 1/8/90 (58)

GRETA STEYN

A CAMPAIGN of resistance by the banks against using the JSE's gilts clearing system — once the gilts market is formalised — has paid off with authorities giving the market time to develop a new system.

This means the formalisation of the gilts exchange, known as the Bond Market Association (BMA), will be delayed by at least nine months. Banks will continue trading in the current informal way and will in the meantime not take up space to trade gilts on the new trading floor in the JSE annexe.

The banks fought against the JSE system — the GCH — because they maintained it was ineffective, especially from a cost point of view.

But the BMA decided that the GCH should be used as an interim arrangement to hasten the formalising of the market. A new system, known as Unexcor would be developed in the meantime and would be up and running by mid-1991.

The banks' protests against the interim measure of using the GCH were heard by Registrar of Financial Institutions Piet Badenhorst at a meeting in Pretoria yesterday.

BMA spokesman Willem Kok yesterday declined to confirm that the status quo would continue in the gilts market until Unexcor was up and running.

He said there had been a meeting between the Registrar, three members of the BMA's executive committee and three representatives of the banks.

Proposals had been made which would be conveyed to the full BMA executive committee at a meeting today, Kok said.

Market talk is that the JSE pushed hard for the GCH to be used as an interim measure, arguing that the formalisation of the market should not be delayed and that the system was adequate. But the banks' presentation convinced the Registrar. About 12 trading banks, representing more than half of the market, were involved in the move to ditch the GCH.

The formalisation of the BMA and the futures exchange (Safex) has been dogged by hard feelings, much of it directed at the JSE. There has been unhappiness about the futures clearing system and banks are still resisting dual floor/screen trading for cost reasons.

Insurers asked for June quarterly returns

LINDA ENSOR

THE Registrar of Insurance has asked short term insurers to again submit quarterly returns for the quarter ending June 30 by end-August.

The requests were posted on Monday.

Insurance companies said yesterday that while the additional returns were welcomed — normally only annual returns are submitted — in that they would enable the registrar to monitor trends in underwriting profits, they also meant an additional workload for insurers.

Assistant registrar, short term insurance, Nico Fourie said yesterday that discussions had been held with the five insurers which had troubled solvency margins in the first quarter.

"We are satisfied there is an awareness of the seriousness of the situation," he said.

He said "an understanding" had been reached with each insurer about action plans to correct the deteriorating trend in underwriting profits, plans specifically related to their own unique situations.

"Once we are satisfied that the downward trend has been reversed and the market stabilised, it will not be necessary to request quarterly returns."

58

BDay 1/8/90

Pressure from building societies sparks probe

B/Day 1/8/90

(58)

GRETA STEYN

PRESSURE from the building societies — who believe the life assurers should be included in the new Deposit-Taking Act and be subject to the same expensive prudential requirements — has led to an investigation chaired by special finance adviser Japie Jacobs.

In terms of the Deposit-Taking Act, life offices are exempt from the requirements for six months from the date of its becoming effective.

Jacobs said yesterday he would report back after six months on whether some life assurance business should be defined as deposit-taking and become subject to reserve requirements.

"The issue is the competition between financial institutions complying with different legal requirements for the same pool of savings. Against the background of moving towards a more level playing field, the question to be answered now is whether similar financial requirements to those of the banks should not be imposed on the life offices."

The life offices had initially been excluded from the Deposit-Taking Act without any conditions. It is understood the time limit of six months on their exemption was forced at the last minute because of lobbying by building societies. One of their arguments was apparently that the life offices, with their propensity to invest in equities, did not employ the savings productively.

The matter was then referred to Jacobs, who was already looking into the massive flow of savings to the life offices relative to the banks and building societies.

"The definition of deposit-taking in the Act is very wide and one could ask whether others such as brokers should not also be compelled to meet its requirements. Clearly, the issue is a complex one. Until now, life offices were regarded as trespassing on banking terrain when they sold products with maturities of below five years," Jacobs said.

The chairman of the Life Offices Association, Dorian Wharton-Hood, said yesterday the six-month time limit on their exemption and the subsequent investigation by Jacobs had come as a surprise to the life companies.

"We find this especially confusing as the life offices are regulated by their own Act and cannot fall under both."

Building societies, apart from Saambou, have not wanted their views on the issue made public. Saambou chairman Hendrik Sloet said at the Group's AGM the group would like to see the operations of insurance companies that impinged on the terrain of banks and building societies brought under the new Act. Saambou believed the most economically productive application of savings would only be achieved when all were subject to the same rules.

UBS CE Piet Badenhorst, who declined to comment yesterday, has in the past argued that legal inequities had tilted the playing field in favour of life offices.

Brokers tighten belts in face of long-lasting slump

BDay 1/8/90 (58)

BRENT MELVILLE

STOCKBROKERS are tightening their belts in expectation of several more months of sluggish trading on a lacklustre market, shrinking margins in the wake of higher overheads and rising JSE costs.

Several large stockbroking firms yesterday confirmed that they would be taking steps to rationalise their operations following "an extremely tough" July which saw average daily trade drop in value from R92,9m in June to scarcely over R72m.

Sidney Frankel of brokers Frankel, Kruger Vinderine said the market needed about R80m to R90m worth of deals a day to break even, excluding brokerage services such as valuations, bonds trading and futures dealing.

The lethargy of the market was reflected in the fact that less than 196-million shares traded in the entire month, valuing trade at just under R1,6bn. This compared with a volume of 256,5-million shares in June worth R20,4bn.

Suffered

On their own, however, the figures compare favourably with those of last year. For the first seven months of this year the value of all shares traded on the JSE was R15,8bn compared with R10,9bn for the same period of 1989, with an average price per yield of R9,60 versus R7,60 for 1989.

However, Frankel and other stockbrokers said their margins had suffered dramatically over the past year because of increasing JSE charges and the expense of developing infrastructure necessary for coping with new markets.

A stockbroker complained that one of the main costs was the JSE information data system — Broker Client Accounting (BCA) — which had increased by at least 60% over the past year.

In addition, he said, the JSE had just increased its clearing charge to R6,50 a transaction from R3,48 and back-dated it to July 1. "In fact there is no certainty whether the impending minimum charge of R30 a deal on share transactions will be enough to cover the new costs," said a Mathison & Hollidge spokesman.

Frankel estimated that at current levels of trade the new R30 charge would not bring in more than about R600 a day extra to his firm.

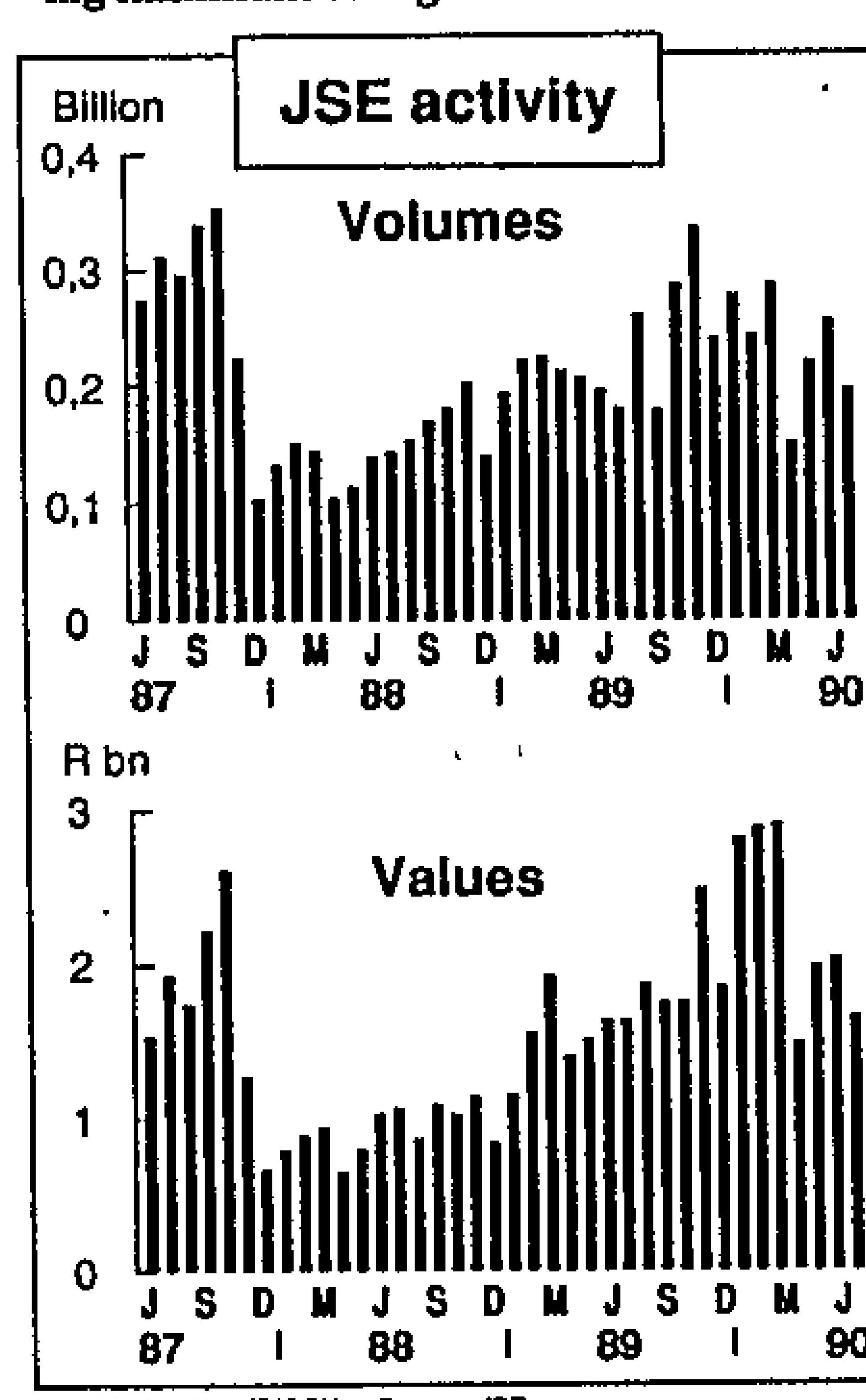
Another broker said that in general JSE computer charges had risen astronomically over the period and salaries and rentals accounted for a significant proportion of costs.

"However while a firm can cut costs to a certain degree, it relies on two assets: its client base and its expertise and skill," said Frankel, adding that possible rationalisations in the latter case were limited as there was not a big enough pool of expertise to draw upon.

A third broker said that the new Broker Direct Accounting (BDA) system (designed to take over from the BCA in October) would add significantly to costs. Mathison & Hollidge (one of the test brokerages for the new system) confirmed yesterday that the new system would be "extremely expensive to implement".

"However, the BDA, as a very sophisticated accounting system, will cater to virtually every need a client has and as such, is a necessary adjunct to our infrastructure," he said.

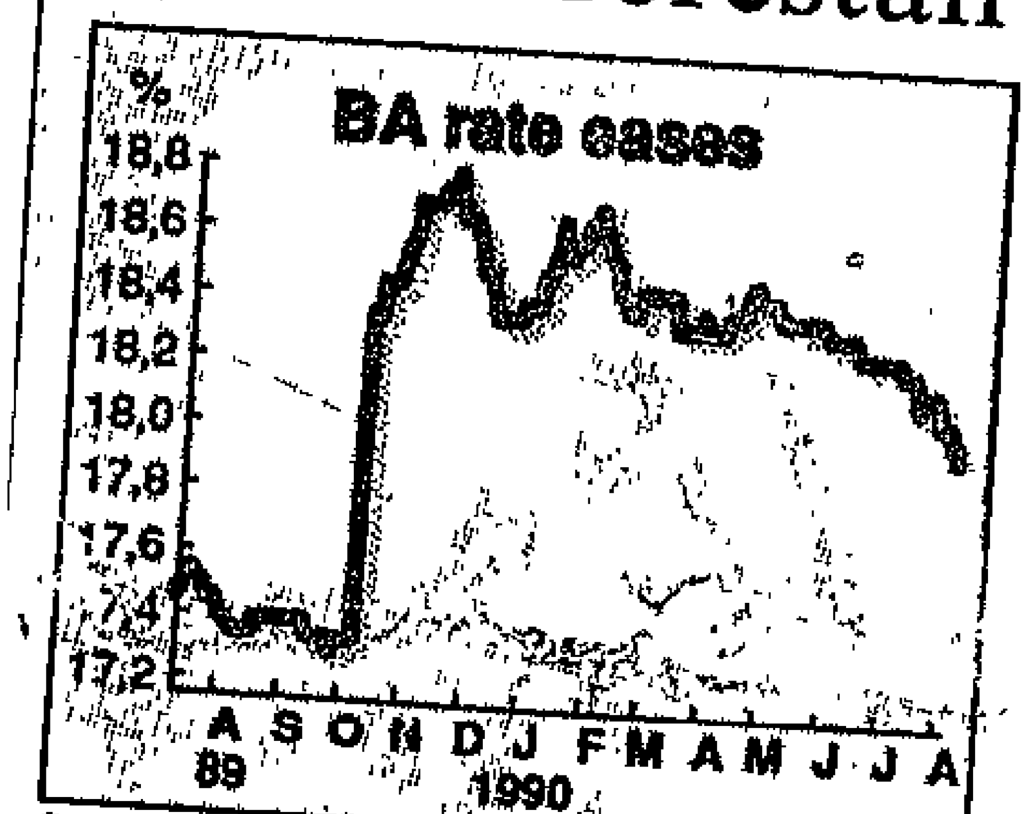
Brokers said the situation was likely to get better in about six months time, however, when interest rates eased and a firmer gold price and improved sentiment on the political front took hold.



Graphic: FIONA KRISCH Source: JSE

Bankers forestall a lower Bank rate

B Day 2/8/90



Graphic: FIONA KRISCH Source: REUTERS

GRETA STEYN

BANKS are funding themselves as short-term as possible to make sure they are not caught on the wrong foot if interest rates are cut in the next three months.

This approach will ensure they are not locked in to high rates if Reserve Bank Governor Chris Stals decides to cut Bank rate in the next few months. At the same time, market perceptions of a drop in rates have pushed the liquid Bankers' Acceptance (BA) rate and Treasury Bill (TB) rate to well below their rediscount rates at the Reserve Bank's "discount window".

☐ To Page 2

58

Bank rate

B Day 2/8/90

58

☐ From Page 1

Rediscount rates are the rates at which the Bank will provide cash to the banks in return for bills such as BAs and TBs.

Bank rate — the rate at which TBs are discounted for cash — is at 18%. The TB rate is at 17,75%, while the BA rate is at 18% against a rediscount rate of 18,30%.

The Standard Bank said in its Review yesterday a decline in Bank rate was likely to follow, rather than lead, a decline in market rates.

It said a decline in interest rates before year-end would not cause inflationary pressures to re-emerge.

The bank warned "keeping interest rates at current levels for too long carries the risk of a very sharp further contraction in domestic demand, a possible collapse in confidence and a slide down the slippery path to economic recession that will not be easily reversed".

The Review said a moderate decline in interest rates was not only desirable but also likely before the end of the year.

"It will not require a softening of the Reserve Bank's stand on monetary conservatism and the maintenance of consistently positive real interest rates."

A money market analyst said forecasting interest rates amounted to an attempt to read Stals's mind on his target for inflation.

Money supply growth had edged into the "tunnel" of the target range for growth, bank credit was more or less growing at the Bank's target of 1% a month — the only piece missing was the inflation performance relative to a target.

The Star **Finance**

58 Star 2/8/90

Life insurance industry lifts JSE holdings by 77 pc

By Sven Lünsche

The removal of the prescribed assets requirements and higher share prices allowed the life insurance industry to raise its holding in shares and unit trusts by 77 percent last year.

At the end of 1989 assets held by the industry in shares and units amounted to R55,5 billion — 48,7 percent of the industry's total assets of R113,8 billion — compared with R31,4 billion in 1988.

Only 10 years ago the industry's investment in the stock market was limited to a paltry R1,9 billion or 20,8 percent of total assets (see graph).

But since then the industry has, according to its umbrella body, the Life Offices Association (LOA), "increasingly shifted its investments towards growth or equity type holdings in order to counter the erosive effect of inflation on policyholders' funds."

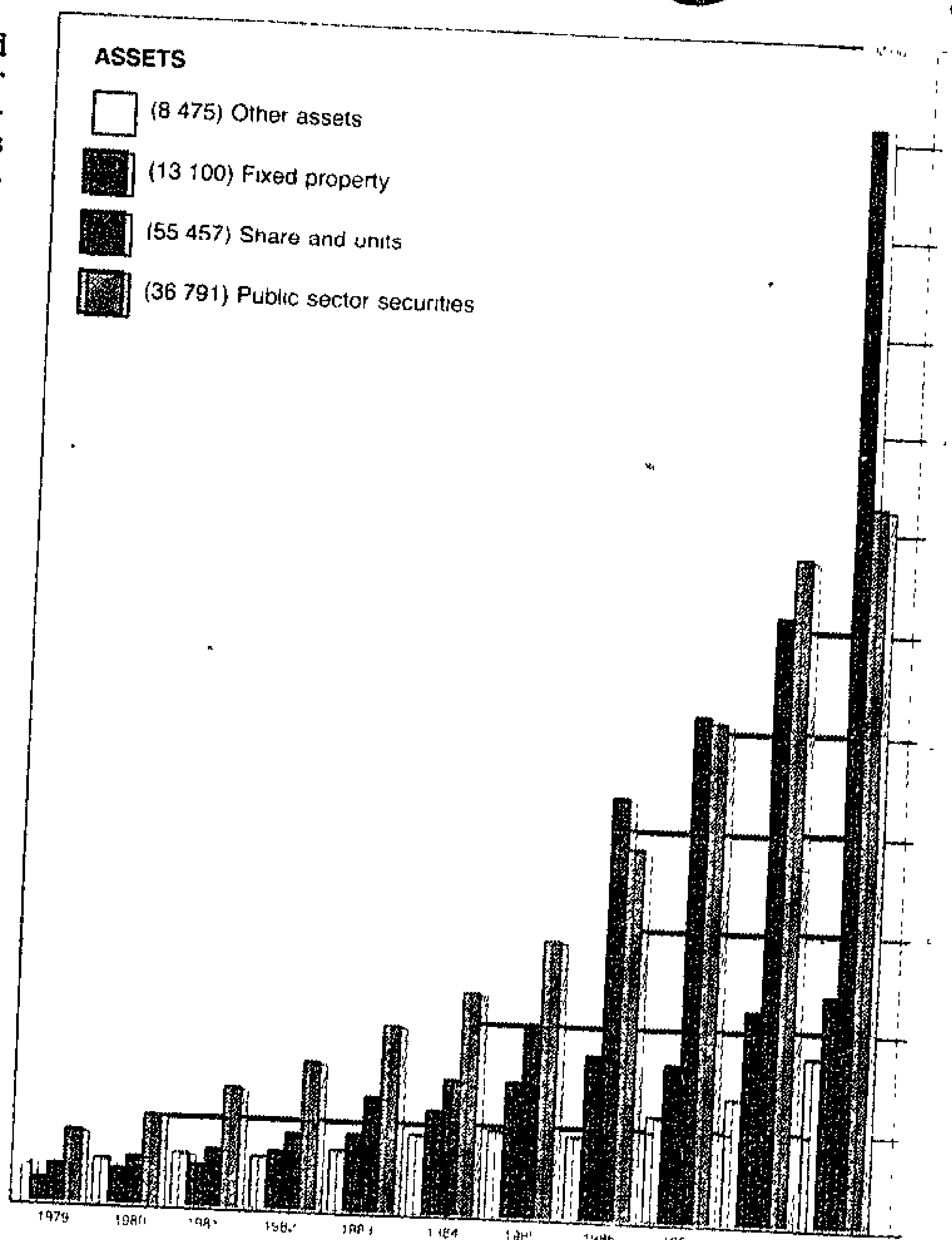
In its 1989 review the LOA writes that in line with the lifting of the prescribed assets regulations the amount invested in public sector securities, or gilts, increased only slightly from R34,1 billion to R36,7 billion between 1988 and 1989.

Investments by the industry in fixed property improved from R11,2 billion to R13,1 billion, with other assets accounting for about R8,5 billion last year.

The total assets of the industry now stand at a huge R113,8 billion, R102 billion more than only five years ago.

The strong performance of share prices boosted total investment income by 41 percent last year to R9,2 billion, compared with a 33 percent rise to R6,5 billion in 1988.

The LOA says the growth in investment income comes on the back of a more modest rise in both individual premiums and premium income from group schemes and pension funds, the LOA says.



The graph shows life insurers' asset investments over the past 10 years.

Individual premium income was up from R10,3 billon to R12,1 billion, having been slowed down mainly by the 7,8 percent rise in new individiual single premiums.

"This relatively low increase is the result of an LOA agreement among members not to accept medium and shorter-term investments.

"Previously large sums were invested, often for shorter periods than have been regarded as insurer's traditional market, because life insurance is increasingly being seen as one of the only savings media still offering a return better than the rate of inflation."

In contrast, recurring premiums at R6,22 billion showed a good increase, buoyed to some extent by the rise in lump sum investments in life insurance products received.

In 1989 the industry received R4,5 billion in lump sum investments, "which are used to buy immediate retirement annuities, some of which are in turn invested in recurring premium endowment policies."

Group schemes and pension funds income in 1989 was up from R5,5 billion in 1988 to R6,7 billion last year.

The LOA emphasises that while the industry has been receiving an enormous amount of funds in view of its attractive annual returns, its prime role is still one of providing financial security.

This is reflected in a 32 percent rise in benefits paid from R7,3 billion in 1988 to R9,7 billion last year — in other words R36 million every working day.

Annuity payments have shown the most rapid growth of all forms of benefit payments last year, rising by 30 percent to R2,5 billion after increases of 97 percent in 1988 and 86 percent in 1987.

The amount of R2 billion paid out towards death and disability benefits in 1989 represented an increase of 24 percent over the payouts in the previous years.

The LOA estimates that the total amount of life insurance cover in force in South Africa now amounts to about R400 billion.

An interesting aspect of benefits payments in 1989 is that individual surrenders declined in 1989.

Life insurers expenses over the year increased by 23 percent from R2,7 billion to R3,3 billion, while tax payments over the year rose from R575 million to R594 million.

Equity portfolios to beat the odds

58 Star 18/8/90

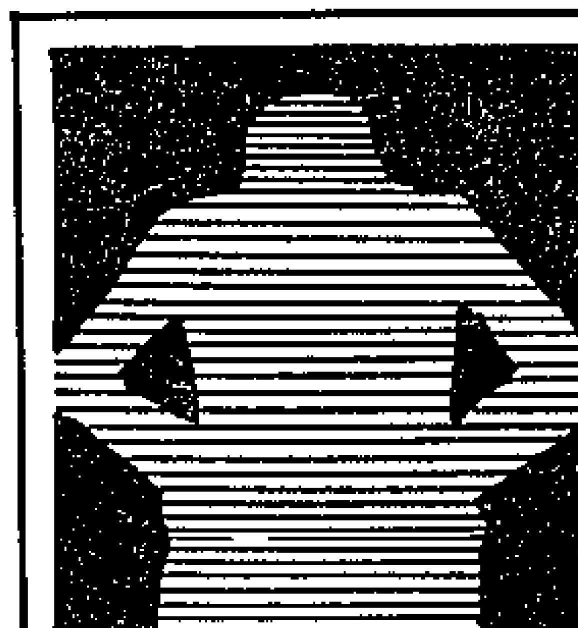
Peace

Amcoal
Blue Circle
Boumat
Driefontein
Ellerine
Gencor
Highveld
JCI
Liberty
Premier
Rusplats
SAB
Safren
Samancor
Wooltru

Civil War

FIT
Lonrho
Richemont
De Beers
Krugerrands

Dictatorship



Amcoal
Blue Circle
Boumat
Driefontein
Highveld
Safren
Premier
Rusplats
SAB
Samancor

LOCAL political developments have affected the JSE's performance, particularly since President FW de Klerk's February 2 speech and the subsequent release of Nelson Mandela.

But brokers Hayes, Kilroe & Co are the first to recommend various equity portfolios on the basis of specific political scenarios.

Their three scenarios are: peace and prosperity; civil war and fragmentation; dictatorship.

If investors accept that these are the options facing the country, but are uncertain as to which of the three is most likely, then by buying 20 of the JSE's 600 shares they can cover all three options.

The grimmest scenario in terms of the JSE is civil war and fragmentation. In this case investors are advised to move into equities where income is sourced entirely from overseas.

The bleakness of this scenario is highlighted by the analysts' pointing out: "In this case, the shares must be registered in your name and you must have custody of the share certificates. Life policies, unit trust certificates and bank deposits will have little value in these circumstances."

ANN CROTTY

The shares recommended in this case are: FIT, Lonrho, Minorco, Richemont and De Beers. An additional suggestion is Krugerrands.

A second scenario is military dictatorship. Shares recommended for this situation are involved in basic industries which are expected to enjoy a sustained level of demand irrespective of the tough political system. These shares are Amcoal, Blue Circle, Boumat, Driefontein, Highveld, Safren, Premier, Rusplats, SAB and Samancor.

On a more cheerful note, there's a peace-and-prosperity scenario. The recommended portfolio in this case is not too different from the dictatorship portfolio. It includes all of those shares and has in addition Ellerine, Gencor, JCI, Liberty and Wooltru.

The intention behind Hayes & Kilroe's recommendations in each case is to provide a portfolio that gives the best chance of preserving and improving an investor's capital.

"Our recommendations are essentially divided into four types of companies:

"Foreign companies owning worthwhile foreign assets; companies mining useful minerals for which we expect good demand in the future; companies which would benefit from increased consumer spending as a consequence of higher wages; and companies which would benefit from expenditure directed towards housing."

Bull and bear points

The report sets out the various bull and bear points of the SA investment situation.

The former includes institutional cash flows of about R60 million a day, reasonably strong world demand for SA's metals and minerals, political progress and the possibility of an increase in the gold price.

The bear points include the high level of domestic interest rates, the economic recession, businessmen's waning confidence in the country's stability; escalating mining costs, the unlikelihood that foreign funds that have left SA will return and the fundamental weaknesses in the underlying demand for gold.

The peace-and-prosperity scenario is based on a negotiated settlement that would involve power-sharing, no expropriation of property and a transfer of control of government to the black majority.

"SA would be readmitted to the international arena, a certain amount of aid funds would flow into the country and the country would experience prosperity."

The civil-war-and-fragmentation scenario is based on negotiations being deadlocked. Business and general confidence would then deteriorate and there would be an increasing incidence of terrorism and banditry.

The situation would eventually degenerate into civil war and the subsequent fragmentation of the country into various mini-states.

"During the civil war period there would be a major destruction of wealth, assets, equity values and people, mainly through starvation and genocide."

The dictatorship scenario is based on a military dictator seizing power, ruling with an iron fist and eliminating threats to his control by removing people from the leadership class.

During the period of the dictatorship, changes providing for equality of rights for all groups would be instituted. After about 40 years a democracy would come about along the lines of the evolution of the South American dictatorships.

"Grudgingly the international community would accept the dictatorship as after all, it is Africa, there is equal opportunity, and this outcome is preferable to the civil war and fragmentation scenario."

Banks prepare for cut in rates

Cape Times 2/8/90

58

Own Correspondent

JOHANNESBURG. — Banks are funding themselves as short-term as possible to make sure they are not caught on the wrong foot if interest rates are cut in the next three months.

This approach will ensure they are not locked in to high rates if Reserve Bank Governor Chris Stals decides to cut Bank rate in the next few months.

At the same time, market perceptions of a drop in rates have pushed the liquid Bankers' Acceptance (BA) rate and Treasury Bill (TB) rate to well below their rediscount rates at the Reserve Bank's "discount window".

Rediscount rates are the rates at which the Bank will provide cash to the banks in return for bills such as BAs and TBs.

Bank rate — the rate at which TB's are discounted for cash — is at 18%. The TB rate is at 17,75%, while the BA rate is at 18% against a rediscount rate of 18,30%.

The drop to levels below the Bank's rates is evidence of the market's perceptions that the Bank will in the next few months cut Bank rate and its other rediscount rates.

They are prepared to take a knock at the window in the meantime.

The Standard Bank said in its Review yesterday a decline in Bank rate was likely to follow rather than lead a decline in market rates.

It said a decline in interest rates before year-end would not cause inflationary pressures to re-emerge.

The bank warned "keeping interest rates at current levels for too long carries the risk of a very sharp contraction in domestic demand, a possible collapse in confidence and a slide down the slippery path to economic recession that will not be easily reversed."

The Review said a moderate decline in interest rates was not only desirable but also likely before the end of the year.

The decline would simply reflect improving domestic liquidity because of a rising trade surplus and weaker credit demand, and a declining inflation rate.

"It will not require a softening of the Reserve Bank's stand on monetary conservatism and the maintenance of consistently positive real interest rates."

A money market analyst said forecasting interest rates amounted to an attempt to read Stals's mind on his target for inflation.

Money supply growth had edged into the "tunnel" of the target range for growth, bank credit was more or less growing at the Bank's target of 1% a month — the only piece missing was the inflation performance relative to a target.

Star 3/8/90 (58)

Standard sees ground for lower interest rates

By Sven Lünsche

The economic team at Standard Bank has added its voice to the increasing number of economists who argue for a slight decline in interest rates towards the end of the year.

In its Economic Review the bank argues that this policy would not require a softening of the Reserve Bank's stance on monetary conservatism and the maintenance of real positive interest rates.

"Circumstances suggest that a moderate decline in rates is likely before the end of the year and a falling interest-rate structure will not cause inflationary pressures to re-emerge.

"A gradual and limited reduction is unlikely to stimulate credit demand at a time of weakening domestic economic activity," Standard says.

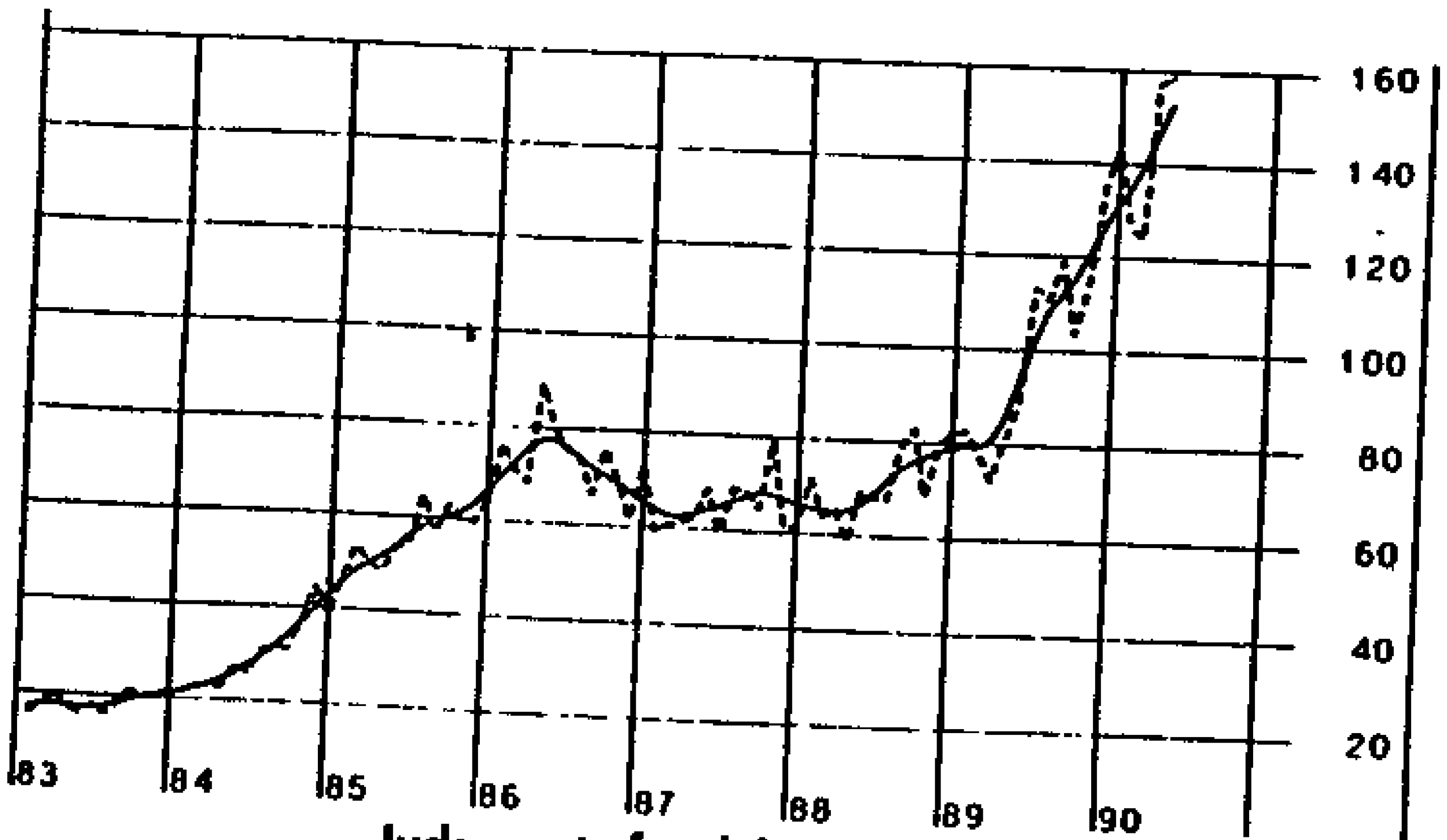
"Already such a decline is being anticipated in the money and capital markets and a decline in the Bank rate is likely to follow rather than lead a decline in market rates."

Economic data

Standard argues that recent economic data suggest that the rate of slowdown may have become more rapid than was previously expected or desired.

"Credit demand has begun to slow dramatically in response to slower economic activity. In some areas absolute declines are being experienced and significant further slowing may be expected.

"Smaller increases in bank lending are already being reflected in considerably slower money supply growth. The rate of increase in the broadest measure of money supply, M3, now looks set to fall comfortably within the Reserve Bank's target range of 11 to 15 percent."



Judgments for debt (R-millions).

Standard cites the falling inflation rates as another reason.

No national accounts statistics are yet available for the second quarter, but analysts say they are likely to be poor because economic activity was further hampered by production disruptions caused by a large number of public holidays and political and labour unrest.

"Evidence of this is available from falling retail sales, lower consumer credit demand and surging debt and insolvencies (see graph).

"Aggravating this further were the significant declines in the gold price and increased political uncertainty which contributed to a decline in confidence levels," says Standard Bank.

The bank expects a further decline in second quarter GDP growth and estimates that growth for 1990 as a whole is unlikely to exceed 0,5 percent.

"Keeping interest rates at current levels for too long carries the risk of a further sharp contraction in domestic demand, a possible collapse of confidence and a slide down the slippery path to ecoonomic recession that will not be easily reversed.

"The resultant social and economic hardships would not only have a high political price, they could well mean that the economy would subsequently have to be aggressively restimulated, as in 1986, possibly by means of artificially low interest rates and greater government spending.

"Achievement of a sharp fall in inflation at the cost of collapse in domestic economic activity would be futile."

Cyclical reasons

Standard cautions, however, that undue pessimism over the short-term outlook is inappropriate at this stage, "and a significant decline in interest rates soon for purely cyclical reasons would not only be premature, but fundamentally wrong.

"Such a reaction would mean that possibly the last opportunity to facilitate structural economic changes and reduce domestic inflation in a climate of rising economic and political expectations would have been lost."

On balance, the economists say the Reserve Bank must steer a delicate path between the need to reduce inflation further and avoid plunging the economy into deep recession.

Insurance profit ravaged (58)

LINDA ENSOR

COMMERCIAL Union almost converted its total 1989 underwriting profit of R11,5m into losses during the six months to end-June, indicating the ravages which competition and the rising cost and incidence of claims have wreaked on the short-term insurance market.

"The results are terrible," says CE and MD Bill Rutherford, adding that the composite insurer has consistently made underwriting losses since November last year, mainly in the motor and crime-related classes of business.

The "incredible speed" of the change in the loss experience was because of the unprecedented increase in the number of burglaries, thefts, hi-jackings and motor accidents, all aggravated by inflation and cost increases, he said.

In the six months to end-June an underwriting loss of R11,1m (profit R7,96m) was suffered. On a reduced dividend cover of 3,2 times (5,4 times) a higher dividend of 35c (30c) was declared on earnings which plummeted 32% to 111,3c (163,8c), despite gains made in investment income.

Rutherford said the dramatic change in the loss experience was illustrated by the fact that in June 1989 there were 12,8% losses for every 100 householder's policies, compared with 16% in June 1990. Cost of claims during this period increased 32,1%.

Gross premium income grew only 10% in the six months, reflecting "fierce competition from overseas and local sources".

Net premium income grew 13,7% but pre-tax profit plunged 59% to R11m (R27,1m), the deterioration being stemmed by a 10,5% growth in investment income to R18,5m, realised gains of R2,3m (R1,4m) and the contribution from the life division.

B/Day 3/8/90

Surge in crime, accident claims hit short-term insurers

Star 3/8/90 (58)

By Sven Lünsche

The sharply deteriorating climate in the short-term insurance industry has severely affected the financial results of listed assurers.

Composite insurer Commercial Union (Cusaf) reports an underwriting loss of R11,1 million for the six months to end-June, compared with a profit of R8 million in 1989.

A similar loss was experienced by the country's largest short-term insurer, SA Eagle, whose underwriting loss of R11,04 million was a reversal of last year's interim profit of R7,15 million. At the end of December SA Eagle's underwriting profit was still running strong at R20,63 million.

As a result of its underwriting loss Cusaf's taxed profits fell 32 percent from R16,4 million to R11,1 million, which translates to a drop in earnings a share from 163,8c to 111,3c.

The interim dividend, however, has been raised by 5c to 35c.

The impact of the underwriting losses was cushioned by a 14,5 percent rise in investment income to R20,8 million (R18,1 million) and a 50 percent surge in shareholders' interest from the life insurance arm to R1,5 million (R1 million).

Nevertheless Cusaf's managing director Bill Rutherford describes the results as "disappointing, but not unexpected in the operating climate prevailing".

Significant increases in both the incidence and cost of claims — particularly in the motor and crime-related classes of business — have been the major contributors to the losses.

Mr Rutherford says that from June 1989 to June this year the total costs of insuring cars rose 45 percent, comprising a 20 percent rise in the cost per claim and a 25 percent increase in the incidence of claims.

Even worse was the experience in the household business, where a 25 percent surge in incidence and a 32 percent rise in costs combined to push up the cost of household claims by a staggering 60 percent.

Mr Rutherford says the incredible speed of change in loss experience which has occurred since the third quarter of 1989 had taken many insurers by surprise and forced them to implement sharp premium increases this year.

So far premiums on private cars have been raised in three instalments — 10 percent each in February and April and 12,5 percent in July — and further increases later this year or early next year cannot be ruled out.

Commerical vehicles

On commercial vehicles Cusaf pushed up the rates by an average 20 percent each in January and July.

However, Mr Rutherford expects these premium increases to benefit Cusaf's bottom line only in the next financial year and is loath to forecast the likely underwriting result for the current year.

"Hopefully the concern which has been expressed in a number of quarters — not least the Registrar of Insurance — will help the corrective process."

Mr Rutherford's comments are echoed by SA Eagle chairman Fred Haslett.

In his comments on the interim results he says: "The underwriting loss was caused by a rapid deterioration in the motor account due to the increas in the incidence of accidents and thefts, the ongoing hi-jacking of vehicles and cost escalations on spares and labour, well above the inflation rate.

"Coupled with this was the effect of the Welkom tornado and a major fire during the half-year.

"Premium rates on certain classes of business are being increased to counter adverse claims experience but difficult market conditions are likely to result in net income remaining under pressure in the short-term."

SA Eagle's underwriting loss was partly offset by a rise in investment income from R26,9 million to R27,8 million, but retained income dropped by 37,1 percent, to R8,4 million (R13,4 million).

This was equivalent to a decline in earnings a share from 177,3c to 113,6c, but the interim dividend has been maintained at 60c.

Cash shell Mynkar reports loss situation

3/8/90 58

By Ann Crotty

Mynkar, which was converted into a cash shell with effect from March 1, has reported a loss of 12c a share, for the ten months to end-April.

This compares with earnings of 9,8c for the 12 months to end-June 1989.

Turnover for the ten-month review period was R12 million (R18,8 million).

The operating income declined from a profit of R2,5 million previously to a loss of R962 000, which was further aggravated by interest and finance charges of R700 000 (R418 000). Lease charges were R67 000.

At the attributable level Mynkar reported a loss of R1,4 million, compared with a profit of R1,3 million in the previous financial year.

An extraordinary profit of R3,3 million enabled the company to show retained profits for the year of R1,8 million.

The extraordinary profit was earned on the disposal of the company's businesses.

After the disposal of the businesses it became a cash shell and trading in its shares was suspended.

According to the directors, various alternatives regarding the disposal of the cash shell have been actively pursued, but to date none has been successful.

"Your directors are of the opinion that the likelihood of such a sale in the short term seems very remote and have recommended that steps be put in progress to liquidate the company and return to shareholders the funds available."

An interim dividend of 24c a share has been declared.

DEPOSITS — 2 FM 3/8/90

A rose is a . . . (58)

A clause in the Deposit-taking Institutions Act, exempting life assurers from its provisions for six months, is intended to give various parties time to debate the definition of a deposit and deposit-taking activities.

The Act defines deposits widely and leaves room for considerable interpretation.

Japie Jacobs, special economic adviser to Finance Minister Barend du Plessis, says the intention is to eliminate off-balance sheet financing by banks and prevent the intrusion of other institutions, not subject to the same requirements, into banking activities.

Banks and life offices are making the most of the six months to jockey for position.

FM 3/8/90 (58)

One banker defines a deposit as "money so invested that it will be returned to the investor together with an agreed amount of interest. Assurance products take on the flavour of deposits when repayment of 'premiums' is contemplated together with an agreed return."

Technically, then, almost all assurance products, apart from life cover, could be classified as deposit taking.

Life Offices Association director Dick Geary-Cooke concedes some products resemble deposits. But, he asks, what is the purpose of defining deposits? From the legislators' point of view, it is to ensure institutions which accept deposits have sufficient liquidity to cover withdrawals on short notice. But Geary-Cooke argues there is no need to monitor liquidity of life offices.

"They have long-term liabilities and guaranteed contractual income flows. They don't risk a run on funds because most annuities are compulsory, bought with funds accumulated in RAs. Clients cannot withdraw these funds, so life assurers need not cover them."

Banks counter that they are handicapped by cash, liquid asset and capital requirements which increase funding costs.

Jacobs says his committee will scrutinise the various instruments which have taken on a deposit-like appearance and "advise government how to establish a level playing field for deposit and non-deposit intermediaries."

It seems unlikely the issue can be resolved on a semantic level.

A compromise will probably see life assurers refraining from marketing products with a maturity of less than five years, so banks may retain the short-term end of the business. The life industry anticipated this development by undertaking voluntarily, in 1988, to limit product maturity to periods of over five years.

So the new Act will simply prevent future encroachment on banks' traditional business.

The banker says of this solution: "It won't resolve the fundamental distinction between deposits and premiums, but is pragmatic."

The complexities of the grey area created by the overlapping of the two industries are illustrated by Sanlam's Bonus Life Annuity. Introduced earlier this year, it is designed to protect pensioners from inflation. Money (usually derived from matured RAs) is invested in a mainly property and equity portfolio, with some fixed interest securities. Payments (of capital and returns earned) are made monthly and increased yearly in line with the performance of the portfolio.

This payment of principle and profit resembles deposit and withdrawal, with interest, of money in term deposit.

Geary-Cooke maintains this annuity is no different from other policies in that it is already covered by the Insurance Act.

"If the new provisions are imposed, life offices would be subject to stringent controls under two incompatible Acts." But a Bank spokesman says there is no intention to dual-regulate assurance business.

Detmar Schwichtenberg

SHORT-TERM INSURANCE (S8)

FM 3/8/90

Weather-beaten

Guardian National has drastically hiked premium rates for new business in the western Cape. This will take effect by August 1 and should be applied nationally by the end of the year for existing business.

Increases range from 25% for motor insurance combined with householder's policy to 85% if the insured is under 25 and buys motor insurance only.

According to insurance quotation service Compuquote, this means the premium on a VW Citi Golf 1,3 1990 model, valued at R22 543, goes from R133,10 to R246,24

FM 3/8/90 (S8)

monthly for a zero no-claim-bonus. For a five-year no-claim-bonus, the premium rises from R72,05 to R133,30 monthly.

Compuquote MD David Hersch believes several factors led to the increase, including:

- The Cape winter has been particularly wet, causing more accidents than usual;
- The increasing age of the national motor fleet and a decline in maintenance standards;
- Rising cost of replacements; and
- More vehicles on the roads causing even greater congestion and consequently more accidents.

While the rest of SA had substantial increases in January-July, the western Cape saw only minor increases. Other insurers are expected to adjust rates and, with previous increases of about 30%, rates have more than doubled in a year. ■

COMPANIES

Syfrets fund achieves highest yields growth

58

B/Day 3/8/90

LINDA ENSOR

SYFRETS Growth Fund achieved the highest growth rate in yields (33,7%) in the unit trust industry for the year to end-June, according to a survey conducted by Alexander Forbes Shepley & Fitchett Consulting Actuaries.

However, on a 3-10 year investment period Old Mutual Investors Fund outperformed the other general equity funds.

Specialist

Next in line among the general equity funds in the year to end-June was Sanlam Trust with a 28,9% yield, followed by UAL Trust Fund with 28,3% and Guardbank Growth Fund with 28,1%.

The highest liquidity among general equity funds was held by Standard Bank Mutual (35,6%), followed by Syfrets Growth Fund with 28,1%.

Among the specialist funds, Sanlam Index Fund came out tops in the year to end-June with a yield of 28,7%, followed by Sanlam Industrial with 24,4%. On a 3-10 year timescale Sanlam Index also outperformed the other funds.

Among the income/gilt funds, Guardbank Income came first on a yearly basis with a yield of 23% followed closely by Senbank Gilt with 22,5%.

In terms of total assets, Old Mutual Investors Fund far outstripped the next in line at end-June with assets of R2,2bn. Guardbank Growth Fund followed with R975m. Next in line was UAL Trust with R450,9m.

The largest specialist fund in terms of assets was Sanlam Index with R547,9m followed by Standard Bank Gold Fund with R281,3m.

The largest income/gilt fund in terms of assets was Syfrets Income Fund with assets of R90,3m followed by UAL Gilt with R88m.

Southern unit trusts do well

Star 4/8/90

FINANCE STAFF

58

SOUTHERN LIFE unit trusts have reported sound income distribution for the six months to June, and a payout of 3,54 cents a unit was declared on the Southern Equity fund and 4,03 cents on the Southern Mining Fund

Funds under management increased by 38,1 percent from R32,9 million to R45,4 million during the past 12 months.

Southern Equity Fund closed the quarter at 156,36 cents a unit and the Southern Mining Fund at 154,65 cents a unit.

Portfolio manager Carl de Ridder said that although financial and industrial shares improved slightly over the past quarter, the index was still below its peak of earlier this year and was expected to weaken further.

COMPANIES

IGI assets break R1bn barrier

LINDA ENSOR

IGI'S total assets climbed 34% to break through the R1bn (R770,9m) barrier in the year to end March.

(58)

Its insurance funds rose 44% to R669,5m (R463m) and the international solvency margin improved to 48,4% (41,9%) by means of the appropriation of profits.

Distributable reserves for the group fell from R56,4m to R39,5m but shareholder's equity increased to R127,3m (R99,5m) after creation of a R36,6m contingency reserve.

Long term liabilities fell to R188m (R690m) with current liabilities rising to R214,8m (R188,8m). B/Day 6/8/90

Executive chairman Michael Lewis said the group benefited from the "splendid results" achieved by Safrican Life and the marked improvement in investment income. Safrican's after-tax profits increased by 61% to R9,7m (R6m).

"However, it has been an extremely difficult year for the whole of the SA short-term insurance industry. Unfortunately, there has been a return to the disastrous practice of rate cutting in order to attract investment funds, in short 'cash flow underwriting'."

The high level of competition was reflected in the 8% growth of gross premium income and the underwriting loss of R6,3m (profit of R19,2m).

Lewis says "there is no doubt that the industry has reached the bottom of a very deep downward cycle and underwriting results should improve, which augurs well for the future profitability of the group".

Safrican Life's long term assurance fund rose 58% to R563m (R357m).

Investor trickle putting squeeze on short-term rates structure

58

IN THE MONEY MARKETS

Harold Fridjhon

INVESTORS are trickling back into the money market and the nascent revival in the demand for assets is gently squeezing the short-term interest rates structure.

The Treasury bill (TB) rate is easier. Rates on negotiable certificates of deposit (CDs) have been lightly pruned across the full spectrum of maturities.

The market is reflecting an undertone of bullishness on expectations of a Bank rate cut, not in the immediate present (although some believe it will come "any day"), but also not in a too distant future. The popular guess in the market is that Reserve Bank Governor Chris Stals might act early in October.

Friday's TB tender for an offering of R100m was five time over-subscribed and the average rate dropped to 17,71% from 17,75%.

The CD market has been particularly interesting because the heaviest marking down of rates has been in the three-month paper, previously neglected by investors. This clearly reveals the view that Bank rate could come down in October. The double price for three months CD was 18,80/70%, about 50 points lower than in the previous week.

B/Day 6/8/90

The seven-month rate at 18,70/60% was 25 points lower with the 12-month CDs only five points down. The rate for 90-day liquid bankers' acceptance was unchanged.

The pattern of these rates suggests that even if a one percentage point cut in Bank rate were to come in October, the likelihood of it being followed by another reduction in a few months is not improbable. Perhaps Stals might consider a half a percentage point reduction within three months as a token good behaviour bonus, but only after he has examined the third quarter data. After that he will wait and see.

With the banknote issue exceeding R9bn, a mid-year peak, the month-end shortage of only R3,48bn was a surprise to the market, as well as to this commentator. Dealers said on Friday that they had no idea where the liquidity had come from to keep the market's debt to the Reserve Bank as low as it was. The day following the month-end, the shortage fell to R2,75bn, rebounding to R3,26 on Thursday. This hiccup was attributed to payments falling due on RSA bonds which the Reserve Bank had tapped into the market.

□□□□

THE bond market had an active week with investment buying adding reality to speculative trading. Yields on the liquid stock, the Eskom 169, shadowed the movements in the gold and oil markets in quite a rational and orderly manner. Closing at 15,90% on the previous Friday, during the week the yield on the 168s ranged from a low of 15,75% to a high of 15,95. It closed firm at 15,80%.

Bank moves to diffuse 'political neutrality' row

B/Day 6/8/90

(58)

PETER DELMAR

STANDARD Bank moved quickly on Friday to preserve its non-political image and to avert a row with the ANC, UDF and affiliated organisations.

Anti-eviction group Actstop issued a statement last week saying it would consider withdrawing its account over reports that the bank was banning its staff members from being involved in politics.

Standard Bank Group MD Conrad Strauss recently sent a memo to management saying that the bank had a strategic advantage in its "perceived political neutrality" and that this must be maintained.

Actstop spokesman Cas Coovadia said in a statement the organisation believed the bank's definition of political and quasi-political organisations included Actstop.

After Strauss said on Friday afternoon he had no comment "whatsoever", Standard GM Andre Hamersma phoned Business Day to say that he had sorted the matter out with Coovadia and had assured him that the bank never intended to prevent staff members becoming involved in politics.

Allow

Standard would not allow its members to stand for public office on a party political ticket or to solicit party contributions from customers, Hammersma said.

He said it was impossible to prevent members from becoming involved in politics.

The Johannesburg-based Actstop group has close links with other organisations in the broader ANC camp, particularly the UDF, which Coovadia predicted would share its condemnation of the bank's decision.

Coovadia said on Friday the ANC and UDF were considering the matter and were likely to issue a statement this week.

Hammersma also confirmed that the bank would sponsor a conference in London next month at which speakers including ANC international affairs secretary Thabo Mbeki, Finance Minister Barend du Plessis and Reserve Bank Governor Chris Stals would deliver papers on the future of the SA economy.

Sechold maintains earnings growth

By Ann Crotty 7/8/90 (58)

Sechold has maintained its first-half 20 percent growth with earnings per share of 50,9c, compared with the previous annualised figure of 42,4c.

A final dividend of 11c has been declared, bringing the total to 21c a share — unchanged on the 21c paid for the 15 months to June 1989.

Net income after providing for tax and transfer to internal reserves was R12 million, compared with R12,5 million for the 15 months to June '89, which is annualised at R10 million.

In the review period total assets rose from R502,9 million to R511,3 million, with total shareholders' funds up from R31 million to R40,8 million.

The directors say the group performed well when viewed against difficult economic conditions. "The group objective is to reflect a meaningful compounded growth rate in both earnings and dividend distribution."

Looking to divisional performances, Interbank Holdings and National Discount House performed well, "thereby justifying the significant investments made by the group in these companies".

Securities Discount House reported another successful year and Securities Equities turned in a solid performance.

Securities Portfolio Managers, now a wholly owned subsidiary, had become a net contributor to group profitability.

Bankorp to raise R500-m

Star 7/8/90 (58)

By Ann Crotty

Bankorp has announced a R500 million rights issue and has informed shareholders that after allowing for substantial write-offs and provisions, figures for the 12 months to end-June 1990 are likely to show a loss.

But shareholders are promised a minimum dividend of 25c a share for financial '90.

The details of the rights issue will be announced at a later date.

The size of the rights issue has surprised most analysts — it comes just 11 months after last year's R340 million issue. Feeling was, that with the major rationalisation being undertaken by the group and the expected slow down in the rate of growth in assets, a rights issue in the order of R250 million would have been sufficient.

Market view

The decision to go for R500 million is regarded as a reflection of controlling shareholder, Sankorp's faith in the market's view that new executive chairman, Mr Piet Liebenberg will be able to turn the group around.

Bankorp had the option of going for a relatively small (R250 million) rights issue, being more restrained in its write-offs and provisions and, reporting some profit for financial '90.

Or, doing what they did — taking a very conservative approach to write-offs and provisions and, going for a rights issue that would leave them comfortably placed for at least a few years.

Mr Liebenberg obviously perfers to err on the side of prudence: "We really do not want to come back for any further rights issues."

He explains that the latest rights issue is made necessary by a combination of three factors — the current under-capitalisation of the bank; the expected poor financial '90 results and; the difficult economic conditions ahead.

He believes that after this rights issue Bankorp will not have to come back to the market again during his period of office which he indicates will be at least four years.

There's no doubt that a number of particular considerations helped Bankorp to take the tougher route, chief of which is the comfort of a very rich parent. Sanlam/Sankorp is again on the sidelines ready to take up all the rights that are not taken up by the minority shareholders.

Piet Liebenberg

In addition, the market has responded enthusiastically to Mr Liebenberg's appointment and his reorganisation and restructuring plans for the group. By going for an extensive cleaning up operation and the R500 million rights issue, Bankorp has obviously decided to make the most of this current support.

A further factor is that with industrial shares looking fairly unattractive at present, the institutions have considerable cash resources at their disposal and may be prepared to allocate even more to the banking sector which is currently one of the few equity sectors enjoying a good rating.

In effect the only downside for Bankorp in pitching the rights issue at R500 million is a further erosion of its somewhat shakey image as weary minority shareholders decide that enough is enough and Sankorp's holding moves up from its current 87 percent to over 90 percent.

The pricing of the issue will be decided upon at a later stage. Mr Liebenberg points out that when the year-end audit figures are finalised mangement will have a better idea of where the issue should be pitched. In addition he is waiting to see the market's response to the news of the rights issue and the possible financial '90 loss.

Last year's issue was pitched at 340c. Yesterday the share was trading at 270c. If the R500 million issue is priced at around the current market level, Bankorp will again almost double the number of shares in issue this time to around 320 million shares. Ahead of last year's rights issue there were 90 million Bankorp shares in issue.

Because the group is in mid-audit and management has not yet decided on the full extent of the write-offs, Mr Liebenberg was unable to be exact about what the current capital to asset ratio was but he did say that by end-June 1991 it would be between 4-5 percent (helped by a reduction in the asset base).

By January 1993 it would be 5-6 percent and in line with the new European and US banking guidelines to be introduced in early 1993, which Mr Liebenberg believes is essential for Bankorp.

Rights issue of R500m coming

58

Bankorp gets shot in arm from Sanlam

B/Day 7/8/90

SANLAM is to bail out an ailing Bankorp with another major capital injection — the second move in a year to alleviate the bank's capital crunch.

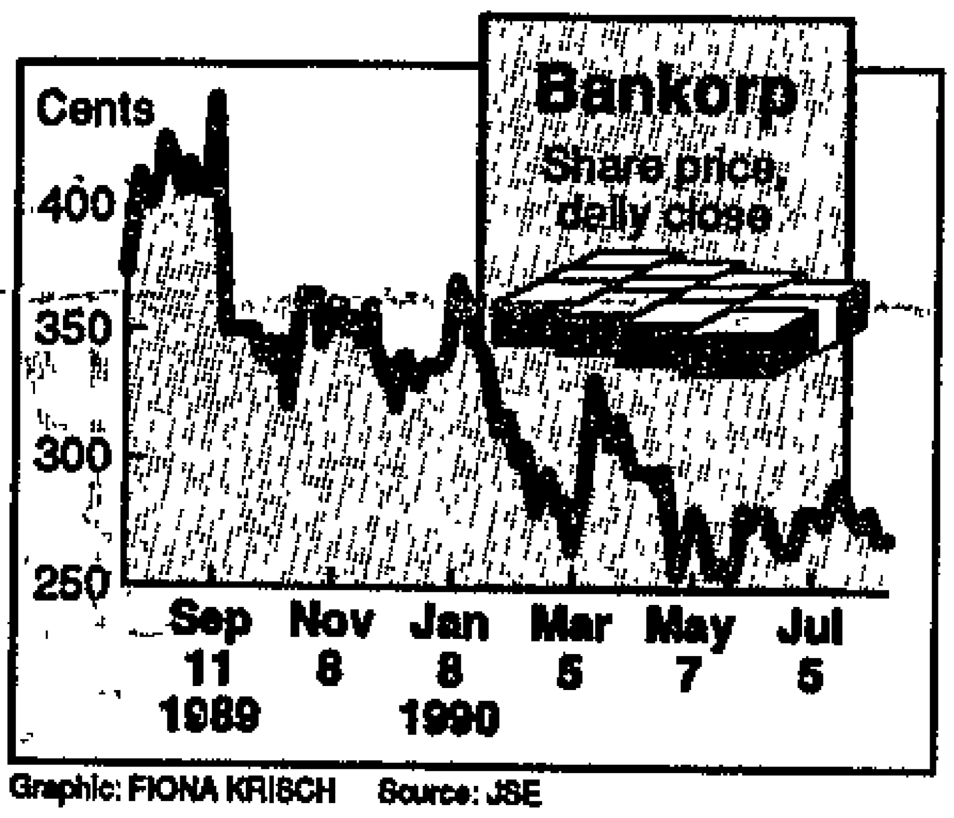
It was announced yesterday Bankorp was to strengthen its capital base with a rights issue of about R500m, fully supported by controlling shareholder and Sanlam investment arm Sankorp.

Sankorp has undertaken to take up its rights and to underwrite the balance. This follows a R340m rights issue last year.

Bankorp executive chairman Piet Liebenberg said the new board had decided on the rights issue to improve the ratio of shareholders' funds to total assets.

"The rights issue is needed in the light of expected poor financial results for the year ended June 30 1990 and the fact that Bankorp is already undercapitalised," Liebenberg said.

"The new capital base, after the rights issue, will amount to at least R1,6bn, before the transfer of sufficient amounts to reserves in order to attain a level adequate to cope with the upfront costs of the rationalisation and restructuring; cleaning up the balance sheet and writing off of bad debts."



Graphic: FIONA KRISCH Source: JSE

GRETA STEYN

The Banks' Act requires banks to phase in a ratio of about 6% of capital to assets — of which shareholders' funds to total assets is a crude measure.

Bankorp's ratio of shareholders' funds to assets is about 3,2%, Liebenberg said yesterday. He hoped to get this up to between 4% and 5% after the rights issue and after measures to reduce assets.

He also disclosed yesterday that the bank's year-end results to June would be a loss, although he could not provide the exact figures as the audit was still in progress. Analysts had been expecting earnings of between 80c and 100c a share.

While expectations of a dividend of 25c a share were on the mark, this would obviously only affect minorities as Sankorp would take up additional shares in Bankorp instead of dividends to provide additional capital.

Liebenberg could not provide information yesterday on the basis and price of the rights issue, but analysts said much would depend on whether Bankorp hoped minorities would follow their rights.

They said the offer would have to be very generous to attract the minorities. The current market price was R2,70 — a low of R2,50 was hit in May.

☐ To Page 2

Bankorp

B/Day 7/8/90

58

☐ From Page 1

If minorities, who accounted for only about 13% of Bankorp's shareholders, did not follow their rights to any significant extent, Sankorp would end up holding well over 90% of Bankorp. The current Banks' Act set a limit of 30% and the new Act's limit would be 49% — but the Registrar of Banks gave permission for Sankorp temporarily to exceed the limit.

Asked what steps would be taken in future to reduce Sankorp's shareholding to the legal limits, Liebenberg said several options to be implemented over a period of three to five years were being considered.

"The excess shares owned by Sankorp could be placed with institutions. Alternatively, we could merge with another bank or building society. A combination of these two is the most likely." He emphasised the shares would not be dumped on the JSE.

FNB's Barry Swart wins Achievement Award

58

Business Day Reporter

BARRY Swart, MD of First National Bank, is the 1990 winner of Business Day's Business Achievement Award.

The presentation was made last night by the Editor, Ken Owen, at a banquet in Sandton attended by many of the country's top businessmen.

The award recognised Swart's "exceptional leadership" which, the citation said, restored the bank's investment status and provided an outstanding example of sound asset management.

"It recognises his personal achievement in boldly restructuring the bank in his brief stewardship to make it a leaner, more cost-efficient organisation which has prospered in a tough banking climate."

The First National Group had experienced a troubled period in the late '80s.

"Swart took over as MD in February 1989 and the second half of the financial year to end-September produced a spectacular turnaround as he trimmed the fat and changed the philosophy. The interim results for the six months to March 1990 confirm the bank is firmly on a recovery track."

Accepting the award, Swart said it meant a lot to everyone at FNB, because it was a measure of the bank's success.

He thanked his management team, the staff, and especially the customers for their patience and loyalty.

He sketched the background to the trauma the bank had been through, including the disinvestment by Barclays, a massive name-change programme, computer change-overs and "the Ballgate affair". There had been four chief executives in eight years.

Speaking at the banquet, Cosatu economist Alec Erwin said SA needed a new growth path for economic reconstruction. This would require a strong public sector, and some nationalisation, but it did not follow that the private sector would suffer.

Conglomerates, particularly mining houses, created problems for an industrially based growth path and some should be dismantled, Erwin said.

● Picture: Page 3
● See Page 8

BDay 21/8/90

Profit margins 'under pressure'

MARIETTE DU PLESSIS

FINANCIAL institutions' profit margins remain under pressure as a result of government's stricter monetary policy.

At the Eastern Province Building Society AGM last week, chairman A J M de Vries said the downturn in the economy and recent political developments were creating uncertainty among businessmen, which was leading to investment decisions being postponed.

Interest rates might drop during 1991, but bankruptcy would be on the increase and, because of pressure on profit margins, institutions would have to adopt conservative policies regarding credit availability.

De Vries said present imbalances could not continue forever, since political changes raised expectations and created a demand for parity in education and housing, and a redistribution of land.

However, an enforced redistribution via nationalisation was not a viable option. The private sector could effect the necessary structural changes needed to bring about a redistribution of opportunities and income by seeing social responsibility as an investment in future stability.

Within the financial sector, building societies would play a key role through low-cost housing subsidy allowances.

(58) BDay 7/8/90

Market bides time over Bankorp issue

Diagonal Street

58 Star 9/8/90

ANN CROTTY

Bankorp is probably waiting for the market to give it some indication about the price to pitch its R500 million rights issue.

For its part the market seems to be waiting for Bankorp to release the details of the rights issue before it takes a stand on the issue.

Meanwhile, the share is holding at 270c.

There is an uncomfortable sense of deja-vu associated with recommending support for another Bankorp rights issue and it may be that this time round the group will lose some of the meagre backing it had for last year's R340 million rights issue.

The market's initial reaction to the news of the rights issue and the write-offs (leading to a financial '90 loss) was one of resignation.

In varying degrees, investors are annoyed by the current situation at Bankorp (which can only be attributed to ineffective management), and encouraged by promises of improved performance.

That the market entertains any hopes at all for an improvement in the not-too-distant future hinges almost entirely on the fact that Piet Liebenberg is at the helm.

Investors are expecting him to achieve the same sort of turnaround performance he pulled off at Nedbank.

The crucial question is — how long will it take?

If investors believe Mr Liebenberg can effect some significant improvement in the near term, i.e. sustainable profits from a solid asset base, they will be encouraged to take up their rights — depending on the pricing.

But if investors cannot see much light, they will avoid the issue at any price and wait until the new management produces the goods.

Despite the grimness of the situation, there are some bullish considerations.

Indications are that Mr Liebenberg will use the current opportunity to effect write-offs where there is any shadow of a doubt.

This will leave him with a clean slate from which to work. He will also have made a comfortable level of provisions; in both cases ensuring he is not stumped by the unexpected at a later stage.

Cleaning up group structure should ensure a more effective management style. It is designed to match asset types with management skills such as the decision to concentrate corporate business in Senbank.

After the rights issue, the group will have a capital base of around R1,6 billion.

This is before it has to take the up-front costs of rationalisation and restructuring, write down any uncertain valuations in the balance sheet and write off bad debts.

Mr Liebenberg is targeting a reduction of R5 billion in the group's asset base — from a current estimated R35 billion to about R30 billion at end-June '91.

At that stage he reckons the capital base will be four to five percent of assets, increasing (with profits) to five to six percent by January '93.

He believes that in current economic conditions reducing the asset base will be relatively easy and effected by a mixture of natural attrition, a more critical attitude to new business and securitisation.

Securitisation would be particularly effective in taking home loans off the balance sheet.

Mr Liebenberg believes that the change in corporate culture needed to implement the new strategies can be effected within a relatively short period.

On this front crucial factors will be the example set by the head office team and the implementation of effective management control systems.

Although Bankorp has had a grim past, and has an uncertain future, the issue price will not be pitched at a give-away level.

The R50 million or so possible contribution from minorities is not that significant and Sanlam/Sankorp will have more faith in Mr Liebenberg.

Still some way to go before restrictions ease, says Stals

Star 8/8/98

58

By Sven Lünsche

Dr Chris Stals

It would be wrong to ease the current credit restrictions and create additional money to finance an upswing in economic fortunes, says Reserve Bank governor Dr Chris Stals.

His comments, in an interview this week, come in the face of increasing criticism that the maintenance of the current policy stance for much longer may induce an "overkill" situation.

Dr Stals says the economy has entered a downward adjustment phase, but has not yet created the hardships of a recession.

"Certainly we would have been happy with a softer landing, but if we look at the reasons for the downturn they can largely be attributed to non-monetary factors."

He says developments such as political uncertainty, social and labour unrest, as well as the falling gold price, are mainly to blame for the slowdown.

"It is therefore unreasonable to expect that current problems can be solved by monetary policy."

From a purely monetary point of view the economy has not yet decelerated to required levels and the Reserve Bank will wait for more signs that inflation is under control.

Control of money supply is the tool used by the bank to influence monetary policy and growth in the broad measure of money supply, M3, is still running at high levels.

"As a short-term aim we would like to see M3 at least in the middle of our 11 to 15 percent target range."

The bank is aiming at real rates of interest of about six to eight percent, in line with those of SA's major trading partners. At present the level is about five percent.

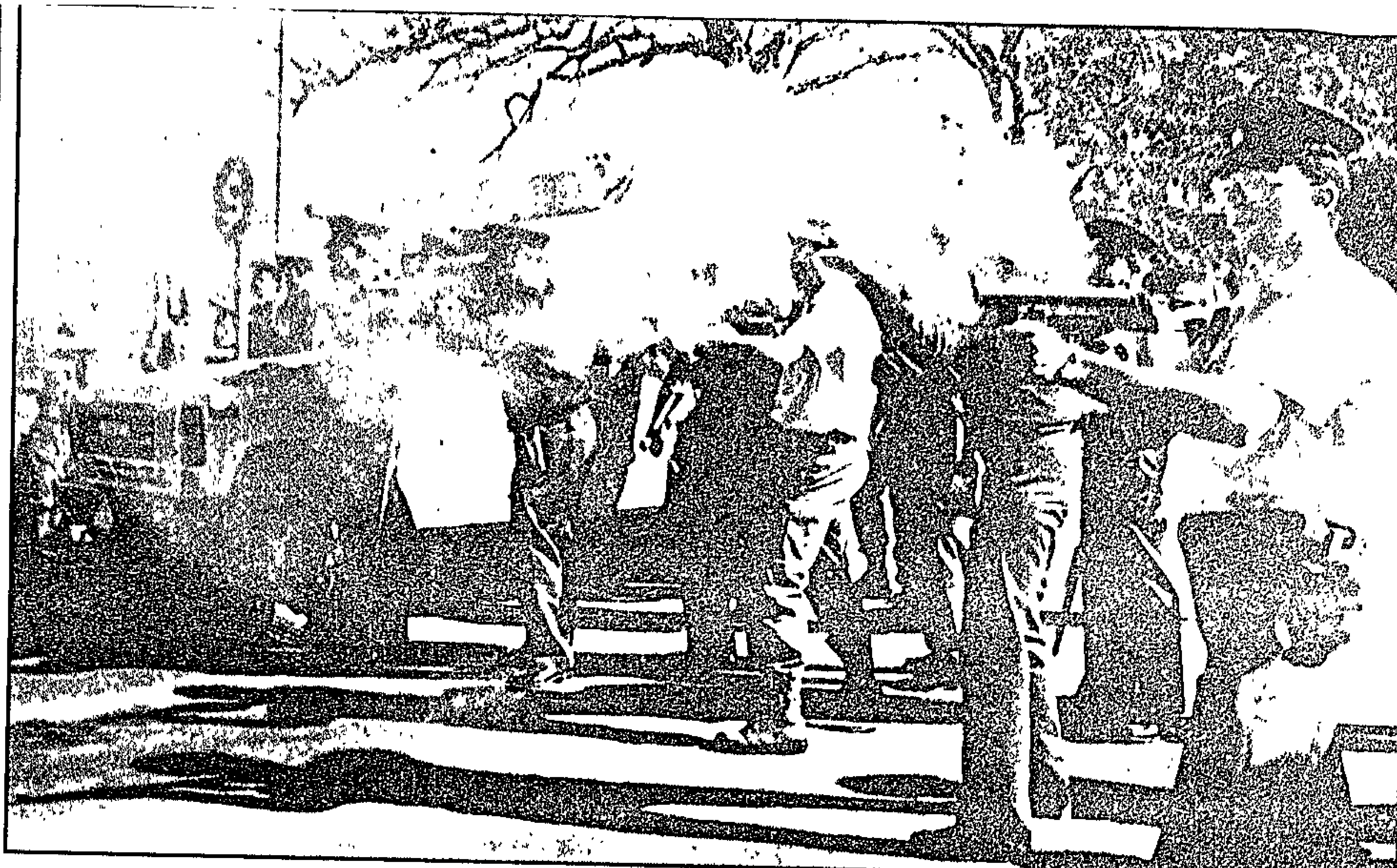
"Although the economy is only about half-way through the current downturn, we are satisfied with the trends we are seeing in money supply growth, interest rates, domestic credit extension and inflation.

"However, we will have to break the inflationary psychosis of our economy once and for all to allow for steadier growth."

Dr Stals says the bank has received a lot of support for its anti-inflationary policy, but suggests that both employers and unions reduce the level of wage increases

"If wage increases continue at high rates, many companies will face closure, or a reduction in their operations in the face of the tough monetary policy.

"A great deal of maturity is therefore required from both unions and employers to avoid the unemployment that will inevitably result from hard-line attitudes," Dr Stals says.



Riot police in Worcester in the southern Cape fire tear gas at a group of 2 000 demonstrators during a march on the local council offices yesterday to protest against high rents in the area. ● Picture by Associated Press.

Star 8/8/90

Cape marchers burn offices

Own Correspondent and Sapa

CAPE TOWN — Marchers protesting at evictions for non-payment of rent yesterday hurled bricks and set fire to the Worcester management committee offices, reports SABC radio news.

Police fired tear smoke at marchers, who were mainly high school children and tenants in sub-economic homes in the adjoining areas of Roodewal, River View and Hex-Park.

Eviction notices were served on tenants, in terms of which they were ordered to pay rent arrears or move out by today.

The illegal march started at the Worcester Secondary School and was joined by pupils from Esselenpark and Breerivier.

● Bonnievale, Cape Town, has become the hot spot of political strife in the Boland as a crowd, mostly youths, rampaged in the township Happy Valley, burning tyres and again setting alight an already fire-damaged supermarket.

While the situation in neighbouring Ashton seemed to have calmed down yesterday, Bonnievale sources feared a backlash by white residents as schoolchildren rioted.

Yesterday the business centre of the picturesque town was calm and residents went about their business, but a pall of smoke hung over Happy Valley, about two kilometres away.

Health services at risk

STAR 8/8/90

If the rent boycott in Tokoza, Alberton, continues, health services provided by the Alberton municipality could be cut off, according to Gert Muller, chairman of the Tokoza Administrators.

Mr Muller said Tokoza depended on the municipality for the provision of health facilities at clinics. "If we don't pay them for the services, they are likely to stop providing health facilities to our residents."

The cutting-off of health facilities would be tragic, especially because the new Tokoza clinic, built at a cost of about R400 000, would be completed within the next three months, he added.

If the TPA halted bridging finance at the end of the month, electricity supply provided by the municipality could also be cut off. — East Rand Bureau.

Star 8/8/90

Stanbic turns in solid results

58

By Ann Crotty

Tougher trading conditions took their toll on Stanbic, but the giant banking group still managed to turn in a 15,4 percent increase in earnings per share to 165c (143c) for the six months to June.

An interim dividend of 37c (32c) a share has been declared.

Performance was squeezed on two fronts — interest margins were tighter and demand for credit was softer.

The latter reflects the effect of sustained high levels of interest rates and the weakness of the economy.

The full-year figures (to end-December) are expected to show a real increase in earnings.

Because the second half is traditionally a stronger one, analysts' expectations for a full-year advance of 15 to 20 percent, at this stage, look attainable.

In the six months to December the further deterioration in demand for credit is expected to be compensated for by some easing in interest margins.

Interim figures show operating profit before interest up 67,4 percent to R3,1 billion (R1,8 billion). But, reflecting the squeeze on margins, interest paid surged 74 percent to R2,8 billion (R1,6 billion).

The combined effect was a 17,8 percent hike in operating profit before tax — from R205,9 million to R242,5 million.

The tax rate was up at 39,1 percent from 36,9 percent, which meant a tax bill of R94,8 million (previous interim: R76,1 million).

Group MD Dr Conrad Strauss says the higher tax rate reflects the fluctuation in dividend income.

Taxed profit was up 13,8 percent to R147,7 million (R129,8 million).

A 33,5 percent increase in income from associates (up to R19,5 million from R14,6 million) lifted attributable income to R167,2 million — a 15,8 percent hike on the June 1989 figure of R144,4 million.

There was no significant change in divisional contribution to group profits — the commercial bank was again the strongest performer, with neither Stannic nor SMB showing much growth.

The group charge for bad and doubtful debt was up 10,5 percent to R74,6 million.

Management is considering implementing a scrip-for-dividend offer to shareholders, effective for the final dividend of the current year.

Shareholders will have the option of receiving dividends in cash or in the form of additional ordinary shares.

Management's decision will depend on prevailing market conditions and on "the best interests of shareholders and Stanbic at the time of the dividend declaration".

The directors believe that the scrip offer would be a cost-effective method for shareholders to increase their investment in Stanbic, "since acquisition of shares in this way would be free of brokerage charges".

For its part, Stanbic "would benefit from an increase in the amount of primary capital available to support continued expansion".

In terms of capital adequacy, Stanbic is comfortably placed.

The end-June balance sheet shows shareholders' funds of just over R2 billion, which is six percent of the group's R33,8 billion committed to advances and other accounts and acceptances.

In the review period, shareholders' funds increased 6,9 percent, compared with a 6,5 percent increase in advances and other accounts.

stole three rhino horns. ... for the duration of the hearing.

2 appear on R5,5-m finrand fraud charge

Star 8/8/90 (58)

By Marguerite Moody

Austrian citizen Rainer Moringer and a co-accused appeared briefly in the Rand Supreme Court yesterday on charges of fraud involving R5,5 million, alternatively contravening foreign exchange control rules.

Mr Moringer (48), the former managing director of Ciskei Aircraft Industries, and Ulrich Leitich (49), a former divisional manager at the Allied Bank, were not asked to plead.

It is alleged the two men defrauded the South African Reserve Bank by obtaining financial rands through false pretences.

According to the indictment, Mr Moringer had applied to the Reserve Bank for permission for an Austrian company to invest in one of his companies in the Ciskei through the financial rand.

Permission for the investment of R5,5 million was granted, and provision was also made for the purchase and relocation from Austria of machinery and equipment.

It is alleged that Mr Moringer and Mr Leitich both knew that there was no real investor and that the goods they intended purchasing to relocate to South Africa would in fact only cost $533 000 (R1,4 million).

It is claimed Mr Leitich bought a Jersey company to act as intermediary between the suppliers and the aircraft company.

As there was no investor, Mr Leitich allegedly made a transfer in US dollars from the Allied Bank in New York for the purchase of R5,5 million in financial rands.

The money was allegedly utilised to set up initial payments in Allied Bank's books and for the payment of the machinery and equipment, leaving the balance to the accused.

The case was postponed till August 15. Both men have been granted bail.

Standard slows to pedestrian pace

B10c4 8/8/90 · 58

GRETA STEYN

SQUEEZED margins caused the Standard Bank Investment Corporation (SBIC) to announce a pedestrian set of results yesterday, with earnings rising by 15,4% a share to 165c in the six months to June this year over the same period last year.

This followed earnings growth of almost 26% in the previous full financial year. Relentless pressure on margins, which hit subsidiary Stannic the hardest, is the main culprit for the slowdown in earnings growth. The group says "strict monetary controls" and "active intervention in the markets by the authorities" are to blame for the less impressive performance.

In accordance with dividend policy, an interim dividend o 37c a share — one third of the previous year's total — was declared.

Group MD Connd Strauss told journalists yesterday: "The results reflect a creditable performane given the circumstances. For five consecutive six-month periods since the second half of 1987, margins have been shrinking. Against the background of this pressure on a significant source of our income, we are pleased with the results."

In addition to its results, SBIC yesterday also announced it wanted to raise capital by giving shareholders the opportunity to take up more shares in the SBIC instead of dividends. The move occurs against the background of an increased focus on the need for capital in the banking sector. Capital adequacy in terms of the new Deposit-Taking Institutions Act will be brought up to international standards.

SBIC is, however, one of the best capitalised banks in the sector. Yesterday's interims reflect a shareholders funds-to-assets ratio of about 5% — much healthier than troubled Bankorp's 3,2% and ahead of the current legal requirement of 4,5%.

In addition, the bank will benefit once the new Act takes effect as the definition of capital is to its advantage. SBIC's generous general debt provision, for instance, will have a 100% rating as capital.

Strauss, asked why the group saw the need to top up capital when it was obviously in a relatively strong position, said: "We do not plan to let our balance sheet stagnate to avoid consuming capital. The capital we consume to allow our balance sheet to expand runs into hundreds of millions of rands. Banks are capital hungry, especially for capital in the form of cash."

The past six months saw relatively slow expansion of the group's balance sheet, with advances and other accounts growing by only 6,5%. At the previous interim period, the growth rate in lendings was 14,2%.

On the income statement, a higher tax rate (39% from 36,9%) sliced away earnings so that the operating profit after taxation was up by only 13,8%. However, a substantial jump in income from associated companies (33,5%) — mainly the Liberty Group receipts — helped the group announce a respectable 15,8% increase in net income after taxation.

The net charge for bad and doubtful debts rose by 10,5% to R74,6m — which SBIC described as "relatively low".

Bankorp lays out its cards

B10 9 8/8/90

58

GRETA STEYN

THE announcement this week of Bankorp's rights issue and the group's loss in the year to June 1990 is part of a strategy to play open cards with the market.

Although executive chairman Piet Liebenberg could only provide scant details, he divulged as much information as he could.

"We want to come out with the facts on the table as soon as they are available to avoid damaging speculation," he said.

By being frank, he is making it very clear he is not only exposing the problem to public scrutiny but showing he is doing something about it.

He has also promised fuller disclosure in the financial statements when the bank announces its year-end results, although he is not yet sure to what extent the bank will disclose more.

Bankorp has been notorious for its lack of disclosure of tax paid, bad debt provisions and write-offs and its interest margin.

The bank's results, being audited at the moment, will show a loss for the full year to June 1990. This follows an interim decline in earnings of 25% to 42,9c a share.

Analysts had expected about 80c a share for the year as a whole. The announcement of a loss has some implications for what Liebenberg is doing about Bankorp.

"The loss will to a large extent reflect a cleaning-up operation. Our operating profit will be wiped out by write-offs and provisions. Bad debts are proving to be a headache, as could be expected after a period of uncontrolled asset growth."

Liebenberg also disclosed that the bank was about to embark on a programme to cut assets by more than R1bn during the next year — a difficult task for any bank, and even more so for Bankorp, which has seen continued rapid expansion of its balance sheet.

"In a year's time we hope to have reduced our assets to R30bn and to have rid ourselves of the expensive deposits needed to fund our book. Certain assets are not important strategically, and we will scientifically and gradually remove them."

Bankorp's assets stood at R27bn at the 1989 year-end. Liebenberg noted that asset growth — mainly lending — had slowed to about 15% during the past financial year.

Bankorp compound lending growth over five years was 33,2% compared with the Standard's 16,3%, First National's 10,6% and Volkskas's 8,4%, according to a recent analyst's report.

The reason Bankorp ran into trouble was that its drive for market share was not accompanied by adequate profitability.

It did not manage to plough back enough profits to avoid a serious capital crunch. Shareholders' funds grew only 19,2% on a compound basis during the past five years, lagging far behind the asset growth.

Nedcor showed compound growth of 26% during the same period.

Shareholders' funds to total assets, a crude measure of capital adequacy, hit a low of 3,2% despite the R340m rights issue earlier this year.

The Banks Act requires a phase-in to 6% — a level Bankorp was clearly not going to reach without another major capital injection; hence the announcement of another R500m issue.

The previous rights issue to boost capital did not meet the success that Bankorp might have wanted. In spite of an attractive offer aimed at wooing the minorities, it was only 82,2% subscribed.

Sankorp had to take up the remaining equity to push its stake in Bankorp to more than 80%.

What are the chances that the minorities, who now hold only about 13% of Bankorp's equity, can be enticed by the latest offer?

Liebenberg said this would depend on two factors — the market's response to news of the rights offer, and the terms and price at which the offer was pitched.

"My main priority at the moment is to get the right capital structure in place. But that does not imply we do not care about the minorities.

"The fact that we have retained the 25c dividend proves the minorities matter."

So far, the market has granted cautious approval to the rights offer, with the share price rising 5c to R2,75 yesterday.

□ LIEBENBERG

LETTERS

Volkskas move 'strategic'

58

BDay 8/8/90

NEIL YORKE SMITH

VOLKSKAS's move to develop its home loan and vehicle finance activity resulted from a strategic decision on client service, spokesman Willie Roux said yesterday.

"The decision was not made for the short term, but came from the realisation that without offering 'one stop banking' we could lose market share," he said.

However, good growth was expected from both areas, which would generate acceptable earnings this year.

The group recently announced it was to restructure Volkskas Industrial Bank (VIB), which would focus on vehicle finance.

Analysts view Volkskas Group as something of a mystery, mainly because of its relatively poor accounting disclosure.

They supported the logic behind a full service operation, but queried the timing of such expansion — especially into vehicle finance.

"The economy is slowing and car sales are dropping. It does not appear the best time to open a vehicle finance division," said one.

It has also been suggested that because of the low capital-to-asset ratio (3,8%), a rights issue could be imminent.

Roux denied this.

"We are comfortable with the current ratio and are planning no rights issue in the short term."

Volkskas's latest financial statements reflect strong earnings growth. For the year to end-March, earnings a share increased 26,1% to 270c, while the dividend increased 15,4% to 90c.

However, analysts remain concerned with Volkskas's very low return on assets (ROA). The group pays little tax, so the return appears even worse at pre-tax level.

Pre-tax ROA was 0,8% compared to UBS's 1,7% and Nedcor's 1,8%.

AIDS behind 145 insurance claims

58

LINDA ENSOR

THERE were 78 AIDS claimants noted by life assurers as at August 6, according to figures released yesterday by Mercantile & General Reinsurance.

Out of a total of 145 policies on which AIDS-related claims have been lodged since 1984, claims on only 13 policies have been received this year. But Mercantile & General says the low figure may be due to some claims not having been notified yet.

Last year claims were made on 61 policies, compared with 49 in 1988, 12 in 1987, seven in 1986, two in 1985 and one in 1984.

Of the 78 claimants, 74 were male, 52 single and 16 married. In terms of age, two were in the under 20 years bracket, 11 were from 21-30, 39 were 31-40, 21 were between 41 and 50 years and five were over 50 years.

The average duration of the policies was 4,93 years, with 29 of the total number of policies on which AIDS-related claims were lodged being of only one year's duration. BDay 8/8/90

Twenty-three of the policies were two years old and 19 were three years old when the claims were made.

Total sums assured on life policies was R6,5m (an average of R114 297). Permanent health insurance policies (PHI) came to R19 588 a month and disability policies to R1,3m.

The policies on which AIDS claims had been based were as follows: individual life (99), individual disability (16), individual PHI (4), group life (13), group disability (6) and group PHI (7).

Standard group boost for gilts

8|0 9|10|90 (58)

GRETA STEYN

IN A move to encourage foreign participation in SA's gilts market, the Standard Bank Group has thrown its weight behind a Luxembourg-based investment trust, the Finrand High-Yield Fund.

The trust is to be listed on the Luxembourg stock exchange and holds a portfolio of fixed interest bonds officially quoted on the JSE. These include government stock, Eskom stock, Iscor stock and municipal stocks.

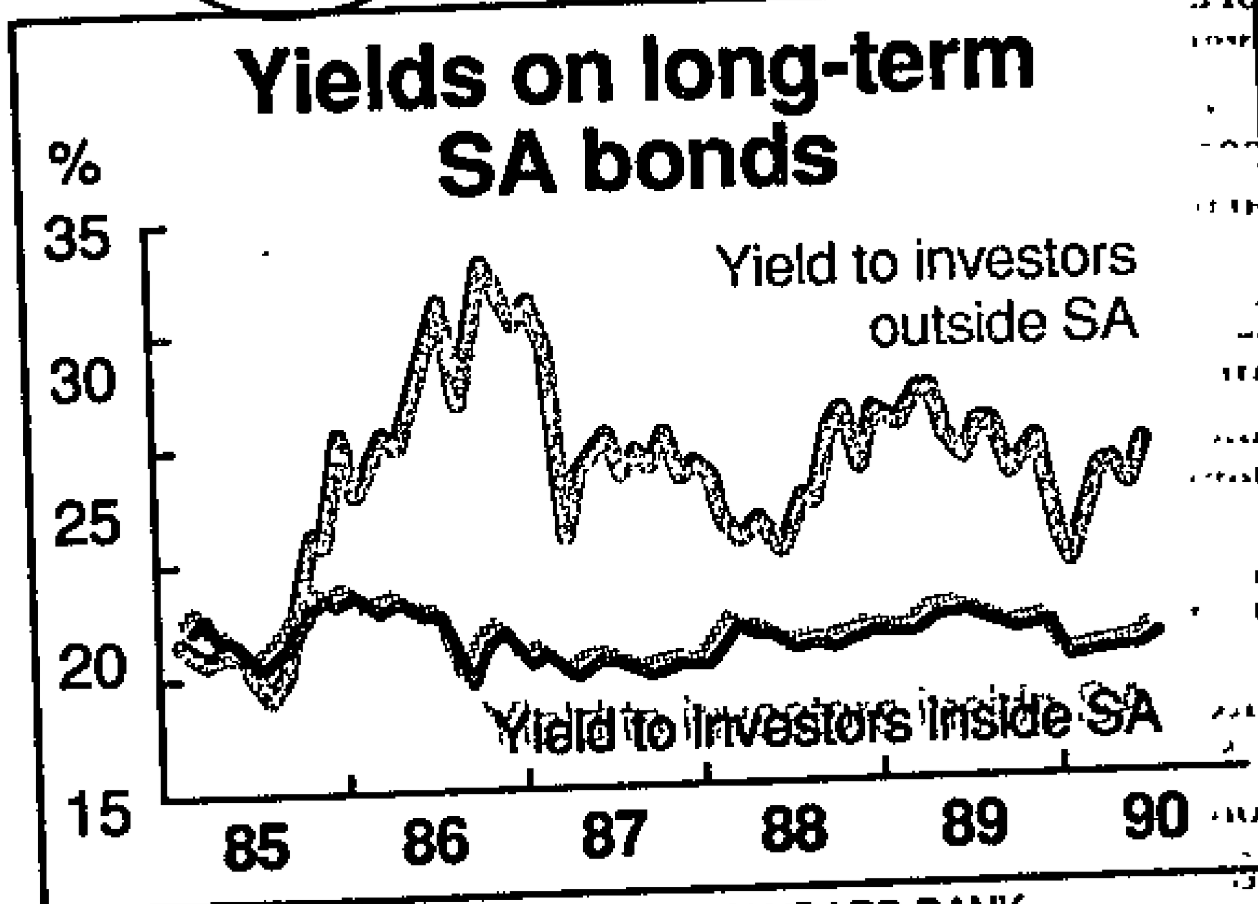
Foreign demand for SA gilts surged at the end of last year as positive political factors combined with a favourable finrand discount to bring their holding in the SA capital market to about R6bn. Foreign participation has had a significant influence on movements in rates.

Because foreigners invest in SA's capital market via the finrand and get paid interest in commercial rands, the yields are in excess of 20% — beating the returns on similar investments in Switzerland, West Germany and the UK. Investors in the fund can capitalise the interest.

The Standard Bank is marketing the open-ended trust in the first venture of its kind by a major SA bank. The custodian is the Banque Internationale a Luxembourg.

The tax benefits are substantial as SA levies no tax on interest arising out of the fund's holding of bonds, while the same goes for Luxembourg.

Standard Merchant Bank assistant GM John Bestbier says: "The finrand discount should make this an attractive investment to foreigners, who will get a high return with tax benefits."



Graphic: FIONA KRISCH Source: STANDARD BANK

"It is similar to a unit trust and we therefore expect individuals to be interested. Our surveys show the demand is there." He says it is intended to start quoting prices on Reuters this month.

The one factor that affects foreign participation in the local gilts market is politics. The fund's prospectus states: "There are political and economic risks to the commercial rand and the financial rand rates of exchange of a nature and degree not normally encountered in currencies of well developed countries."

Cautious Stals 'is adamant Bank rate cannot be eased'

B Day 9/8/90

ANDREW GILL

RECENT meetings between the Reserve Bank and the business community have left those who attended with the impression that the "mild recession" had become fully fledged and that tight monetary policy would continue for longer than expected.

The Reserve Bank met bankers and the SA Chamber of Business (Sacob) on Monday to discuss the state of the economy, and Reserve Bank Governor Chris Stals is believed to have said the Bank rate would not be cut for some time.

He apparently conveyed the opinion to business representatives that despite encouraging drops in inflation and money supply, the economy needed to cool further before any loosening could occur.

Sacob director-general Raymond Parsons, who attended the meeting, said it seemed that Stals's "conservative and cautious" policy would remain in place for some time.

He said five weeks ago the Reserve Bank and Sacob had referred to the recession as "light" and "mild", but there was now evidence of a deeper recession.

"The landing will be less soft than previously anticipated," he said.

"Despite the effects of high interst rates on the business community, there is a growing realisation that a premature drop in the Bank rate would have a negative effect on the economy and on business planning.

58

Reduction

"Once interest rates begin to fall, it would be better if they declined gradually in order not to give the wrong signals."

Sacob's view was that there should be a modest reduction in the Bank rate before the end of the year, he said.

In the money market the 90-day liquid BA rate recently fell to 18% on bullish sentiment about an impending drop in the Bank rate.

Although the rate has not reversed itself, it is still trading 30 points below the Reserve Bank's indicated 18,30% re-discount rate.

Govt seeks to inspan cash raised by pension funds

B Day 9/10/90 58

LESLEY LAMBERT

CAPE TOWN — Government-appointed committees are considering ways of encouraging investment of SA's massive pension funds in development aid projects.

Wynand Mouton, chairman of the Mouton Commission of Inquiry into the SA pensions industry, disclosed this to delegates at an Institute of Life and Pension Advisers (Ilpa) Convention yesterday.

He said his committee and others appointed by government, including the tax advisory committee, were considering the possibility of developing new investment instruments or opportunities which would allow for "more productive use" of the massive pension funds.

Contributions worth about R8bn, which flowed into the pensions industry each year, were ideally suited to long-term investments. In other developing countries, like Chile, a small, but financially significant, percentage of the national pension fund was channelled into development projects, Mouton said.

In SA the role of a national fund was performed by a number of privately administered funds which could possibly be offered incentives for investing a portion of their funds in projects, like housing, to assist in the vital process of economic upliftment and development.

Tito Mboweni, head of the ANC's department of economics and planning, said that if 5% of the assets of life offices and pension funds were invested in low-cost housing projects, more than 300 000 new homes could be provided in one year.

Risk free

But, the mobilisation of life assurance and pension funds for development purposes is a controversial matter.

Key players in the industry argue that their first responsibility is to earn the best possible return for their policy holders and pension fund members. This means they will invest only in those areas which offer high yields and are risk free.

Some opponents argue that many of their beneficiaries would benefit more from a small proportion of directed investment in the areas where needs are greatest — housing, health and education.

Mouton said his committee on the pensions industry was approaching the end of its investigations and was under pressure from Finance Minister Barend du Plessis to submit recommendations.

He said the SA pensions industry had done "remarkably well" by international standards in its efforts to draw the working population into retirement schemes. But he found that while individual funds were adapting to their members' changing needs, they were not doing so fast enough.

Urgent attention would have to be given to matters, including withdrawal benefits, the preservation of benefits on departure, adjustment for inflation, education and trusteeship.

Asked whether his committee had consulted trade unions and black political movements, Mouton said the committee had consulted several trade union representatives and was involved in informal discussions with other representative parties.

Meeting offers promise of end to rent boycott

Star 10/8/90

Staff Reporters

A meeting yesterday between the Transvaal Provincial Administration and two Soweto delegations could signal an end to the four-year rent boycott in Soweto.

Cyril Ramaphosa of the Soweto People's Delegation said he was optimistic that if his organisation's demands were met the boycott could be called off.

Soweto City Council chairman Mbutana Tshabalala said the council was hopeful that an agreemnt would soon be reached.

The TPA's MEC for housing, Olaus van Zyl, said the three parties had made progress.

It was agreed that Diepmeadow and Dobsonville councils would be included in the negotiations which resume on Tuesday.

The meeting will focus on:

- Writing-off an outstanding amount of R570-million.
- Upgrading municipal services.
- Affordable tariffs for services.
- The transfer of rented houses.
- A common fiscal tax base for Soweto and Johannesburg.

According to the TPA, of the R428-million budgeted for 1990/1, only R99-million is left.

It has launched a massive advertising campaign. In a series of four advertisements in The Star today, the TPA sends this message:

"It's no bluff, it's no threat, it's no joke. There is no more money. There can be no more services."

FSI restructuring will involve some delistings

Star 10/8/90

Diagonal Street

58

ANN CROTTY

The on-off restructuring of FSI is on. And it will involve the delisting of yet more JSE companies.

It seems that at no stage did the JSE committee intend to block the FSI restructuring despite its multi-pyramid design. But indications are that the committee did attach a condition to the creation of the new structure — if there was to be a change of control in the top company (FS Group) then an offer had to be made to minority shareholders in all the subsidiary companies below.

As this condition is to become law next year and in any event is applicable to all new pyramids it does not represent much of an additional constraint on the FSI team.

Seven companies within the group are involved in the restructuring — FS Group, FSI, Waicor, W&A, Hunts, Homemakers and, Teamcor. According to today's official announcement the proposals will involve the delisting of certain of these companies.

In addition this plan could involve FSI selling its international operations and Form-Scaff to W&A. This will make W&A the holding company for all of FSI's operating assets.

It seems that the decision to make the announcement was precipitated by all the speculation circulating in the market. Finalisation of the plan is probably at least a month away.

At this stage, it is likely that the companies to be delisted are Hunts, Homemakers and Teamcor.

On the basis of the minority shareholdings in each of these companies and the current share price the total price tag would be around R144,2 million. In addition Hunts has 16,2 million preferred ordinary shares — trading at 900c — and 12,5 million convertible debentures trading at R10,50.

As Ed Hern analyst, Syd Vianello points out: "The deal is likely to be a very complicated one." The minorities are likely to be offered W&A paper in exchange for their holdings.

Mr Vianello believes that the JSE committee will request FSI not to vote its holding on the resolutions needed to put the deals into effect.

Funding the deal could be done in a number of ways but the fact that FSI is selling some fairly valuable assets to W&A could ease the burden — assuming that W&A pays FSI in shares.

FSI could then exchange these W&A shares for the minority stakes in Hunts, Teamcor and Homemakers.

But if, as Mr Vianello speculates, FSI wants cash for the assets it sells to W&A then W&A will need a rights issue to raise this money. It will also need to issue additional W&A shares to acquire the various minority stakes because in this case, FSI would not have a sufficiently large enough holding in W&A to be able to use paper without threatening its control position.

Credit insurer boosts earnings by 33%

58

ZILLA EFRAT

CREDIT Guarantee Insurance Corporation of Africa (CGIC), SA's largest credit insurer, has posted a 33% improvement in taxed earnings to R7,7m (R5,8m) in the year to June. B/Day 10/8/90

Its shareholders, drawn from the ranks of SA's major financial institutions, will receive a dividend of 68c a share, covered 4,1 times.

MD Chris Leisewitz says the 1987/88 underwriting year, which closed on June 30, produced satisfactory results.

Underwriting income rose 26% to R3,4m (R2,7m) and buoyant interest rates supported a rise in investment income of 47% to R10,2m (R7m). Pre-tax profits were up 41% to R13,6m (R9,6m).

However, Leisewitz says the current downturn in the economy is likely to have a negative impact on subsequent underwriting results.

"This applies particularly to domestic policies, where the incidence of liquidations is definitely on the increase. The year ahead will be a difficult and challenging one," he adds.

This is the first year that CGIC has made a preliminary announcement of its financial results ahead of its report.

BANKING FM 10/8/90 (58

China factor

Bankorp, originally to be a minority shareholder in the projected Investment Bank of China, distanced itself from the project "some time ago and never invested a cent," says Bankorp group secretary Gunther Wrogemann. "This bank never really got off the ground. The Taiwanese and other offshore investors could not come to terms among themselves. When we got wind of this we decided to withdraw."

The Reserve Bank last week refused to renew the provisional registration — granted last August subject to the following provisions, none of which was met:

☐ Capital of R1m to be paid up;
☐ Significant involvement of a major SA bank;
☐ Involvement of local Chinese; and
☐ Involvement of Taiwanese investors.

The *FM* couldn't contact Howard Inman, who was involved in initial negotiations.

But the door is not closed. A Bank spokesman says: "We'll look at any future application on its merits. The new Deposit-taking Institutions Act allows an authorisation process which gives promoters time to get their plans together." ■

Future protection 58

The draft Long-term Assurance Bill has been published for comment. Differences of opinion about its content are largely confined to formulation rather than concept — though restrictions on the position of the "statutory actuary" may prove an exception.

Southern Life senior adviser legal and tax services Leon Jordaan says the Bill defines five categories of long-term business — life, assistance, fund, disability and sinking fund business. An assurer will have to be registered in each before it can issue policies and conduct relevant business. Disability now includes "dread disease" cover, which is mentioned in legislation for the first time.

Sinking fund business, removed as a category from the Act in 1980, is back, again providing a welcome vehicle for investment by non-taxable entities like municipalities.

The Registrar of Long-term Assurance will ex officio be executive officer of the proposed Financial Services Board when it takes over the functions of his office.

In terms of the Financial Services Board Act, No 97 of 1990, he will also become Registrar of various other categories of institution. The intention is to consolidate the position of Registrar of all these in one person so he can exercise more effective control.

The Registrar is given subjective criteria to apply when deciding whether to register any new company as an assurer. Registration must be in the public interest and the directors and officers must be suitable.

This gives wide scope to exclude newcomers, but is in keeping with the trend in the Bill to protect the consumer as much as possible. Steps can be taken to prevent dubious operations getting off the ground

Such discretions have been used to bar newcomers with perfect credentials from entering certain financial areas, for example mutual funds. Care must be taken in draftsmanship to prevent this happening again.

The Registrar is given power to prohibit an insurer from conducting any advertising he considers not factually correct or not in the public interest. Jordaan feels this is too wide a discretion.

One positive inclusion deals with insolvency and provides protection to policyholders. On winding up of a long-term assurer, its assets shall serve first as security for obligations to policyholders, then to other creditors and, lastly, to shareholders.

Protection of policies on the insolvency of the policyholder has been removed from assurance legislation and added to the Insolvency Act, where it belongs. This logical move makes the Bill less cluttered.

The level of protection is increased from

FM 10/8/90

R10 000 to R30 000. The amount was unchanged for over 20 years, despite the decline in the value of money; even this threefold increase is not remotely in line with the decline in the purchasing power of money

Old Mutual chief corporate legal adviser Koos Stassen believes any differences between the industry and the authorities can be resolved through joint deliberation. 58

He draws attention to chapter seven (clauses 37-42), which places certain restrictions on acquisitions of long-term assurers. Clause 37 says no person (jointly with his associates) may acquire more than a quarter of the shares in a long-term insurer, without the Registrar's written prior consent.

Clauses 76 and 77 provide more protection for the policyholder. Clause 76 has the effect of declaring certain provisions null and void, such as exempting an assurer from liability for acts or omissions of his representative or appointing the representative as agent for the prospective policyholder. The aim is to ensure a policyholder retains legal remedies if a representative acts improperly

Clause 77 empowers the proposed advisory committee (including industry representatives) to make detailed rules about the terms of policies, in particular by prohibiting some stipulations and requiring others, as well as requiring various information to be included in the wording In effect, this is the legal basis for future consumer protection in relation to long-term assurance

Robin Friedland

Vested interest? (58)

A proposal on the role of actuaries, in a draft of the new Long-term Assurance Bill, is controversial. It is meant to prevent conflict of interest arising out of the dual responsibilities of the statutory actuary. This is considered impractical by many in the industry.

A statutory actuary, known in the existing Act as the valuator responsible for analysing company finances and reporting to the Financial Institutions Office, may not be appointed as director or executive officer (GM, deputy or assistant GM).

State actuary Piet Robbertse says: "It may be difficult for people to wear two hats. As statutory actuaries they must look after policyholders' interests, while as directors or executive officers, shareholders' interests may be considered primary. This dual role is already prohibited in the UK."

The clause is probably the result of past inconsistencies in financial reporting, notably overvaluation of assets.

Commercial Union GM and chief actuary John van der Linde says the proposal is good in principle because it gives the statutory actuary greater independence and allows more objective financial assessment. However, it will be difficult to put into practice.

"In many small companies, actuaries are already directors. It will be expensive and inconvenient to duplicate these functions.

FM 10/8/90 (58)

Often it would mean less experienced actuaries evaluating finances."

AA Life MD Brian Benfield says. "There is already a lack of actuaries. There are probably fewer than 200, of which only about a third actually practise. The rest are in management. This proposal would discourage people from becoming statutory actuaries because they would in effect be excluded from advancement to top management.

"It would suffice to exclude posts in areas like sales or marketing, where conflict of interest would be most likely."

Momentum Asset Trust GM Martin Kourie says debarring actuaries from management will not prevent conflict of interest. "The appointment of an external statutory actuary, similar to the external auditor" would be more effective

Southern Life chief actuary Jeff Goy expects the Registrar of Financial Institutions to be satisfied with a clause emphasising the importance of actuarial independence.

A consulting actuary says "The proposed 'financial soundness valuation' will provide a realistic picture of financial conditions in life offices, as well as anticipated future developments, rather than the artificial impression produced by the old Act This should give the Registrar a better feel of companies' finances. Assurers will have to take a closer look at how their businesses are run."

Benfield warns against trying to legislate insolvency out of existence "If there is no threat of failure, the free enterprise mechanism does not work. We shouldn't create the illusion it is possible or desirable to eliminate insolvencies."

Other objections have been raised. S9.2 allows the Registrar to amend or overturn all decisions taken by his subordinates. This would discourage assurers from dealing with any subordinates.

Reservations have also been expressed on S79 1, allowing the finance minister, in consultation with the defence minister, to set retroactive conditions on a policy issued to a person doing military service.

Cost and time considerations could force the amendment of draft S22.1, which requires assurers to have at least two independent auditors (previously one) unless exempted by the Registrar

An industry insider suggests the next logical step will be two statutory actuaries. Directors and executive officers need not apply.

☐ Comments must be sent to the Life Offices Association by August 23.

Detmar Schwichtenberg

DISCOUNT HOUSES FM 10/8/90

Breathing space (58)

Discount houses have until January 2 to decide on their futures. Originally a conduit of liquidity between the banking sector and the Central Bank, they must decide between becoming banks or securities dealers.

The latter may be catered for by separate legislation for a special class of securities dealer who takes no deposits from the public and whose major risk is interest rate volatility and other price movements.

Those who become banks will retain some discount house privileges. Under the Deposit-taking Institutions Act, deposits with them by banks and buildings societies will keep liquid asset status for two years after implementation of the Act.

FINANCIAL MAIL AUGUST 10 1990

FM 10/8/90

If current Banks Act requirements are maintained: (58)

- ☐ Liquid asset requirements on their deposits could then be reduced from 87,5% to 20% against short-term liabilities, 15% on medium-term and 5% on long-term; and
- ☐ Where previously they had no cash reserve requirement, they will have to hold 5% against short-term liabilities and 2% against medium-term, like the rest of the banking sector. The net effect will be higher funding costs.

But their new status as banks will clear the way for them to take deposits from the public. Previously, they could accept funds only from banks, building societies, mining houses and similar institutions.

Relief comes also on the asset side. Existing legislation lets them invest only 12,5% in non-liquid assets. The new Act will put no restriction on the avenues of investment, other than those imposed on deposit takers. ■

SECHOLD FM 10/8/90

Increasing its base

Sechold plans this year to increase its stake in two associates, National Discount House (NDH) and Interbank Holdings, from the present 10% and 30% respectively to over 51% (exact holdings are still being negotiated), so both will become subsidiaries. It will also raise its 49% interest in Distrik Securities Bank to 70% from January, at the expense of the other shareholder, Boland Bank.

The additional shares will be financed by cash resources included on the balance sheet under other investments. MD Arthur Kelly says no rights issue will be needed.

Broadening out 58

Though the group will have three companies doing almost the same thing, Kelly says it will significantly increase the client base. Each has been concentrating on a specific niche but now, with NDH re-opening bond trading, the likelihood of competing in the same areas will increase.

Kelly is happy with the arrangement, which he says is reflected in a 20% increase in disclosed net income (annualised, as this is the first year all group companies have the same year-end) to R11,9m after tax and internal reserve transfers.

Annualised earnings also rose 20% to 50,9c a share and a final dividend of 11c was declared totalling 21c for the year. Proposed rationalisation of systems within the group should help cut operating costs.

Kelly says the target is profit growth of 15%-20%. He is optimistic about the opportunities offered by the Deposit-taking Institutions Act, due to be in place early next year (see ***Economy***). "Discount houses have been at a disadvantage to banks," Kelly says.

The new Act also allows outsiders to increase their shareholding above the 10% limit of the old Act. Kelly says Sechold will not encourage this, as it wants to stay independent. The largest shareholders are Rand Merchant Bank, Old Mutual and UBS, with 10% each, and Sanlam, with 7%. Most shares are in the hands of individuals, including directors and staff, who hold 40,5%.

Sechold's management is relatively young, since the resignation of four senior people during the financial year. It still has to demonstrate the depth of knowledge and management expertise to lead the group across "the level playing fields" which the new Act will provide. A dividend yield of 7% and p.e of 6,9 show investors aren't yet convinced.

Heather Formby

SBIC FM 10/8/90

Getting it right (58)

Any fears that the worsening economic climate would drag Standard Bank Investment Corp (SBIC) down can safely be ignored, judging by the banking group's latest interim performance. Not surprisingly, advances are growing more slowly and the margin squeeze has intensified. But the group achieved a 15,4% earnings rise in the six months ended June.

The contraction in economic activity and sustained level of high interest rates in the first half of the year led to a decline in demand for credit. Growth in SBIC's advances slowed to 6,3% from 14,2% in the final six months of 1989. The effect of the lending slowdown was worsened by a narrowing of margins. MD Conrad Strauss says the margin, which is a significant component in the profit equation, has been slipping consistently for the past two-and-a-half years and ascribes this to "the application of strict monetary controls and active intervention in the markets by the authorities." Stannic, which holds a substantial proportion of its assets at fixed rates, was most affected by the margin squeeze.

A rise in the effective tax rate detracted from the 17,8% pre-tax profit rise, compared to the corresponding period in 1989. But higher income from associated companies, mostly Liberty Life, provided some compensation. The higher tax apparently relates to a shift in income sources and does not reflect off balance sheet items.

Attributable earnings rose 15,7% and, with a slightly higher number of shares in issue, SBIC reported earnings of 165c and declared a 37c interim dividend. That is in line with the normal policy of paying out one

FM 10/8/90

third of the previous year's total dividend at the following interim period. (58)

Capital growth of 6,9% exceeds the 6,5% growth in lending assets for the six-month period. And the tightening economy was further reflected in the rise in the charge for bad and doubtful debts to R74,6m this past half-year from R67,5m in the corresponding period of 1989. This was partially offset by a satisfactory level of recoveries and reversals of last year's specific provisions.

A positive spin-off of declining business activity, Strauss believes, will be a liquidity build-up and a consequent margin improvement. Trends in inflation, money supply and economic activity indicate an easing of monetary policy and a downward drift in interest rates. But Strauss is not betting on when or by how much.

Still, he hopes the margin rise will compensate for sluggish growth in assets, the result of economic growth and a prudent lending policy and the higher level of bad debts. He also expects earnings for the full year to reflect a real improvement on 1989.

SBIC is considering offering shareholders a choice between receiving dividends in cash or scrip. Strauss says this is common practice at most UK banks and will provide shareholders with a cost-effective way of increasing their investment and the group with a cost effective way of raising additional primary capital to support expansion.

This year's final dividend might not rise in line with the interim, but a total payout of 125c does not seem out of reach. That puts the share, at its current 3 125c on a prospective yield of 4%.

Pam Baskind

BANKORP

The hairy shirt

S8 FM 10/8/90

"The aim of this rights issue is to take all the medicine at once and thus avoid speculation about further rights issues." No, that's not new CE Piet Liebenberg on the latest R500m lifeline being thrown to Bankorp, but former Trust Bank CE Chris van Wyk, last September, on the R340m pumped into the faltering banking group less than a year ago.

And it underscores one of the Bankorp group's crises — that of credibility. A year ago, Van Wyk was promising more openness in the group's reporting and, this time round, he is echoed by Hennie van der Merwe, the new CE of Senbank who followed Liebenberg from Nedbank and who, with Liebenberg, will be working to establish credibility.

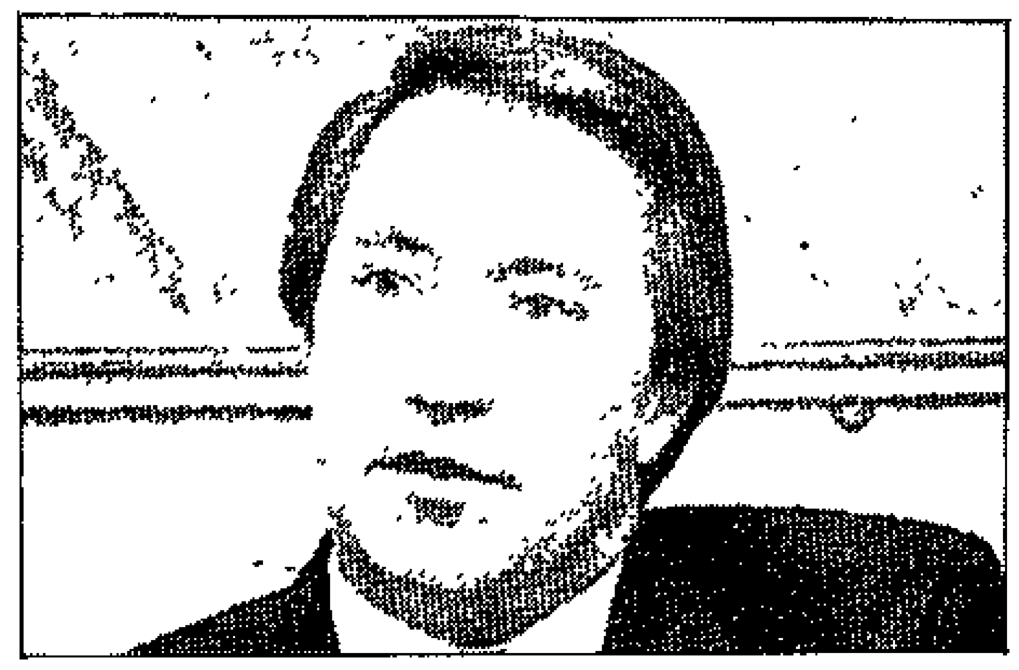
Down in Diagonal Street, the question invariably asked is not whether capital injections will keep Bankorp afloat, but whether the company can be managed back to the investment respectability enjoyed by well-run sector leaders such as SBIC or First National. As one stockbroker put it to me: "Bankorp should have been allowed to fall into a black hole in the third quarter of last year. But it's too big and it wouldn't have been allowed by the Reserve Bank.

"It had to be bailed out and that's being done with Sanlam policyholders' money — about R800m in a year — with little prospect of a return. Sanlam probably had no option. I don't doubt Liebenberg made the blank-cheque refinancing a condition of his taking over."

The capital restructuring has been under consideration since March and, even now, some fuzziness remains. Van der Merwe reckons the half billion will lift Bankorp's total capital to R1,6bn, but that is before unspecified write-offs and, apparently, further transfers to inner or secret reserves. So, though Van der Merwe expects Bankorp to achieve an internationally acceptable 6% capital:assets ratio eventually, he concedes the immediate effect will be to lift the ratio from the 2,93% of end-June 1989 to 5% or maybe only 4%, depending on write-offs, secret transfers and the group's ability to cut its assets from last year's R33m.

Reaching the internationally acceptable ratio will involve Sanlam, or more precisely its unlisted Sankorp holding company, accepting scrip in lieu of cash dividends for some years.

Everything, of course, depends on whether Liebenberg and the people who came with him can do for Bankorp what they did for a previously stumbling Nedbank. The job will not be as easy. Nedbank's problems were comparatively easy to solve as they stemmed largely from the effect of financial sanctions on its foreign exposure which coincided with a couple of major debt defaults. Bankorp has the legacy of TrustBank and its cavalier business attitude of grabbing business for the sake of size.



Bankorp's Van der Merwe ... how much will he tell?

That lifted assets by 40% in each of the 1988 and 1989 financial years, but growth has dropped dramatically to 15% this past year as financial problems mounted and the group hammered against its capital ratio ceilings. And, says Van der Merwe, this year's growth is unlikely to exceed the 1% monthly target set by the Reserve Bank.

Van der Merwe adds that management has scoured through Bankorp's debtor book and that write-offs planned to coincide with the rights issue leave management confident and comfortable enough to forecast future profits and maintenance of the 25c annual dividend.

But Van der Merwe then spoils it by indicating there will be transfers to inner reserves. That implies disclosure will not be altogether candid — though I'll be happy to swallow my words if reporting as good as FNB's or SBIC's transpires.

This year, presumably, Liebenberg and his team will be hunting for everything they can possibly write off — they have already warned of appalling results for the financial year just ended — so that new management can have a good start in restoring profits.

Without candidness it will be impossible to recommend or even comment sensibly on the rights issue terms. And at this early stage the 13% Bankorp minorities are probably best advised to let the underwriters take up the entire issue. As it is, there's likely to be a tap on the shares for years. Sanlam now controls 87% of the issued capital and that's likely to rise to more than 90% after the issue.

But Sanlam cannot reasonably expect the Registrar of Banks to permit it to exceed legal shareholding limits indefinitely. At present, non-banking institutions need special permission to hold more than 30% of a quoted banking company. And though that percentage is to be lifted to 49% in terms of the new Deposit-taking Institutions Act, it is still way below Sanlam's holding. In other words, Sanlam has to find a way of almost halving its interest — either by selling the shares, placing them with institutions (which ones?) or by encouraging Bankorp to expand its equity base by paper take-overs.

But that still leaves the question: Who will take Bankorp scrip? Personally, I still wouldn't touch it with a bargepole.

Jim Jones

FM 10/8/90

third of the previous year's total dividend at the following interim period.

Capital growth of 6,9% exceeds the 6,5% growth in lending assets for the six-month period. And the tightening economy was further reflected in the rise in the charge for bad and doubtful debts to R74,6m this past half-year from R67,5m in the corresponding period of 1989. This was partially offset by a satisfactory level of recoveries and reversals of last year's specific provisions.

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SA EAGLE/COMMERCIAL UNION

Hardening up

S8

Cracks are showing in the "soft" short-term insurance market. Commercial Union (CU) and SA Eagle both report significant underwriting losses for the half-year to June. CU's underwriting surplus of R8m in the half-year to June 1989 became an underwriting deficit of R11,1m and SA Eagle's underwriting surplus of R7,2m swung to an R11m deficit.

The cycle is familiar and one which insurers have a hand in creating. When business is going well, premiums are lowered in the chase for new business as each tries to undercut the other. FM 10/8/90

Obviously there is a level when premiums become uneconomic, but no one wants to be the first to raise rates. The industry usually tries to act simultaneously.

But, says CU MD Bill Rutherford, the turnaround from good results to bad has never before been so fast: "The first indications came in November." The main reason are more crime-related claims and rising motor spare and labour costs.

Rutherford says CU's incidence of claims for private motor vehicles increased to 26,1% for the 12 months to June compared to 21,4% in the 12 months to June 1989. The average

FM 10/8/90 S8

cost of claims was 20% higher.

The incidence of householders' claims rose from 12,8% to 16% and average cost of claims by 32,1%. Martin says SA Eagle figures are similar. In response, CU raised motor premiums by 10% in April and 12,5% in July. Household sums insured were increased 25% until the next renewal date.

Rutherford expects further increases either at the end of this year or the beginning of next. These, he says, will take some time to filter through to underwriting results as all business is written annually.

CU benefits from good performance by its life business, which contributed R1,5m to taxed profit. Investment income, up 10,5% to R18,5m, also helped.

Thanks to these CU could raise its interim dividend from 30c to 35c, reducing cover from 5,46 to 3,18. Rutherford says the group is still comfortable with the lower cover. SA Eagle, on the other hand, has pegged its interim at 20c.

SA Eagle has also increased premiums: on private motor accounts by 5%-13% in February and 20% in May and June. Further increases are expected "in the latter part of the year" for motor and householders' insurance. SA Eagle has a 35/65 split of annual and monthly business for personal lines so Martin expects premium increases to start showing through quickly. He is aiming for a 17% increase in premium income this year — from premium increases on existing business rather than new business.

CU's investment and life company backups are a plus for investors, who rate the group on a 4,5% dividend yield and p:e of 6,6. Its interest in diversifying into other areas of financial services is also a plus. Present interests in factoring, agricultural and credit underwriting contribute only marginal profits but CU hopes to build them up.

SA Eagle, conversely, is poorly rated on a yield of 7,8% and p:e of 7,1. But concentration on proper underwriting of existing business rather than chasing new business may help underwriting losses look healthier. *Heather Formby*

CRACKING UP

Commercial Union

Six months to Jun 30	1989	1990
Net premiums (Rm)	137,5	156,4
Profit before tax (Rm)	27,1	11,1
Underwriting surplus/ (deficit) (Rm)	8,0	(11,1)
Investment income (Rm)	16,7	18,5
Profit after tax (Rm)	16,4	11,1
Earnings (c)	163,8	111,3
Dividends (c)	30	35

CRACKING UP TOO

SA Eagle

Six months to June	1989	1990
Gross premiums (Rm)	331,1	370,8
Underwriting surplus/ (deficit) (Rm)	7,2	(11,0)
Investment income (Rm)	26,9	27,8
Pre-tax profit (Rm)	32,4	14,4
Profit after tax (Rm)	21,3	13,6
Earnings (c)	177,3	113,6
Dividends (c)	60	60

FM 10/8/90 (S8)

ISCOR FM 10/8/90

Polish polish

With its northern Natal metallurgical coalfields reaching the end of their economic lives, Iscor is actively seeking alternative sources to use as a blast furnace feedstock, blended with inferior SA grades.

The group is looking further afield to Poland, though "this is only one of the possibilities," says Ben Alberts, Iscor's senior general manager mining. "Other potential sources include the as yet undeveloped north-western Transvaal coalfields or those other countries already exporting the material — Australia, the US and Canada."

Iscor has imported a quantity of coking coal, some of which has been evaluated while the balance is currently being appraised.

"Everything depends on the outcome of the evaluation," says Alberts. "We will have to have a flexible deal with the Polish in terms of both quantity and timing." He declined to confirm or deny a 120 000t/year contract spread over three years reported by the authoritative *Coal Week International.* The Washington-based publication also reports Iscor has the option to buy two additional annual amounts of 60 000t and Alberts' comments would seem to support this The potential to import far greater amounts also exits, to give Iscor surplus coking coal for forward trading.

What Alberts is prepared to deny are rumours of Iscor investment in Poland. "This is not something that we could consider at this stage," he says. But CWI goes on to say Gencor is involved, something denied by Mike Salamon MD of Trans-Natal

The key items that Iscor is to consider in its search are the price and quality of the coking coal. The material will only be imported if it is more cost effective to do so than to develop the local deposits. As coking coal is an essential and costly ingredient in the Iscor process, used in a ratio of 1:1 to the steel produced, its cost is important

Consideration will also be given to reliability of supply and potential for disruptions, political or otherwise. The possibility to import from several sources is another solution being looked at although the chances of establishing contracts with those exporting countries is rather slim.

"We cannot make steel without coking coal," states Alberts. The strategic nature of Iscor to SA and the importance of having a steady supply of metallurgical coal for the steel industry would indicate that this is more likely to go ahead than not, despite a development of local deposits. That Alberts is cagey regarding any investment in the Polish mining industry is natural, considering the sensitive nature of such a deal. *Gillian Findlay*

New way to lose your shirt if you're not extra careful

(58) Star 11/8/90

DEREK TOMMEY

IF you thought it was easy to lose your shirt on the Johannesburg Stock Exchange, you should see how much easier it is to do so on the South African Futures Exchange (SAFEX).

This was officially opened yesterday by the Minister of Finance, Mr Barend du Plessis, and is a major step in the development of this country's financial sector.

But futures' dealers make clear that it is for the ordinary individual only if he has his wits about him and his eyes open - and doesn't go on holidays leaving an open position.

A stockbroker asks how much money you have when approached to buy shares for you. But a member of Safex not only wants to know your worth but makes you read and sign a form containing dire warnings that you could face disaster in the futures market.

This form outlines the workings of SAFEX (so you cannot say you did not know what you were doing) and points out that you can quickly lose everything you have (so you have no redress against anyone for your lost wealth.)

More precisely the form states: "You may sustain a total loss of the initial margin funds and any additional funds that you may deposit with your broker to establish or maintain a position," so you have been warned.

The futures market lets an investor take a view on what the gold price, certain JSE share price indices, Eskom stock and the Bankers' Acceptance rate will be at some time in the future — and if his view proves to be right he makes money.

Everything is fine for the investor as long as the futures move as forecast. The value of his contract increases and he can even draw out money.

But the problem arises when the futures move against him. His initial deposit of 10 percent can be quickly wiped out and the investor has to put up more cash — which could also disappear — or cancel the contract. So whatever he does he stands to lose a fair amount of money.

Futures dealers frankly admit that the risks are high. But in line with this so too are the rewards. Owing to the heavy gearing a 10 percent increase in the index, commodity or financial instrument, can result in a 100 percent profit. It is this that makes the futures market attractive.

But investors should also bear in mind a remark by an experienced dealer at the opening yesterday: Only about 20 percent of people in the futures market end up showing a profit.

Handling R9bn monthly

58

W/C ARGUS 11/8/90

By TOM HOOD
Business Staff

A NEW generation trading room is enabling Old Mutual to invest as much as R9 billion a month from its huge cash flows.

The trading desk, backed by sophisticated investment systems, tracks international share price and commodity movements.

Cash flows averaged R30 million each working day last year.

Extensive software programmes have been developed to take advantage of the myriad of new investments which have become available over recent years, says Mr Rob Lee, assistant general manager (investments).

Dealers have direct access to five external computerised information networks which keep them up to date on international markets.

"The new trading area has been designed for maximum synergy. Note was taken of the designs adopted by successful investment houses both locally and overseas," he said.

Old Mutual makes extensive use of derivative instruments such as futures and options.

The new trading room layout is designed to optimise trading efficiency in various investments such as futures and options.

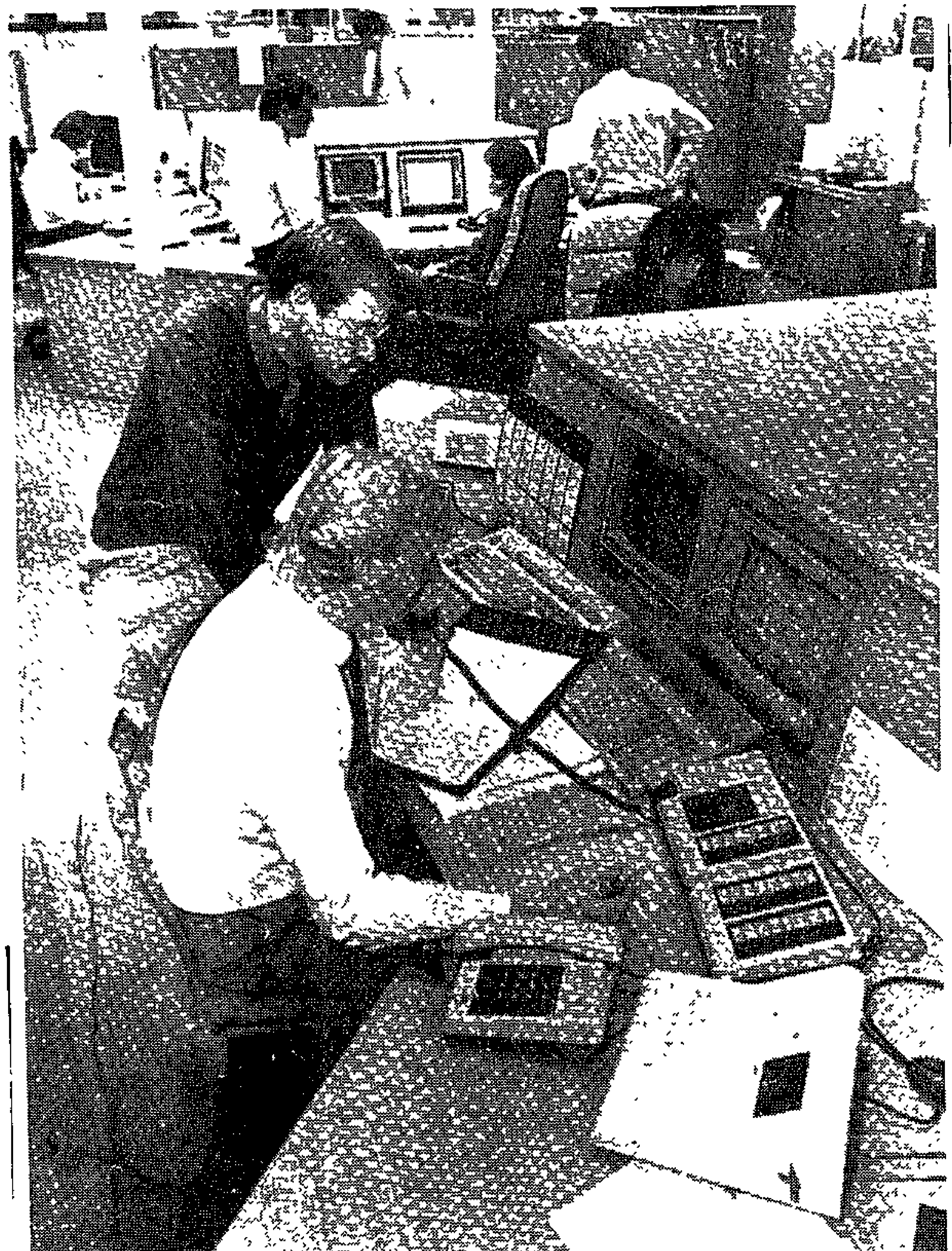
Trading is centralised — the huge cash flow is invested in the equity, capital and money markets through the trading room — bringing the benefits of greater specialisation and ultimately higher returns for policyholders.

The trading team is headed by Mr Colin Smit (bonds) and Mr Colin Harper (equities) who see the contral trading room as the crystallisation of Old Mutual's investment decisions.

"The total external trading volume was more than R9 billion in June, the bulk of it in the capital and money markets which are far more liquid than the tightly held equity market," said Mr Lee.

"This activity includes switching money at call to banks offering higher rates, subject to defined risk limitations.

"While Old Mutual actively looks for extra value in the investment markets and often takes advantage of switching opportunities, it is essentially a long-term investor. Any such value added is regarded as a yield sweetener which directly benefits policyholders."



TOP TRADING: Turnover in Old Mutual's trading room reached R9 billion in June. Pictured in the heart of the trading room which handles the investment of about R30 million every working day are (left) Mr Rob Lee, assistant general manager (investments), and Mr Colin Smit, bond manager.

Firms foresee that AIDS will 'rend SA economy'

B/Day 10/8/90 (58)

AIDS will begin to shred the fabric of SA's economy within a decade, according to predictions made this week by three major financial institutions.

Nedcor, Volkskas and Old Mutual have separately warned of a looming AIDS catastrophe in the first decade of the next century.

Their predictions focused on the effect AIDS would have on population growth, health care, housing, education, employment, industrial productivity and export markets in SA, the potential economic powerhouse of sub-Saharan Africa.

The National Union of Mineworkers (NUM), in a recent report, said: "We have a ready made 'path of least resistance' which the AIDS virus can follow. Millions of South Africans live in ... poverty, without permanent homes, in single-sex hostels ... without access to the most basic services."

Volkskas said in its latest economic review that the medical bill for treating people with AIDS-related illnesses could reach R14bn, almost 20 times the current national health budget, by 1995.

Nedcor's economic research unit said the health care bill could reach a theoretical R90bn by the year 2000, more than the total 1990 national budget of R73bn.

Old Mutual chief actuary Theo Hartwig told Reuters: "We are talking about more than 45%, up to half the adult population, being AIDS carriers by the turn of the century.

"Something approaching half a million people will be sick or dying," he said in one of the more conservative forecasts.

The simultaneous warnings followed days after a report by NUM urging mine owners to break the pattern of migrant labour that shatters family life and encourages the spread of AIDS.

Strategies

Acknowledging that projections on the spread of AIDS were little more than educated guesswork, Nedcor said: "The accuracy may be in doubt, but there would appear to be no dispute about the inevitability of a major catastrophe.

"Without due recognition of the impact of AIDS, planning decisions could be seriously amiss. There will be radical changes to cost structures, mechanisation trends, consumer demand patterns and markets."

The banking group urged businessmen to monitor trends in the light of AIDS and to adjust their corporate strategies accordingly.

The other groups stressed education as the only way to mitigate the impact of the disease, which is expected to kill millions throughout Africa by the year 2010.

Hartwig said South African business and industry would face major adjustments caused by labour and skills shortages, altered consumer patterns and different construction priorities.

"For the next five years there is probably going to be very little physical impact, but from there it is going to go into overdrive," he said.

Hartwig said AIDS testing was already obligatory for life policies of more than R100 000 and would have to be introduced for smaller policies as the disease spread.

Medical insurance was already being restricted for AIDS treatment and Hartwig said the government could be forced to react like much of the Third World, sending diagnosed AIDS patients home to die with little or no medical care.

"The cost of medication to delay death and improve the quality of life for someone ill with AIDS is obscene. It's going to be a burden on the total economy," Hartwig said.

And Nedcor said: "As the numbers of sick and dying soar, the entire nature of the labour market will change drastically ... it will be difficult, if not impossible, to attract skilled immigrants to a country that is seriously threatened by AIDS." — Sapa-Reuter.

C/Press 12/8/90 (58)

Uneasy calm as carnage ends

Riot cops drag a Port Elizabeth man away during last week's violent flare-up. Pic: MARK PETERS

PORT Elizabeth and Uitenhage were this weekend counting the cost of the past week's orgy of violence, which saw the death toll soar to 46.

An uneasy calm was returning to the affected areas, but there were fears the violence could flare up again, particularly in Uitenhage, where riots only began late in the week.

The violence followed a protest march against a rent increase and is the first time in over 10 years that coloured communities in Port Elizabeth have erupted so violently – the last time being the 1971 bus boycotts.

Violence broke out after police teargassed a gathering of people who participated in a march on Monday night.

A spokesman for the Northern Areas Co-ordinating Committee (NACC) said after the march the crowd gathered at a school to have a meeting. Five minutes before the meeting ended police cordoned off all exits and gave the crowd five minutes to disperse.

The NACC spokesman said despite reassurances by march leaders that the crowd would disperse peacefully, police still fired teargas cannisters at them. The crowd then fled and many people were trampled in the process.

Since then the coloured suburbs have been cut off from the city as burning barricades of tyres and stones were set up to prevent police from entering.

46 left dead in Beirut-style killing fields

Looting and arson prevailed as a criminal element exploited the situation.

The areas were ablaze as shops, business premises and police vans were petrol bombed.

Industry came to a halt as thousands of people were unable to go to work after bus drivers refused to enter the areas.

More than 32 shops have been burnt down, six houses, two factories, a church and three schools. Forty-one police vehicles and seven private vehicles have also been petrol bombed.

Shops and business complexes were looted, mostly by women and children.

Residents are now describing the situation in the northern areas as a "Beirut".

The violence spread to Uitenhage three days later and two deaths have already been confirmed. Humansdorp also experienced violence but apparently there have been no deaths.

One of the issues that led to the violence in Uitenhage was a controversy about the appointment of a principal at Uitenhage High School.

Other contributing factors are the housing shortage, the call for one city council and for the resignation of the coloured management committee.

On Thursday, thousands of people gathered at the Gelvandale stadium, where a rally was organised by the ANC to call for calm in the area.

Chairman of Gelvandale ANC branch, Danny Jordan, called for discipline.

He acknowledged the anger of the people and said the time had come to sit down and formulate new strategies to put more pressure on the authorities.

Police liaison officer for the Eastern Cape, Maj Bill Dennis, said conditions in the areas had calmed down.

"If the violence does flare up again, it will be contained," he said.

Maj Dennis refused to comment on how many SADF men have been deployed in the area.

The damage is believed to run into millions. – ECNA

...d ...paign ...parks new rent wrangle

By SANDILE MEMELA

TALKS this week between the Transvaal Provincial Administration (TPA) and the Soweto People's Delegation (SPD) aimed at ending the four-year-old rent boycott may spark a renewal of the issue.

In a newspaper advertising campaign, the TPA has given Soweto residents until the end of August "to decide what should happen with rent and services".

At the same time, hundreds of Dobsonville rent-defaulters were served with eviction notices for rent arrears, site and service charges.

The local advice office and Azapo branch have advised residents to ignore the notices

The advertisement in *City Press* today reads: "It's no bluff, it's no threat, it's no joke. There is no more money. There can be no more services.

"Whoever you are, wherever you live, if you want something, you pay for it. Or you don't get it. Simple as that."

Azapo spokesman Molantoa Mavi cautioned this could result in violence among residents if any were evicted.

A key meeting this week between the TPA and the SPD will, for the first time, include representatives from Dobsonville and Diepmeadow.

The meeting will focus on the upgrading of municipal services, affordable tariffs; the transfer of rented houses to the people and a common fiscal tax base for Soweto and Johannesburg.

City Press 12/8/90

Political comment and newsbills by K Sibiya, headlines and sub-editing by K Naidoo, both of 2 Herb Street, New Doornfontein, Johannesburg.

58

Boost for builders

By SOPHIE TEMA

AN organisation will be launched this month to address the development of small-building contractors as part of the private sector's commitment to alleviating the housing crisis.

The new Foundation for Entrepreneurial Skills Training (Fest) will be based in Midrand.

Fest director Dr Gordon Sibiya said the organisation will merge with the IBM Small Builders' Bridging Finance Loan Scheme, which will enhance Fest's potential to make a major impact on the development of this vital sector of the economy.

"The merger of the two organisations will ensure that the small builder plays a major role in the socio-economic development of southern Africa," he said.

"A national training course delivery network is being developed by interfacing with other organisations countrywide.

"During the various training phases, materials and programme support are offered free of charge to regional development corporations and agencies, which will be managed on a franchise basis.

"The intention is to extend the training programme to small builders throughout southern Africa.

"A four-tier programme has been established to cater for different levels of need, from providing the illiterate with functional literacy and numerical skills to imparting management skills necessary to handle multi-unit building contracts."

Strong Fedlife lifts Fedsure's earnings

(58)

Star 13/8/90

By Ann Crotty

Fedsure, holding company of Fedlife, enjoyed continuing growth in the half-year to June.

Group taxed profit rose 23 percent from R9 million to R11,1 million. With earnings up from 13,4c to 16,5c a share, the directors are paying a dividend of 10c — 50 percent of the total for 1989 and up from last year's interim 8,25c.

Fedsure chief executive officer Anrold Basserabie is confident growth will continue satisfactorily.

Total assets rose 22 percent and now exceed R3,5 billion.

All Fedsure's profit and the bulk of its assets come from the Fedlife subsidiary, which is performing strongly.

Fedlife's total new business rose 36 percent to R124 million and recurring premium income rose 27 percent to R246 million.

Fedsure's investment income, excluding capital appreciation, rose 18 percent from R149 million to R176million. This includes the contribution from short-term arm Fedgen, which avoided the heavy losses prevalent in the industry.

Good results put Fedsure on track for strong growth

BDay 13/8/90

(58)

LIZ ROUSE

FEDSURE Holdings, the holding company for life assurer Fedlife, achieved a 23% rise in taxed profits for the six months to June.

Taxed profits climbed to R11,1m from R9m in the previous comparable half-year, with earnings up at 16,5c a share from 13,4c. The interim dividend has been raised to 10c, being 50% of the total dividend for 1989 and up from last year's interim dividend of 8,25c.

These results prove that Fedsure remains on track to continue its strong growth record since the 1987 listing. CE Arnold Basserabie says in his interim report that he is confident growth will continue satisfactorily for the rest of the year.

Total group assets increased by 22% to over R3,5bn. All of Fedsure's profits and the bulk of its assets come from the Fedlife subsidiary which is performing particularly strongly. Fedlife's total new business increased by 35% to R124m and recurring premium income rose by 27% to R246m.

Fedsure's investment income, excluding capital appreciation, rose by 18% in the half-year to R176m from the previous comparable half-year's R149m.

This includes the contribution from the short-term arm, Fedgen, which successfully avoided the heavy losses prevalent in the industry.

Basserabie says Fedlife's investment-linked business has improved its relative standing against competitors and the impact of this stronger performance will, in due course, be reflected to the benefit of policyholders.

The group's investment policy is to invest in well-managed companies which provide an above-average return in both income and capital over the medium term.

Basserabie says the share market is not particularly exciting at the moment and, apart from special situations, Fedsure is letting its cash flow build up to take advantage of high short-term interest rates.

At the same time Fedsure is active in the gilt options market, enabling it to maximise returns in fixed-interest securities. Fedlife has also continued to increase property investments.

Fedlife's concentration on developing recurring premium business has been rewarded by the 27% growth.

Fedsure increased pension, death and disability and other benefit payments to policyholders by 24% to R126m in the past half-year.

The Star

Finance

Star 14/8/90 (58)

Three percent drop in short-term rates forecast

The economy is ready for a decline in interest rates, says Syfrets economist Elmien de Kock, who forecasts a fall-off of three percent in short-term rates by the year-end.

She says in the latest issue of Syfrets quarterly newsletter Money Matters: "It remains our view that short-term interest rates have peaked, but because of the vulnerability of the gold price and the current monetary policy, we foresee that rates will remain at higher levels until at least the end of the third quarter."

She believes the prime overdraft rate should decline by one percent at the end of the third quarter.

She says the capital market sector has recently been reflecting political and gold price uncertainty through an increase in volatility. However, fundamental trends in the economy are positive for the capital market.

"In the current environment, a relatively high exposure to the short end of the market is therefore advisable"

She foresees that the poor fundamentals facing the financial and industrial markets will continue unchanged from the second quarter. — Sapa.

Survey by analyst lists value-for-money sectors

BDay 14/8/90 (58)

GOOD relative value is to be found in the banks, property, property trusts, furniture and household and transport sectors of the JSE, says an analyst.

Selected stocks in these sectors can be accumulated, according to a survey of financial and industrial relative values conducted by Max Pollak & Freemantle analyst Christopher Gilmour.

His charts show the following sectors in relative uptrends: banks, investment trusts, property, beverages and hotels, furniture and household, retailers and wholesalers, tobacco and match, and transport.

These sectors are in downtrends: clothing, footwear and textiles, electronics, electrical and battery, engineering, fishing, motor, paper and packaging, pharmaceutical and medical, steel and allied, and sugar.

The price relative for bank shares appears to have bottomed out after declining since 1985. Bank shares presently offer good value, with relative earnings growth starting to turn upwards.

The insurance price relative continues in an uptrend which began early in 1989, but both earnings and dividend growth are peaking, says Gilmour.

The investment trust sector is expensive, though distorted by First International Trust's (FIT) high weighting (60%). The price relative uptrend appears intact, with relative earnings and dividend growth moving upwards.

LIZ ROUSE

Since the middle of 1989, the property price relative appears to have turned upwards fairly decisively, though a false break occurred in 1986/1987 in a similar pattern to the present one.

The sector is extremely cheap and earnings and dividend growth seem to be in line with the market.

The property trust price relative appears to have troughed. The sector is cheap both in terms of its price:earnings ratio and dividend yield. Earnings and dividend growth seem to be consolidating after precipitous falls since 1986, says Gilmour.

Cheap territory

Both the beverage index and the price relative remain in strong uptrends. The sector is expensive both in price:earnings and dividend yield terms but relative dividend growth is robust.

The highly cyclical furniture sector is in extremely cheap territory. The price relative appears to be maintaining the uptrend which was initiated in mid-1989. Relative earnings and dividend growth appear to have peaked.

Although expensive, the transport index is underpinned by good relative performances, particularly with respect to earnings and dividend growth.

Rembrandt is the share to go for in the tobacco sector, concludes Gilmour.

Life offices probe social role

58

GRETA STEYN

14/8/90. Bday

THE Life Offices' Association (LOA) has formed a sub-committee to investigate how the life industry could mobilise part of the country's savings for socially desirable investments, LOA chairman Dorian Wharton-Hood confirmed yesterday.

Although industry sources said the formation of the committee was an effort to counter criticism that the life offices failed to invest savings productively, Wharton-Hood denied this.

Finance Special Adviser Japie Jacobs, who is heading an investigation into the flow of savings to the life offices, is looking into the economic implications of the way the savings are employed.

Wharton-Hood said the committee was formed with a brief to look at whether there was merit in the industry doing something collectively to get involved in "socially desirable investments".

He was not able to say which specific investments were being discussed, but industry sources said a small percentage of cash flows might go into housing.

There was talk that if the life offices did not move of their own accord, some new prescribed investment could be imposed.

Heavy investment in blue-chip equities amounted to "paper chasing paper," some critics said, at a time when there was a massive housing shortage to be addressed.

Rand Merchant Bank economist Rudolf Gouws earlier this year said the huge flow of funds to institutional investors was an obstacle in solving the housing crisis.

Savings at banks and building societies had shrunk to less than one quarter of the annual flow of contractual savings, he said.

The Bank of Lisbon stated in an Economic Focus released yesterday that two decades of high inflation had rendered interest bearing deposits less attractive.

Tough trading conditions hit Afpac

Star 15/8/90 (58)

By Ann Crotty

Results for the 16 months to end—June indicate that measures taken by the new controlling shareholders at Afpac — to improve asset management and curtail operating costs — are slowly moving the company in the right direction.

Annualised earnings for the 16-month period reflect a 15 percent drop on the 12 months to end-June 1989. At the half-way stage Afpac was showing a 24 percent drop in earnings.

For the review period, earnings per share were 23,4c (22,2c). A final dividend of 6c has been declared bringing the total to 9,25c for 16 months compared with 10c a share for the previous 12 months.

Bidcorp, headed by Brian Joffe, took effective control of Afpac from November 1989. Measures were introduced shortly after the takeover to reinforce the group's competitive position in the market. "These included a more streamlined operational structure to reduce administrative overheads, shorten lines of communication and make more effective use of group assets," Mr Joffe said.

"These measures are already producing positive results, including a substantial improvement in the group's debt position in the second half."

Turnover for the 16 months was R151,3 million which represents an annualised increase of 20 percent on financial '89's R94,5 million.

But operating profit for the 16 month review period was only R20,5 million (R16,7 million) which reflects a significant drop in margins from 17,6 percent to 13,5 percent.

The lower margins were attributed to competitive market pressures.

Interest payments surged from R1,8 million to R4,1 million leaving pre-tax profit for the 16 month period only 10 percent ahead of pre-tax profit for the previous financial year. After-tax profit was R8,7 million (R7,8 million).

As a results of the measures that have been taken he believes that Afpac will be a leaner, more focused and effective business "well capable of responding to the market conditions that lie ahead".

Star 15/8/90 (58)

Two hiccups but Unidev looking at strong growth

By Maggie Rowley

In spite of problems experienced in some subsidiary companies, Unidev was looking at growth ahead of inflation for the current financial year ending December 31, MD Mr Ronnie Stein said yesterday.

In an interview after the group's AGM, Mr Stein said the trouble spots in the group were Prestige, in which it held 81 percent of the equity and Debonair, in which it had a 26 percent holding.

But, he said, rescue plans had been put into operation and both companies were expected to return to profitability in the next financial year.

Prestige's Krost factory in Johannesburg, which had recently moved into a new plant, had yet to meet full production. It presently had R6 million in back orders, which would take time to meet. The Cape Town factory was performing on target.

Debonair, he said, was operating in an extremely competitive environment and after four years of excellent growth had experienced "its first hiccup". But a rationalisation programme was being introduced and the company was expected to return to profitablility shortly.

Rusfurn, in which Unidev recently acquired a 23 percent holding, was on forecast to achieve its projected earnings of 55c a share. Attributable profit was expected to be in the region of R90 million, he said.

Mr Stein said that Medicor, in which Unidev had a 53 percent stake, was performing well ahead of budget. The company, which presently owned nine clinics with a total of 850 beds, was set to open more clinics, for which licences would have to be obtained.

A rationalisation programme had also been undertaken in its electronic subsidiary Cortech, in which it had a 71 percent stake.

The group had recently been reorganised under the direction of a new managing director, Mr John Miller, and non-performing companies within Cortech had been disposed of.

Turnover had been reduced from R200 million to R170 million and the group had been concentrating on asset management. He said that while huge profits were not expected from this quarter in the current financial year, the group was well positioned to reap "a very substantial profit" in the 1991 financial year.

The property arm, Equikor, in which it had a 40 percent holding, was performing ahead of budget, as were its financial services operations.

Mr Stein said they were investigating increasing their 28 percent holding in Mercantile Bank in line with the new act, which would permit them to hold a 49 percent stake.

Earlier, chairman Mr H V Vorster told shareholders there was no intention of selling off the bank at this stage in spite of having been inundated with offers in the light of rationalisation moves within the banking industry and the unlikelihood of more banking licenses being granted in the near future.

Mr Stein said the group as a whole was looking to slash its R81,3 million gearing by R70 million during the current financial year. (The interest bill for the 1989 financial year exceeded R13,4 million.)

This, he said, would be done through the disposal of properties in the Medicor stable, through the sale of an additional R7 million of township land, and through other means he declined to comment on.

Protea boosts premium income

58

128

Star 15/8/90

Finance Staff

Composite insurer Protea Assurance recorded a 28 percent increase in premium income to R97,9 million during the six months to June 30. At 134,4 percent, the solvency margin remains virtually unchanged, reflecting the group's considerable financial strength.

Net asset value per share has climbed from R23,24 to R29,42. However, current market conditions have adversely affected the short term results. The group was hit by an ongoing deterioration in the motor account, by the Welkom tornado in March and by extensive fire damage to a Pretoria electronics factory in April.

This, together with a "disturbing" escalation in the crime rate contributed to an underwriting deficit of R13,9 million, compared with the loss of R1,6 million for the 12 months to December.

In view of the group's inherent financial strength, however, the interim dividend has been maintained at 20 cents per share on earnings of 17 cents per share.

Managing director Tony Crank says that the underwriting loss illustrates the difficulties currently being encountered by the insurance industry.

Protea's life division saw a dramatic 47 percent increase in premium income.

Protea lifts income by 28% to R98m

CAH 7/7/13
15/8/90
58

Business Editor

CAPE Town-based composite assurer Protea Assurance lifted premium income by 28% to R97,9m in the six months to June 30.

But its short term insurance operation was hit by an on-going deterioration in the motor account, by the Welkom tornado in March and by extensive fire damage to a Pretoria electronics factory in April.

Tony Crank

This, together with an escalation in the crime rate, pushed the under-writing deficit up to R13,9m from the R1,6m suffered in the 12 months to December.

However, a spokesman pointed out that the group's solvency margin remained virtually unchanged at 134,4%, "reflecting the group's considerable financial strength", and that net asset value per share had climbed from R23,24 to R29,42.

Investment income rose by 12% to R10,6m. The shareholders' share of life profits was up by 31% to R275 000.

Although attributable profits dropped to R1,3m (R8,1m), the directors decided that, "in view of the group's inherent financial strength", the interim dividend would be maintained at 20c per share on earnings of 17c per share.

MD Tony Crank said the underwriting loss illustrated the difficulties currently being encountered by the SA short term insurance industry.

"Clearly, the increasing crime rate and runaway replacement costs in particular remain areas of extreme concern. With SA currently going through a process of dramatic change, it must also be remembered that short term insurers are in the front line of the social disorder which typically flows out of far-reaching political reform."

Crank said that, while there was no doubt that short term insurers would continue to facetremendous problems for some time to come, Protea was one of the most financially sound organisations in the industry.

"This, together with clear objectives, ensures that we are in a favourable position to weather the difficulties that lie ahead."

Discussing the growth in premium income, Crank emphasised that the new business was of high quality and had been soundly underwritten. "There have been instances where we have let existing business go rather than bow to unrealistic, market dictated pricing."

He said Protea's life division had performed particularly well during the first half year. A 47% rise in premium income had placed it firmly among the fastest-growing life offices in the country.

"Our innovative life assurance and investment products are finding increasing acceptance in the market."

rand helped boost sales revenue 29 final decision is expected by the he says.

SAPT lifts revenue 14,6%

South African Posts and Telecommunications (SAPT) showed an operating surplus of R693 million for the 1989-90 financial year.

The Minister of Mineral and Energy Affairs and Public Enterprises, Dr Dawie de Villiers, said revenue rose 14,6 percent to R5,98 billion.

Initially, a revenue increase of only 4,1 percent was expected from tariff adjustments on April 1 last year.

He told the annual meeting of senior SAPT officials in Pretoria operating expenditure had been limited to R5,29 billion, in spite of rising costs in virtually every sector, a weak dollar-rand exchange rate, which affected foreign payments, and higher salaries.

Return on overall investment was 13,46 percent, while the debt ratio improved to 0,99 from 1,04 for the previous financial year.

This achievement was made possible by all-round savings and by intensified financial discipline and control.

Dawie de Villiers

Dr de Villiers announced that the Cabinet, with a view to commercialising SAPT, had approved two executive senior managerial posts, one for the postal and one for the telecommunications undertaking, under control of the Postmaster-General.

Appointments to these posts, equal in rank to Director-general, would be made soon.

The process of commercialisation required SAPT's management structure to be adapted and draft legislation was before parliament to enable this.

The legislation, which made provision for two separate undertakings, Telcoms and Postal Services, would not only establish the undertakings as State-owned, but would also ensure that SAPT could compete with other enterprises on equal terms.

The Cabinet had endorsed the commercialisation of SAPT as it was in the best interests of the economy. However, the legislation in no way made provision for the alienation of the State's interests.

The undertakings would, for the foreseeable future, remain state-owned. — Sapa

Protea's underwriting losses drop to R13,9m

B/Day 15/8/90

LINDA ENSOR

(58)

CAPE-based composite insurer Protea Assurance's underwriting losses plunged to R13,9m during the six months to end-June, compared with a profit of R3,2m at the previous interim and a R1,6m deficit at the December year-end.

However, contributions from the life and investment divisions meant after-tax income fell 84% to R1,3m (R8,1m). Earnings declined to 17c (103c) and the interim dividend was maintained at 20c.

Protea's short-term arm was hit by the industry-wide deterioration in the motor account, the Welkom tornado, fire damage to a Pretoria electronics factory and a "disturbing" escalation in the crime rate.

"Clearly the increasing crime rate and runaway replacement costs remain areas of extreme concern," said MD Tony Crank, adding that the emphasis in the period under review was to write high quality and soundly underwritten business. "There have been instances where we have let existing business go rather than bow to unrealistic, market dictated pricing," he says.

Growth

Net premium income from the short-term division increased 28% to R97,8m (R78,5m), investment income rose 12% to R10,6m (R9,5m) and shareholders' share of life profits increased 31% to R275 000 (R210 000). Net premium income for the life division rose 47%.

As a major phase of the group's head office building project was completed and funded, investment income growth should improve during the second half of the year in line with projected increased cash flows.

The short-term industry was experiencing a difficult phase and expected continued escalation in crime and replacement costs against a background of socio-political uncertainty. However, Protea was in a financially sound position to weather these difficulties, Crank said.

Insurance funds at year-end stood at R133,2m (R99,7m) and the life fund at R197,8m (R157,6m). Total assets climbed to R391m (R318m). The solvency margin remained virtually unchanged at 134,4%.

UIF offices reminded of the law

Star 16/8/90 By Claire Robertson (58)
Pretoria Bureau

Unemployment Insurance Fund offices countrywide have been reminded by their Pretoria head office to be less precipitous when denying claimants benefits.

After a spate of claims brought by the Pretoria Legal Resources Centre in the past 10 months, claims offices have been reminded that beneficiaries who fail to report to their claims office are entitled to a hearing before losing their benefits.

In terms of the Unemployment Insurance Act a contributor's application for benefits lapses if he or she fails to report to the claims office or designated office regularly "without good cause".

A Legal Resources spokesman explained that in at least two rural KwaNdebele areas UIF beneficiaries had complained that their benefits were summarily stopped.

Numbers of those affected is not known, although the problem has reached the extent where it is to be the subject of a protest march at Siyabuswa this weekend.

Commissioner of the UIF, Jack Scheepers, confirmed yesterday that claims offices had been reminded that beneficiaries were entitled to explain their failure to report before being deprived of benefits.

Mr Scheepers said that, with 140 000 beneficiaries receiving about R65 million a month at 329 payout points, mistakes were bound to be made.

Soon-to-be-restructured Bidvest has R5,7-m profit

(58) Star 16/8/90

Finance Staff

Bidvest, with 51 percent of Afcom ahead of the implementation of a recent restructuring, has reported turnover of R115,1 million for the year to June.

Attributable profit was R5,7 million and earnings per share were 241c.

A final dividend of 51c a share has been declared, bringing the total for the year to 96c.

Bidvest was formerly Currie Motors and no comparative figures have been provided because the nature of the business has changed substantially.

Effective for financial 1991, the nature of Bidvest's business will again be substantially changed.

It will become the holding company of all of Bidcorp's activities and, in turn, will be held 60 percent by Bidcorp.

According to the directors, this restructuring will result in the scope of Bidvest's activities being significantly enhanced, with substantial cash resources available to supplement growth by acquisition.

In terms of the restructuring, Bidvest will acquire 100 percent of Cater Plus (formerly Chipkins) and 50 percent of Justine.

In addition, Bidvest's effective control of Afcom will be restructured into a 53 percent stake in Afcom (which will be an operational arm) and a 76 percent interest in Afpac (which will be a cash shell).

The directors are optimistic that the restructured group will achieve a satisfactory performance in financial '91.

Shakeup support 'likely'

58

NEIL YORKE SMITH

BANKING and financial authorities are likely to lend full support to rationalisation in the financial services industry, say government sources. BDay 16/8/90

"We acknowledge that the sector may be overbanked and are well aware that rationalisation could benefit the overall industry," said a senior government official.

The new Registrar of Banks, Hennie van Greunen, until recently worked in the private sector and analysts say his approach is likely to be innovative and based on free market thinking.

"As a result we could see our banking system moving more in line with international trends," said one.

Responding to suggestions that a deal involving the takeover of Allied Group could be finalised soon, Van Greunen and Registrar of Financial Institutions Piet Badenhorst said they had seen no firm proposals yet.

Van Greunen said in an interview: "Should any proposals be made we will ensure the interests of shareholders and depositors are looked after in the best possible way," he added.

Some players in the industry believe a deal involving Allied could be finalised soon. But potential predators are faced with a single thorny problem — the new Deposit Taking Institutions Act only comes into effect early next year.

Then investors will be able to build large stakes in any financial institution — although they will still have to get approval from the authorities when certain limits are reached.

Until then any investor is still limited to a 10% holding in a building society group.

Both Badenhorst and Van Greunen confirmed it would be hard to conclude a deal while the current legislation still applied.

In any event proposals would still have to meet with the approval of the minister of finance, said van Greunen.

Jacobs to sit on rating panel

ROBERT GENTLE 58

JAPIE Jacobs, special adviser to Finance Minister Barend du Plessis, has accepted an invitation to serve as a member of the independent ratings panel of Republic Ratings, SA's first fully operational rating agency.

Republic founder Dave King said it brought the panel to its full complement of five members.

The others are Jimmy Lane (former First National Bank GM), Andy Andrews (former Wits Business School head), Aad Zevenbergen (head of the Bureau of Financial Analysis at the University of Pretoria) and Republic's executive director Gideon van Rhyn. BDay 7/8/90

The panel vets and ratifies the ratings proposed by Republic's analysts.

Republic has already rated Eskom and has been approached by Transnet and the Post Office for ratings.

Growing lobby seeking immediate interest rate cut

B/Day 17/8/90 (58)

GRETA STEYN

THE lobby in favour of a cut in interest rates is growing stronger with some economists and industrialists calling for an immediate reduction in Bank rate to ease the pain of the recession.

Those in favour of this view believe it can be done without compromising the battle against inflation.

Among bank economists, Standard Bank's Nico Czypionka and Nedcor's Edward Osborn say the time is right for an easing in monetary policy. Czypionka said a degree of overkill was taking place, and interest rates could be cut slightly without contradicting the Bank's policies.

"Otherwise, the Bank will battle to maintain an artificial situation," he said.

The Afrikaanse Handelsinstituut (AHI) yesterday called for a reduction in rates, saying a danger existed that the recession would be prolonged longer than was necessary. The organisation called on the Reserve Bank to seriously consider a cut in interest rates.

LINDA ENSOR reports the chairman of major industrial conglomerate Malbak, Grant Thomas, yesterday added his voice to those asking for a cut in interest rates.

"Government insistence on maintaining its interest rate policy might be out of touch with the deep recession biting the economy."

Strong

While he supported the policies to reduce inflation, he believed the pressure could be maintained without an overkill situation developing. His view was the recession was deepening each month and while those "at the coal face" saw the effects immediately, it took time for these to percolate through official statistics.

The SA Chamber of Business's view was that if present internal business and economic trends continued, there was a strong case for a reduction in interest rates before the end of the year.

Prima Bank produces outstanding results

BD 17/8/90 NEIL YORKE SMITH (58)

NICHE finance group Prima Bank produced outstanding results for the year to end-June with net income for the unlisted group rising 60% to R1,2m (R750 000).

This represented a return on total shareholders' interests of 42,8%. Shareholders' interests stood at R2,8m at the beginning of the last financial year. The end-June 1990 figure was R4m.

"We are pleased with the results and look forward to continued growth," MD Johan Bellingan said yesterday.

The R1,2m profit figure represented a return of 0,82% on assets held at year-end.

● BELLINGAN

During the year Prima managed to boost total assets 41% to R146m (R86m).

Bellingan said the current financial year could be tough going, given the depth of the recession SA was entering.

However, potential growth areas did exist. "We are expecting to increase the instalment book, and Prima Property Trust has good potential."

The group's main activity is banking. It serves a broad base of medium-sized corporate clients. Prima is also involved in the capital and money markets, and is one of the main players in derivative instruments such as futures and options.

Prima has interests in property development and management through its investments in Caribbean Estates (30%) and Prima Property Trust Managers.

Bellingan expected economic conditions to remain tight for the foreseeable future. However, he was hopeful that improved profits would be attained through a softening in interest rates and an easing of monetary policy.

COMPANIES

S8

Crulife boosts its premium income 36%

B/Day 17/8/90

LIZ ROUSE

CRUSADER Life Assurance Corporation's (Crulife) net premium income was up 36% and its income surplus up 35% in the six months to end-June.

Net income rose to R33,7m (R24,7m), but investment income was down at R3,5m (R4,7m) as a result of the slowdown in the equity market during that period. The assurer's income surplus transferred to policyholders' funds increased to R10,1m (R7,5m).

Policyholders' funds grew by 34% to R75,6m (R56,2m) and total assets rose 24% to R105,9m (R85,6m). The value of investments increased to nearly R69m (R59,7m).

Crulife pays only annual dividends, which amounted to 14,4c last year.

The assurer differs from others in that emphasis is on underwriting health cover policies.

Crulife lifts assets 24 pc

Star 17/8/90 58

Finance Staff

Crusader Life, the health care and life assurer in the Anglovaal group, reports a 36 percent growth in net premium income to R33,7 million in the six months to June and a 24 percent growth in assets to R105,9 million.

But investment income fell 24 percent to R3,55 million — mainly as a result of the slowdown in the equity market.

The company expects to declare an annual dividend in March.

Smaller companies ignored

DEW 17/8/92

By Ann Crotty

Smaller companies (those with a market capitalisation of under R500 million) constitute some 80 percent of the numbers of companies listed on the JSE but attract little in the way of institutional funds that could support growth.

According to SA Bias chairman Mr Christopher Seabrooke: "One of the JSE's traditional functions is to act as a medium of exchange for the raising of funds for growing companies. It is easier for fund managers to concentrate on the top 30 companies with large capitalisations and good tradeability, but the growth of smaller companies is essential for the new South Africa and should not be ignored."

Mr Seabrooke was speaking at the Investment Analysts' Society annual "Best reporting and communications" award dinner where SA Bias was named the winner in the small companies category.

He pointed out that there were many companies in this category with low price/earnings ratings and high dividend yields which deserve a "light blue" rating from fund managers.

LIFE ASSURANCE FM 17/8/90

War and riot

(58)

The status of insurance cover in group benefit policies for disabilities arising out of war or riot is changing. Traditionally, this has been excluded. Now urban terrorism has drawn attention to the exclusion clause and there are calls for its removal. Buyers are pressing brokers to provide group policies which include the benefit.

But the viability of such cover is questioned by insurers and reinsurers alike — including companies that offer it.

To give themselves leeway, some provide it *ex gratia*. Says Sanlam's Wouter Thom: "This does not bind the insurer to pay potential claims but allows him to do so if circumstances warrant." However, clients (and brokers) understandably don't trust an *ex gratia* approach.

FM 17/8/90 (58)

Other insurers provide cover for a premium. They argue the facility gives them a marketing edge over competitors who only pay *ex gratia*. But they also give themselves a loophole because the contract allows them to withdraw the cover, on 60-90 days' notice.

Swiss Re's Douglas Keir argues that if cover may become unavailable when most needed, an *ex gratia* approach is preferable.

Liberty Life, which provides the benefit without charge, takes a proactive stance.

Assistant GM Mike Brewis says Norwich Life considered revoking the exclusion about five years ago, but there was then no pressure to make adjustments and reinsurance was hard to find. The exclusion was revoked at the beginning of the year. Purchasers wanting war and riot cover in group benefit schemes can pay a premium for it.

The hazard, says Keir, is that these insurers could become vulnerable to "anti-selection," which will create a higher risk margin for those offering the products. However, a Liberty spokesman argues "exposure is so widespread that the vulnerable groups will not disrupt the balance."

Another problem is reinsurance. Keir points out that, in life products, an unmeasurable risk is difficult to reinsure. "There is no way we can estimate potential claims."

Reinsurer Mercantile & General's Philip van Zijl says it is not company policy to reinsure this risk in SA or abroad. Reinsurance is supplied on a yearly renewable basis, which makes it like a short-term product perched on the back of a life policy.

Alexander Forbes' Nico van der Walt adds a final comment: "If we look at how fast the Kuwaiti annexation happened, the insurer can be exposed to an enormous liability during the 60 or 90 days before cancellation of the cover." ■

FEDSURE FM 17/8/90

Safe and sure (58)

Unlike most of its short-term insurance counterparts, the life assurance industry continues to show solid growth. Fedsure's principal subsidiary, Fedlife, saw new business — a combination of life and pensions — increase by 36% to R124m in the six months to end-June.

Fedlife's business comprises two main operating areas. The larger of these provides pension, provident fund and group benefit schemes for industrial councils, employer groups and trade unions, as well as to small-

FM 17/8/90 (58)

to-medium sized companies. The other markets a broad range of life and retirement annuities to individuals through insurance brokers.

The increase in new business from both divisions helped push taxed profit up 23% to R11,1m. Group CE Arnold Basserabie says "refined operating procedures and concentration on cost control" have also helped, while a large investment in more powerful computer processing has improved customer service.

Recurring premiums rose 27% to R246m and investment income excluding capital appreciation increased by 18% to R176m. "The group's investment policy with regard to equities is to invest in well-managed companies which provide above-average returns on both income and capital over the medium term," Basserabie says.

Like most other institutions, the group has been allowing its cash inflow to build up, to take advantage of high interest rates in the money market. It has also been restructuring its equity portfolio to invest in fewer, better quality stocks. Its property investments have been increased and new properties valued at R100m are being developed or are under consideration.

One of Fedlife's smaller investments is its short-term insurance company, Fedgen. Though contributions are not disclosed, Basserabie says the short-term insurer managed to avoid the heavy losses incurred by most of its competitors and ended the year slightly ahead of break-even.

Earnings rose 23% and the interim dividend of 10c was half the total payout for 1989. Based on last year's second half earn-

FM 17/8/90 (58)

ings increase of 15,2c, and assuming the growth rate is sustained, earnings for 1990 could rise to around 35c. *Heather Formby*

AA LIFE BUILDING FM 17/8/90 (58)

What are the options?

The long-standing dispute over ownership of the prime AA Life Building at 27 Diagonal Street, Johannesurg, is on the verge of being settled out of court.

The disagreement — between the AA Mutual Association and liquidators of the organisation's short-term business — relates to precisely who owns the option to buy the shares in the company which owns the land on which the development is located.

Liquidators won't be drawn on the issue but it seems they have won the day: the association is withdrawing its claim to the option.

While ownership of the option may not appear to be a major issue, it makes a big difference to the value of the assets liquidators will be able to dispose of on behalf of the short-term business's creditors.

Being able to exercise the option means they can sell the development as a single entity.

Without it they would, in all probability, be able to sell only at a much lower price assets which they already own, such as the head lease.

The confusion over ownership arose because of the complex nature of the original development package (*Property* January 26). At one stage it seemed the matter would have to be settled in the Rand Supreme Court.

Now, however, liquidator Michael Connolly says: "The dispute is in the process of being settled out of court.

I can't give any details as the matter is still subject to negotiation and hasn't been finalised, but it looks as though we will acquire the option."

Construction of the 22 000 m², A-grade office building was started by AA Mutual and taken over and completed by liquidators of the short-term wing in 1986. The development package was structured to enable it to comply with the 11G tax legislation (subsequently scrapped). This allowed the cost of the building to be written off against tax over 10 years.

The building was built on land which did not belong to AA Mutual — but to a group of pension funds.

They erected the building against an option to buy the shares in the company which owns the land for a fixed amount within a fixed period.

The funds include: Checkers Store Pension Fund; Checkers Retirement Fund; Checkers Supplementary Fund; Kirsh Industries Group Pension Fund; Metcash Group Pension Fund; AA Mutual Staff Pension Fund; Rusfurn Group Pension Fund; and Boymans Pension Fund.

The dispute arose because liquidators of the short-term business and the AA Mutual Association — not in liquidation — both claimed ownership of the option.

There is no dispute over the ownership of the building itself — the head lease belongs to the liquidators.

The AA Life building as a saleable entity is conservatively valued at R60m-R65m. In rentals alone it brings in an estimated R5,6m a year (*Property* August 4 1989) and is located next to the JSE in the heart of Johannesburg's financial district.

Since the building is fully let, with most leases signed a few years ago, office rentals are probably in the region of R17/m² net, (R25/m² on more recent deals). Added to this would be about R190 a bay for the 440 basement parking spaces. The yield on the building is probably about 9,75%. ■

SAGE GROUP . FM 17/8/90 (58)

Reading between the lines

Investors and analysts remain cautious over Sage's cash needs

Is Sage being unduly coy about its capital restructuring? It's four months since Louis Shill told shareholders in his last Sage Holdings chairman's statement: "Financing of the holding company's increased investment in subsidiaries at the prevailing high level of interest rates adversely affected its results in the review period. Capital restructuring to reduce this financing burden is planned during the current year."

Since then, not a peep. And that has led stockbrokers and analysts to ask if hidden snags are holding up changes in the financial group Shill founded 25 years ago.

"Emphatically no," says Shill. "It's only four months since the annual report. We are in the course of placing some non-strategic assets, issuing prefs and negotiating terms — and that takes time. Like any other listed company, we don't communicate with shareholders selectively or sporadically. We expect to deal with it when the interim results are published, early in September."

That's fine, but investors' and analysts' caution appears underscored by the comparatively lightly traded share's resolute disinclination to recover from its present 775c. That's way below the 2 000c touched briefly ahead of the 1987 Crash, and Sage's failure to recover contrasts sharply with the performances of other shares since then.

Their caution, in part, stems from perceptions that the group's reports are insufficiently detailed — a view disputed by Shill who says the directors' reports and financial statements of the holding company and its subsidiaries provide detailed information of the complicated group.

Perhaps the present concerns about Sage would never have arisen if the boardroom fight between Shill and Kevin de Villiers had not gone public at Allied's last AGM. But it did, and some analysts now wonder whether the real reason for the public dust-up was De Villiers' opposition to a plan by Shill to merge what they see as a potentially cash-hungry Sage and the Allied. Shill dismisses the suggestion, saying that it has not been contemplated; that it is not possible given present legislation; and that the relative sizes of the two companies would mean Sage being swallowed by Allied.

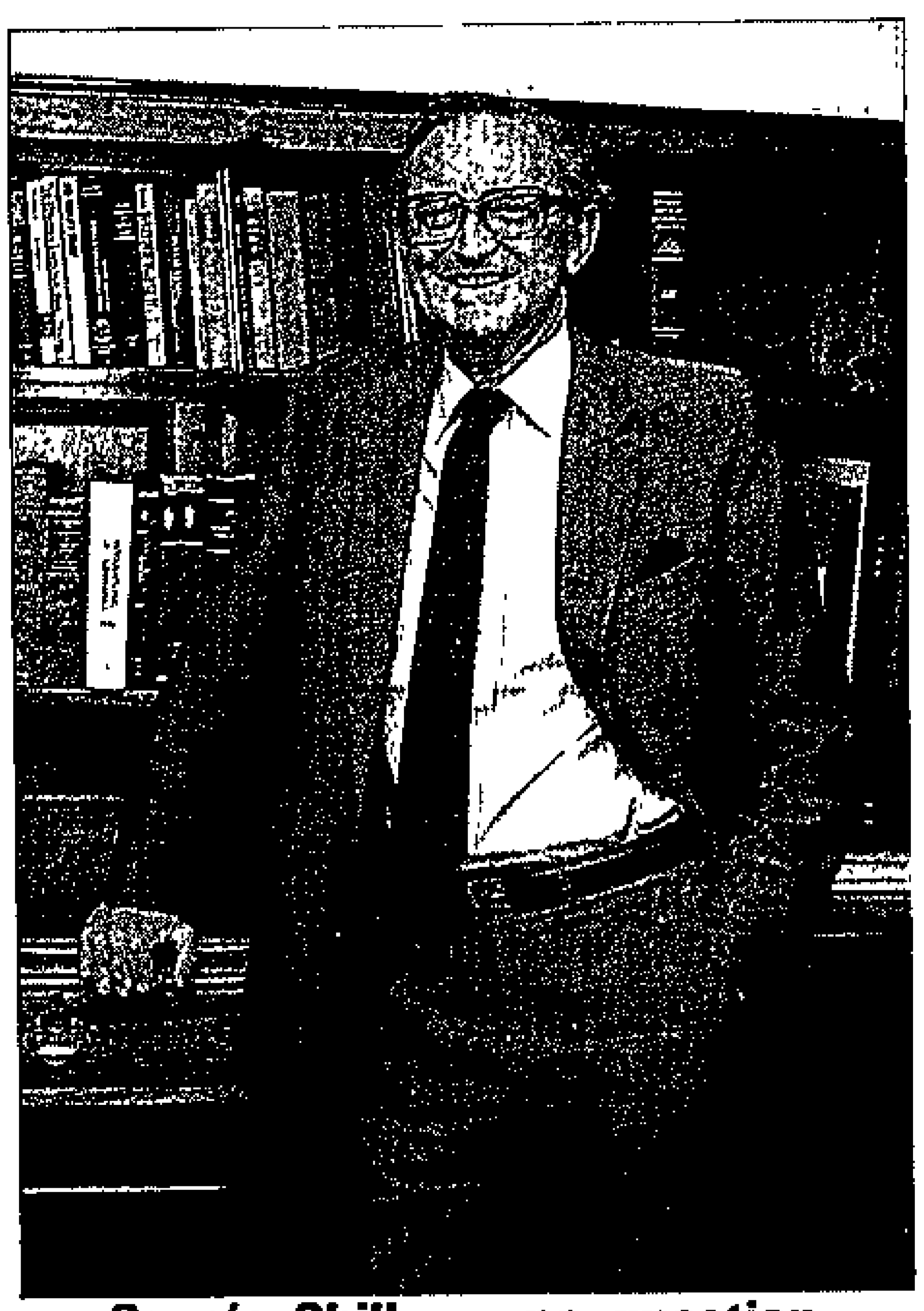
There would be nothing to prevent Allied from swallowing Sage — and such a merger might have made sense if it allowed Sage to tap Allied's cash flow for its capital restructuring. But Shill points out there are other options and tells me a rights issue to restructure Sage was never envisaged and that, in any case, Sage is not cash-hungry. He categorically denies he is fighting with De Villiers personally. Rather, there was a dispute over control of management by Allied's board and previous executive committee. Consequently, he rebuts suggestions that a fight with De Villiers has kiboshed merger plans.

Last year, Sage Property Holdings (SPH) sold Sage's head office building and a couple of other properties to Sage Life in arm's-length transactions. The head office fetched R27,4m and generated a capital profit of about R13m. And, at one stage last year, I'm unofficially informed, Shill told his fellow directors that buildings worth R100m could be sold out of SPH to Sage Life which would allow SPH to repay R60m of debt and leave it with R40m cash to deploy. Shill does not recall the precise details of the discussion but tells me the figures are broadly realistic.

One concern is that Sage could become cash-hungry if a dollar debt, disclosed as an end-1989 R41,7m contingent liability, becomes an actual liability that has to be repaid. Repayment is not impossible, and Shill says well within the group's resources.

The contingent liability problem area is in the US where the shift into the financial services industry has been disappointing, to say the least. Shareholders are faced with the prospect of their company having to foot a bill which could be as much as 30% of the unadjusted R205m shareholders' funds shown in Sage Holdings' 1989 consolidated balance sheet.

The contingent liability was, in fact, US$15m at end-1989 and is probably greater now given intervening interest accruals and further operating deficits in the US.



Sage's Shill ... no question of 'hidden snags'

Shill says the contingency is correctly expressed at the year-end commercial rand rate. But analysts point out that if the $15m has to be repaid through the financial rand, as mandated by the Reserve Bank for financing foreign subsidiaries unlikely to be traded back to profits, the actual liability would be nearer to R60m.

Even that, Shill says, isn't an insurmountable problem. Even if Sage Holdings shareholders' funds are adjusted for the market value of investments resulting in shareholders' funds of R400m, and if the full R60m liability is incurred, the group's debt:equity ratio becomes only 31,5%.

The move into the US was fine until Sage decided to expand its Independent Financial Services (IFS) subsidiary in conjunction with Marine Midland Banks. Back in his 1985 chairman's statement, Shill enthused about the new partnership with Marine Midland Banks in IFS. He talked of IFS's objective of establishing a "strategic network" to distribute fee-based financial planning services in the US.

By last year, IFS was deep in debt and, typical of service companies, with no assets worth talking about. It was also seemingly persistently unprofitable, short of major surgery. And this very IFS was the company Shill said was "already acknowledged as one of the prominent independent financial planning organisations in the north east . . ." This is still the case, he believes, adding that it is not mismanagement but adverse currency shifts that have been against Sage. He also says "SA-tainted" businesses have been at a trading disadvantage abroad and that this is the main reason for IFS's lack of success.

Sage financed its initial commitment to IFS with US borrowings of $5,6m. It guaranteed those borrowings and the subsequent debt increase to an end-1989 $15m, which was swallowed up in management and other costs. The total is now probably somewhere in the region of $16m-$17m. And shareholders in SA have not seen a red cent in returns from the US. The key question now is, will they ever do so?

Sage Holdings' own portfolio was written down by R41,7m to account for the disclosed contingent liability. Nevertheless the portfolio rose by R56m on the year.

Unofficially, I hear Sage cannot hope to sell its foreign property interests at a profit to help repay the $15m debt. But Shill denies allegations that the market values of the properties — in Spain and the US — are only just equal to their mortgages. If Shill is correct, they could be sold to realise a cash surplus.

Back home in SA, critics allege, costs have also been piling up. Latest is the computer whole." But it is believed the Broker Direct Accounting system cannot yet operate on its own. One of those involved in development of the system says: "It has taken much longer than expected. There have been many problems we could not foresee."

Brokers have also heard that the JSE management executive is considering not allowing those who now use the JSE system to opt for an alternative. "We are under the impression that we will be forced to use Broker Direct Accounting," a stockbroker fears. "Obviously, they have to recover costs." Norton says what has been decided is that if brokers don't use the new system they will still have to pay for it.

It is these costs that brokers are worried might put them under severe financial strain. They are especially worried as volumes are particularly low now. They have fallen to around 173m in July from well over 200m in previous months: 279m in January; 244m in February; 287m in March; 220m in May; and 257m in June. April was an exception with only 152m shares traded.

"We need about R100m and 4 000 deals a day to break even," Norton says. "With market liquidity at around only 4%, this is becoming less possible."

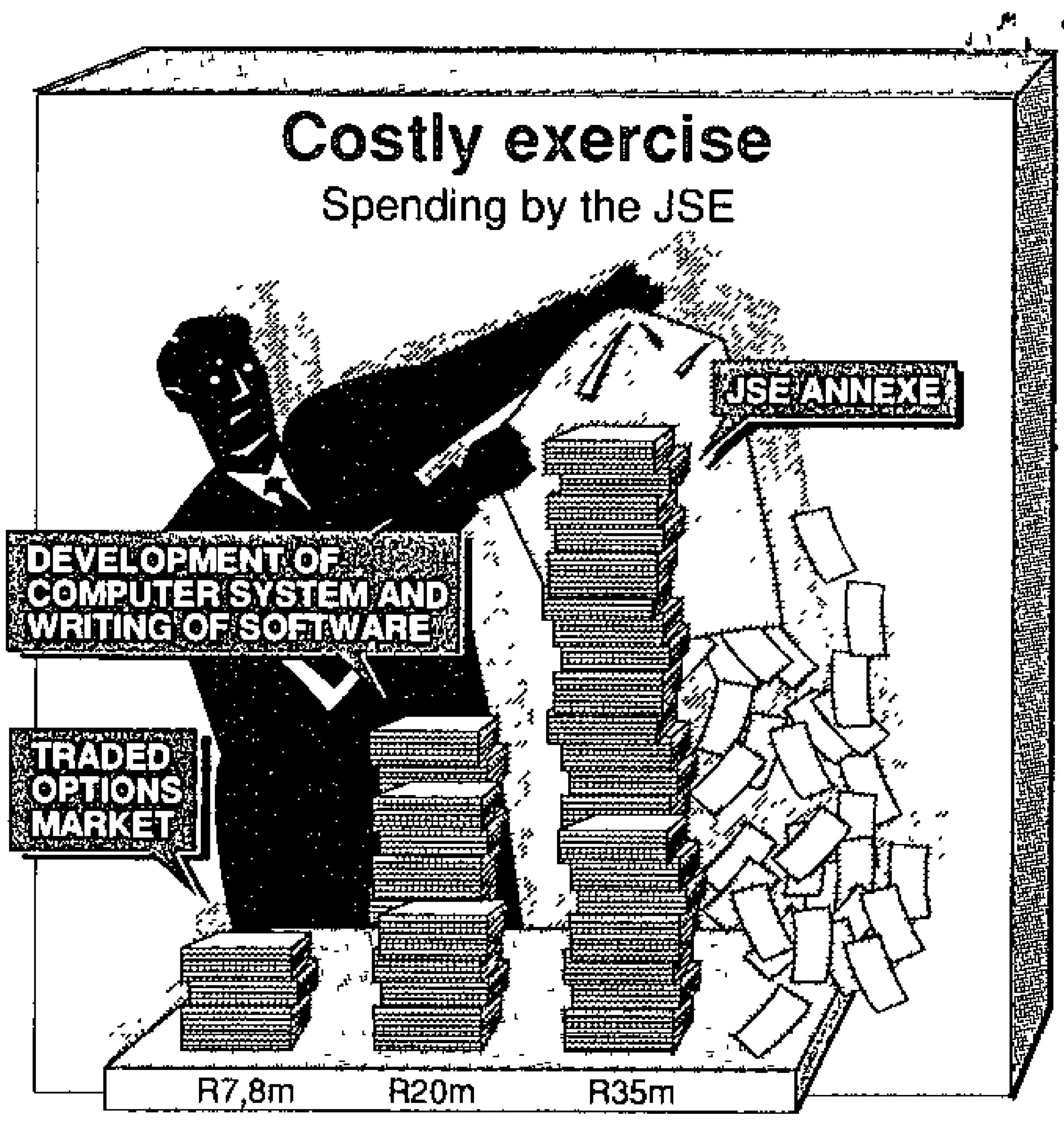
Norton reckons the average fixed cost of a deal is R50, though most brokers say their break-even is R25-R30. The recently gazetted minimum R30 per transaction (except where the value of the deal is under R200) has become necessary so brokers would find it feasible to do deals for smaller investors.

But with institutions now side-stepping the stock exchange because of real returns of around 6% on the money market, compared to average dividend yields of 4% and little hope of capital appreciation, brokers and their staff are becoming more vocal with complaints, especially as they forgo August bonuses. Salaries are said to have been cut and lay-offs are being discussed.

Nor is it only brokers who are complaining about the autocratic and unbusinesslike operations of the JSE management. Institutional participants in the gilts and derivatives markets have become concerned about the JSE's interference. Norton explains: "We understand the regulation necessary to support formal markets and want to vet cross-market risks. It is for this reason we have contributed to the formalisation of the futures and gilts market."

When the Bond Market Association committee was elected in June last year, much lobbying by the JSE resulted in three members being elected while clearing banks, which deal in more than half the gilts traded, were not represented. However, after some complaining, the JSE proposed that a clearing banker should be represented. Nedbank's Eben Smit was elected.

The association was due to be registered as a formal market along with the SA Futures Exchange (Safex) on Friday. The association was under the impression that it was necessary to have a clearing system if it was to be registered and was offered by the JSE its Gilts Clearing House as an interim measure. Though most association executive committee members initially rejected the idea, the recommendation was eventually adopted with the persuasive help of JSE GM in charge of non-equity markets, planning and market development, Darrell Till.



"The JSE proposed to offer this service at R20 a leg or R40 a deal which was clearly a rip-off," a gilts dealer at a merchant bank says. "After some investigation we found that Safcom, Safex's clearing house, could do the same thing for R6 a leg or R12 a deal." Another dealer says: "The JSE thought it had the only system we could use."

Norton says JSE costs were more because the dual computer system duplicates all systems as a disaster recovery. "We were just making a commercial offering," he says. "We have cut our offer to R15 a leg as we would prefer to make a small loss and have some form of regulation so the market is protected." He adds that the JSE system has been tried and tested.

"Only when we complained to the Registrar of Financial Institutions Piet Badenhorst was the decision reversed," a merchant banker says. The association has now been given time to develop its own system and the market will continue as an informal one until the new system, UNEX, is developed.

Empty floor

Another point of contention is the futures trading floor — built at a cost of R3,2m — and this does not include Reuters screens or other extras. Since it opened on July 1, few deals have been done and a visit showed an empty floor with no traders. Safex CE Stuart Rees says the floor may have to be closed.

None of these expenses would have been incurred but for the strong advocacy by the JSE of an open-outcry or pit trading system. Though futures dealers were in favour of screen trading it was decided to compromise and use both systems until it was proved one was superior.

Norton says he will not admit the floor was just a costly exercise until the 14-month lease (cut back from 18-months "to show belief in the floor") is up and no one renews his lease.

The JSE is said to have lobbied for the floor so it could have more control over the futures market, which provided added competition to equities, as well as recovering some of the money spent on its R35m building. Norton says it was after worldwide research showed an open-outcry system was better for liquidity.

Though Norton's five-year term as president is almost up, he says he is not planning to leave. During his term he has done a lot which former part-time presidents usually in office for two years mostly did not have the time nor inclination to initiate and follow through.

He says he has introduced strategic planning, proper cost accounting, personnel structures and new computer systems.

Nor can the blame for JSE mistakes be put solely on Norton's shoulders. Darrell Till is one of those responsible for many of the mistakes. "He was in charge of computers and is now in charge of non-equity markets," a broker says. "The record speaks for itself."

The question is whether Norton and his team (including the 12 broking members of the committee) are victims of government's unusually sustained efforts to curb excess demand in the economy. Once business activity revives and demand for capital increases, boosting share dealing activity, will brokers again be sufficiently flush to view the JSE's capital commitments and authoritarian administrative ways as insignificant irritations?

Or, at the least, whether the present situation has highlighted a deeper malaise that requires a more open-minded management executive and broking members of the committee with more chutzpah? Or maybe a more open and competitive system?

There is, of course, nothing wrong with the JSE that increased competition would not put right.

None of the extravagance outlined here would have occurred were it not for the Stock Exchanges Control Act, the charter behind which both the institution and its members, with the help of Pretoria, seek to preserve an archaic exclusivity under the spurious guise of keeping an orderly market. ■

Director Nackan ... a question-mark over controls

hardware division, held through Sage Life and which, they say, had assets largely tied up in obsolete stock and had to be closed at a cost of R4m. "That's wrong," Shill says. "And it displays a misunderstanding of what happened — the business wasn't closed, it was merged with the bureau operation and its focus was redirected towards networking in which it's a market leader."

He also rebuts allegations that the computer bureau operates only because it has cheap access to Allied's mainframe computer. "Our bureau business has no connection with Allied and uses its own computers," he says, talking about data processing contracts with several large clients. He also says it is cheaper to use Allied's excess computer capacity and that Sage Life and Allied share equally in the benefits.

Analysts have suspected for some time that Sage's accounting might trip up the unwary. And, in one respect, Shill confirms this. Sage equity-accounts its 26% interest in Rand Merchant Bank (RMB). But it does not stop at equity-accounting RMB's disclosed profits after tax and transfers to inner reserves — the only profit figure available to outsiders.

In agreement with Sage's own auditors and RMB's, the group also equity-accounts part of RMB's transfers to hidden reserves. That means an unwary analyst who believes that only RMB's disclosed profits are equity-accounted could fall into the trap of believing Sage's other interests are contributing more to the consolidated income statement than they do.

It is impossible for an outsider to calculate the effect on the income statement of equity-accounting part of RMB's hidden transfers; but Shill says it is incorrect to infer that the accounting technique means Sage last year consolidated R9m as opposed to the R5,2m brought in if RMB's disclosed profits alone had been taken in. As it was, Sage Holdings indicated a R38,6m after-tax profit for 1989.

The group's actual cash dividends from RMB totalled something less than R2,1m in 1989. Still, Shill reaffirms his happiness with RMB's ploughbacks.

Equity-accounting the 10% of Allied inside Sage Financial Services (SFS) will contribute R6,9m to Sage's taxed profit in Allied's financial year to March 31 1990. But dividends will give a cash flow of only R3,4m. Shill stresses there is nothing unusual about the equity-accounting treatment of investments.

There is also the question-mark floating over the efficiency of the group's management controls. How was it possible for divisional management at Schachat, the home-builder held by SPH, to get away with over-reporting profits for several years? Sage director Bernard Nackan tells me it has still not been possible to prove the overstatement was fraudulent or that the people responsible enriched themselves. Which helps explain why there has been no claim against fidelity insurance so far.

In the event, mismanagement and overstatement of Schachat's profits over several years shoved SPH into an "extraordinary" loss of R12m after tax. It was taken below the line, but compensated for profits on the sale of other SPH properties.

The overstatements meant reported above-the-line profits were unrealistically high for several years. And those unrealistic profits were the ones declared in SPH's pre-listing documents in late 1987 when the property arm was floated on the JSE. Shill points out that the Schachat problems have been fully dealt with in the financial statements; admits that systems and audit procedures were unsatisfactory; points out that manipulation of work in progress values is a problem in the construction industry; and says the problems have been addressed.

Allied's De Villiers ... who swallows whom?

Nor, critics argue, can Sage Life be particularly proud of its portfolio management skills. According to the authoritative 1988 survey of life assurers' portfolio performances, published by Richard Wharton-Hood & Associates (RWH), the Sage Life portfolios analysed were the worst performers of all the major insurers taken on three-, five- and 10-year views. And, in several cases, they failed to beat inflation.

In 1989, Sage opted not to be compared to other life offices and declined to provide RWH with the information needed for the survey. Shill explains that decision by saying the portfolios RWH compares form a small part of Sage Life's business and were structured to provide low-risk profiles. He adds that in other authoritative rankings Sage Life often comes out top or second. And he says other life offices have declined to participate in RWH's survey for similar reasons.

The ongoing conversion of the R71,5m of Sage Holdings convertible prefs bought by Allied is marked as a problem by some analysts as, before conversion, the prefs are seen as providing Sage with cheap capital — 5,75% initially escalating in line with changes in Sage's annual earnings.

Shill says they are permanent capital, that phased conversion was chosen to avoid earnings dilution, that Sage's financial statements disclose the full effects of the ultimate dilution — and that cash flow will benefit with conversion as the yield on the ords is lower than that on the prefs.

The prefs started to convert in April this year and, when the five annual conversions are completed in 1994, Allied will hold 20% of Sage's equity and earnings will be diluted in proportion.

Sage Holdings got R71,5m from Allied, underwrote the Allied issue and eventually spent R53m-odd to buy its 10% interest in Allied. The deal was structured to protect Allied from unwelcome predators. That left Sage with R18m or so of additional liquidity — yet another example, critics claim, of Sage's cash hunger.

Sage is not a banking group, so it cannot own more than 10% of Allied's equity under existing legislation. And that, despite the public statements, is what critics believe was at the heart of the fight which erupted at this year's Allied AGM.

Shill says there is no fight as such, but few people take that at face value and tend to believe the differences can be resolved only by some pretty hectic horse-trading or even blood-letting on Allied's board. Shill vehemently rejects this interpretation.

Allied cannot vote its holding in Sage's convertible prefs, but it can vote the ords on conversion. And the fact that De Villiers might still be Allied's MD when all the prefs convert remains, I believe, something of a headache for Shill. But to give Shill the final word on what I believe is a headache: "Not so, all shareholders are free to vote as they wish, just as we did at the Allied AGM."

Jim Jones

Trouble galore for just about everyone

Star 18/8/90

THE on-going ructions in the Middle East seem to have distracted investors from the appalling developments on the local front as well as the miserable industrial results being reported.

This week's trading on the JSE has been strong enough to make employment prospects look a little brighter for traders and brokers. But Myles' reckons its not sustainable enough to hold out any hopes for the usual August bonus.

However even the jobbing in gold shares and some fairly hefty bookovers in industrials couldn't shake Myles out of his lethargy.

There just aren't enough deals for him to gossip about ... nobody's buying, nobody's selling, nobody's merging. Business is so tough that even big guys with cash aren't too interested in buying — they just want to concentrate on keeping their own companies going. Thankfully there's the odd — very odd — restructuring plan on the go.

Myles did say that there are some whispers about some deals — but they're very soft at this stage.

However, lots of business on the liquidation front.

There's a growing fear that a Middle East war and higher oil prices will be bad for gold and the local equity market as international investors are expected to unload and go for cash.

Impala plan

News of the great Impala plan hasn't been much help in terms of unlocking the value in the share price. The share was slightly softer at the end of the week. But in view of the results it would probably have been even softer if the plan hadn't been revealed at the same time. Analysts reckon the price will pick up in the not-to-distant future.

There's some speculation of a possible separate listing for Impala's 23 percent stake in Western Platinum, along the lines of the listing of Bevcon by Premier. That move certainly did unlock a lot of the value in the

Inside Out
58
ANNE CROTTY

Premier share.

Dull prospects for platinum are making the Potgietersrus platinum project (being undertaken jointly by Lebowa and Rustenburg) look fairly unattractive. Particularly if a rights issue is involved as Lebowa and Rustenburg aren't doing too well right now.

Myles reckons the drop in Samancor's share price has been a little overdone. Apparently most of the selling pressure has come from small investors, by contrast the institutions are fairly keen. The results are due out next week and he's looking for an earnings increase of around 10 percent.

Elcentre weakness

FSI selling is not behind the current weakness of the Elcentre share price according to Myles ... he wasn't quite sure what was. Could Voltex need a rights issue?

The government's revised views on industrial strategy — from import protection to export growth — is attracting some attention to the tariff protection granted to the chemical industry. Investors are currently trying to work out the likely impact on Sentrachem and AECI of removal of this protection and the switch to export incentives.

Bankorp seems to have settled at around 240c with not much signs of selling pressure. But feelings about the group's prospects remain so mixed that Myles reckons in view of Piet Liebenberg's commitment to much greater disclosure of information, Bankorp could make it a clean sweep for Sankorp/Gencor in next year's Investment Analysts' Society award for best communicator. With Bankorp picking up the award for the under R500 million market capitalisation category.

The challenge of classroom politics

W/E Argus 18/8/90

50

By FRANS ESTERHUYSE
Weekend Argus Political Correspondent

THE case for bringing politics into the classroom to help children to cope with the tensions and conflicts of life in South Africa has been put forward by a Cape educationist, Mr Johannes Heyl.

COPING WITH TENSIONS AND CONFLICTS

He has found that white youth are more in need of political knowledge and involvement than their black and coloured counterparts.

Mr Heyl's challenging and potentially controversial ideas are contained in his thesis for a master's degree in education at the University of Stellenbosch. An extract published in an education journal recently has drawn interest in political and educational circles.

Mr Heyl is the principal of the Worcester North Primary School.

His findings and recommendations include:

■ Political literacy as a task of the school is a key priority which should be recognised by all those involved in education. It should be part of the school's basic curriculum, and in secondary schools it should preferably be a separate examination subject.

■ The school itself must reflect a truly democratic character, and its functioning and administration should be geared for this. However, the development of political literacy is not only the task of the school — the state and voluntary institutions can also play a role.

A warning: political literacy taught at school is for guidance and should not be a means for social and political reform.

■ The influence of politics on ... h is ... cal reading material, and at 11 they already have a broad political perspective and can link problems with principles.

One researcher questioned 386 children in the age group four to eight years and found that political development began as early as four.

Mr Heyl notes that concern has been expressed in Britain about the lack of political knowledge and insight among British school children. A tendency among pupils to support neo-nazi groups has been cited as evidence of the children's political ignorance.

In South Africa white youth tend to be ill-informed politically, while black and coloured youth show more political awareness and interest.

In black communities a feature of pupil action is the way in which the government is being challenged. Black pupils are not only actively involved in the struggle against the system, but are also involved in bloody battles between political factions.

Mr Heyl e...

accepted worldwide.

■ Teachers, pupils and parents are increasingly becoming involved in the political decision-making of the day. In South Africa it is especially black and coloured pupils and teachers who take part.

Schools boycotts, marches, arson and violence are not only concrete evidence of the struggle, but are also a clear sign of a disturbance in the teaching situation. This state of affairs reflects pupil ignorance of the true functioning of a democratic political system.

■ In South Africa the child must be prepared for a society in which political conflict and tension are part of daily life. South African society, like societies all over the world, makes high demands on the political abilities of every child as a future citizen.

Mr Heyl says school education is not the breeding ground for a pre-conceived future political system. It is not a last ditch, nor is it "a revolutionary stronghold where children are used as storm-troopers." It is no remedy for the ills of society, but it is an addition and an extension to home education aimed at the child's development to maturity, including political maturity in a changing world.

Research findings cited by Mr Heyl show that children are able to handle political concepts at a very early age. It was found that children at the age of seven already had a basic political knowledge, ideas and vocabulary. At nine most children can handle politi-

... about the decline of parental authority in black and coloured areas. In some of these areas, he notes, parents are intimidated by their own children. This is happening because of the belief among children that their parents are unable to improve the political position of black and coloured people.

Schools a target

In white education, there have been accusations among political parties of misusing education for party-political gain. Decades ago ideological orientation in some schools was already a feature of white education — especially after the National Party came into power and apartheid policy was implemented. In recent years, since the emergence of the Conservative Party, the right wing has focused on schools as an ideological target.

Mr Heyl suggests that within a democratic political system the school could be a miniature democratic community. In the classroom children should have opportunities for thinking together, deciding together, planning together and carrying responsibilities together.

Educational research has shown democracy in the school can work. One researcher found, for example, that where pupils have a say in making rules for their school, pupils have more respect for rules.

Political concepts like freedom, tolerance and fairness are learnt by pupils through practical experience in the school

Dealing with the Wednesday Blues

W/E ARGUS 18/8/90 (58)

By TYRONE SEALE, Weekend Argus Reporter

JOSEPHINE Hlatshwayo was a worried woman until 24 hands, including her own, dug into Gucci handbags and piled a cash harvest of R27 400 on the table.

Mrs Hlatshwayo, a Soweto liquor dealer, went to dinner on Tuesday worrying about how she would meet commitments to business and other creditors.

But it took just one fascinating ceremony and her 11 associates in the Wednesday Blues Stokvel to drive her fiscal blues away.

As guests of the Wine Foundation, The Wednesday Blues — one of an estimated 24 000 communal-type savings clubs around the country — chose a luxurious Somerset West hotel for their weekly transaction.

The Wednesday Blues is one of the oldest and highest-ranking groups in the country, and the 12 women in the club have been pooling funds for 18 years, without anyone dropping out even for one week.

They started with R250 a week, and are currently putting in at least R1 000 each a week.

The stokvel members flew to Cape Town with their collective R27 400 in their handbags.

After dinner on Tuesday, the women sat around their dinner table, taking turns to make their contributions, which were recorded in an invoice book.

Some members, like Mrs Sally Makgele, gave more than the expected R1 000.

She initially added R500 on to her basic investment.

"I know that this week Josephine badly needs all the money she can get," Mrs Makgele said. "She's in a bit of a bad patch at the moment, and needs all our assistance. That's why the stokvel is here.

"So I'm giving her R500 extra."

Looking for a tissue in her handbag a few minutes later, Mrs Makgele announced: "Sorry, guys. I've just found another R500. Here, Josephine."

In an ordinary week, Mrs Hlatshwayo would have received only R15 000, but her colleagues' prosperity and generosity left her with R27 400 with which to appease SA Breweries and other creditors.

In this league, few stokvel funds find their way into formal banks.

"We don't get interest, and we're just a group of friends helping each other," said Makgele.

But most of The Wednesday Blues admitted that by steering clear of formal banking, they also kept The Taxman at bay.

Mrs Hlatshwayo was forced by her colleagues and hosts on Wednesday morning to bank her lump sum, which tellers took an hour to count.

But as soon as she got back to Johannesburg, Mrs Hlatshwayo made a giant cash withdrawal so she could work with the money at home.

Most of the dozen women in the stokvel run their own taverns — large, licenced, big-scale shebeens — in Soweto where they create incredible personal fortunes at incredible rates.

Dilemmas like Mrs Hlatshwayo's this week are few and far between.

Earlier this year the marketing agency, Markinor, estimated that about 25 percent of adults in urban African communities belonged to stokvels. Between five and 50 members contribute a weekly or monthly sum and take turns to pick up the pooled savings.

Markinor believes stokvels savings earn about R52-m a month nationally, embracing everyone from labourers to business executives.

Operating in a captive market, some taverners charge up to R4 for a bottle of beer, R40 for a fairly ordinary bottle of whisky, or R7,50 for a tot.

"You must charge like this to make money," says Mrs Makgele, one of the Wednesday Blues founders.

Mrs Mavis Mwelase, of Meadowlands, runs a tavern with a monthly stock turnover of 700 000 litres of liquor.

Mrs Makgele left teaching in 1966 after initially selling beer at her home over weekends.

"Shebeens were taking off at the time and I just wanted to see what would happen if I tried selling a few beers to people. It wasn't long before I was making in a weekend at home what I would make in a month with the department (Education and Training)".

Now she orders a truckload of beer a day during summer and at least three truckloads a week in winter.

How does it feel to make so much money in a Soweto that has become a symbol of the ravages of apartheid?

"I help my people," says Mrs More. "Many poor people come our place to drink and have parties there and whenever my husband and I have any old clothing we give it to them. We help them all the time."

58

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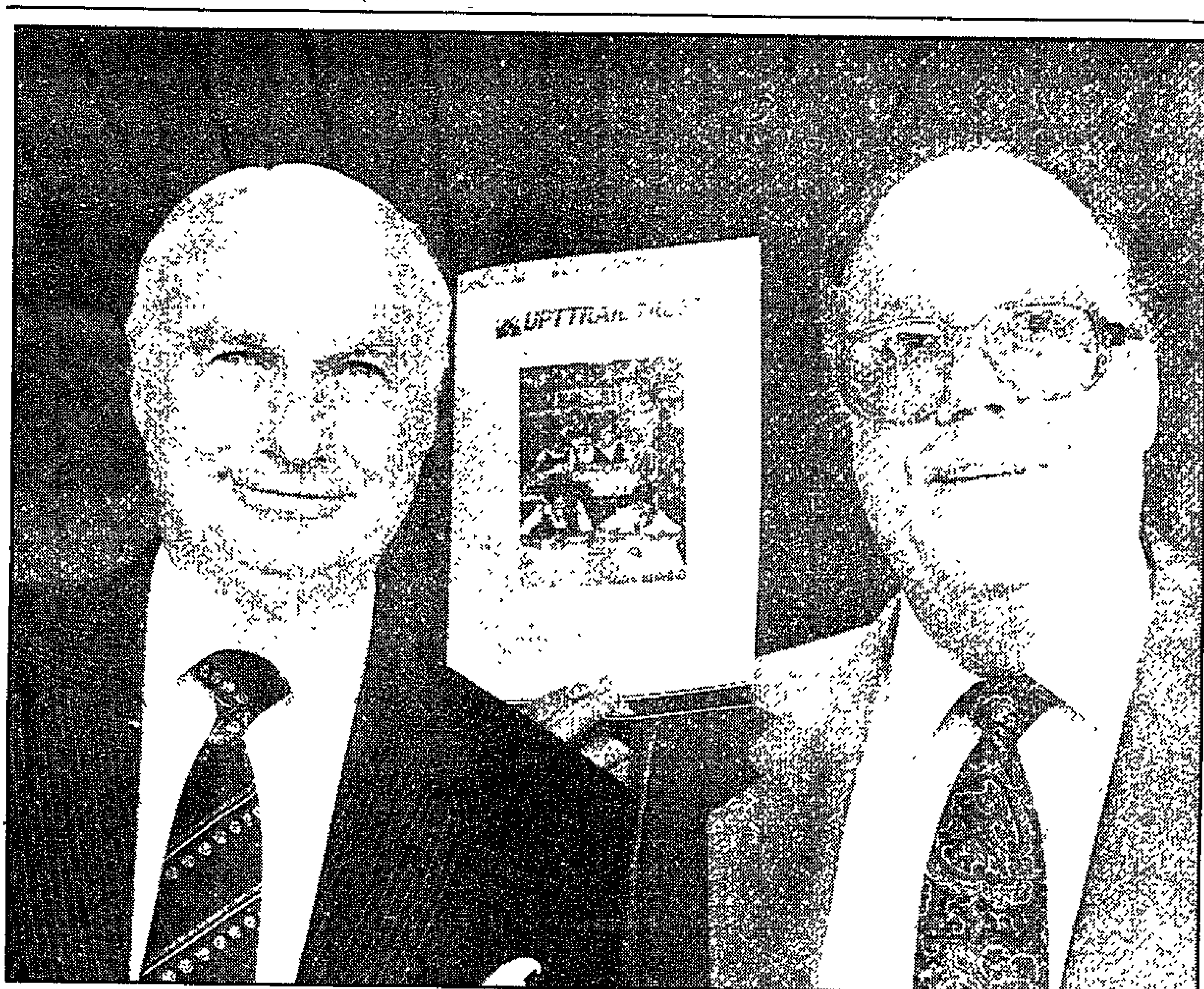

Money for the mind . . . in a promising new project, Upttrail Trust hopes to raise R15 million during the next year to help improve the quality of teaching and learning in black schools. Executive director of the trust Dawid van der Vyver (right), with chairman Harold Groom, says that initially about 100 teachers will attend the training course.

Bid to upgrade black schools

By Karen Stander, Education Reporter

A massive fund-raising drive has been launched for a project aimed at improving the quality of teaching and learning in black schools

The Upttrail Trust hopes to raise R15 million in the next year and to reach hundreds of thousands of primary school children over the next five years.

"If the Germans had had the skills we are teaching, maybe Hitler would never have come to power," executive director Dawid van der Vyver told a function to launch the project.

Upttrail (Upgrade Teaching, Training and Learning) has completed a pilot study in KwaZulu which was evaluated by the Human Sciences Research Council. It was found that pupils' results could be substantially improved through training in language and thinking skills.

The measured improvement rate of 5 percent would be a saving of millions of rands to the community and the taxpayer.

Mr van der Vyver said that while the project emphasised the teaching of English, it had been found during the pilot project that an important spin-off was an improvement in all subjects.

There had been no Government involvement so far, but the Department of Education and Training had agreed to look at the project.

Initially about 100 teachers from Johannesburg, KwaZulu and the Free State will attend a training course, and the trust hopes to train up to 600 teachers in the next five years.

Business Day adds another 1 337 to its circulation

CHARLOTTE MATHEWS

BUSINESS DAY attracted another 1 337 readers in the period January to June compared with the previous six months, increasing its circulation to 33 582.

However, in the much more general Johannesburg English daily newspaper market, The Star's Monday to Friday edition made the biggest numerical gain of 14 714 readers.

According to figures released by the Audit Bureau of Circulation (ABC) last week, The Star's circulation for the six months ending June was 235 128.

This compares with 185 892 for the Sowetan and 140 435 for The Citizen.

The Sowetan was third in the race on actual figures with an additional 11 849 readers. BDay 6/8/90

The biggest percentage gain in circulation was made by The Citizen, which gained 11%, or 13 873 readers, in the first half of 1990 compared with the previous six months.

The Sowetan and The Star were second and third with a 6,8% and 6,7% gain respectively in this period. Business Day gained 4%.

Circulation director Graham Bird attributed The Star's circulation to two factors — the group's expansion into the early morning market in early June and the high news value surrounding the political events in February. If this news value held, he expected a continuing trend.

Finrand loophole eliminated

58 Star 20/8/90

By Magnus Heystek,
Finance Editor

The authorities have tightened another loophole in the financial rand system by announcing that from today financial rands may not be used for the purposes of working capital and the funding of current-expenditure requirements.

Secondly, it has announced that the import of machinery and equipment via financial rands will in future only be allowed after the approved evaluation of the worth of these goods.

No pre-payments would be allowed, the Department of Finance said over the weekend.

The department is acting against what it calls the "ever-growing criminal element which exploits foreign exchange irregularities to the detriment of the country's foreign exchange reserves by way of fraudulent transations".

The moves follow several highlighted cases of over-invoicing of mechanical equipment — of machinery, in particular.

Several court cass against prominent businessmen are still pending.

Some of these cases involved the purchase of equipment from overseas at astronomical prices.

It later turned out to be second-hand and hopelessly overvalued.

The difference between what was paid for the equipment and the true value of the goods was then deposited in an overseas bank account, in most instances.

The new measures will make such practices far more difficult.

The financial rand system has been in place since September 1 1985.

It was preceded by massive outflows of capital due to countrywide unrest and the disinvestment campaign.

As a means of protecting the country's foreign exchange reserves, the financial rand system was devised in order to prevent further outflows on the capital account of the balance of payments.

The financial rand has always traded at a discount to the commercial rand — the discount sometimes being as high as 30 percent, depending on various factors such as political and economic perspectives.

This discount has led to virtually hundreds of fraudulent attempts to benefit by acquiring assets and businesses in South Africa.

Several loopholes have been closed in recent years, some of them because of political pressure.

For instance, the rash of prominent and historic wine-farms being bought up by overseas buyers led to the scrapping of the use of the financial rand for this purpose in 1988.

It was followed later by a similar imposition on the purchase of residential property.

Capital market dealers must be relieved that the practice of purchasing gilts and semi-gilts by means of financial rands has not been scrapped as well.

According to the press release by the Department of Finance, the automatic authority to purchase quoted securities, inclusive of gilts and semi-glts, will continue.

In recent months there have been persistent rumours that the Government is considering scrapping the use of financial rands for this purpose.

A great deal of the turnover in gilts on the local market is based on overseas investors who purchase the gilts with financial rand, but receive the dividends in commercial rands.

This increase the overall return to between 30 and 40 percent, depending on the discount of the finrand to the commercial rand.

The weekend announcement specifically noted that this practice would continue.

Any inquiries relating to the adjustment to the financial rand system may be addressed to the Exchange Control Department of the SA Reserve Bank at telephone numbers (012) 313-3572 and (012) 313-3580.

Foston's earnings put at 3c a share

Star 20/8/90

(53)

Foston's transmuted listing statement says the company will earn 3c a share, equivalent to R1 million, in the year to June.

Net asset value will go up from 92,7c to 97,8c as a result of the deal.

When it opens on the market, Foston will have about R4 million in cash on hand, which will be used, together with funds generated from operations, for exploration and exploitation of both existing and potential coal reserves over which prospecting options are held.

Existing reserves total 60 million tons.

If potential reserves — as out in the independent geologist's report in the transmuted listing statement — are added, total reserves are almost 100 million tons.

MD Carel Pistorius says he is looking to longer-term prospects for coal and is actively expanding its coal asset base to take advantage of positive future market trends.

In the year to June 30 1991, capex of R2 million will be incurred on the exercise of options and on additional exploration drilling, which is expected to expand the asset base by R5 million.

"We are securing additional options and accelerating our exploration to ensure Foston has adequate reserves to meet the market needs of the future," he says. — Sapa.

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Time Holdings sees 18% earnings decline

(58) Star 20/8/90

Taxed earnings of property and insurance group Time Holdings fell 18,6 percent in the the half-year to June.

Despite worsening economic conditions, the fast-growing commercial property and financial services divisions continued to perform satisfactorily, reporting strong growth in income and profits.

Time's housing arm, accounting for 45 percent of group turnover, however, was hit by poor trading conditions and a loss of R3 million was incurred.

"Large-scale unrest, coupled with continuing high interest rates, has resulted in extremely difficult trading conditions for the housing industry this year," says executive chairman Colin Hibbert.

"Action has been taken to cut overheads and, provided there is no further deterioration in the economy or the unrest situation, we expect the division to return to profitability in the near future." — Sapa.

African Life announces R7,3m in new business

(58)

BILL JACK, managing director of African Life Assurance announced a 34 percent increase (R7,3 million) in new business for the first four months to end of July compared with the same period last year.

Speaking at the company's annual general meeting in Johannesburg, Jack announced an increase of 55 percent (R4,4 million) in investment income and a 40 percent increase in premium income for the four-month period.

"We have contained our expenses and the increase is less than the inflation," says Jack.

"The company continues to expand its sales force which is having a positive impact on our new business figures. We have also seen a marked increase in productivity."

He said the results for the first four months of the year were encouraging considering the current economic climate and the sporadic outburst of unrest across the country.

Jack said that the proposed listing of African Life was on schedules and that barring any unforeseen circumstances, the company would be listed by the end of this year.

"We see African Life playing a major role in the new South Africa and the company will continue to offer value for money products in the low monthly premium market."

Sowetan 20/8/90

'Higher operating costs hit Merhold

Star 21/8/90 (58) (10)

By Ann Crotty

A sharp increase in operating expenses held back interim performance at Merhold with the group announcing unchanged earnings of 22,4c (22c) for the 6 months to end-June.

The interim dividend was also unchanged at 8c a share.

In the review period operating income rose 27,6 percent to R46,4 million (R36,3 million) while direct operating expenses were up 43 percent to R31,6 million (R22 million) leaving gross operating income showing a gain of 3 percent to R14,7 million (R14,2 million).

Other operating expenses rose 6,8 percent which meant that pre-tax income was down 2,5 percent to R5,2 million (R5,3 million).

No tax payments (compared with R50 000 in '89) and an increase in income from associates helped to pull up attributable income to R4,1 million (R4 million).

Executive chairman Mr Christopher Seabrooke said that the group's banking investment, export trading, corporate service and investment operations continued to perform well. However several of its industrial investments have been affected by the downturn.

"The group's finance division is being restructured so as to concentrate on primary and asset-based lending linked to trade."

Klipton's earnings show 25% increase

STAR 22/8/90

(58)

By Ann Crotty

Industrial group Klipton has reported a 25 percent increase in earnings to 58,6c (46,7c) a share for the 12 months to June.

A final dividend of 19c (15c) a share has been declared.

Helped by a number of acquisitions, turnover was up 56 percent to R88,9 million (R57 million).

Operating profit surged 81 percent to R9,7 million (R5,3 million), with an in crease in margins from 9,4 to 10,8 percent.

This helped lift return on average capital employed from 37 to 55 percent and return on equity from 29 to 40 percent.

Despite using debt to fund part of acquisitions, the interest bill was little changed at R921 000 (R863 000).

Taxed profit was up 70 percent at R5,1 million (R3 million).

The weighted average number of shares in issue rose from 6,3 million to 8,5 million, reflecting the use of equity to help fund acquisitions.

Gearing was down from 37 to 34 percent, with tighter asset management helping counter the impact of the use of debt to fund acquisitions, and the writing-off of goodwill.

The directors say some of the divisions suffered a decline in sales. But Austen Safes, whose results are included for the first time, performed strongly.

Management believes that due to its strong financial position and its broad operating base, it is well placed to withstand the current recession.

58

More company car-buyers switching to used models

Rapidly escalating costs of vehicles and high interest rates are beginning to force corporate fleet-buyers into the second-hand market and there is a growing trend for companies to allow employees entitled to a car to buy a used vehicle.

Wesbank managing director Peter Thompson says that while the move is not phenomenal, the trend is growing.

A key factor is the large number of companies switching to the allowance system in providing cars for staff.

Under the allowance system, an employee is given a set amount to buy or lease a car and generally is then free to buy whatever he wants and pocket the difference between the allowance and the price paid for the car.

"What is happening is that many eligible for the scheme buy a larger second-hand car for a lower price rather than a costlier new model," says Mr Thompson.

Another factor in the trend is affordability.

High interest rates and the escalating prices are making new cars prohibitively expensive for corporate and individual buyers.

Stannic's managing director Gutch Vickers confirms that the trend is there and says the main reason is the move towards the allowance system.

It encourages buyers to look at lower prices and take advantage of the extra cash available to them.

The system cuts the administrative burden in tranport managment, gives greater flexibility in choosing vehicles and, for those who notch up long distances on company business, offers a tax advantage.

Mr Vickers believes the trend will eventually affect new car sales.

"At present there is a shortage of stock in a number of makes, caused mainly by labour problems at some plants.

"But as the allowance trend grows, it will hit new car sales."

The motor industry itself has noticed the swing.

Joe Swart, joint managing director of the McCarthy group, says: "In the past three months more and more companies have been buying low-mileage used cars for executives and staff — so much so that the used-car market is clearly no longer the domain of the private buyer.

"High prices of new cars, coupled with the crippling cost of credit, have kept new cars out of the reach of private buyers for some years.

It is a sign of the times that affordability is now also forcing hard-pressed companies out of the new-car market." — Sapa.

More generous payout by Liblife

By Ann Crotty

A change in dividend policy at Liberty Life will result in shareholders of Liberty Holdings picking up a special dividend of 120c a share. This is in addition to the ordinary interim dividend of 75c a share.

The decision to pay out a special dividend foreshadows a more generous dividend policy at Liberty Life. This in turn reflects management's view that the taxed surplus represents such a relatively small part of shareholders' interests that it can afford to increase its payout from approximately 73 percent of available net taxed surplus to not less than 85 percent.

For the six months to end-June Liberty Life reported net taxed surplus of R90,3 million compared with shareholders' funds of almost R3 billion. Over the ten years to end-December 1989 shareholders' funds increased from R76,5 million to R2,5 billion. In the six months to end-June this increased further to R3 billion. The increase is chiefly attributable to the capital appreciation on the equity investments and to a lesser extent from earnings retention and issues of new share capital.

So, "In view of Liberty Life's strong liquidity position, its inherent financial strength, the extent of its investment and inner reserves and exceptionally high level of shareholders' funds the directors consider that it is no longer appropriate or necessary for the company to retain such a high proportion of net taxed surplus, bearing in mind that the companies in which equity investments attributable to shareholders' funds are held are also retaining a high level of their own distributable earnings."

In order to realign the old dividend policy with the new, Liberty Life is declaring a special dividend of 50c a share to shareholders registered on September 14.

An ordinary interim dividend of 32c a share will also be paid.

Liberty Holdings, which has 56 percent of Liberty Life, will receive R59,9 million in special dividends and will pass on R54,7 million to its shareholders in the form of a special dividend.

Referring to Liberty Life, the directors note that during the review period, new annualised premiums rose by 33,2 percent to R199,4 million (R149,7 million). Total new business premium income including single premiums and annuity considerations increased by 14,6 percent to R502,7 million (R438,7 million).

Referring to FIT's international interests the directors indicated that, in view of the deteriorating business conditions they were happy with the interim increase of 18,8 in attributable income to R28,2 million (R23,7 million).

The retail development at Lakeside Thurrock which is due to open at end-October has been substantially pre-let.

M3 growth down 'but monetary policy must still remain tight'

By Duma Gqubule

Economic figures released by the Reserve Bank yesterday show that the rate of growth of money supply continues to decline. This indicates that credit extension by the financial institutions to the private sector, which has been fuelling inflation over the past few years, is slowing down.

The broadly defined money supply measure M3 rose by a year-on-year 16,32 percent in July. This compares with increases of 21,67 percent in April, 19,12 percent in May and 17,16 percent in June. In cash terms, M3 rose to an estimated R154,16 billion in July from June's R152,78 billion. The June increase for the narrowly defined M1 was 15.49 percent, while the figure for M2 was 21,09 percent.

The M3 increase now indicates that the authorities are close to reaching the targeted growth figures for money supply of between 11 and 15 percent. However Frankel, Kruger, Vinderine economist Mike Brown says: "Although it is nice to see M3 continuing to decline we are only at the top of the targeted range. You have to get to the bottom of the targeted range before you can think about relaxing monetary policy."

Mr Brown continues: "The figure of 16,32 percent is still higher than nominal rate of growth in the economy of 12 percent. There is an excess money supply of just over 4 percent. For the time being the increase in the money supply is still too high to justify any relaxation of monetary policy on that basis alone."

Fergusson Brothers chief economist and investment strategist Mr Gad Ariovich believes monetary policy must remain tight. He says: "If the Reserve Bank can reduce inflation, the sacrifice might be justified. If you try to measure the cost of this exercise so far you could arrive at a figure of maybe 2 percent of Gross Domestic Product (GDP). This translates into R5 billion. If monetary policy is eased now, and we cannot reduce inflation, all the suffering will have been in vain. This has happened many times in the past."

Christo Luus of UBS says: "I think the government does not want the real rate of interest to fall below 7 percent in the near future. This means that if the inflation rate falls to 13 percent the prime overdraft rate could fall to 20 percent. I do not think a one percent fall in the overdraft rate will encourage everyone to go out and spend."

Mr Ariovich says: "Any relaxation of monetary policy would create higher inflationary expectations. Businessmen will think inflation is in a cyclical downtrend and not undergoing a change."

23/8/90

Old Mutual pays out a record R3,7b benefits

(58)
Sowetan 23/8/90

MIKE LEVETT

BENEFITS paid out by Old Mutual for the year ended 30 June were more than R3,7 billion, according to Mr Mike Levett, chairman of the mutual society.

He said in the past three years the organisation had paid out more benefits than the past 142 years.

Apart from showing the ability of the organisation to meet its obligations, Levett said it reflected the growth and confidence people had in the organisations as a custodian of their investments and life savings.

Levett also announced that total assets managed on behalf of members and clients increased by 28 percent to R59.7 billion.

"This new milestone created greater prosperity for more than two million members, their beneficiaries as well as investment clients.

"The key to our exponential growth is the confidence people place in our trusteeship role of adding value to their investment and life savings.

Policies

"This value is evident in the R15 million in benefits paid to members every working day during the last 12 months, more than double what was paid in 1988," he said.

"A record 686 000 new individual policies were issued, about 40 percent of them from blacks," chief of operations Gerhard van Niekerk, said in an interview.

fund and unit trusts industry. In 1989 managed assets, unit trusts and pension funds, totalled R4 476 million and this year it is R7 136 million.

Reichmans woes come in threes

By Derek Tommey

A large exposure to three distressed companies has sharply reduced attributable earnings of Reichmans, the trade finance company, in the six months to June. (224) (58) Str 24/8/90

Earnings slumped to R808 000, equal to 2,2c a share, from R7,4 million, equal to 20,7c a share, a year ago.

A dividend of 2c has been declared, down from 9c last year.

Reichmans ordinary operations continued to show good results, despite difficult trading conditions, the directors say.

Operating profit was R8,4 million — down R934 000 from the R9,35 million a year ago.

Almost halving tax payments from R2,4 million to R1,3 million resulted in taxed profit rising to R7,1 million from R6,9 million last year.

But misfortune has come in three separate forms.

Firstly, an insurance claim by the owner of a Ciskei factory, destroyed by fire earlier this year, has been repudiated. Legal procedings have begun.

The factory owes Reichmans R12 million. As it could be some time before the case is settled, Reichmans has decided to provide against this loss by wrriting off R6 million before tax as an abnormal item.

Secondly, Van Reenen & Nicholls (Pty), in which Reichmans has a 20 percent stake, incurred a loss of more than R5 million in the six months to June. A sum of R980 000 has been provided to cover Reichmans share of this loss.

Finally, in mid-August a company which owed Reichmans about R12 million was placed in liqudiation.

These together reduced Reichmans attribuable earnings from R7 million to R800 000.

In order not not to distort Reichmans' earnings pattern for the 12 months, it has provided for this exposure in similar amounts in the first and second halves of the year.

The directors say that after allowing for the provisions referred to above, earnings for the second half of the year should approximate those of the first six months.

Soweto rent boycott — TPA defends its press campaign

Star 24/8/90

The Transvaal Provincial Administration last night defended recent newspaper advertisements calling on Soweto residents to end a five-year rent and service charges boycott, which it placed after talks with the Soweto People's Delegation (SPD) broke down.

An advertisement at the centre of the dispute appeared on Tuesday and showed a full-page black-and-white photograph of three armed and unidentifiable people carrying a brick and what looked like two pangas raised above their heads.

It was headlined "If everyone agreed with the boycott, what do they need those sticks and stones for?"

The SPD said the advertisement "identified our leadership as 'intimidators ramming the rents and service charges boycott down the throats of our people'."

Olaus van Zyl, MEC for local government, denied the claim in a press statement.

"The advertisement related to intimidators and whoever their leaders might be," Mr van Zyl said.

"It did not relate to the Soweto People's Delegation or its leaders, nor to any organisation which did not practise or support intimidation."

He confirmed that the SPD had requested a meeting yesterday be adjourned to Tuesday.

This meeting will take place four days before the TPA has said it will stop paying Eskom for electricity, and Johannesburg City Council for water.

BANKING FM 24/8/90

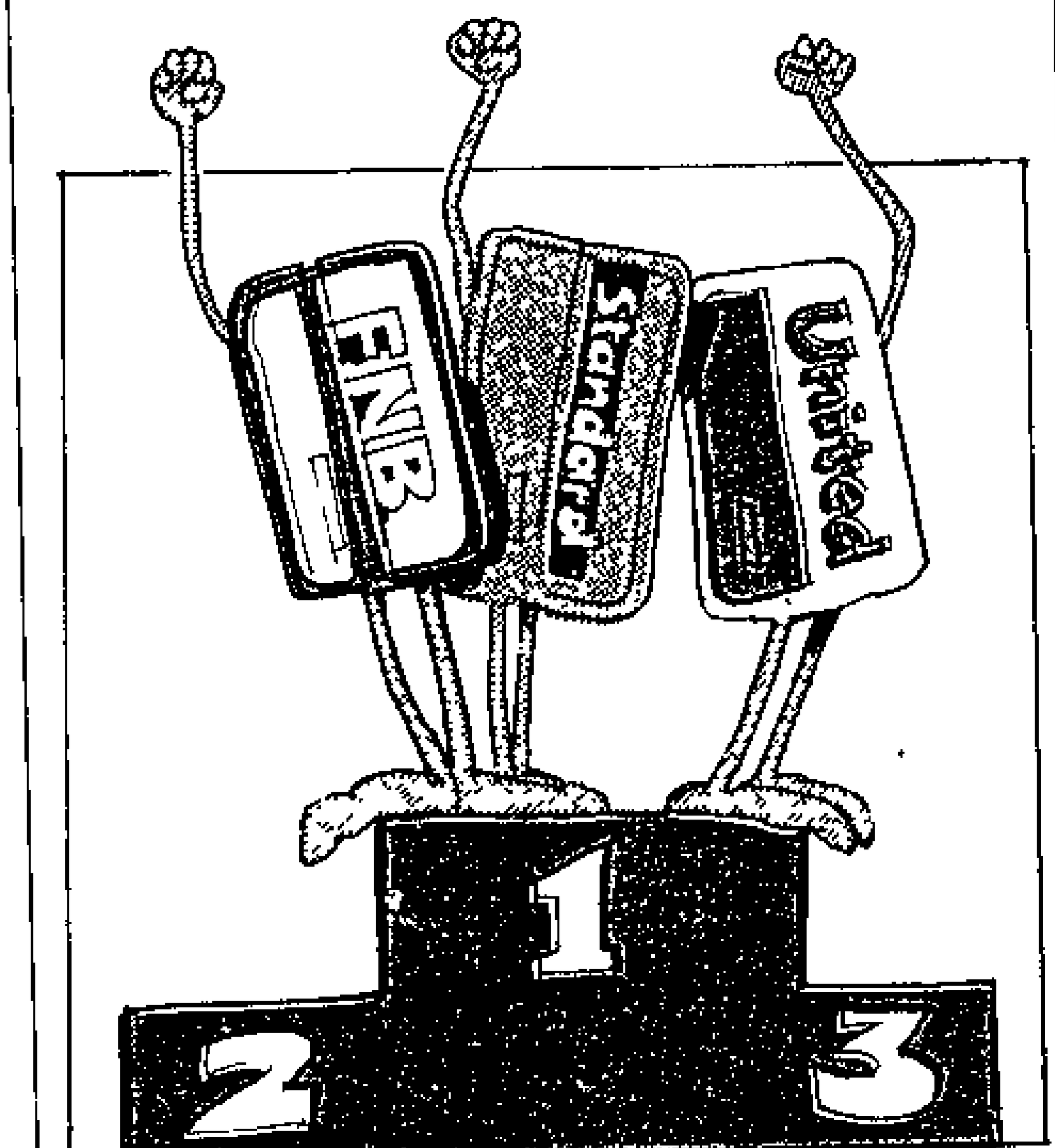
First, firster, firstest

Whatever their advertising material may suggest, banks do nothing for nothing. So, not surprisingly, last week's flurry of announcements of a "concession" to credit card holders has a spin-off for banks as well as for customers. Lifting the ceiling on credit balances held in card accounts provides banks with large sums at a cost well below call, which is now over 17%.

(58)

First National Bank (FNB) was the first card issuer to announce abolition of the ceiling (previously R100 000), on Tuesday. It pays 15% on these balances. Standard riposted on Wednesday that *it* actually lifted ceilings back on April 1. It pays 16% on R50 000 or more and lower rates for smaller sums, depending on the balance. The next day, United pointed out that it has had no limit on credit balances since it launched its card two years ago. It pays 15% on all balances.

A check on other major banks establishes that Volkskas has had no ceiling since cards



FM 24/8/90 (58)

were introduced 10 years ago. It pays 15,5% on more than R50 000 and less on smaller amounts. Nedbank has had no ceiling in the 10 years its cards have been available. It pays 15% on all balances.

TrustBank relies for processing on FNB. Following FNB's decision, it can remove the ceiling and will pay 15% on all balances.

What is puzzling is why FNB and Standard had a ceiling when they are shaving margins to attract wholesale sums. Says FNB's Neil Munro: "It probably dates back to the time when these balances were treated as savings deposits, on which the Banks Act imposed limits."

The issue, he says, was dealt with in a letter from the Registrar of Banks way back on December 8 1983, reclassifying credit card deposits as short-term liabilities. This removed any statutory ceiling.

It seems the two biggest banks have been missing an opportunity to bolster margins by tapping this comparatively cheap funding. ■

SASRIA FM 24/8/90

Mortgage cover (58)

In the shadow of a five-year-old rent boycott in some black townships it was inevitable that building societies and banks would become concerned about a potential mortgage bond boycott. So SA Special Risks Association (Sasria) has been authorised by an amendment to the Reinsurance of Material Damage & Losses Act, 1989 to extend political risks cover to non-payment of bonds. Should a bond boycott happen, Sasria and the insurance pool would pick up the tab.

In theory, the exposure could be huge. Sasria MD Rodney Schneeberger points out that a bond boycott would affect large numbers of properties. "It's not like paying out for one fire-damaged building."

But the risk, he feels, is remote. Though building society sources say low-income clients tend to consider a bond payment in the same light as traditional rent, they also know they have an equity interest in the property. They add that bond rate increases of the past two years have confused first-time homeowners, particularly those from unsophisticated backgrounds.

Sasria is a somewhat reluctant partner. It regards the cover as social responsibility and was drawn in when the Urban Foundation raised large sums of capital abroad to deploy in black housing. Association of Building Societies executive director Tim Hart draws attention to the risks for mortgage lenders.

"The bottom end of the market is perceived as high risk, financially unsophisticated and potentially subject to political manipulation. A boycott on bond repayments could put a lot of stress on a mortgage lender invested heavily in that sector."

Schneeberger puts the risk in lower key. First, he points out, a homebuyer — unlike a tenant — has a vested equity interest in the property. He is likely to be more sophisticated than a tenant and less susceptible to political manipulation. Also, Sasria is exposed only when a property is repossessed and sold in execution. That would mean the loss, for the boycotter, of all his investment and, in many cases, would invite problems with an employer who issued guarantees. Sasria's ultimate liability would be the outstanding bond, less both the realised value of the house and the mortgagee's investment.

Insurance broker Rod Pearson, a director of Mibsa Technical Services, disputes whe-

FM 24/8/90

ther Sasria should cover this risk. (58)

He notes the amended legislation lets government reimburse the fund on losses where bond repayments are discontinued directly or indirectly due to Sasria perils. This, he says, is a deviation from the fund's original purpose, to insure damage to property due to Sasria perils — subsequently amended to include an element of consequential loss.

Pearson does not disagree with the purpose of the changed legislation and agrees it will make it easier for financial institutions to invest in the lower end of the housing market, "which is laudable."

He does question whether the Sasria fund is the right vehicle to protect investments by financial institutions. Already, he says, the fund's adequacy to serve its original purpose is debated. Present reserves are about R1,8bn, which Pearson and other industry sources do not consider adequate.

Schneeberger denies this. Sasria, he insists, is the appropriate vehicle to cover this type of risk. ■

F/M 24/8/90 (58)

LIFE ASSURANCE F/M 24/8/90

Small fish

(58)

Small life offices' fears that large companies can manipulate the market were highlighted recently when the Parliamentary Joint Committee on Finance circulated a draft of the Financial Services Board Bill. New legislation will create a body to replace regulation by the Financial Insitutions Office. One clause bars practising life assurance members from sitting on the proposed board.

Despite resistance from smaller companies, most Life Offices Association members decided in favour of petitioning the Committee on Finance to amend the clause.

The request was rejected but it was decided to allow non-executive directors to sit on the board.

Timelife Insurance MD Bill Haslam supports this. He says board members actively involved in life assurance could be, possibly unwittingly, less than objective. "I was concerned the big life offices would tend to dominate and the interests of smaller competitors would be subordinated."

Standard General MD Roberto Grandi says the board should protect policyholders and active members could not be unbiased. "It would be wrong for a life assurer, irrespective of size, to have a member on a board which regulates his company and the industry in which it is involved. This would certainly be seen as conflict of interest in other industrial countries."

Association chairman Dorian Wharton-Hood admits the restriction is prudent but says his body is concerned at the lack of expertise available to the board if active members are barred. "The decision to allow non-executive directors on the board is a small compromise, which we accepted." ■

FM 24/8/90

the period as a good year and points out the figures include 53 weeks rather than the usual 52. Adjusted to a 52-week period, sales are up by 27% on 4% more trading space, so productivity has evidently improved.

All divisions performed well in sales terms and contributed to earnings in roughly the same proportions as in the 1989 year. However, Hall says Makro, which was operating from a smaller base, can be singled out as showing a faster profit pace than the rest of the group.

During the first part of the year Woolworths adopted a policy of "widening and deepening" its product lines. This paid off but stocks were brought under tighter control as the trading environment became tougher. Stocks in both Makro and Specialty Retail Group were kept to more prudent levels throughout the year.

Figures for the first half of the current year appear promising so far. Hall says sales are 27% ahead of the same period last year, though he does not expect this growth rate to be maintained. Real growth in sales and profits is forecast for this year, but not at the same rate as last year.

After firming ahead of the results, the share, at R52, now offers a yield of 2,9% and a p:e ratio of 13,9. It looks fully priced.

Gerry Hirshon

GFSA FM 24/8/90

Levelling out

Considering the dominance of gold mining in Gold Fields of SA's income, a maintained dividend was about the best investors could hope for. Thanks partly to the rights issue that raised about R1bn late last year, the house has pegged its payout at 200c without any reduction in the cover.

Investment income, of which dividend receipts from the gold mining interests comprises the lion's share, fell from the 1989 level of R351m to R303m.

Even the group's high-grade producers, Drie Cons and Kloof, posted lower dividends this year. Drie Cons paid a total of 145c for the year to end-June compared with the year-ago 200c, and Kloof paid 105c against 120c. Deelkraal paid 60c (80c), while Doorns, Libanon and Venters all passed their finals.

In the base metals sector, Gold Fields Namibia maintained its 1989 payout at 120c, and in June slashed its 1990 interim from 60c to 10c. GFSA has some other, more bullish holdings in its portfolio, such as those

GFSA HOLDS UP

Year to June 30	1989	1990
Investment income (Rm)	351,4	303,2
Profit on investments realised (Rm)	14,5	32,0
Other income (Rm)	132,6	246,8
Attributable (Rm)	329,8	360,6
Earnings (c)	403	393
Dividends (c)	200	200

FM 24/8/90

in Sasol, Liberty Life and SBIC, but total investment income still dropped by R48m.

The house recovered from that situation by doubling the profit on realisation of investments, which jumped to R32m, and by lifting the income from fees, interest and other sources from R133m to R247m. Funds from the rights issue must have contributed a big slice of this.

The share yields only 2,3% on the R88,50 price, and it is difficult to see any pickup in the dividend this year without a substantially higher gold price.

Andrew McNulty

OLD MUTUAL FM 24/8/90

Funds pour in

(58)

Funds continued to pour into the Old Mutual in the year to end-June when total income was 27% higher at R10,7bn. This is an inflow of almost R42m a working day.

The individual recurring premium business — often seen as the real pointer to the health of a life assurer — showed a similar trend with a rise of 25,8%. Total premium and annuity income rose 26,5% to R7,13bn, representing an average cash inflow of about R28m a working day to be invested.

With many of the companies in the investment portfolio still lifting their dividends, and healthy real returns being earned on Old Mutual's large liquid investments, total investment income rose during the year by 27,7% to R3,6bn.

The value of investments in equities at year-end totalled R29,9bn, sharply higher than the year-ago value of R21,2bn, which presumably is partly a reflection of the abolition of prescribed asset requirements as well as the large cash inflows.

The value of investments in government and public authority stocks and loans was also significantly higher at R10,3bn (R7,6bn.) Commenting on the 37% increase in this figure, Old Mutual chief operating officer Gerhard van Niekerk cites the attraction of current interest rates as well as the prospect for capital gain when rates fall.

While he is firm that "structural investment in growth assets is still fundamental policy," he is also anticipating a cyclical decline in long-term rates.

Van Niekerk is not in favour of a reduction in interest rates yet. He believes the authorities need to protect the country's reserves on the BoP. "The economy must operate on a substainable basis taking a long-term view," he says.

The accounts also show rapid increases in benefits paid, which in 1990 reached R3,8bn, up by more than half the 1989 level. Van Niekerk says benefits paid out in the past three years exceed the total payments made in the past 142 years.

Van Niekerk notes that total assets under administration, including managed assets, rose by some 28% to R59,7bn — yet it was only in 1973 the figure first topped R1bn.

Gerald Hirshon

Shock for owing bank clients

By SY MAKARINGE

SANTAMBANK clients who fall into arrears with their payments are in for a big shock - they may be charged up to R300 everytime a tracing agent calls in to collect a debt.

The bank, one of the leading vehicle financiers in the country, has hired independent debt collectors who charge tracing fees ranging from R120 to R300 for tracking down defaulters in the black townships.

The amounts are then debited into the clients' accounts as soon as the bank had been invoiced by the collectors, according to an investigation by *Sowetan*.

An independent debt collector on the East Rand, who asked not to be identified, recently told *Sowetan* that tracing agents made an average of R1 500 a night or up to R45 000 a month by collecting debts from defaulters in the black townships.

"The situation is so bad that debt collectors can charge any amount they wish without any questions being asked by bank officials. The bank just passes our fees onto the hard-pressed clients.

"Every debt collector now wants to do business

To Page 2

Sowetan 21/8/90

Shock for clients

From Page 1

in the black townships because there is money there," he said.

He said many collectors were reluctant to track down white defaulters because "the maximum you can charge them is R80 a call. You can't charge what you want because whites always ask questions".

He said bank officials usually made "feeble attempts" to contact clients in arrears before handing their cases over to the debt collectors who "are only too willing to do the job".

"A guy may be sent out to collect a lousy R90 for which he could charge R300. I decided to part ways with Santambank because my conscious could no longer take it. The situation is getting out of hand and I feel very sorry for the poor guys," he said.

Mr PJB van der Grijp, senior legal adviser for Santambank, said the bank normally sent letters of demand to the defaulting clients.

He said in most cases the letters returned undelivered and the bank could also not contact the clients.

"We therefore had to assume the clients had absconded and left their previous addresses," Van der Grijp said.

He said under normal circumstances the bank did its own collections. They had to resort to collectors because of the unrest.

Sowetan 21/8/90

CAPITAL MARKET FM 24/8/90

Making markets

(58)

The Department of Finance and the Reserve Bank have been taking a hard look at how to improve marketability of government stock, particularly the roughly R20bn R150s. They hosted a discussion group this week for key private-sector players, including merchant banks, stockbrokers and institutions.

It seems perceptions will have to change for the stocks to become truly marketable. This could take years.

Trading in options is one way of laying off risk for a dealer. Until now Eskom's active options book has helped give the E168 the edge over the R150s in marketability. Because the Bank has not actively quoted doubles, participants find big options positions on the R150s risky.

Now the Bank's short-term objective is to increase liquidity by imitating Eskom's strategy of quoting doubles and writing options. It reckons this will eventually bring

FINANCIAL MAIL AUGUST 24 1990

FM 24/8/90 (58) FM 24/8/90

down the cost of funding.

Appointing and establishing market makers in government bonds will be part of a long-term solution.

The Bank started an R150s options book in February, which it says is becoming more active. On August 13, JSE turnover included R150 options valued at R530m, surpassing Eskom's R495m worth for that day.

Dealers reckon that, despite the appointment of official market makers, the Bank may have to become a market maker in its own stock and buyer of last resort. "Eskom has done this and has built itself into a position of trust. Though it cost initially," says a dealer, "Eskom is probably only buying back a small portion of its stock now."

In 1988, the Jacobs report on the bond market came out against assuming a market making function as "dealer of last resort."

A change in approach came after amendments to the Exchequer Act 66 of 1975 last year. For the first time, Treasury was allowed to buy back stock before it matured, enabling it to consolidate stock with the same maturity period into new issues. A number of gilts were consolidated into four new issues (R144, R147, R150 and R153) between August-December 1989.

Dealers suggest the Bank should be allowed to sell short, in response to market demand. Also Treasury must be prepared to go long of stock when demand is low.

Another way of laying off risk is to take an opposite position in an alternative investment. As such alternatives are lacking, the gap watched is between the R150s and E168s. Dealers hope to profit by subtle shifts between the two.

Government stock should trade at a lower rate than semi-gilts, primarily because of the quality of debt when government is the prime borrower. But in SA, these instruments are less in demand than semi-gilts, which pushes rates above those on Eskoms. About two months ago, the Bank tried to narrow the gap between the price of the bellwether Eskom E168s and the R150s — and closed it from 53 to 45 points.

Some participants claim the Bank favours a select few and point to the R1bn deal, with call options, through a merchant bank in 1988. These over-the-counter deals affect rates, dealers say — to the detriment of other players. But the authorities feel an organisation clever enough to structure an innovative deal should benefit from its efforts. "In the Bank's experience, best results are obtained by dealing on a confidential basis through intermediaries," says the Jacobs report.

The Bank says it is trying to push business through the floor, but even this it prefers to do anonymously. A press release this week denies it is singling out specific merchant banks. In future, all trades will go through the BMA and volume and prices recorded.

A dealer says the authorities should do more to feed the market with information on deals. The Bank has appointed a working group to investigate long-term strategies.

Jacquie Bullard

JSE fails to match recovery overseas

3/8/90 (58)

THE JSE failed to mirror more positive sentiments on overseas bourses yesterday but managed to end above the day's lows after a confused and nervous trading session.

The All-Share index closed 1,8 percent down at 2,908, but off a low of 2,868, after plunging 5,3 percent on Thursday to 2963, giving an 8,5 per cent slump from last Friday's close of 3180.

The All Gold index ended 74 points down at 1705, a fall of 9,3 percent from last Friday's 1880 finish despite relatively steady world bullion prices. The Industrial index closed 49 points down at 2738, an 8,7 percent loss on the week.

In New York Wall Street stocks jumped yesterday along with other world stock markets as oil prices fell sharply on European spot markets for the first time in more than a week.

Crude oil for October delivery sank 73 cents to $31,20 a barrel on the New York Mercantile Exchange after surging more than three dollars a barrel in the last three sessions.

A recovery in British shares prices slowed towards the close when the early rally on Wall Street seemed to run out of steam but the FTSE 100 closed 11,4 points up at 2086,4.

In Frankfurt share values rose an average 2,6 percent as a degree of calm returned to the market after the sometimes frenzied activity of recent weeks.

Aggressive buying of blue chip high-tech issues by Japan's Big Four brokerages helped the Nikkei average break a six-day losing streak and close higher.— Reuter.

Rand holds the dollar at bay

58 Star 25/8/90

DEREK TOMMEY

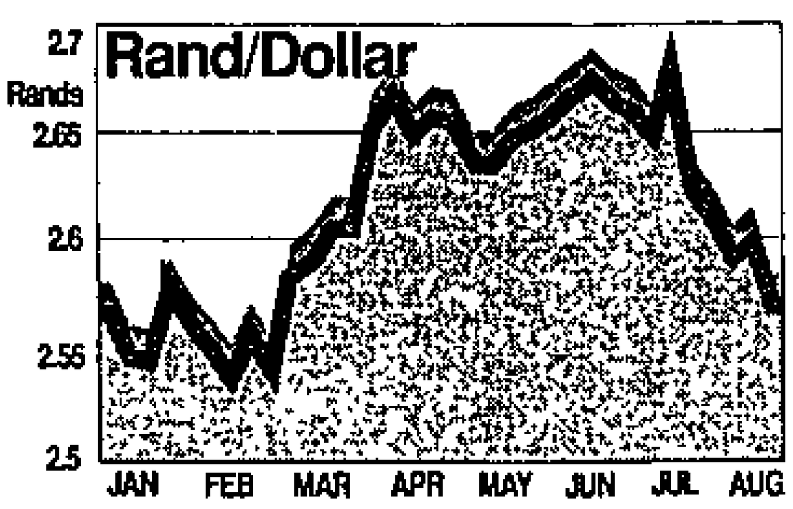
RESERVE BANK efforts to maintain the exchange rate of the rand against the dollar are proving extremely successful. As a result the exchange rate of the rand this year has fallen only about 0,5 percent when measured against a basket of currencies, according to Reserve Bank figures.

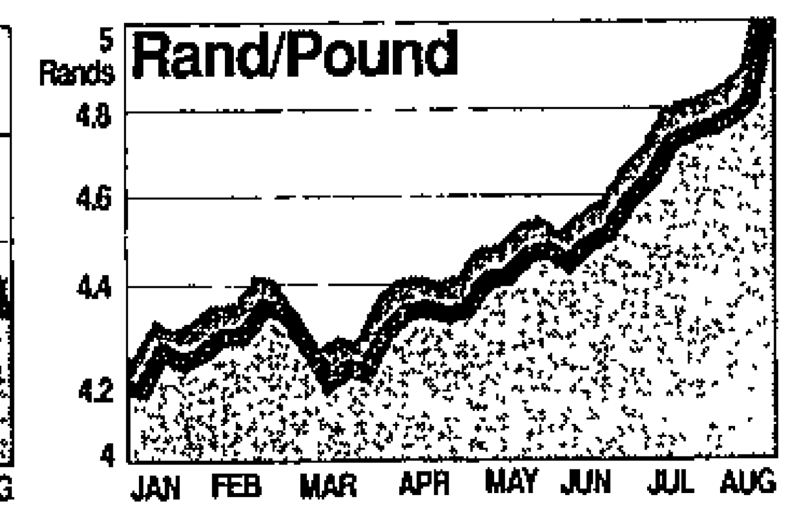
This is a most satisfactory outcome for the bank's policy, considering the exchange rate of the British pound and the German mark have increased significantly this year.

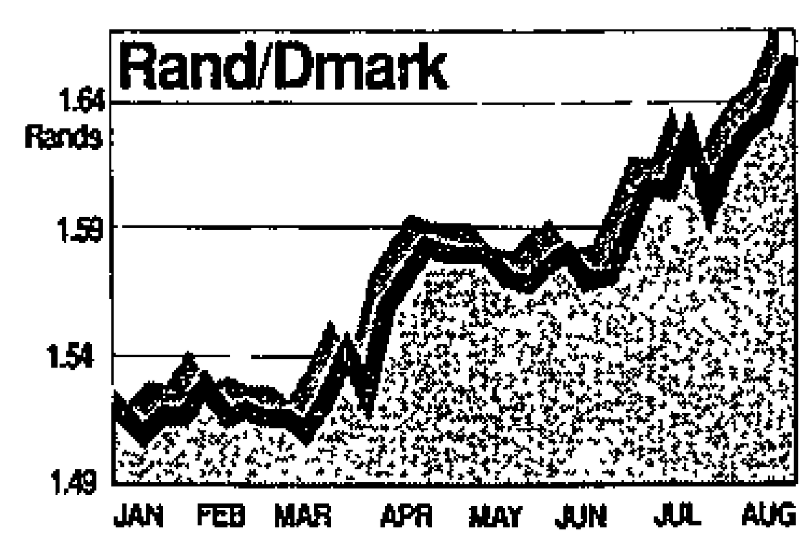
The importance of this development for the ordinary South African it that it should lead to reduced inflation as foreign imports should not show such big price increases in the future.

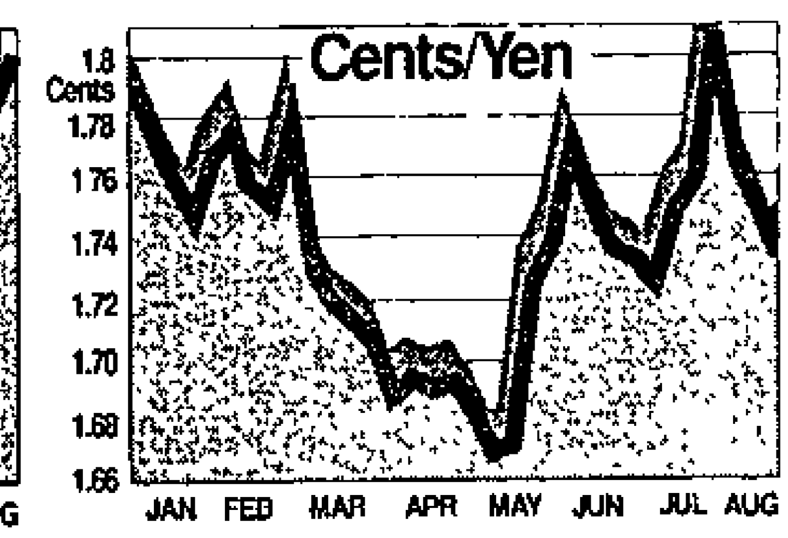
A reduction in the inflation rate should also lead to increased investment in factories and mines which will provide many more jobs.

Although the rand came under considerable pressure earlier this year from the low gold price, the heavy foreign debt repayments, and also the effects of political uncertainty, its dollar exchange rate this









week was back to the levels at the start of the year.

Few would have believed two or three months ago that this would happen. The slump in the gold price to below $350 in March and April and the other factors mentioned resulted in currency buyers having to pay R2,87 for a dollar.

But in the past nine weeks the rand has shown its strength, and those buyers who have waited until now to buy dollars are only having to pay around R2,56 for one.

The recovery in the rand began before the Iraqi invasion of Kuwait — showing that the recovery is due entirely to this country's own efforts — and not to the Iraqi-Kuwait crisis. However, while the rand has been more than holding its own against the dollar, it has suffered a far different fate against the British pound and the German mark.

Since January the pound has appreciated by some 20 percent and the mark by more than 9 percent against the South African currency.

These exchange rate changes have had nothing to do with the rand, but are an indication of the great strength of the mark and the pound.

This is because interest rates remain high in Britain and Germany but are falling in the United States, say bankers.

These exchange rate changes will help South African exporters.

Eight percent of South Africa's exports are paid for in pounds and some 10 percent in German marks. The result is that South African firms exporting to these countries will receive a much bigger payout this year than they did last year.

Some 60 percent of this country's exporters get paid in dollar. And although the rand-dollar exchange rate has overall sh n no change these people too could benefit, says Mr Wim Holtes, head of Safto which has played a major role in stimulating South African exports.

The reason is that many goods which are paid for in dollars are then sold to Germany and Britain. So the rise in the exchange rate of the mark and pound should help expand the market for South African goods.

On the other hand, South Africa will have to pay more for imports from Britain and Germany and this could hurt.

Much of the country's engineering requirements come from Germany and these will obviously cost more.

Perhaps the most to suffer by the changes in the rand's exchange rate will be those people planning to visit Britain and Germany. At R5 to the pound, a trip to Britain will be very expensive.

Butholidays in the United States could be more attractive as recent estimates indicate that the dollar is undervalued by about a third against most other currencies.

Some financial tips to remember

58

Star 25/8/90

Money Matters

MAGNUS HEYSTEK

EARLIER this week I addressed a group of economic and commerce students at the University of the Witwatersrand. Initially the theme of my talk was going to be "The investment scenario in a post-apartheid South Africa".

But at the last moment I decided to change this; rather than indulge in a typical exercise of futures forecasting based on various assumptions and alternatives, I rather focussed on practical things that would affect those young men and women for the rest of their lives: help and guidance that, no matter what kind of economic system this country has, will help them plan and manage their financial affairs in a better way.

I told them that money is bound to play an important role in their lives; whether they like it or not. Some will soon start earning salaries, making their first investments and lay the foundations of their future spending and consumption behaviour.

Some will eventually become successful and rich; others will not be so successful while one or two might even experience the traumatic event of bankruptcy.

Here are some of the points I tried to get home; things I dearly would have liked to know when I was in my twenties.

● Retirement planning starts with the first salary cheque:

I realise, off course, that this was asking a little too much, but I tried anyway. Whoever thinks of retirement when their life is stretching out ahead of them? But the sooner one starts thinking about it, the less traumatic retirement experience it will be in the long run.

Investments made earlier on in life can, through the powerful mechanism of compound interest rates, make for a carefree-retirement.

I used the example of R10 000 invested in the Sage unit trusts 25 years ago and asked them to guess what that investment (with dividends reinvested) would be worth today. Nobody came even remotely close. The answer, off course is, R570 000. This example was just to illustrate the power of compound interest.

● Beware of the pensions poverty trap:

On average, these students, like most other South Africans, are likely to change jobs about six times during their lifetime. Unlike countries like Japan the South African labour forces tends to move around in order to get promotion and higher salaries. There is nothing wrong with that, but if the necessary precautions are not taken, one can end up with insufficient retirement benefits.

The key to preserving pension benefits is to either remain invested in the pension fund of the previous employer (if that is at all possible) or to transfer the benefits, however small, to a registered retirement annuity in order to escape an additional tax liability (the first R1 800 is tax-free). This will make future financial planning much easier.

The temptation is great to take the cash (after tax, that is) and spend it on consumer goods. But it starves the money tree from much-needed nourishment at an early age.

Why so many people fall into this trap and eventually end up not having sufficient pension benefits to ensure a carefree old-age, is that they are simply not told. Nobody ever bothers to tell departing employees these things.

● Successful money management needs continuous updating:

We live in an extremely volatile financial environment. Gone are the days when one can formulate a financial strategy and forget about it. Markets change almost daily, political conditions affect markets and the world outside is also continually changing.

Financial planning is going to require an almost fanatical obsession with financial and political news. It might be simple but it's not going to be easy.

● Learn how to take calculated risks:

Risks are inherent in life. The younger one is when a risk backfires, the easy it will be to bounce back. This is particularly true in the case of young entrepreneurs. Do not be afraid to take risks, I told them. The older one gets, the harder and less-advisable it becomes.

● Get into the savings habit as early as possible:

I never advocate any form miserliness, but preach a simple conservative approach in life. Save something every month before you start spending. This way you can have the best of both world. Always save with some goal in mind. When you do spend money or incur debt, do it with something that appreciates in value like a house.

Saving is like training for a marathon or going on a diet. You don't succeed overnight. It takes time, dedication and discipline. Nobody gets rich or loses weight overnight. At first there seems to be no progress at all, but eventually it starts adding up, growing faster and faster.

● Get as good an education as possible:

In fact, I never got around to telling them this as my time ran out, but getting the best possible education is, apart from one'e health, the best investment anyone can make. The world is crying out for specialised skills and is prepared to pay a lot of money for that. Not only here in South Africa but all over the world. Education is an investment that is totally transportable and can never be taken away.

Old
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1990

[M]utual friendly to diam[onds]

S\Times 26/8/90 (58)

Runner-up to Anamint lifts its stake in De Beers R500m

OLD Mutual, already the biggest shareholder in De Beers after Anamint, spent R500-million more on the diamond leader's shares last year.

That is only one titbit that investment chief Johannes van der Horst let slip in his annual chat to Business Times about investment strategy.

The De Beers-Anamint investment is huge and the fantastic rise of the diamond colossus has been important in Old Mutual's performance.

Dr Van der Horst is not unduly perturbed by De Beers' slump on recession fears from R110 to R79. Mutual bought its additional R500-million of De Beers at an average price of R65.

"In the new SA, De Beers is a great rand hedge It's also relatively immune to labour disturbances"

Attractive

When Mutual buys, it buys. It spent R250-million on Iscor and R400-million on Gencor and Gencor Controlling The Gencor Controlling purchase made Old Mutual the third-biggest holder after Sanlam and Rembrandt.

Mutual also spent R250-million on Anglovaal, much of it following the contentious issue of N shares.

"We believe the Iscor issue price was attractive", says Dr Van der Horst, "and our purchases at an average of 206c will yet be vindicated.

"We like what Derek Keys is doing in Gencor Some people weren't so happy with our endorsement of the Anglovaal N shares, which have one five-hundredth of the voting powers of the ordinaries But we like what the Hersovs and Menells have done

"The JSE recognised the N shares last December Remember, they were born of shares that had no votes at all"

Mutual thought that certain leading gold shares were overvalued and sold R60-million each of Randfontein and Freegold It sold Randfontein at an average price of R41 and Freegold at R47.

It was vindicated almost immediately — gold plummeted to $360 and Randfontein plunged from R38 to R16 between January and June The share has subsequently recovered to R26.

Linked

Freegold plunged from R66 to R29 before recovering to R46,50 Although it is square on Freegold, Mutual is still ahead on Randfontein

The Old Mutual balance sheet at end June shows investments up by 24,8% at R51,3-billion That does not include R7,1-billion (R4,5-billion) of funds managed for clients.

Funds managed inside SA total R54-billion. Most the balance is in Zimbabwe and the UK Only the equity investment in Providence Capital of the UK is shown If it were operating here, Providence Capital would rank sixth or eighth among SA assurers.

Conventional business accounts for 58% of Old Mutual's investment funds and market linked for 42%.

The R51,9-billion SA investment portfolio, excluding unit trusts, breaks down into equities 62%, gilts 26%, property 10% and other 2%

Equities a year earlier were 56% of the portfolio and gilts 31% The change came about as a result of buying strategy after prescribed investments were scrapped and because of the higher market value of equities

By DAVID CARTE[R]

"Equities rose in value from R22,5-billion to R32,2-billion", says Dr Van der Horst "There was no way we could have bought R10-billion last year"

Investment income on the R51,9-billion asset base was R3,47-billion, an increase of 31,8% on the previous year

Investment returns have beaten market averages handsomely The equity component of Old Mutual's individual linked investments returned 24,9% compared with the 21,4% return on the JSE Actuaries Overall Index, 19,5% on mining financials and 20,3% on financials and industrials Managed pension funds achieved returns ranging from 21% to 31% a year

What makes the 1990 investment figures particularly impressive is that Old Mutual had what can only be termed a "helluva" year in 1989, all-in returns on equities varying from 65%-75% compared with yields on the indices of 56%-61%

Property

The top 10 shares in Mutual's portfolio were Anamint-De Beers, Anglo American, Barlows, Gencor, Lydenburg-Rustenburg, Nedcor, Remgro, Richemont, SA Breweries and Safren.

The value of off-balance sheet assets managed for clients has grown from R800-million to R7,1-billion since 1986, a compound growth rate of 70% a year

Old Mutual's unit trust grew 40% to R2,5-billion, a third of off-balance sheet assets. Over five years, it was the best performer among unit trusts, yielding 30,1% a year

Old Mutual now represents a third of SA's total unit trust investments Net new investment in unit trusts doubled.

The property portfolio gave a return of 24,1% — down from 25,4% the previous year Mutual spent R350-million on direct property and a similar amount in quoted property investments last year, including R70-million on two high-rise buildings in Pritchard Street, Johannesburg Its property portfolio is now worth R5-billion

Dr Van der Horst says "Our fixed-interest investments rose only R700-million We have lengthened the portfolio in expectation of a drop in interest rates We do not foresee a big drop soon Chris Stals is too determined for that

"It was a good year for property and for equities Right now we are concerned about the fragility of international markets, New York and Tokyo in particular If there is a crash, there's no doubt our performance will suffer relative to rivals less deeply committed to equities

"But we believe equities will give better performance in the long run, hence our present stance"

JOHANNES VAN DER HORST ... stock market gives more than a handsome return

Money-back Joe

JOE FORBES

By DIRK TIEMANN

JOE FORBES, who proposed a R187-million hotel for Uvongo, has returned R19,5-million to investors.

Mr Forbes, who invited the public to take part in his scheme, kept his promise to return money if not enough came in

Mr Forbes ascribes the lack of support to poor public understanding of the offer

He says: "The minimum investment was R1,75-million I had people sending me R100. The public offer has been withdrawn and together with the consulting consortium, I stand to lose a lot of money. All work was done on risk.

"We have three pieces of ground with separate title deeds Five foreign investors and two local organisations have shown an interest in joining us. I am willing to sell if I get a decent offer. Plans for the hotel are included in the price, but the developer can modify them The new developer could use the benefits of our ground work, which I believe is worth R2,4-million"

Mr Forbes estimates the value of the land at R12-million including the trading rights

"My prime objective is to sell the land The investor must buy us out at cost price I have no interest in continuing the project My intention was to serve as a consultant. If a pure investment syndicate takes over, it can develop the land and let us run it."

The cake's big enough for all

By LEON LOUW, Director of the Free Market Foundation of Southern Africa and co-author of two best sellers — SA: The Solution and Let the People Govern

LEON LOUW

WHICH well-known South African demanded that the Government stop privatising and said: "These privatised institutions belong to the people, and to sell them to the money powers in SA will be illegal. We warn those who are planning to buy these institutions that while they may be free to do so now, when (we take power, they) ... will simply be taken away from them and given back to the people."

Mandela? Tambo? Sisulu? No. Eugene Terre Blanche

Who, historically, have been the most fervent protagonists of nationalisation? The ANC? The PAC? Black unions? No. The National Party

Yet when the word "nationalise" flowed from Mandela's lips it "came as a hammer blow" to the world, according to YOU! magazine. "Why?" asked ANC spokesman Thabo Mbeki Why indeed? Why should this one word cause shock waves around the world?

Revolution

narrows and lower income groups earn a bigger and bigger percentage of the total

towing services to passenger or truck owners, who would hire out space as shipping containers do

Despite having a CP municipality, Welkom became the first SA city to have integrated urban transport — thanks to privatisation The municipal bus monopoly was privatised and within days black taxi operators started providing such a satisfactory service that the public did not want the buses back

The proceeds of privatisation could also be used to transfer private wealth into new hands without coercion

Most blacks, both in white SA and in the tribal homelands and locations, are the victims, or the descendants of victims, of land theft It is hardly surprising that redistribution of land is high on the agenda of many black organisations Once again, there are ways to bring about children and allow them and their parents to "spend" the subsidies at the schools they prefer This could be done with a voucher system whereby every child or school-going age, regardless of race or gender, would receive an equal amount for education

Such a system would provide a great incentive for private schools to enter the market Farm schools, mission schools, schools offering "people's education" and store-front colleges would mushroom Industry and commerce would be encouraged to train youngsters in technical skills if they could obtain vouchers to subsidise their costs

Government institutions would have to compete with private ones for vouchers, which would spur them to greater efficiency and higher standards

There is no logical reason why the

COMPANY R[ESULTS]

PRELIMS	Turnover (Rm)	% change	Profit before tax (Rm)
Bidcorp	383 3	+101	32 1
GFSA			402 2
Wooltru	2 707 7	+29	248 8
Af Cable	187 1	+20	33 9
Distillers	N/A	+12	160,3
Kilpton	88 9	+56	8,7
Mobile			11 3
Trencor	784 6	+14	112 0
Cashbuild	321 1	+33	14 1
Midmacor	88 8	+282	4 7
Metro	3 491 1	+11	49 8
KNJ	333 9	−1	21 5
Lonsugar (E)	342 9	+22	98 6
Abhold			6 6
Gr Five Hold	1 300 2	+22	30 3
Smart	128 9	+23	15,7
Seefin			2 1
Samancor	2 008 2	N/A	916 4
Goldstein	0	N/A	6 8
Rho Ex	-	—	0 5
Rusfurn	1 287 0	+38	119,1
Wayne	110 6	+424	10 6
Control	87 5	−8	−4,6
Group 5	1 300 2	+22	38 4
Kudu	35 7	+27	8,1
INTERIMS			
Time	140 9	+03	2 1
Sablnd	N/A	+31	8 8
Femcotec	58 9	N/A	3 4
Progress	30 1	−4	1 8
Smithmin	22 3	0	3 7
Sabvest	—	—	10 8
Sabhold	--		10 8
Liberty*		—	
FIT		-	38,2
Reichman			8 4
Amic	2 981 0	+6	429 0
Guardian			17,3
Grincor	228 1	+22	13 0

* Plus special dividend of 50c

Trenco[r] ahead o[f]

S\Times 26/8/9[0]

COMPANY results reported this week showed a[n] al trend — the past six months have been tough, terrible

Of the 13 interims none showed a loss But only Grincor lifted earnings a share by more than 20% 19% up, and four more showed single-figure increases

Amic's bottom line fell by 20%, Progress Industries by trouble in Natal and Reichmans suffered a 19% Time Holdings' earnings were a third below the months

Companies reporting for a year generally felt the better first six months Only Control Instruments an absolute loss out of the 25 giving results, and 13 their earnings a more than 20%. Six declines The rest growth or non- figures

Top honours go to Trencor and company Mobile, paced the rest in the June 1990 Trencor over climbed by 14% million, but its profit tax was up 44% at million

Space

Tax breaks export activities and associates kept the er's share down rose by 70% to 572c Exports and foreign accounted for more of earnings

By and large, celled Wooltru ings 35% higher year to June on a 27% turnover on a week trading time for the 53 weeks billion There was a 4% in trading space, ing real growth

This year's sales up on last year's, agement expects growth in earnings not as big a leap as

The Tradegro mixed Cashbuild's for the 53 weeks to

Screens for Old Mutual

S Times 26/8/90

Business Times Reporter

MASTERPLANNERS, which bought GKN Sankey in 1985, has won a contract to supply screening and storage facilities for Old Mutual extensions in Mutual Park, Cape Town.

The extensions, to be completed next year, will house 1 500 head-office staff members now working in eight blocks.

Staff will occcupy eight floors with storage facilities on one floor.

Old Mutual has chosen the Adaptawall screening system.

58

Millions

Masterplanner managing director Douglas Troxler says: "Assurance companies move policies extensively throughout their premises and, in the case of Old Mutual, there are millions of them."

Aboout 60% of Old Mutual's policies are stored off-site.

The contract calls for the supply of about 2 500 running metres of screen.

Masterplanners has supplied screening for the offices of the KwaZulu Government, Momentum Life, parts of Eskom's Magawatt Park and the Natal Library.

requirements.

Mr McGrath says: The

Another loser in insurance

S Times 26/8/90

(58)

GUARDIAN NATIONAL reports a large underwriting loss for the half-year to June.

Its results are in line with those of most short-term insurers who are suffering from a plunge in the economy and the increase in crime.

Guardian's underwriting loss to June was R5,5-million — a turnaround from profit of R7,9-million in the same time last year. The board blames the poor performance on the "sharp increase in the incidence and cost of motor accidents and theft".

Other classes of insurance, such as goods in transit, burglary and domestic contents, were aldo hit hard.

Premiums

Guardian's investment income hand leapt by 33% to R22,8-million. Earnings a share dropped 13% to 134,7c and dividend cover fell to 2,4 times from 3,4.

Net premiums written totalled R165,5-million — up 30% on the same time last year. But pre-tax profit plunged by 44% to R17,3-million.

The effective tax rate was reduced from 38% to 22% because of the "high proportion of dividend income included in pre-tax profits, together with the tax deductible transfer to contingency reserve".

An interim dividend of 55c has been declared — 50% of the previous year's total, but up by 22% on the first half of 1989.

Up to R800-m is spent a year on CSI in South Africa

Investment is

Corporate Social Investment (CSI) has mushroomed during the politically tumultous 1980s with more and more businessmen responding to a society in crisis.

Latest trends show a growth of specialist trusts and funds and an expansion of CSI activities to include the small and medium-sized companies.

Exact figures on the amount of money spent on CSI vary from about R600 million a year to R800 million, with education being the top priority.

The CSI industry is characterised by lively debate among corporations and within target communities and it has remained a controversial topic.

Corporate South Africa has followed world historical developments in terms of CSI and has evolved from the charitable hand-out days of Dickensian times. It has survived the "we know what is best for you" syndrome and has blossomed into the consensus era, where communities are consulted.

Fall of apartheid

The development of CSI in South Africa has been heavily influenced by the rise and fall of apartheid, and the allocation of funds can be charted by the downfall of racist structures. It has led to money being spent on school, housing and with the latest deregulation moves, the flourishing informal sector.

A global move towards democratisation and peace, and a seeming break in the South African political logjam, has also placed renewed emphasis on environmental issues. Welfare organisations complain they are being neglected in the face of such stiff competition.

At a more grassroots level, the dramatic development and mushrooming of community organisations and development programmes has added new problems to the eternal one of how to allocate resources.

Many worthwhile projects do not have the "sophistication of a fax and receptionist' and because they do not know how to market themselves they are often ignored. Political rivalry is also a headache to businessmen, who traditionally back off from political controversies.

Sasol's John Bredenkamp feels there is too much duplication of projects and organisations in black education and that "the time has come ... for a rationalisation of projects and organisations. Companies should stop investing in CSI as an end in itself and get involved with other companies on a joint venture basis to ensure that the most essential educational projects ... receive as broadbased funding as possible."

However, like almost every aspect of CSI, there is a debate around this topic and people like the chairman of the Anglo American De Beer's Chairman's Fund, Michael O' Dowd feel that "central planning" could be a bad idea and could quash creativity.

Reports by Sarah Sussens.

"The whole virtue of having private companies operating in social welfare sector of society as well as the Government is to provide a variety of policies, approaches and insights," he said. "This is one of the main reasons why Government programmes are often unsatisfactory, as they are too uniform."

Another more controversial area of CSI relates to its definition. For example, is it CSI to bolster your own customers and turn them into successful businessmen?

Yes, says Ian Hetherington of Job Creation, who argues one of the most productive CSI projects a company can engage in is wealth creation.

There are already four million adults of working age with no jobs in the recorded part of the economy. Almost half the present population are children. They will be seeking jobs at the rate of 1 000 a day over the next 15 to 20 years — jobs which do not exist at present.

In the face of such brutal facts, wealth creation makes sense.

Bottle manufacturers ABI, who have created about 260 new jobs through a programme of upgrading their distribution network in the East Rand township of Daveyton, do not include this as a formal CSI commitment, while the Metro Group's policy of training retailers and creating new ones is seen as the crossover of CSI into marketing.

CSI is characterised by a fair amount of controversy, reflected most dramatically by its name. The better known version — Corporate Social Responsibility — produces feelings of outrage among certain businessmen, who feel it implies their company is not responsible towards the community.

Shied away

Businessmen have long shied away from direct political involvement in the country's problems, but publicly they demonstrate their commitment to funding projects that can help create a stable society.

According to the research company, Business and Marketing Intelligence (BMI), who did research into CSI in 1987/88, it is common cause that whites in South Africa have satisfied needs and blacks do not.

It is for this reason that the bulk of CSI activities are turned towards the black community.

BMI found that the private sector was positive about the future and committed to contributing to the welfare and stability of the country and its people. Ultimately the long term success of their company depended on it — and therein lies the best and most businesslike reason why CSI has become a growth industry.

Star 27/8/90 (58) (100) (white page)

Investing in People

A Star study into corporate social investment

Sign of hope

Firms' foundations build trust

Companies are increasingly establishing foundations or trusts whose sole function is to co-ordinate and implement corporate social investment policy and strategy.

One such company is the multinational Plate Glass and Shatterprufe Industries (PGSI) holding company, which set up the P G Foundation in 1987/88.

The idea is to "identify, evaluate and sponsor specific projects within selected fields recognised by the P G Group as having relevance to its responsibilities in the socio-economic and environmental milieu in which it operates within South Africa," said P G Foundation director Reg Furber.

He said the aim of CSI was to help people help themselves: "The communities themselves, however, must tell us what their needs and aspirations are. We do not impose or initiate any projects ..."

The PGF is at present trying to co-ordinate a building clinic with the school of architecture at the University of the Orange Free State. The idea is to establish building workshops in the townships and help residents upgrade their homes and squatter settlements. It also supports organisations such as the Urban Foundation and Operation Hunger.

Baropodi community primary schoolchildren stock pile river sand in one of the PG Foundation's upgrading projects.

58

CORPORATE SOCIAL INVESTMENT

Investing in People
A Star study into corporate social investment

Group gives R100-m to disadvantaged

What do you do when you are handed R100-million for CSI programmes? Where do you begin?

Hylton Appelbaum, executive trustee for Liberty Life Foundations, faced such a task in April this year.

Liberty Life, the vast international insurance and financial services group, allocated this sum to his department as part of its commitment to CSI.

Mr Appelbaum is committed to consulting as widely as possible on project funding in the firm belief that "process is as important as product." Recently a successful and well-attended consultation on pre-school education was convened. Organisations and groupings from across the political spectrum were brought together.

The foundation is to disburse a minimum of R100 million over a five-year period. At the time of the announcement the group said it planned to spent this money on disadvantaged communities. This includes the provision of improved educational facilities, housing, the alleviation of poverty and the preparation for economic leadership by talented black entrepreneurs and other community leaders.

The foundation has been funded by an amount of R65 million to be provided out of Liberty Life's shareholders' reserves and a further R2 million from the Donald Gordon Foundation.

Mr Gordon said: "The foundation further aims to help the creation of an environment which will ensure a peaceful and stable transition to a democratic, just and equitable society in South Africa espousing the highest ideals and standards of the Western world."

He said the activities of this foundation would supplement those of the group's Community Fund, established in 1983 as the vehicle for the Liberty Life Group's contribution to the improvement of the quality of life for all South Africans.

He said: "We regard this as the best investment we could make in our investment portfolio to secure the future."

"We hope that Liberty Life's example will act as a catalyst and that other companies will follow our lead in encouraging the courageous initiatives of our political leadership — both black and white — with a full understanding of the horrific consequences to be faced if they fail us.

"If our social investment of R100 million can help create an environment conducive to a peaceful and stable transition to a democratic and equitable society, we shall be delighted. No sacrifice is too great if it facilitates our achieving this, but all of business must play its part."

Mr Gordon said the group had spent many millions on projects including a million-rand donation to the Urban Foundation.

He said, however, that a special gesture was appropriate at this stage as the group was convinced the political initiatives under way could be a major turning point in our history.

"It is vital for business now to come strongly up front and this in itself could play a critical role in the negotiating process."

Mr Gordon said the fund would be guided by a board of trustees. Veteran politician and former parliamentarian Mrs Helen Suzman has already accepted appointment and will be joined by other community leaders.

"The Liberty Life Foundation will be geared towards the upliftment of all communities but obviously will at this stage concentrate on the disadvantaged black community — but not ignoring our other responsibilities. This initiative comes from shareholders' money, not policyholders, with some support from the Donald Gordon Foundation. The major contribution emanates from the reserves we have built up for our shareholders over the years.

"Ultimately we hope that this investment will contribute to making the environment more stable, and act as a catalyst in the exciting development of the new South Africa.

"By taking this broader and long-term view we firmly believe that from this development shareholders' and policyholders' prospects will be immeasurably enhanced.

"The formation of the Liberty Life Foundation has nothing to do with our stance on nationalisation. If however our work on upliftment and the process of preparation for economic leadership expose nationalisation as the negative force it is, we would have partially albeit coincidentally, succeeded in one of our objectives — the creation of a more stable and prosperous economy.

"This is an ambitious project and I trust other companies, particularly the more successful companies in the life insurance industry, will respond similarly. The standards have been set.

Hylton Appelbaum, executive trustee for Liberty Life Foundations, faced the task of deciding how to spend R100 million on CSI programmes.

Companies must co-ordinate, says Sasol

The vast petrochemical giant Sasol has appealed to the corporate sector to co-ordinate CSI activities and to rationalise projects.

Mr John Bredenkamp, manager of Manpower Resourcing Services, said Sasol was of the opinion that there was far too much duplication of projects and organisations in the field of black education.

"The time has come not only for the rationalisation of projects and organisations, but it is high time companies stopped investing in corporate social responsibility as an end in itself," he said.

"They should get involved with other companies on a joint venture basis to ensure that the most essential educational projects that will give the greatest return on investment in terms of contribution to change and the improvement of technical education, receive as broad a based funding as possible.

"The result of this philosophy can be seen in the creation of the Vaal Education Centre where companies like Sentrachem, Eskom, AECI Karbochem and Sasol have established a board of trustees to support this centre.

"The centre's main objectives are teacher upgrading and supplementary maths and science teaching.

"These objectives have been established in consultation with an advisory board representing the schools and the broader community in the area.

Through this initiative Protec and READ have also been housed in the Vaal Education Centre, which means that these two organisations, which are already supporting the overall educational improvement thrust, can now enjoy the support of a group of companies and their administrative overheads can be reduced due to the accommodation available in the centre."

Mr Bredenkamp said that private sector funding for education, whether motivated by CSI reasons or because it is the "right thing to do", must become focused on improving maths and science education and the provision of technical education and training.

"Private sector funding should also be co-ordinated so that more resources can be channelled into these focus areas to create meaningful changes and to eliminate some of the agencies which do not necessarily have the correct focus, support of the community and credibility in terms of educational expertise."

He said that over the past few years Sasol's corporate philosophy concerning its contribution to change in the South African context, had focused in particular on the improvement of education so that more young people would be equipped to take up technically orientated careers and by so doing become part of the wealth-creating sector of society.

"The company is concerned about the state of education in general, and the teaching of maths and science in particular.

"It is against this background that many donation decisions are made, with the company constantly asking 'what will be achieved' and is there a multiplier effect?'"

The improvement of education has become something of a growth industry within South Africa with a plethora of organisations being established to improve some or other facet of education.

Mr Bredenkamp said this created problems, as the multitude of organisations continually bombarded the same donor companies to finance not only duplicate or overlapping projects, but an ever-mushrooming administrative infrastructure required by the projects.

thing short of food. — Reuter.

Gulf crisis — Page 4 and Page 15.

SA in mild recession, says bank

Star 27/8/90

58

By Derek Tommey

South Africa is in a "light" recession, says the Reserve Bank in its latest economic report.

Figures given by the Bank show that the recession is nowhere near as severe as the previous one in 1984-85.

Since March 1989, says the Reserve Bank, the economy has been slowly contracting. But it says the current downswing has been unusually mild on the production and spending sides of the economy.

Total spending started declining in the second quarter of 1988 but levelled off in the first quarter of this year and even rose in the second quarter.

Dropped

Spending by individuals continues to grow, says the Bank. After increasing by 4 percent between 1986 and 1989, it has risen a further 1 percent in the past five quarters.

This is far different from 1984-86 when consumer spending dropped by 4,5 percent.

New mortgages granted by the banks and building societies, after growing by R10,3 billion in 1988, grew by R9,6 billion in 1989 and by a further R3,9 billion this year.

At the end of 1989, the banks held mortgage loans worth R22,8 billion and the building societies mortgages worth R24,4 billion.

The Reserve Bank notes that house buyers have been accelerating repayments on their mortgages — no doubt because in present circumstances this sharply reduces the amount of interest that has to be paid on the mortgage.

Mission to protect rand — Page 16.

Investment freedom a stimulus for JSE

58

Star 27/8/90

residents, says the bank.

Purchases of listed equities by non-residents rose from R2 billion in 1988 to R5,1 billion in 1989.

They rose to R3,4 billion in the first half of this year.

Non-resident sales rose from R2 billion in 1988 to R8,3 billion in 1989.

They rose to R7,1 billionn in the first half of this year.

The value of public-sector stock rose by 11 percent from R175,8 billion in 1988 to R195,3 billion in 1989.

An interesting development recently has been the huge increase in the issue of fixed-interest securities through the Johannesburg Stock Exchange by private sector companies.

Money raised with these securities increased from R222 million in 1988 to R823 million in 1989.

A further amount of R75 million was raised in the first half of this year.

New issues of ordinary share capital rose from R900 million in 1988 to R9,0 billion last year.

So far this year about R1,7 billion has been raised with share issues.

The rise in share prices caused the dividend yield to drop from its high of 5,7 percent in May 1989 to 5,1 percent in October, last year.

But the yield is now back at 5,6 percent.

Accountants' body gives support

Black accountants have joined forces to help community organisations improve their financial administration skills. (58) Star 27/8/90

One of the major problems in the field of CSI is that organisations lack financial know-how and funders complain that there is no financial accountability.

The Association of Black Accountants (Abasa) has rallied to the cause and has established the Community Organisation Support Programme (Cosp) which offers training and on-going support.

"One of the major problems for community organisations in raising funds is not having financial accountability. This leads to the perception that they are not to be trusted. Lack of financial skills also hampers the organisation's development," said Mashudu Ramano, executive director of Abasa.

Speaking at the official launch of Cosp, Mandla Skhosana, president of the Trans-Orange Advice Centres Association (Toaca), said community projects, advice centres and organisations had played a vital role in creating a community identity and consciousness and had helped protect the ignorant and vulnerable.

"This feat has been achieved despite the myriad problems they have had to contend with and overcome, such as insufficient funds for day-to-day operational costs, little or no back-up from professionals and security police harassment," he said.

He said community organisations and projects needed to tighten up whatever operational weaknesses they may have in order to make a meaningful contribution in the post-Mandela-release era.

"One Achilles heel of these projects has been the lack of expertise in tightening up financial accountability. Any consequent cutback in funds has made the projects vulnerable."

He added that the Cosp project would also be beneficial as it would demystify the art of financial accountability and remove the "ivory tower mentality thought to be prevalent among financial practitioners".

Mr Skhosana warned, however, that Cosp should keep in touch with the community's needs and and bear in mind that the ultimate objective of their work was community empowerment.

"We therefore strongly urge Cosp, in order to be in touch with and responsive to the actual needs of the community, to liaise with accountable organisations in formulating its programmes in order to ensure that its programmes are endorsed by the community as belonging to it and also form a small contribution in the transformation of South African society."

Details of Metprop's rights issue

58

B/Day 27/8/90

CHARLOTTE MATHEWS

METBOARD Property Fund (Metprop) is today releasing details of the R61,5m rights issue announced earlier this month.

Metprop will be issuing about 23-million new units at 265c a unit in the ratio of 65 new units for every 100 held. The offer opens on September 7 and closes on September 28.

About R5,4m has been allocated to the development of vacant land in the portfolio and new properties will be bought for R22,7m.

"This will leave Metprop with approximately R31,5m in cash which will be used for the funding of further prime acquisitions, developments and for the renovations and refurbishments to existing properties which will enhance our portfolio," chairman Bernard Kantor said.

Of Metprop's lettable portfolio, 92% is industrial property. With the acquisitions and new developments the total area will exceed 250 000m². The new developments — mini-factory complexes at Fishers Hill in Germiston and Strijdom Park in Randburg — will be completed in 1991.

Metprop is managed by Metboard Property Fund Managers, a subsidiary of Investec Bank which is underwriting the offer.

Wage demands seen as unduly aggressive

(58) Star 27/8/90

The Reserve Bank is critical of the "unduly aggressive" wage demands being made and of employer willingness to accede to them.

It says such actions can reduce the number of jobs available and lead to greater poverty.

The Bank says such action will delay and "may potentially frustrate success" for the authorities' anti-inflation policies.

Industrial action, organised labour protest and labour unrest raise the perceived effective real cost of labour, it says.

This reduces the demand for labour at any given nominal wage level and at least partly neutralises the unions' efforts to raise real wages of their members, it says.

Moreover, increases in the effective real cost of labour stand in the way of efforts to get industry to use more labour and less capital.

Disorderly labour conditions add to business uncertainty and hold back private-sector investment, or lead to a too-high degree of capital intensity.

"By holding back output and the growth of output, unsatisfactory labour relations eventually limit the Government's powers to raise the community's well-being through education and training, improved housing and health care and social upliftment in general," it says.

SOWETAN BUSINESS

Massive funeral scheme launched

58

Sowetan 27/8/90

ANDREW LUKHELE

AFSURE (Pty) Ltd., one of the most succesful black insurance broking company in the country, has launched an R8 million funeral insurance scheme for the National Stokvels Association of South African.

The scheme involves 84 000 members from 700 stokvels.

This is by far the biggest billing to be landed by the year-old company, and it is not the last, according to Khehla Mthembu, managing director of the company.

In terms of the scheme members will pay a montly premium of R8, resulting in a benefit of R3 000 in case of death of a member, spouse or dependants.

It will be managed by Afsure Funeral Insurance Schemes' Mr Japie Moropa, Afsure's executive director for marketing, who said they were ready to arrange schemes for all organisations in the community.

The Nasasa burial scheme, which was announced and effected immediately, attracted a lot of interest from people who made inquries, although no single group had signed-up so far, Moropa told *Sowetan Business* this week.

"We are encouraging groups and individuals to join this giant move of circulating the black rand in the townships."

Moropa said that Nasasa and Afsure - the great believers of black economic empowerment - for the past six months had been involved in developing a financial benefit to:

* advance the lot of black people to generally advance themsleves; and,
* specifically assist the Nasasa members to have a funeral insurance scheme unequalled by any they might currently be attached to.

Nasasa's president Mr Andrew Lukhele said members had for long urged them them to investigate ways and means of modernising and professionalising funeral benefit structures and as a result they had consulted with Afsure and were proud to announce the scheme.

Star 28/8/90

Service cut-offs in doubt

By Therese Anders

Eskom and the Rand Water Board have announced they will not immediately be suspending electricity and water supplies.

The announcement comes four days before the nationwide rent boycott crisis is due to come to a head.

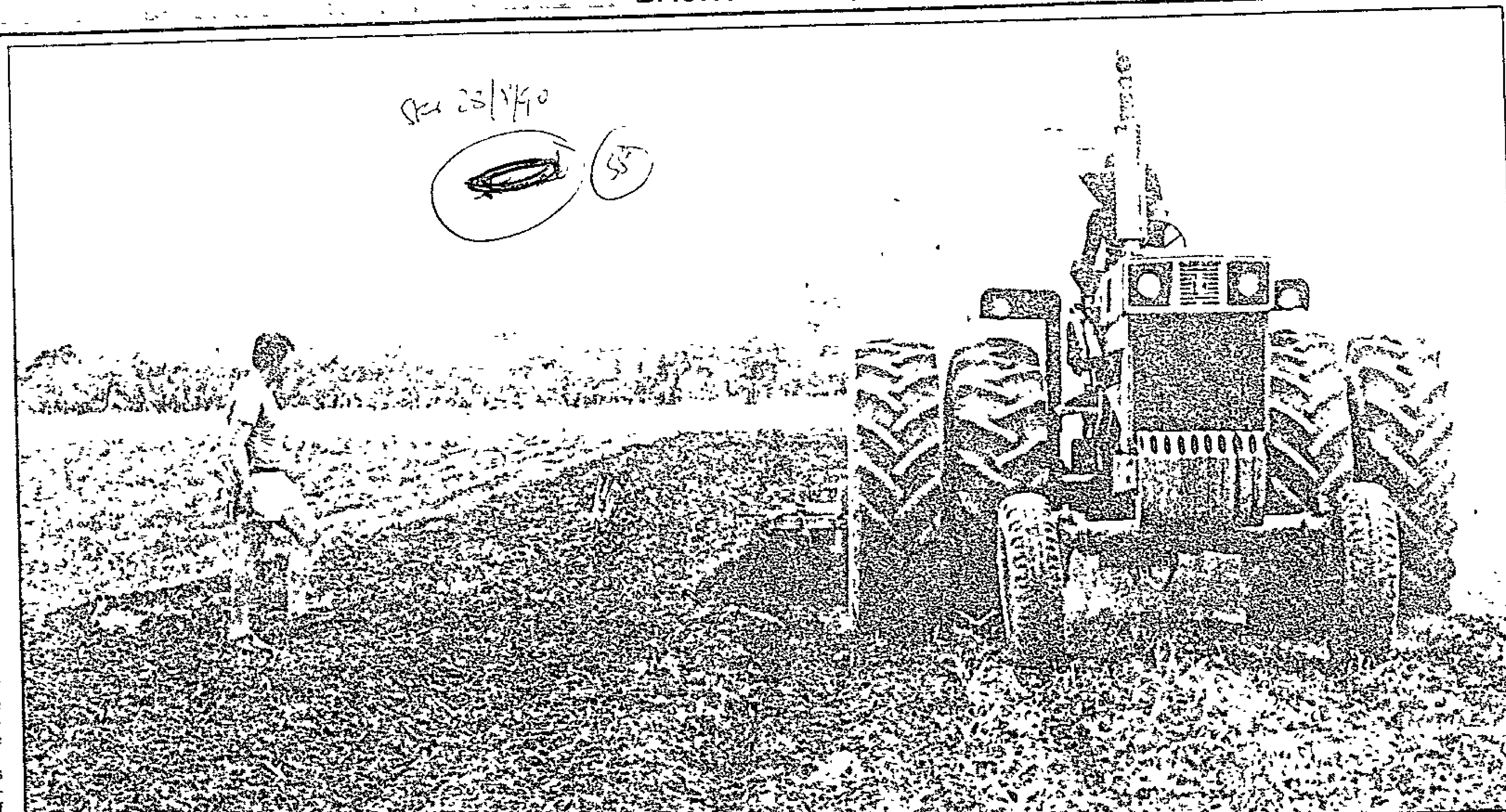
However, The Star has been told that some black local authorities have been warned that supplies will be stopped on Friday for non-payment of accounts.

- Witbank Town Council has given notification to KwaGuqa of an electricity cut on August 31 for non-payment.
- Ermelo's Conservative Party town council says Wesselton township's water supply would be suspended by September 15.
- Benoni's town clerk said that despite payment problems with Daveyton and Wattville, "we won't be cutting them off. That's not Benoni's style".

BACKGROUND

Star 28/8/90

55



Farmers facing the unthinkable

Farmers realise they have problems — there's no money to get them out of debt and, reading between the lines of speeches by Government spokesmen at last week's agricultural summit, blacks could soon own farms as well. By NORMAN CHANDLER of The Star's Pretoria Bureau.

Farming supports 6 million people and provides work for 15 percent of the population, but it cannot keep itself alive because of crippling debts and a crumbling infrastructure brought about by the high cost of services

In a classic Catch 22 situation developing as a result of debt and a desire by the Government for land utilisation in the interests of reform, the nation's 78 000 farmers may also soon find themselves facing the unthinkable letting someone else (perhaps of a different colour) try his luck at tilling the land.

That was the gist of messages given to the agricultural summit in Pretoria on Friday when the stark realities of an industry R14.7 billion in the red pleaded "We need Government help."

President de Klerk used a reverse of the stick-and-carrot approach when he told 220 representatives of organised agriculture that the Government did not want "a catastrophe on the platteland" but at the same time the country was moving with the times — and the land, in effect, belonged to all

Farming was the lifeblood of the nation but at the same time revitalisation and reconstruction of the economy was the name of the game.

"The most important aim is to increase the growth and employment-creation potential of the economy in a way which will ensure the greatest possible advantages of growth to all individuals," Mr de Klerk said.

He added that, traditionally, ownership of land had been pegged to political, economic and social stability.

"It was an anchor of stability and a bulwark against communism," the President said. The Government had no intention "to hand over your land" (to black people). He said that although property rights had to be protected, it had to be ensured that there were opportunities for private use of land by all South Africans without prejudice to existing legal rights.

Delegates, most from conservative Transvaal and Free State farming communities and organisations, listened in silence in the grandeur of the former Government House. Their attitude was summed up by the desultory applause given to Mr de Klerk.

It was not, however, an altogether unexpected speech.

Farmers have been saying for years that the industry needs assistance in the form of moratoriums being declared on interest rates, debt and input costs, and then, this year, Transvaal land owners gave a massive thumbs-down to a suggestion that white preservation of land should be prised from them. Just more than 94 percent of 15 000 who voted said "no"

But despite long years of pleas, little had been done to improve the lot if farmers, particularly in irrigation areas and in the arid northern parts of the Transvaal and northern Cape.

President de Klerk then left it to a phalanx of Cabinet colleagues to give more bad news — some dressed in flowery language, others put more bluntly.

Finance Minister Barend du Plessis was at his verbal best when summarising a prepared speech he had been scheduled to give at the Presidency guest house.

He urged farmers to realise that high interest rates could not be brought down especially for them, even though they were "a special case".

"But if you voted today that 100 percent too little was being done for you, I wouldn't argue," he said.

Mr du Plessis, in the process of giving delegates a lesson in the hard realities of economic management of the country's coffers, threw in some last words: "South Africa woke up on the morning on September 1 1985 without a banker. We (the State) had to move to a cash basis."

The inference about what had happened when international finance dried up five years ago was not lost on organised agriculture's representatives. They have to join the queue for Government handouts, and then only at times of drought or floods.

Even the debt consolidation programme established by the State three years ago was being reviewed, which was news to farmers who have been able to obtain assistance.

Kraai van Niekerk, the Minister of Agricultural Development, pointed out that very few farmers had been able to achieve any significant reduction in their debt load.

"The financial position of a large group continued to deteriorate. An increasing percentage of farmers can no longer meet their commitments."

Saying a strategy had to be devised, Mr van Niekerk said the planned restructuring of the industry was overdue. He blamed farmers for their predicament through too small economic farm units, incorrect use of resources, low level of efficiency and inadequate, or lack of, management expertise

Mr van Niekerk said private land ownership, in the hands of competent farmers, was essential for agricultural production

Hernus Kriel, Minister of Planning and Provincial Affairs, told delegates it was time that agriculture looked at the development of black farmers, even if they were still in what he called "their tribal areas"

"Black farmers can, through correct methods and training, make a positive contribution to the socio-economic development in their own areas (but) the awaited amendments to the Land Act in 'white' South Africa and the entry of farmers of other colours can play an important role in such amendments," Mr Kriel said

Rank-and-file delegates, while mainly concerned with debt, urged the Government to come to the industry's assistance in other areas as well. They asked for more State help for socio-economic concerns, such as improved housing, health and school facilities.

It was argued by Chris du Toit, president of the Western Cape Agricultural Union, that a large proportion of the country's 30 million population — one delegate said 23 percent and another 40 percent — lived on the platteland but only R25 million had been made available for "decent housing". Six million people worked on farms, and housing was a desperate need.

Thinus Hartman, president of the Eastern Cape union, said rural services, such as telephones, Post Office facilities and transport, were being eroded and electricity costs had escalated. The high costs were contributing to isolating rural areas.

"R80 million was owing to Eskom from the agricultural sector in 1987. Methods need to be found to supply power in a more economical manner to certain areas," Mr Hartman said.

There was also a plea for the "user-charge" policy — the State's rigid policy that the consumer pays in full — to be changed as it was making services to agriculture expensive.

Plea to banks on farmers' dilemma

Star 28/9/90 (58)

Pretoria Bureau

Commercial banks have been asked to help find a solution to the financial problems bedevilling thousands of farmers, an agricultural summit meeting was told in Pretoria.

Minister of Agricultural Development Kraai van Niekerk revealed this after Finance Minister Barend du Plessis told the summit last week that no special arrangements could be made for the farming industry.

The total agricultural debt now stands at R14,7 billion.

Many of the country's 78 000 farmers are cash-strapped and in some areas have decided against planting new season's crops because of drought.

Mr van Niekerk said it was important for the Government to know more about the debt situation in all its phases and that an Agricultural Economic Liaison Committee (AELC) was now gathering data.

The banks had been invited to join the committee, which included representatives of the South African Agricultural Union, the Land Bank, co-operatives and the Department of Agriculture.

Droughts

Mr van Niekerk conceded that farmers had gone through difficult times as a result of severe and continuous droughts.

"Because crop failures following unfavourable climatic conditions result in greater dependence on short-term foreign capital, the sector has been very severely affected by an increase in interest rates for which no provision had been made," the Minister said.

Interest rates were the biggest single cost for the farmer.

Mr du Plessis told the 220 delegates — whom he described as "special cases" — they could not expect the Government to help them at the expense of other economic sectors.

He said the Government was not being "hard-hearted" and if circumstances called for it, the State would assist — particularly in regard to disasters such as floods or drought.

Boland aloof in bank tussle

(58)

DIRK TIEMANN

BANKING takeovers are in the limelight — and Boland is the biggest independent available.

Its assets total only R3-billion, but it has an extensive branch network in the Western Cape.

Performance has not been good, profits rising by only 9,3% in the past year.

Managing director Gert Liebenberg says the bank's philosophy is to go it alone.

"Recently we entered a joint venture between our subsidiary Distriks Bank and Securities Discount House.

"The new District Securities Bank enables us to serve the peripheral Cape market and will focus mainly on corporate finance. We are not that heavily involved with farmers. We serve as a clearing bank and are active in the derivative market.

"We are in a niche market and are surviving against the big boys by going for the smaller to medium corporate client."

Martin & Co banking analyst Richard Jesse says Boland is more attractive to the smaller banks. He says a dividend cover problem exists after the one-for-one rights issue, which diluted earnings a share.

"The heavy rights issue on a low PE ratio brought down the dividend cover. Dividends are growing slower than earnings."

Boland's dividend cover is 2,4 and the bank sector averages three.

Mr Jesse says Boland is rated a C-grade company, with a 3,7 PE and and a dividend yield of 11%.

Altrhough the share is priced at 400c, there is not much demand for it.

S/Times 28/8/90

Portfolio

Mr Jesse says major banks would not gain much from aquiring Boland because they are already represented in country towns where it is predominant.

Volkskas managing director Danie Cronje says his bank's holding in Boland of 9,7% is purely a good portfolio investment.

"An acquisitor, would benefit from the opportunity to rationalise overheads and other costs."

First National general manager Jimmy McKenzie says: "We have looked at all the banks and building societies. Any merger would require rationalisation to be worthwhile."

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Strong trading helps RMB's performance

NEIL YORKE SMITH

RAND Merchant Bank Holdings (RMB) boosted earnings by a solid 20% to R25,2m during the year to end-June.

"We are pleased with the results, especially considering the economic circumstances in which they were achieved," MD Laurie Dippenaar said yesterday.

Excellent performances in the trading operations, especially in gilts and semi-gilts on the capital market, had offset a mediocre performance by the traditional money market activities, he added.

"Our traditional activities were subjected to severe margin squeezes mainly due to the structure of our deposit book."

RMB has few long-term retail deposits and is much more involved in short-term call monies.

"As a result we get burned when interest rates are high, but we benefit when they start to come down," Dippenaar said.

RMB's best quality earnings were generated by money market operations. But prohibitive interest rates had reduced the viability of many business proposals, so activity in this division had been reduced.

Dippenaar confirmed cooler business conditions could result in increased opportunities for the corporate finance division.

Growth

This division structures deals, including mergers and acquisitions which could increase as some companies get into trouble.

"In any event, we will have to go out and look for business — RMB will have to make the deals happen."

RMB was aiming for earnings growth of about 20% in the current financial year, Dippenaar said.

At the per share level earnings were 45,8c (38,1c) and a dividend of 17,5c (14,5c) was declared. Dividend cover of 2,6 times was maintained.

Growth for Norwich Life

Blday 29/8/90

LIZ ROUSE

NORWICH Life SA has shown strong growth at the interim stage, despite difficult market conditions.

Recurring premium income went up by 40% to R145m in the six months to June from R103m in the same previous period.

This was helped by significant new business premium growth in the life division of 75% and the Employee Benefits division of 303% over the same time last year. Policy-holder benefits grew by 33% to R80m and assets reached R1,5bn.

58

MD Charles Davies says that the Employee Benefits division performed exceptionaly well.

M&F mirrors ailing industry

58

B/Day 29/8/90

LESLEY LAMBERT

MUTUAL & Federal has reported a sharp decline in its underwriting surplus and a marginal slide in earnings for the year to June, providing further evidence of the short-term insurance industry's poor financial health.

While gross premium income grew by 7% to R883m and net premium income by 10% to R748m, a substantial increase in underwriting losses slashed the underwriting surplus by R42,4m to R11,6m during the period under review.

Investment income grew by 20% to R110m. But this only partially offset deterioration in the underwriting account. Net earnings declined from R91m to R88m, before an extraordinary item of R21m.

Net earnings after the extraordinary item — which resulted from the writing off of the cost of acquiring NEG, another short-term insurer — declined from R91m to R68m.

● SAGGERS

Earnings a share, before the extraordinary item, declined marginally from 195c a share to 190c. But, the final dividend was increased to 24c, bringing the total distribution for the year to 40c — a 33% increase on the previous year. This had the effect of reducing the traditionally conservative dividend cover from 6,5 to 4,7 times.

Commenting on the results, M & F MD Ken Saggers said excess capacity in the industry had prolonged the environment of strong competition for business at uneconomic rates.

He said the crime and motor portfolios produced underwriting losses as a result of the increased number of claims and the inflationary effect on the value of claims. The value of these claims increased by an average 30%.

Losses related to storm and water damage increased from R17m to R57m during the year under review, largely as a result of the Welkom tornado where M & F's exposure amounted to R26m. But, prudent catastrophe reinsurance arrangements helped to recover a substantial portion of this loss, Saggers said.

He warned that rating increases were imminent across all portfolios, particularly in the crime and motor classes where rate-cutting had been worst.

Unless the short-term insurance industry took immediate steps to return to sound underwriting principles, Saggers said, there would be serious economic consequences.

Looking ahead, he said he expected the economic downtown to place additional pressure on the industry but M & F's underlying financial soundness would keep the company relatively stable. The solvency margin was currently more than 120%, total assets had exceeded R1,5bn in value and investment income was over the R100m mark, he said.

Star 29/8/90 (58)

High interest rates, depressed economy hit used-car market

By Duma Gqubule

High interest rates and generally depressed economic conditions have put the squeeze on South Africa's used-car market, which has fallen off by 20 percent since 1988.

Theo Swart, joint managing director of McCarthy Group, says: "Two years ago, national annual used-car sales totalled 500 000 units.

"The market has shrunk to 400 000 units today as more and more buyers have dropped out because of lack of affordability."

On the brighter side, it seems that the market has probably bottomed out and that a steady, though modest, improvement in sales is on the cards from now on.

Mr Swart says a drop of one or two percent in interest rates appears to be a strong possibility later this year.

"This will have the effect of putting more disposable income in the hands of the man in the street and will thus help to stimulate used car demand.

"Furthermore, for those for those who have held on to their vehicles longer than normal, the cost of running and mantaining their high-mileage cars is now beginning to outstrip the cost of buying a replacement so we expect to see them in the market soon."

Used car prices are tending to come to lower levels than have prevailed in the past, when demand was higher and stocks of vehicles were more difficult to come by, he says.

Genbel portfolio in beneficial balance

By Ann Crotty

The weakness of the equity market appears to have prevented Genbel's share price from reflecting the benefits of this investment group's change in strategy to incorporate a balanced spread of resources and mining investments.

At end-June Genbel was quoted on the JSE at 650c — a discount of 17 percent on the share's net asset value of 785c. (By last week the discount had increased to 22 percent.)

In June 1987, the share was trading at 580c, which was a discount of just six percent to the NAV of 618c.

At that time, gold accounted for 61 percent of Genbel's portfolio (by market value). By end-June '90 this had been diluted to 22,7 percent.

The thinner discount in June '87 reflects a greater enchantment with gold at that time, as well as the much more bullish sentiment on equities generally.

Given the relatively sluggish performance of the gold index — an increase of only 10,7 percent in the 12 months to August 20 — and the dull outlook for gold generally, the shift away from gold shares must inevitably benefit Genbel's market rating in the longer term.

It is likely that, given the current market sentiment, a 61 percent exposure to gold shares would result in much more than a 22 percent discount.

Highlights of the Genbel performance for the 12 months to end-June are: distributable earnings of 28,8c (25,9c) a share; dividend of 27,5c (26c) a share and NAV up 18 percent to 785c (664c) a share.

In addition, there was a R296 million rights issue and significant investments acquired in Engen, Transatlantic, Iscor and De Beers.

Major changes in the sectoral spread of the portfolio include the reduction in gold from 29,5 percent to 22,7 percent of the market value of the portfolio (down from 61 percent in '87 and 49 percent in '88); mining finance down from 22,9 percent to 15,4 percent; offshore investments up from 1,5 percent to 9,5 percent; metals and minerals up from nothing to 4,4 percent.

Commenting on the changes, which also include an increase in exposure to platinum and diamonds, MD Anton Botha says: "These moves were prompted by management's decision to diversify out of low-growth gold shares into resource-based equities with better prospects and to reduce the number of stocks in the portfolio."

At end-June, Impala Platinum was Genbel's single largest investment at R521 million.

It was followed by Genbeheer with 11,8 percent, Kinross/Winkelhaak 9,7 percent, Transatlantic 9,5 percent and Engen 7,2 percent.

Genbel's 9,5 percent stake in Transatlantic includes the 6,3 percent bought in the second half of financial '90.

To finance this acquisition Genbel sold the investments held by Genbel Offshore Investments and, at year-end, had incurred net current liabilities of R182 million.

By last week, Genbel's cash position had reverted to net current assets of R23 million.

about 5.30 pm.

Rates won't drop

STAR 29/8/90 Finance Staff (58.)

Interest rates will not be lowered for the time being. This was the hard-line message from Reserve Bank governor Dr Chris Stals at the Bank's annual general meeting in Pretoria yesterday.

"Although the Reserve Bank is mindful of the hardships caused by the current restrictive monetary policy being followed by the authorities, the time has not yet come for a drop in interest rates," he said yesterday. "Any economic upswing based on cheaper money alone will be of short duration and will not last long."

See page 20.

CP cuts township services

Star 29/8/90

By Therese Anders, Highveld Bureau

The big switch-off of services to black townships has begun, with Carolina's Conservative Party council cutting water, water-borne sewage and electricity to Silobela yesterday.

The situation in Silobela, where residents claim there has never been a rent boycott, was described by residents last night as extremely tense.

Carolina mayor Dr Sarel Bloem said the decision to switch off had been a question of economics, not polities.

Last night the ANC condemned the action, saying it was a violation of an agreement between the Transvaal Provincial Administration, the ANC and civic associations.

- Sebokeng and Boipatong have been granted yet another reprieve before their electricity supply is cut off.

Premature to ease up now — Stals

(58) Star 29/8/90

Finance Staff

Calls for lower interest rates and an end to economic curbs to ease the hardships of the recession were rejected by the Governor of the Reserve Bank, Dr Chris Stals, at the Bank's annual meeting in Pretoria yesterday.

However, he said the Bank would not hesitate to relax its restrictive policy as soon as such a change was justified.

The economy was now in a delicate stage where a change in direction of monetary policy had to be considered.

But any switch needed careful timing.

A premature relaxation of restrictive measures could easily nullify the progress made over the past year towards restoring financial stability.

"The Reserve Bank is not insensitive to the hardships created for many people by the present low economic growth rate, but must warn against the temptation of seeking relief for all economic ills by a premature relaxation of monetary policy.

"It is the strong opinion of the Bank that a new expansionary phase started now, and based mainly on excessive creation of additional money, and therefore also on unrealistically low interest rates, will not be sustainable and will in the longer run only lead to the further distortion of an already stagnating economy.

"Sooner or later, but more likely sooner, inflation and balance of payments problems will, in any case, put a spoke in the wheel of such unsound expansion triggered by the creation of more money."

Dr Stals insisted that:

- Inflation must be reduced further to bring it into line with the average rate of South Africa's trading partners.
- Positive real rates of interest — that is, above the inflation rate — must be maintained.
- Gold and foreign exchange reserves must be increased to a more comfortable level.
- A sound financial infrastructure must be developed, consisting of healthy financial institutions, with efficiently working markets that can facilitate the implementation of policy and provide the financial services needed by a developing and rigorous economy.

Dr Chris Stals

He said a change in monetary policy could be introduced at any time, at short notice, and on the basis of all new information that became available.

"Although the time for the Reserve Bank to lead interest rates downwards by reducing Bank rate has not 'come, future developments will be carefully watched and a decision to relax the policy will not be unduly delayed."

Summarising the present status of monetary policy, Dr Stals said real economic activity had recently clearly moved into a recession, but that the severity of the recession was perhaps not yet fully reflected in available economic data.

"The Reserve Bank has great sympathy for the hardships created by this situation.

"Many factors contibute to the downswing, however, and the ills of the economy cannot all be cured by relaxing monetary policy."

The monetary authorities had certain clearly defined medium- and long-term aims and were grateful for the progress made over the past year towards achieving these objectives. but they had not yet reached them.

Dr Stals said South Africa looked forward to the day when it would once again be possible to merge the financial and commercial rand rates of exchange.

But in the meantime the rules pertaining to these arrangements would be applied relentlessly.

"During the past year much has been done to catch up on backlogs in the processing of exchange control applications, and in expediting investigations into contraventions and alleged circumvention of the regulations.

"Trespassers of the law must again be warned not to expect any leniency from the authorities, should they be caught out.

"Cases involving the abuse of the financial rand, which are in most instances based on fraud, are not only difficult to prevent, but also difficult to detect.

"To curb the avenues for abusing the system, it was recently decided to limit the purposes for which non-residents may use financial rands in South Africa," he said.

Economists back Stals's high rates

Cape Times 27/8/90

58

By ARI JACOBSON

ECONOMISTS have come out in support of the cautious approach to a bank rate cut adopted by the Reserve Bank's governor Dr Chris Stals in his annual address from Pretoria yesterday.

Dr Stals said the time was approaching for the relaxation of monetary policy but that the point of change had not been reached.

Economists interviewed said interest rates would drop somewhere between October and December.

He warned that "a premature relaxation of the restrictive measures can easily nullify the progress made".

Bankorp's economist Mr Johann Els said November "could be the correct time for a bank rate cut". He added that an earlier decision on interest rates should not be ruled out.

Southern Life's economist Mr Mike Daly felt October would be the date for the decline.

Old Mutual's chief economist Mr Dave Mohr supported the governor's statement saying he expected rates to fall by December.

● More reports — Page 14

Banks top rate cut 1 percent

58

Argus 29/8/96

By MAGGIE ROWLEY
Business Staff

THE ceiling banks can charge for money they lend has been reduced by 1 percent, giving consumers small relief on some monthly repayments.

The reduction in the maximum rates that can be charged by the banks under the Usury Act became effective on July 27.

Finance charges for amounts of up to and including R6 000 can now not exceed 32 percent, while the most that can be charged for amounts above R6 000, but less than R500 000, is 29 percent.

These ceilings will apply to among other things interest charged on bank credit cards and hire purchase charges, especially for motor vehicles, where banks generally charge the maximum.

On a R25 000 motor car being paid off over 42 months, this represents a saving to consumers of about R800 over the full period, or a monthly saving of about R21, a spokesman for the Association of General Banks, said today.

There is no restriction for amounts of more than R500 000.

Call rejected

Meanwhile calls for lower interest rates and an end to economic curbs to ease the hardships of the recession were rejected by the Governor of the Reserve Bank, Dr Chris Stals, at the Bank's annual meeting in Pretoria yesterday.

He said the Bank would not hesitate to relax its restrictive policy as soon as such a change was justified. The economy was now in a delicate stage where a change in direction of monetary policy had to be considered. But any switch needed careful timing.

A premature relaxation of restrictive measures could easily nullify the progress made over the past year toward restoring financial stability.

Dr Stals insisted that:

- Inflation must be reduced further to bring it into line with the average rate of South Africa's trading partners;
- Positive real rates of interest — that is, above the inflation rate — must be maintained;
- Gold and foreign exchange reserves must be increased to a more comfortable level; and,
- A sound financial infrastructure must be developed, consisting of healthy financial institutions with efficiently working markets that can facilitate the implementation of policy and provide the financial services needed by a developing and rigorous economy.

He said a change in monetary policy could be introduced at any time, at short notice, and on the basis of all new information that became available.

"Although the time for the Reserve Bank to lead interest rates downward by reducing bank rate has not come, future developments will be carefully watched and a decision to relax the policy will not be unduly delayed," he said.

Costs squeeze used car sales

From DUMA GQUBULE

JOHANNESBURG. — High interest rates and generally depressed economic conditions have put the squeeze on South Africa's used-car market, which has fallen off by 20 percent since 1988, according to Mr Theo Swart, joint managing director of McCarthy Group.

He said: "Two years ago, national annual used car sales totalled 500 000 units.

"The market has shrunk to 400 000 units today as more and more buyers have dropped out because of cost."

But on the brighter side it seemed the market had probably bottomed and that a steady, though modest, improvement in sales was on the cards from now on.

Mr Swart said a drop of 1 or 2 percent in interest rates appeared to be a strong possibility later this year.

M&F keeps head above water

Star 29/8/90 By Ann Crotty (58)

In view of difficult conditions in the short-term insurance market, Mutual & Federal (M&F) did reasonably well to curtail its drop in earnings to just 5c — down from 195c to 190c — in the year to June.

The dividend has been increased to 40c (30c) a share, which means dividend cover is reduced from 6,5 times to 4,7 times.

MD Ken Saggers says the main feature of the results was the sharp reduction in the underwriting surplus — down from R54 million to R11,6 million — because of the substantial increase in the cost of losses.

He says excess capacity continues to result in keen competition for business at uneconomical rates. But he is pleased that given the difficult trading conditions a surplus was achieved.

Gross premium income was up seven percent to R882,9 milion (R826 million) and net premium income up 9,9 percent to R748,4 million (R680,6 million).

Management succeeded in reducing the expense ratio from 8,5 percent of net premiums to 7,5 percent.

The effect of the deterioration in the underwriting account was largely offset by growth in investment income, which was up 20 percent to R109,7 million (R91 million).

Net taxed profit was R88,2 million (R90,6 million). There was an extraordinary write-off of R20,6 million relating to the acquisition of NEG.

Mr Saggers expects the operating environment to remain competitive: "The downturn in the economy will bring added pressures to the insurance industry, with an expected escalation in crime-related losses."

Cash-strapped Daily Mail may close

Nov. 29/5/90

By Julienne du Toit

The recently launched Johannesburg newspaper, The Daily Mail, may close unless enough funding is found by Friday, editor Anton Harber said last night.

If The Daily Mail did close, it would revert to its former weekly edition, which Mr Harber said had grown healthily since the launch of the daily paper in June, and had substantial advertising support.

"The purpose would be a retreat to base to enable us to build up our flagship publication and ensure that this country has a strong, outspoken and independent voice," he said.

He ascribed the Mail's problems in breaking even to tough competition in the morning newspaper market and the current economic recession.

Informed sources at the newspaper said that if the daily edition closed, the paper would try to retain as many employees as possible.

Star 29/8/90

NEWS

Over R2-m embezzled from State in a year

Pretoria Correspondent

Between R2 million and R3 million was misappropriated from the State during the past financial year.

And although the Auditor-General, Peter Wronsley, says he is "not happy about it", this amount represented a very small percentage of the total State Budget and showed SA had "an honest administration".

Addressing the Unisa Department of Public Administration seminar on the financial responsibilities of the public servant yesterday, Mr Wronsley said the total extent of irregular spending — including valid excess expenditures — was R52 million.

Mr Wronsley pointed to the wastefulness of duplicated facilities, under-utilised in one place of the community while facilities nearby were overloaded because of a political ideology.

This situation, he said, placed the auditor in an invidious position.

Mr Wronsley told the seminar — attended by about 250 senior public servants and academics — there was no statutory restriction to prevent public officials getting greater financial responsibility. Some departments already had a high degree of such autonomy.

However, he warned, in the public service, effectiveness was often difficult to quantify, and success could not always be measured by profits.

He also warned against a relaxation of strong centralised control by the Treasury, especially at a time of an "unknown" future.

In his address to the seminar, Dr Estian Calitz, Deputy Director-General of the Department of Finance, referred to the time of change and uncertainty facing South Africa.

Dr Calitz said available State finances could not meet all the demands of the "new" South Africa.

He said the first demand for successful financial management in the new public service was realistic expectations of economic growth and development.

rt

M & F posts lower profits

CMT Tms 29/8/90 (58)

By PIETER COETZEE
Financial Editor

THE short-term insurance industry is still hard hit by the downswing in the economy and fierce competition, especially on the premium front. This is reflected in Cape based Mutual & Federal Insurance Co's results.

The group reported marginaly lower net after-tax profits for year-end June, but nevertheless announced a 33% increase in total dividend distribution.

Financial statements released yesterday show after-tax profits decreased to R88,3m compared with R90,6m in 1989.

The final dividend was increased to 24c a share — with the interim dividend of 16c makes a total distribution for the year of 40c (30c) a share.

Gross premiums for the year increased by 7% to R883m and net premiums to R748m, 10% higher than 1989.

The prevailing economic climate impacted on the short-term insurance industry and resulted in a sharp reduction in the underwriting surplus to R11,6m.

Investment income increased by 20% to R110m.

Earnings per share decreased marginally to 190c compared with 195c in the last financial year. Dividend cover remains at 4,7 times.

MD Ken Saggers says the main feature of the year has been the substantial increase in the cost of losses resulting in a sharp reduction in the underwriting surplus.

He adds that the ongoing focus on expense management continued and resulted in a reduction in the expense ratio from 8,5% of net premiums to 7,5%.

Saggers believes the adverse conditions currently affecting the industry necessitate rating increases across all portfolios, in particular the motor and crime class areas where rate cutting has reached absurd levels.

"Unless the short-term insurance takes immediate steps to return to soun underwriting principles, the conse ences for the industry as a whole could be serious."

The operating environment is expected to remain competitive, says Saggers.

"The downturn in the SA economy will bring added pressures to the insurance industry with an expected escalation in fraud, arson, and crime related losses."

Accordingly Saggers believes that insurers will be obliged to reassess their premium rating structures if acceptable standards of service and stability are to be maintained in the market.

How these 'greenhouse gases' work ...

MORE than 10 years ago, scientists became aware that chlorine from CFCs could lead to a thinning of the stratospheric ozone layer. Five years ago, a "hole" was observed at certain times of the year in the layer over Antarctica. And in 1987, it was discovered that the thickness of the ozone layer over the southern pole area if it was brought to sea level was about 1,3mm, as opposed to around 3mm over the rest of the world.

The ozone layer normally absorbs all dangerous ultraviolet-C (UV-C) from the sunlight and a significant proportion of ultraviolet-B (UV-B).

As the ozone layer depletes, more UV rays reach the earth's surface and this greater exposure to ultraviolet radiation can damage the health of humans, animals and plants. In particular, increased exposure to UV-B is likely to increase the risk of melanoma and non-melanoma skin cancers, and as the ozone protection layer is depleted, a higher dose of UV-B radiation is received for the same number of hours in the sunlight.

Already figures for increased cases of skin cancer are spreading alarm. While scientists and dermatologists apportion some of the blame for this to the thinning ozone layer, it is also partly a result of changed sunbathing habits and attitudes towards tanning. According to an article in the British Medical Journal, "a one percent reduction in the ozone shield has been calculated to increase by two percent the amount of UV-B in the 290-300mm part of the spectrum reaching the earth's surface Thus a 10 percent reduction in ozone over a decade could result in a 20 percent increase in UV-B reaching the surface of Antarctica" While this is not so important for Antarctica, as it is virtually uninhabited, the effect in populated countries would be disastrous

CFCs are also particularly effective "greenhouse gases", as they absorb infra-red radiation emitted by the earth's surface, trapping heat energy within the atmosphere and leading to higher temperatures and climatic changes This is the phenomenon known as "global warming". By depleting the ozone layer, they also allow more ultraviolet radiation to penetrate the atmosphere, thereby increasing the warming effect Other greenhouse gases include carbon dioxide (CO2) It is estimated that the current global temperature will increase by about three degrees centigrade, the sea level will rise by 1,5mm and there will be shift in climatic zones on earth, if present greenhouse gas abundance in the atmosphere doubles This is expected in less than 100 years' time.

Ozone race: Can SA cool down on CFCs in time?

W/E Mail 3/8 - 5/8/90

Within the next few days, South Africa is expected to sign an amendment to the Montreal Protocol, agreeing to phase out CFCs by the year 2000. Most affected will be the mines. Can they make the deadline?

By SAMANTHA WEINBERG

SOUTH AFRICA's mining industry will have to make major adjustments to its refrigeration equipment to meet the stipulations of the amended Montreal Protocol on Substances that Deplete the Ozone Layer.

At the moment about 85 percent of the refrigeration equipment used in the mining industry is reliant on chlorofluorocarbons (CFCs).

CFCs are also widely used as propellants in aerosols, in foam blowing and as coolants in domestic and industrial refrigeration.

At a recent meeting of parties to the Montreal Protocol in London, attended by delegates from 97 countries, including South Africa's health minister, Rina Venter, it was decided to reduce CFC production and usage by 20 percent by 1993, 50 percent by 1995, and phasing it out completely by the year 2000

In terms of the protocol, all aerosols, refrigerators and other equipment relying on CFCs would have to be changed or converted.

The cost to South Africa's mines of using a different cooling agent are estimated to run into millions of rand as in many cases the refrigeration equipment would have to be changed completely to make it compatible with a new system of cooling

The chief engineer of the Environmental Engineering Division of the Chamber of Mines Research Organisation (Comro), Michael Bailey-McEwan, this week confirmed that the cost of the Montreal Protocol to mining companies would be "very, very substantial". He estimated that capital investment in large-scale refrigeration in the mines was upwards of R600-million.

While there are, at the moment, several workable alternatives such ammonia, HCFCs, hydrofluorocarbons (HFCs), and water, none is directly compatible with existing equipment and none seems to be perfect.

Bailey-McEwan said that until a suitable substitute is found, the mines would have to take short term steps to try and phase out their use of CFCs

Most existing equipment would be "converted", making it compatible with HFCs or HCFCs, and new equipment, wherever possible, would be built to run on ammonia or a water vapour cooling technique.

Ammonia, however, cannot be used in any of the mines' underground refrigerators as it is extremely toxic and the mines' main priority is the health and safety of their miners, said Bailey-McEwan.

The other chlorine compounds — HFCs and HCFCs — are not long-term prospects either. Graham Pridgeon, from African Explosives and Chemical Industries (AECI), which manufactured all South Africa's CFCs, described the compounds as "ozone

Illustration: COSTAS KALARYTIS

friendlier". However, they still damage the ozone layer and it is thought the Montreal Protocol will call for their phasing out from 1994/5.

As they are not viable long-term prospects, it is unlikely that manufacturers will invest too much capital in plants producing them. However, AECI was investing R18,7-million in an interim plant manufacturing HCFCs, Pridgeon said.

He said his company is not having difficulties in converting other products which use CFCs AECI hopes to stop using CFCs in industrial aerosols by the end of the year and convert aerosols for "personal care", such as deodorants and hairsprays, by 1994.

AECI has also announced a R200 000-programme to recover CFCs from large refrigeration plants, and rework the product for further use at its Sasolburg plant.

GC Smith Chemicals has also opened a R12,5-million prozone plant — the first in Africa and the third in the world According to GC Smith's marketing officer, Geoff Hoppe, the plant produces dimethyl ether, an "ozone-friendly" alternative to CFCs in aerosols. He said the plant will have filled the equivalent of 28 million ozone-friendly deodorant cans by the end of 1991.

Anglo American environmental engineer Dick Stroh said the company was confident that a suitable replacement refrigerant would be found in time to meet the phasing-out deadline, decided on at the meeting in London. However he said initial work carried out by AECI's sister company, Imperial Chemical Industries (ICI), indicated that alternatives would be five to seven times more expensive than CFCs.

Stroh said Anglo had decided to change to HCFCs two years ago and that no machines using CFCs had been bought since

"It's a very important issue It's larger than Anglo American, in fact," Stroh said

"We are committed to observing the spirit of the protocol. We will work to find alternatives as long as they satisfy the criteria for the protection of the ozone layer and don't expose us to unnecessary cost "

Bailey-McEwan agreed that mining companies would not find the adjustment easy "The mining industry will be among the industries which are going to find it hardest to change," he said "But that doesn't mean it isn't going to change "

Last December, a working group including representatives from across the industry was formed to help the mining industry comply with the Montreal Protocol The group is liaising with manufacturers to monitor the development of new chemicals and equipment.

Breaking through the south's thin 'skin'

SOUTH AFRICA is the largest user of CFCs in sub-Saharan Africa, accounting for 12 tons or about one percent of the world total.

While South Africa uses far less than countries like the United States (which it is estimated uses nearly 30 percent of the world total), by virtue of its position in the southern hemisphere, it suffers more from the negative effects of the CFCs.

The magnitude of the effect on a particular country is unrelated to the amount of CFCs it produces and uses, so the world shares a collective responsibility to control its own emissions. According to initial results from a research project undertaken by the nuclear physics department at the University of Natal in Durban, the ozone layer covering South Africa may be directly affected by the formation and breakdown of the polar vortex surrounding the ozone layer above Antarctica.

The polar vortex is a system of strong west and east winds that encircle the polar cap. They prevent ozone-rich air from lower latitudes gaining access to the cap and as a result, there is an ozone build-up outside the vortex, including over South Africa, from May to October.

According to the research team's report, "within the polar vortex the chemical and physical conditions are such that, when the area is again illuminated by sunlight in October, there is strong circumstantial evidence that ozone reacts with ... CFCs. This produces the ozone hole."

However, after October, the vortex breaks down and the ozone-rich air that has built up over the lower latitudes mixes with the ozone-poor air within the hole. The ozone covering over South Africa and Australia is therefore thinner.

Restrictive policy to remain — RB

CNL Times 29/8/90 58

By PIETER COETZEE
Financial Editor

THE SA Reserve Bank will not relax its restrictive monetary policies prematurely, said the Bank's Governor Chris Stals yesterday in his annual address to shareholders in Pretoria.

He said this ruled out a discount rate cut at this stage. "The time is not ripe to relax the restrictive monetary policy yet.

"The SA economy is now in a delicate stage where a change in direction of monetary policy has to be considered. It is, however, extremely important that any switch in policy should be carefully timed.

"A premature relaxation of the restrictive measures can easily nullify the progress made over the past year towards restoring financial stability," said Stals.

"Although the time for the Reserve Bank to lead interest rates downward by reducing the bank (discount) rate has not yet come, future developments will be watched carefully, and the decision to relax the policy will not be unduly delayed," he said.

Stals said the Reserve Bank believed the time was approaching for the relaxation of monetary policy, saying that it was moving in the right direction as far as policy objectives are concerned.

"Even so, we have not yet reached our goals. The bank is therefore reluctant to relax its restrictive policy measures yet," said Stals.

"There is no simple formula for determining the correct timing of any change in monetary policy. The Reserve Bank is guided mainly by developments in monetary and financial aggregates, for this is where the resposibility lies.

"A change in monetary policy can be introduced at any time, at short notice, and on the basis of all new information that becomes available," said Stals.

"We are not committed to a predetermined timetable, but we have an obligation not to act too soon."

The SA economy, which he said had clearly moved into recession, was now in a delicate stage where a change in direction of monetary policy had to be considered.

"It was not surprising that many unreasonable and even unrealistic expectations arose concerning the contribution that a relaxation in monetary policy could make towards solving the economic ills at this time," Stals said.

But the severity of the recession was perhaps not yet fully reflected in available economic data and a premature relaxation could easily nullify progress made over the past year towards restoring financial stability.

The Bank said on Monday in its annual economic review that the economy may show no growth in 1990. The government early this year predicted 1% growth after 2,2% in 1989.

Stals said the Reserve Bank's monetary policy at this stage had a longer term perspective and was intended to create a financial environment that would be conducive to higher economic growth in the future.

With this in mind, he said, inflation had to be reduced further to bring it more in line with the average rate of inflation in SA's trading partners.

He noted that the quarter-to-quarter rate of increase in SA's consumer price index had fallen from 18% in the second quarter of 1989 to 13,1% in the second quarter of this year.

But, he added, the year-on-year increase in consumer prices in July 1990 was still 13,3%, considerably higher than those of SA's main trading partners.

He said policy goals included a need to maintain positive real rates of interest, increase gold and foreign exchange reserves to a more comfortable level, and manage creation of money so that an adequate but not excessive amount was supplied.

He said there were many factors inhibiting the restoration of financial stability and the return to a higher economic growth rate in SA. Among the more important ones were uncertainties over the country's political and social changes.

Others included continuing international economic pressures, social unrest and industrial action, the debate on a different and perhaps less free economy, and the belief that the value of money would continue to depreciate and the rate of inflation would remain high.

Stals said recent developments in the Middle East had added further to the uncertainties.

"The SA economy can be materially affected by these developments, for example by the rising prices for oil and gold. In this situation, the injection of more money into the ailing SA economy will bring no cure, but may easily aggravate the problem.

"It is the strong opinion of the Bank that a new expansionary phase started now, based mainly on an excessive creation of additional money, and therefore also on unrealistically low interest rates, will not be sustainable and will in the longer term only lead to the further distortion of an already stagnating economy," said Stals.

Petrol price

KwaMahlanga. ... with the black people", the commission heard.

Bank manager: I was greedy

Star 30/8/90

By Celeste Louw

A bank manager stole more than R75 000 from his employers because he had become greedy, a Johannesburg Regional Court magistrate heard yesterday.

Daryl Bridger (34), a former manager at the Booysens branch of First National Bank, told the court he had committed 25 counts of fraud amounting to R76 546,25 between March last year and February this year.

"At first I regarded it as unauthorised borrowing, but greed got the better of me," Mr Bridger told the magistrate.

The court heard that the money had not been spent on necessities.

Some amounts had been used to pay membership fees to the Wildlife Society and to pay the Receiver of Revenue, the court heard.

Suicide

Mr Bridger intended committing suicide when the police started their investigations, but his wife convinced him it was not a solution to his problems, the court heard.

The trial was postponed to October 25.

CP action brings violence warning

Chaos as lights and water cut

Star 30/8/90 58

By Therese Anders,
Stan Hlophe and Sapa

There was chaos in the eastern Transvaal township of Silobela yesterday after the cutting of water, sewerage and electricity services on Tuesday by Carolina's Conservative Party council.

And, as more black towns were threatened with services being cut off within days, there were signs that the issue of arrears payments is rapidly blowing up into a major political confrontation between the black political organisations on the one side and white local authorities and the Government on the other.

Consumer boycotts are already being threatened as retaliatory steps if the authorities should continue with threatened services cuts.

In Silobela, perishable food in shops began to rot yesterday, as did the contents of most home refrigerators. Most of the 10 000 residents had to collect supplies of water from a small polluted stream.

Locals avoided the council tanker providing water during the day — at 2c a litre — because they alleged it was the same one used to collect night-soil buckets.

On Tuesday, Carolina mayor Dr Sarel Bloem said the services had been suspended because Silobela owed the Carolina municipality R25 000 for July and their August account was almost due.

A Transvaal Provincial Administration spokesman in Nelspruit confirmed that many Silobela residents were paying their accounts, but said that, according to the TPA's formula, Silobela had been designated a boycotting township.

The TPA's head office in Pretoria said yesterday in a statement that the Carolina Town Council had acted without its permission.

'Serious mistake'

"The TPA, however, has no jurisdiction over an autonomous local authority."

Not a drop ... Silobela housewife Pauline Mgobane kept trying her tap council might have changed its mind and re-connected the township's

Jani bomb was 'a bid

Star 30/8/90 (344)

3

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'Serious mistake'

"The TPA, however, has no jurisdiction over an autonomous local authority."

Last night the ANC issued a strongly worded warning to Carolina's CP-led council.

ANC eastern Transvaal region secretary Joe Nkuna said: "We condemn the action of the CP town council. They are making a serious mistake because we are considering serious action to protect our people if the situation doesn't change immediately."

- Hardly 48 hours after the Carolina council cut services to Silobela, Belfast's CP-controlled town council has given the residents of Siyathuthuka an ultimatum to pay up or be cut off on September 4.

Town clerk Mr P Strydom said the council was not in the financial position to pay Siyathuthuka's account to Eskom.

- Good progress was made at talks between the TPA and the Soweto People's Delegation on ending the rent and service-charges boycott in Soweto, the TPA said.

Discussions, in which the councils of Soweto, Diepmeadow and Dobsonville are also taking part, will resume today.

According to the TPA's Piet Wilken, the TPA has run out of funds and unless some revenue is forthcoming by the end of August, they would have to cut the services.

Civic Association spokesmen warned the TPA that, if it carried out its threats, it would have to bear the blame for the full-scale violence which would erupt.

This warning was echoed by United Municipalities of South Africa president Tom Boya, who appealed to President de Klerk to intervene.

Not a drop . . . Silobela housewife Pauline Mgobane kept trying her tap council might have changed its mind and re-connected the township's

Jani bomb was 'a bid to ruin TerreBlanche'

Star 30/8/90 (344)

By Cathy Stagg and Craig Kotze

One of two rightwingers allegedly responsible for the bomb blast last year outside former Sunday Times columnist Jani Allan's Sandton home has been charged in the Rand Supreme Court.

Fanie Goosen (29) of Vereeniging appeared briefly yesterday in connection with the blast and the murder and robbery of a taxi driver, Potoko Franzar Makgalemele, who was first stabbed then shot.

Mr Goosen will remain in custody until his case resumes on September 11. The second man, Cornelius Johannes Lottering (34), is being sought by police in the far Northern Transvaal.

Described as one of South Africa's most wanted men and an alleged member of the self-styled extremist right-wing "Order of Death", Mr Lottering escaped from police custody in Johannesburg along with Mr Goosen and other prisoners in March. Mr Goosen was re-arrested on the farm Swartwater near the Botswana border.

Police are following up information that Mr Lottering is hiding out on farms in the Pietersburg and the Ellisras areas.

According to the charge sheet the two men committed murder, two counts of robbery, two counts of malicious damage to property, attempted intimidation and the unlawful possession of a firearm.

The two men are said to have "illegally caused an explosion" on July 14 last year against the wall of a block of flats named "The Birches" in Sandton.

Ms Allan, who has subsequently moved to London, was a resident.

The explosion was said to have been an attempt to threaten or force her to generate news reports which would contribute to ruining the expected nomination of AWB leader Eugene TerreBlanche as a candidate for the September 1989 general elections.

Star 30/8/90

Arrests a 'cheek' – ANC

(329) (409) (11A)

Staff Reporter

The ANC yesterday described as "a damn cheek" the arrest and charging of three senior Cosatu officials, after they complained to the police that an alleged police spy had been caught red-handed.

ANC publicity chief Pallo Jordan was responding to the arrest of Cosatu general secretary Jay Naidoo, assistant general secretary Sydney Mufamadi and distribution official Baba Schalk during a police raid on the Cosatu head office in Johannesburg on Tuesday.

The three officials, who were charged with kidnapping and robbery, briefly appeared in court yesterday and the case was postponed. Bail of R1 500 each was extended.

Star 30/8/90 58

NEWS

'No' to E Rand loans

By Abel Mabelane, East Rand Bureau

Electricity masterplan schemes contracted by the now defunct East Rand Administration Board, were still owing R131,9 million in April this year and the amounts are escalating because local authorities are unable to pay.

This was said at the East Rand Regional Services Council (ERRSC) meeting last week when the council decided not to guarantee loans granted by the Development Bank of Southern Africa to local authorities.

The ERRSC said it was well known that the developing local authorities were, under normal circumstances, experiencing deficits in their budgets because income did not cover expenditure.

"During the last four months the financial position of these local authorities has deteriorated drastically."

'Amend investment guidelines'

ROBERT GENTLE

INVESTMENT guidelines prescribing how insurers and pension funds prudently invest their assets should be amended because they prevent portfolio managers from using futures effectively, Old Mutual Risks Investment manager Dave Mitchell said yesterday.

Mitchell, elaborating on remarks made during an SA Futures Exchange (Safex) seminar for portfolio managers, said the present regulations did not reflect the existence of a licensed futures exchange.

They came into effect on October 1 1989 and superseded the old prescribed asset requirements.

While the present regulations stipulated maximum percentages to be invested in specific areas — for example, equities (65%) and property (30%) — they made no reference to derivatives. These necessarily fell into the "other assets" category — a mere 2,5%.

"There is a conflict here because while prudent fund management may require exposure to futures and options to guard against market swings, current investment regulations effectively preclude this," he said.

Mitchell said that portfolio managers should be allowed to manage their funds as fiduciaries, but the regulations sometimes conflicted with their duties to their clients.

The Registrar of Financial Institutions Piet Badenhorst needed to be "encouraged" in this respect.

Mitchell said Badenhorst had already indicated a willingness to amend the regulations.

The Registrar could not be reached for comment.

58

Bday 30/8/90

Standard cuts deposit interest rates

58

NEIL YORKE SMITH

STANDARD Bank yesterday announced a cut in interest rates on four categories of fixed deposits by 0,5 percentage points.

The move follows the recent reduction by other banks of the rates they pay on retail deposits. BDy 30/8/90

Nedcor lowered six-month deposit rates half a percentage point to 18%. First National Bank and yesterday Standard Bank lowered rates by the same amount on six-, nine- and 12-month deposits to 18%, 17,5% and 17% respectively.

By reducing retail rates before the Reserve Bank lowers the Bank rate, banks effectively hedge against a margin squeeze when lending rates fall. They also benefit from increased margins in the interim.

Commercial bank treasury officials say interest rates in the money market remain far too high when compared with liquidity levels.

But they say it is unlikely rates will fall significantly in the short term, if only because of the tight grip the Reserve Bank has on the market.

However, they believe the Bank's tight grip could be justified at present, especially as tax receipts this month are expected to be much lower than those for last year.

Reduced tax rate lifts JCI earnings

58 Star 30/8/80

By Magnus Heystek, Finance Editor

A substantially lower tax rate boosted the attributable earnings of Johannesburg Consolidated Investments (JCI) by a respectable 18,2 percent in the year to July.

According to the unaudited consolidated figures released yesterday, attributable taxed income amounted to R429,6 million (R363,4 million) after a reduction in tax payable from R42 million to R21,7 million.

Earnings per share rose 18,2 percent from 246c to 291c per share.

The final dividend has been increased from 75c to 90c to bring the total to 132c, a rise of 20 percent.

On an equity-accounted basis, the growth in earnings was more pedestrian, reflecting the sharp downturn in profitability, mainly from platinum and gold.

This was counteracted by a solid increase in earnings from the group's industrial interests, mainly Premier and Bevcon.

Equity-accounted earnings rose 5,6 percent from R596,7 million to R601,6 million, which amounts to earnings per share (before extraordinary items) of 408c (386c).

Investment income was up 16,8 percent to R355 million(R294,3 million), while attributable earnings from operating subsidiaries rose 37 percent to R59,6 million (R43,1 million).

The share of retained earnings of associated companies was down from R206,3 million to R172,0 million.

An analysis of the group's equity-accounted earnings shows that earnings from platinum, the single largest source of income, was down 9,5 percent to R180,1 million.

Gold's contribution was down 22 percent from R24,5 to R18,9 million.

Earnings from diamonds were up 8,5 percent to R81,4 million.

Coal was the sparkler in the mining sector, with its contribution rising 67 percent to R33,8 million.

This is largely attributable to the acquisition of 40 percent of the Middelburg mine.

As a whole, earnings from the mining sector were up a marginal 2,8 percent to R332,4 million.

Industrial interests were more buoyant, rising 22 percent to R165,2 million, and contributing 27,5 percent of group equity earnings, compared with 23,6 percent in the previous financial year.

Earnings from the group's ferrochrome interests were down as well, dropping from R50,2 million to R35,5 million as a result of the sharp decline in the price of ferrochrome alloy.

Property development chipped in with R5,9 percent, an increase of 96 percent.

According to a statement by JCI, Premier and Bevcon were the main contributors to the increase of 22,7 percent in earnings from the group's industrial investments.

Star 30/8/90 (58)

Rembrandt dividends

Interim dividends for the four listed companies in the Rembrandt group were announced yesterday.

Dividends for ordinary shares are:

Rembrandt Group 10,5c.

Rembrandt Controlling Investments 7,78c.

Technical Investment Corporation 6,82c.

Technical and Industrial Investments 7,23c.

ANC asked to consider bailing out cash-strapped Daily Mail

Star 30/8/90

Political Reporter

The ANC has been approached to buy the Johannesburg-based Daily Mail, which faces closure because of lack of funds less than three months after its launch.

The head of the ANC's department of information and publicity, Pallo Jordan, confirmed yesterday that the ANC had been approached by newspaper staff to inform them that they were in trouble and needed bailing out.

The suggestion had been made that the ANC buy the paper, he said, adding that that was one of several options being considered by the ANC which had been looking into the possibility of launching its own newspaper.

In a statement on Tuesday Daily Mail co-editor Anton Harber said the paper would close if additional finance was not raised by the end of the week.

Yesterday the Daily Mail was inundated with offers of assistance and inquiries, Mr Harber told The Star.

"There's been an enormous response including some cheques. But it is not enough to make a real difference. We will have to watch to see if it builds up over the next few weeks."

The money received is to be kept in a trust fund.

It was decided yesterday to continue to publish the daily edition until at least Friday September 7.

Star 30/8/90

Buildcor cautionary

Buildcor has agreed in principle, subject to certain pre-conditions, to the acquisition of a business which will be complementary to the group's existing operations.

Such a transaction could have an impact on the value of the company's shares and a further announcement will be made in due course.

Meanwhile, the company advises shareholders to exercise caution in dealing in their shares.

Insurance is vital for homeowners

Sowetan 30/8/90 (58)

By KENOSI MODISANE

MOST new home owners have to make some difficult choices. They have to cut down on certain items of expenditure, deciding what is essential and what is not.

Only by cutting out the non-essentials can they live comfortably within their means and still meet the bond repayments.

It is important not to skimp on the wrong items!

For instance, when you move into a new home there is a big temptation to buy lots of furniture and other new goods to fit in the with the new lifestyle. But think before you buy - especially if you have to resort to hire purchase (HP).

A couple of HP accounts to pay a month can ruin all your finacial planning.

However, there are some new items of expenditure that many consider essential if you are to enjoy peace of mind in your new home.

Here, we are referring to insurance on your house.

Any financial institution will insist that you take out insurance on the structure of your house.

Because they lend you any money for the house, the institutions want to make sure that should anything happen to the structure of the house you are insured and will be paid out.

Financial institutions also advise clients to take out insurance against death and disability.

The prime breadwinner in the household is important to everyone. What happens if you are injured in an accident and cannot work again?

The worst case, of course, would be your unexpected death. What happens then?

If you are covered by life assurance, part of the home loan will paid by the insurance company. In this way, your family will be protected. They will still have a roof over their heads. At least the bond will have been paid off.

Nowadays, financial institutions also arrange an extra safeguard called Sasria insurance. This is extra cover in case there is a riot in your area and the house is damaged by rioters.

Contents

There is another type of insurance - also a sensible item of expenditure - which you should be aware of.

The insurance given by the financial institutions does not cover the contents of the house movable things like furniture, kitchen appliances, clothes, TV sets and radios.

If you wish to cover these items, you will have to take out special insurance cover for the contents of the house

Special words to watch are premiums (what you pay) and cover (what is expected and to what value).

For more information you should contact your bank, building society, insurance broker or your nearest Khayalethu office.

* This report has been compiled with the assistance of the South African Housing Trust.

Co-ordinating curtains, cushions and tablecloths.....from the Visions range produced by W and A Textiles.

Imaginative furnishing

Suregro attributable income falls 54%

58

EDWIN UNDERWOOD

SURE Group's (Suregro) attributable income fell by 54% to R1,5m (R3,2m) for the year ended March after setbacks in its truck and spares division.

The drop in earnings from 13,1c to 6c a share has resulted in the directors not declaring a final dividend for the year.

However, the industrial vehicle and materials handling group managed to lift turnover by 26% to R51,4m (R40,7m) and operating income by 29% to R7,6m (R5,9m).

The group's interest bill rose to R5m (R1,9m), reducing taxed profit by 25% to R2,57m (R3,4m).

While Suregro's overseas operations continued to perform well and contributed R2m to taxed profit, local divisions, particularly the truck and spares division produced a disappointing performance.

Suregro wrote off non-recurring debts of R1,7m as an extraordinary item during the year.

MD Keith Blair said indications at the half-year were that the truck and parts division would continue to trade profitably.

"To support this, stocks orders were confirmed in the second half of the year.

"Anticipated demand did not materialise as the industry cut back on expenditure and inventory replacement."

Blair said management had attacked the problem by concentrating on stringent asset management and had drastically curtailed overheads and expenditure.

He had assumed responsibility for the truck and spares division which was being restructured to improve administration and the technical aspects that came to the fore during the year.

The group's overseas division performed well and the directors said, that with adequate capital and banking facilities in place, they expected meaningful growth in this division in the current year.

"This would be particularily advantageous against the background of the slowdown in the SA economy and the truck market in particular and the rand hedge effect of overseas earnings," Blair said.

BD 31/8/90

Octodec rights offer opens

Star 31/8/90 (58)

Finance Staff

The rights offer for linked units in Octodec Investments opens today. Octodec is a new property loan stock company which will be listed on the Johannesburg Stock exchange on September 20.

This listing arises from the restructure of Tomkor's property portfolio. Octodec has an initial projected yield of 17,3 percent on issue price.

The prospective return for Tomkor shareholders who follow their rights in full is about 22 percent, taking into account the Octodec linked unit to be received by them as a dividend in specie.

The letters of allocation were listed on the JSE on Monday and today the rights offer documents and pre-listing statement will be posted to Tomkor shareholders.

Suregro takes a hefty fall

(58) Star 31/8/90

Attributable income of Sure Group Holdings (Suregro) fell 54 percent to R1,5 million (R3,2 million) in the year ended March after setbacks in its truck and parts division.

The industrial vehicle and materials handling group lifted turnover by 26 percent to R51,4 million (R40,7 million) and operating income by 29 percent to R7,6 million (R5,9 million). A 161 percent rise in the interest bill to R5 million (R1,9 million) reduced taxed profit by 25 percent to R2,57 million (R3,4 million).

While Suregro's overseas operations continued to perform well and contributed R2 million to taxed profit, local divisions, particularly the truck and parts division, disappointed and earnings a share dropped from 13,1c to 6,0c.

Setback in earnings

The setback in earnings has resulted in the directors not declaring a final dividend for the year. An interim of 2,2c was paid after the half year.

Suregro wrote off non-recurring costs of R1,7 million (R0,4 million) as extraordinary items in the year.

Group MD Keith Blair says all indications at the half-year were that the truck and parts division would continue to trade profitably.

He says the directors are confident that the corrective action taken will reduce the high level of working capital in the year ahead.

He says the group's overseas division performed well, and with adequate capital and banking facilities in place, the directors see meaningful growth in this division in the year ahead.— Sapa.

In Carolina's Silobela township a drink of water has meant a 2 km walk since the CP-controlled council cut services. Last night, the c restored the services following pressure from the Transvaal Provincial Administration and threats of court action. Picture by Alf Ku

Soweto rent boycott to end

Star 3/8/90 58

Staff Reporters

Soweto's four-year rent and services boycott is set to end on September 24 after an agreement in principle last night between the Transvaal Provincial Administration (TPA), the Soweto People's Delegation (SPD) and the Greater Soweto councils to write off R516 million in arrears.

After a 15-hour meeting it was decided that township residents will pay a uniform tariff of R55 for September and from October an interim service charge of R23 a household plus electricity on metered consumption of 12c a unit.

This rate will apply until new affordable tariffs have been established in consultation with a joint technical committee appointed by the principal bodies.

The Soweto agreement comes in the wake of the announcement by Planning and Provincial Affairs Minister Hernus Kriel that the Government would cut bridging finance today.

This could see the termination of electricity and possibly water and sewerage services to at least 50 rent-boycotting townships throughout the Transvaal.

Mr Kriel said at a press conference in Pretoria that the Government had simply run out of money.

"This is not a political decision but a financial one," he said, adding he hoped this would not lead to renewed township violence. He said electricity would first be cut, followed by refuse removal. Water would only be reduced or cut off at certain times of the day but essential services such as hospitals would not be affected.

Vulnerable

The towns most vulnerable to power cuts — having received the largest bridging finance payments last year — include Alexandra, north of Johannesburg (R10,7 million), Diepmeadow (R49 million), Dobsonville (R11 million), Lekoa (R12 million), Daveyton (R4 million), Tokhoza (R4 million) and Atteridgeville (R9 million).

Most of these needy townships also showed a massive budget deficit for the 1989/90 financial year.

Mr Kriel said R428 million was budgeted for bridging finances in the Transvaal during the present financial year ending in March 1991. Only R99 million remained.

Eskom management was meeting this morning to decide what action to take on power cuts.

- Carolina's Conservative Party-controlled council yesterday reconnected electricity and water to Silobela township.

The council bowed to pressure from the TPA and Lawyers for Human Rights, which threatened to bring urgent Supreme Court interdicts against the local authority.

Last night residents reported that their services had been restored at 6 pm.

Belfast Town Council, which threatened to cut off services on Tuesday, has extended its deadline.

The Soweto agreement will be referred to various parties' constituencies for ratification and another meeting has been scheduled for September 24 for the formal agreement.

We won't pay, say angry residents

Star 31/8/90

By Louise Burgers

Residents of Ennerdale, south of Johannesburg, are threatening to boycott all accounts sent out by the local authority if their grievances about high and faulty accounts for water and lights are not addressed.

Yesterday residents clashed repeatedly with a large contingent of police when they demonstrated outside the civic centre and attempted to march on the local police station.

Residents also embarked on a work stayaway after police took action against marchers late on Wednesday.

Eyewitnesses said police used birdshot, rubber bullets and teargas to disperse crowds.

SAP liaison officer, Captain Pieter van Deventer, confirmed that police baton-charged and teargassed residents, but denied birdshot and rubber bullets were used. Four people were arrested.

A member of the Ennerdale Civic Association, Howard Sauls, said police used birdshot against residents again yesterday, injuring one man.

Bleeding

Mr Sauls said: "I was standing two metres away from the man who was hit. A crowd had gathered at the entrance to the town. Police told the people to disperse.

"Teargas was fired and then I heard a shot and a man scream. He was bleeding from his left side."

Ennerdale residents say they have been fighting a nine-year battle to stop accounts from rising steeply every year. Angry residents claim the council is overcharging for water and electricity.

An average family of four or five pays between R300 and R500 for electricity and water each month — an exorbitant amount, residents believe.

Earlier at a meeting attended by about 1 000 people, the Ennerdale Civic Association called for the resignation of the management committee and the sensitive handling of faulty accounts. Residents threatened to boycott all accounts sent out by the local authority until the situation was settled.

58

NEWS

On the march . . . A teargas cannister is shot over the heads of a crowd of marchers in Ennerdale yesterday after they were ordered by police to disperse. Picture by Ken Oosterbroek.

Fine showing from Curfin

B/Day 31/8/90 (58)

EDWIN UNDERWOOD

CURRIE Finance (Curfin), the holding company whose main interests are in freight and related activities, has reported an 18% increase in earnings a share to 68,7c (58,1c) for the year ending June on a 7% drop in turnover.

Turnover fell from R32,8m to R30,4m.

Directors said the good profits reported by the Safcor freight division, in which the group has a controlling interest, together with pleasing results achieved in other operations, helped to improve the group's performance.

A final dividend of 38c (34c) has been declared.

Fabcos takes a stake in Unibank

(58)

Star 31/8/90

Finance Staff

The Foundation for African Business and Consumer Services (Fabcos) has acquired a 10 percent stake in the newly launched Unibank.

Sources said yesterday the investment in Unibank was in line with Fabcos's attempts to get into the financial services sector.

It is envisaged that the financial institution will provide finance for Fabcos members, which includes the R624 million-a-year stokvels, small builders, taxi operators and members of the estimated 600 000-strong National Black Consumer Union (NBCU).

Unibank, launched last Thursday has among its major investors First National Bank, Fedlife and the Bophuthatswana National Development Corporation (BNDC).

With a capital base of R10 million, Unibank was formed out of the restructuring of the 130-year-old BK Savings bank which had been operating in Queenstown and King William's Town.

Bankers trim deposit rates across a wide band but . . .

Stals is digging in on interest rate cuts

Star 1/9/90

(58)

MAGNUS HEYSTEK

BANKS this week took the first steps in what could be the forerunner to lower interest rates across the board.

Anticipating an imminent drop in the prime overdraft rate, Standard Bank this week reduced its deposit rates across a wide front by an average of 0,5 percent — a move which could soon be followed by most other banks.

However, government sources claim that this move could prove to be somewhat premature.

Rather perplexingly, Standard Bank said its action was "in line with economic trends".

The rate for 6 months fixed deposit has been dropped to 18 percent, 7 to 9 months to 17,5 percent, 10 to 12 months to 17 percent and 13 to 17 months also to 17 percent.

Senior citizen savers aged 60 and over will continue to receive an extra 0,5 percent, according to the Standard's statement.

Other banks have in recent weeks been quietly reducing their deposit rates. Until a week or two ago it was possible to get 18,5 percent or even higher on 6 months deposits. Now they have started scaling down the rates.

First National has also cut the rate on outstanding balances on its First Card.

"Oh, you mean I have to speak to Stals about lower rates on my overdraft, Dad."

The bankers acceptances rate for 90 days has shown a decline from a high of 18,5 percent to current levels around 17,9 percent.

This is seen as a clear signal that a drop in the prime overdraft rate is on the cards, despite the strongly-worded statement from Dr Chris Stals, governor of the Reserve Bank, earlier this week.

While most commentators were expecting him to reduce the Bank rate — the rate the Reserve Bank charges to financial instititions for overnight money — and ultimately all other lending and deposit rates, he refused to bow before the pressure and said inflation had to come down further.

He did, however, indicate that the time was rapidly approaching for a drop — as soon as it was justified by the relevant economic data.

This includes a further increase in the country's gold and foreign exchange reserves, a continued slow-down in money supply growth as well as stability in the rand-exchange rate.

Dr Stals's decision against cutting interest rates was no doubt influenced by the volatile behaviour on gold and oil markets in recent weeks. The sharp and largely unexpected drop in the gold price this week must have had a bearing on his decision.

While the relatively higher gold price means higher revenues for the gold mines, the sharply higher oil price could have a far more serious impact on the country's trade balance and ultimately inflation.

It will require a return to normality in both markets before any decision is made on a lowering of interest rates.

In contrast to optimistic predictions by economists earlier this year, most are now hesitant to predict the future behaviour of interest rates.

There is general agreement that they will drop one percent by the year-end, followed perhaps by another 2 percent during the course of next year.

It is considered unlikely that interest rates will drop to the same level prevailing during the previous recession.

Unit trusts — how to read them right

58 Star 1/9/90

FINANCE STAFF

IF you are confused when you read the buying and selling prices and yields on unit trusts in the daily papers, don't worry — you aren't alone.

It is surprising how many investors do not realise that merely comparing yields is not the way to determine which unit trusts are doing the best.

Many investors are under the impression that the higher the yield, the better the unit trust's performance. This is not necessarily the case, as can be illustrated with the following example:

The market value of 100 units in unit trusts A and B is R100 in either case. Both declared a dividend of R7 in the past 12 months, which meant a dividend yield of 7%.

Before the next dividend is declared, the value of the A units grows to R150, and that of B units to R200. The dividend yields are then 4,6% and 3,5% respectively. The "yield" of the unit trust with the most rapid growth is therefore lower than when both declared the same dividend and is lower too than that of the unit trust with the slower growth rate.

Yield is therefore not a gauge for the investor who is interested in capital growth. It is only an indication of how the income of a unit trust performs.

But how should the daily figures be interpreted?

An example of how the various unit trust prices are given in the financial pages of the daily papers is shown above:

	Column 1 Buyers	Column 2 Sellers	Column 3 Yield
General trusts			
Guardbank-Growth	1 989,84 (1 990,15)	1 855,19 (1 855,47)	4,67
Momentum	187,68 (187,94)	175,03 (175,31)	6,31
Metfund	156,53 (152,98)	145,92 (142,63)	5,39
NBS Hallmark	787,47 (791,87)	732,01 (736,10)	6,75
Old Mutual	2 380,37 (2 396,26)	2 211,34 (2 226,10)	4,78
Sanlam Trust	1 383,53 (1 382,09)	1 290,24 (1 288,90)	4,49
Sanlam-Index	1 130,36 (1 124,58)	1 052,99 (1 047,63)	3,93
Southern	155,65 (156,49)	144,95 (145,73)	4,8
Standard	953 (952,71)	893,05 (891,91)	6,93
Sygro	200,20 (200,21)	187,16 (187,17)	4,47
UAL	1 770,21 (1 772,96)	1 651,79 (1 654,34)	5,37

The price in column 2, the lower price, is always the market value (selling value) of a particular unit at that stage. If an investor owns units, he can see how much his investment is worth by multiplying the number of shares by the market value.

The price in column 1, the higher price, is the market value of the unit plus the relevant costs. It is the price at which an investor buys a unit.

If an investor does a transaction today, in most cases he will be able to see what price he bought or sold at only in tomorrow's papers.

Figures in Column 3 under the heading "Yield" reflect only the income earned from a unit trust and has nothing to do with the capital growth.

Yield is calculated by expressing a year's income distributions as a percentage of the repurchasing price. In most unit trusts the last two distributions of income are used. For those that distribute income every quarter, the last four are expressed as a percentage of the repurchasing price.

Looking at, for example, Sanlam Index Trust on August 3, 1990:

The selling price (column 2) is 1092,99c. Total dividends and interest paid out in past 12 months is 41,40c.

Using the following formula the yield can be calculated:

$$\frac{41,40}{1\,052,99} \times \frac{100}{1} = 3,93\%$$

The 3,93% merely shows the investor what percentage of income a particular unit trust offers him at the market value of his unit at a specific stage.

It is no indication of performance, because price rises and drops are changing this yield all the time.

Should the buying price rise and the year's income remain the same, the yield will decline. It is no indication of performance, because price rises and drops are changing this yield all the time.

The column is even used incorrectly by investors to determine what sort of unit trust they want to invest in. Because the non-share trusts, or rather income funds, often yield the highest returns, an investor could well invest in a non-share trust, when he would rather be in a share unit trust.

C Press 2/9/90

Few get compensation

POOR people in South Africa rarely get fair compensation for personal injuries because they cannot afford to make claims.

The onus for proving the extent and implications of the injuries rests solely with the victims. If they cannot afford the thousands of rands in legal and medical costs, they cannot substantiate the claim.

There is very limited assistance available to accident victims claiming from large insurance companies.

Although it is difficult to estimate how many injured people receive fair compensation, according to attorneys who specialise in personal injury claims, only a small percentage of victims ever get fair compensation.

According to attorneys, legal costs in a claim for someone permanently disabled in an accident, are often between R10 000 and R30 000.

Independent medico-legal consultant Kay Martin says many disabled victims die waiting for their claims to be settled.

If an insurance company contests a claim, the case usually takes about two years to get to court. It is usual for insurance companies to offer to settle out of court a day or two before the case is due to be heard. In the interim the claimant usually gets nothing.

But many victims never get as far as the court. They either do not claim at all because they do not have the resources, or they accept a negligible amount in compensation from the insurance company, thus signing away any right to bring a future claim.

It's over! Soweto rent boycott is now history

THE scrapping of the massive Soweto rent debt represents one of the most important breakthroughs in the quest for a new South Africa.

The R516-million debt was written off this week after lengthy meetings among the Soweto People's Delegation (SPD), officials of the Transvaal Provincial Administration (TPA) and the Soweto Council.

Parties at the meetings said the agreement would only be applicable to the greater Soweto townships, but could be persuasive in other areas.

It was agreed that each household in greater Soweto will pay R55 tomorrow to cover September's bills and thereafter R23 a month plus 12c a unit for electricity.

During the debate, delegates agreed that residents will pay an extra R5 from January 1991 as a levy towards the Greater Soweto People's Fund – to be established for community development and assistance. The fund will be controlled by an independent board of trustees and nominees from all principal bodies will serve on it.

A similar levy on businesses in greater Soweto is being considered.

The board is to establish a Metropolitan Chamber for the Central Witwatersrand to serve as an interim forum with the primary function of investigating and formulating regional, non-racial and democratic policies.

A sixth principal body

Staff Reporters

– the Johannesburg City Council – will be invited to participate.

A table of electricity discounts was also formulated at the meetings. They are:

- 33,3 percent for the first 250 units.
- 25 percent from 251 to 350 units.
- 20 percent from 351 to 450 units.
- 15 percent from 451 to 550 units.
- 10 percent from 551 to 650 units.
- For non-metered consumption (such as meters out of order) the charge will be based on 400 units.

Soweto Civic Association (SCA) president Isaac Mogase, who attended the meetings, said yesterday he had been inundated with congratulatory calls from residents.

He said: "They expressed their jubilation at the announcement and we would also like to express our gratitude to them for their support and co-operation throughout the marathon negotiations."

Mogase said the SCA would embark on an information campaign to explain clearly to all residents the terms of the agreement.

Charles Khuluse, a father of three, said elimination of rent arrears was a welcome gesture from the authorities, but that the whole thing needed to be explained clearly.

"Residents want to know exactly the amount they are required to pay.

"If the amount is not stated clearly, they may later change their minds and make us pay exorbitant amounts, as before."

Thalitha Matsoporo, a disabled pensioner from Naledi in Soweto, said people were prepared to pay, but let it be the right amount.

Welcoming the move, Matsoporo also said these measures should apply countrywide.

"We only hope the write-off won't mean overcharging residents again," she said.

John Khambule of Zola in Soweto was pessimistic, saying authorities haven't done enough.

He said: "Before they started removing us from our old freehold areas, they promised that after 20 years the house becomes yours. This has not happened."

C/Press 2/9/90

On a high ... Soweto Civic Association president Isaac Mogase (above), who has announced an information campaign to help explain the rent breakthrough.

Political comment and newsbills by K Sibiya, headlines and sub-editing by K Naidoo, both of 2 Herb Street, New Doornfontein, Johannesburg.

Rembrandt partnership pays off

"Partnership paves the way for self-development. By helping others to help themselves we ensure that our fate will not be similar to those of people who, because they covet all, lose all," says chairman Anton Rupert in Rembrandt Controlling Investments annual report. "Partnership is an unfailing recipe for democratic co-existence and the best answer to a discredited economic ideology like nationalisation," he says.

There's no doubt that Mr Rupert is one of the wisest men in SA, a man with vision and sound moral judgement.

Since 1954 his group has practised industrial partnership with great success elsewhere in the world.

Where new factories were established abroad, half the shares were sold to locals, while management and employees were also recruited from that country.

During the year to March 1990, Rembrandt spent R1,3 billion on new investments, financed by overdrafts and funds provided by other members.

Subsidiary HLH acquired 25 percent in Rainbow Chickens for R195,6 million and, following the rights issue in Huntcor cost R74,1 million.

A 50-percent stake in Lenco's holding company cost R15,9 million. A further 5,4 percent of UBS was bought for R68,2 million, giving a 10 percent stake.

Following its rights in Gencor Beherend cost R80,5 million and now Rembrandt controls 25,2 percent of that company.

The major investment was 7,4 percent additional indirect interest in Goldfields of SA, costing R911,3 million and resulting in a 17,4 percent effective interest.

Debt has risen significantly to R446,8 million (1989: R123,6 million), but is still low because it represents only 7,8 percent of total assets, which were R5,76 billion at end-March 1990.

This meant higher interest expense for the income statement of R101,5 million (1989: R30 million), but made little difference to earnings.

Accounting policy changes

Bottom Line

Star 3/9/90

MICHAEL MENOF

(58)

were not material to the results — all subsidiary companies provide for deferred tax using the partial method.

The policy of amortising trademarks by showing them as extraordinary items has now been changed to show the write-off above the line.

Disclosure of turnover and percentage changes are meaningless, say the directors.

Net income before tax rose to R770,5 million (1989: R662,2 million).

After crediting income from the associated companies of R317,6 million (1989: R228,8 million) and deducting tax of R281,4 million (1989: R248,5 million) and minorities' profit of R442,6 million (1989: R335,5 million), net income from normal business operations was R384,1 million (1989: R307 million).

Below-the-line extraordinary credits of R24,9 million (1989: deduction R1,5 million) left earnings of R409 million (1989: R305,5 million).

Earnings per share rose to 106,7c (1989: 85,3c).

The annual dividend was upped to 18,51c (1989: 14,81c) — 5,8 times covered.

The Trademark group contributed R144,5 million (increase 19,7 percent) to income.

Mining interests contributed R125,3 million — an increase of 28,9 percent, helped by positive results from Gencor Beherend, Trans Hex and a larger contribution from Goldfields SA.

The industrial interests produced R66,3 million of income — up 37,8 percent, helped by the expanded rights issue in Huntcor/HLH.

Financial services contributed R30,3 million — up 38,7 percent, helped by good results in Volkskas.

The merger of Momentum and Lifegro bore fruit. Corporate finance and other interests declined marginally to R17,7 million — down 7,6 percent, with cash previously available used for investments during the year. Medi-Clinic gained ground.

The interest of own members in shareholders' funds of R2,02 billion at book value increased by R5,61 per share.

Using market and directors' valuation of investments lifted this to R8,05 per share.

But this does not include the substantial value of the group's trademarks that were written down to a low R63,2million.

Total shareholders' interest,including outside members, was R4,72 billion (1989: R3,49 billion) at end-March.

Investments increased significantly to R4,4 billion (1989: R2,67 billion) and had a market and director's valuation of R6,13 billion (1989: R3,41 billion) — what a neat hidden reserve!

With the substantial investments made during the year, working capital turned slightly negative at R10,6 million (1989: positive R507,3 million), where cash reserves declined to R46,1 million (1989: R357,4 million).

Capital commitments increased from R42 million to R104 million.

The superb numbers confirm Dr Rupert's perfect philosophy that partnership is the opposite to domination and control.

In essence, it is the joint creation of wealth and the fair sharing thereof.

His message is clear: "In SA we are all economically interdependent and partnership is the key to peaceful co-existence because its foundation is confidence.

"Without confidence there can be no development, no mutual goodwill, no progress and no lasting peace.

"Remember, if your neighbour does not eat, you will not sleep. No fence or wall will keep out the hunger-stricken multitudes if there is abundance on the other side."

Looking at Rembrandt's track record, Dr Rupert has proved his case with his courage.

Let's wake up and work together — it's not too late.

Citizen pays out 1c a share

Star 3/9/90 (53)

Citizens Holdings, the cash shell controlled by W and A Investment Corporation, earned 1c a share in the six months to June 30 and is paying the full amount as an interim dividend.

The company says its only assets are now funds on deposit of about R5,6-million.

In terms of the Johannesburg Stock Exchange rules the listing of Citizens, which was suspended on July 31, will be reinstated if the assets required for a listing are introduced before January 31. Otherwise the listing will be ended.

"Proposals are being considered which may have an impact on the valuation of Citizens shares," the company says. — Sapa.

South Africans still splashing out on holidays overseas

Star 3/9/90

58

269

By Monica Nicolson

In spite of poor exchange rates and expensive airfares, South Africans are still travelling overseas in their droves, say travel agents.

Rupert Lawlor, president of the Association of South African Travel Agents (ASATA), says flights overseas are still full.

However, he adds that further price hikes because of fuel increases may negatively affect the market in a few months' time.

"I get surprised at the resilience of holidaymakers — but South Africans just love to travel.

"I don't expect businessmen or people with family overseas to stop travelling. But even the leisure market has not been affected," he said.

Although there has been a marked increase in domestic tourism, with far more people travelling locally, Mr Lawlor says it is not at the expense of the overseas market: more people are travelling.

Discerning

"People have cut down on lavish travelling by staying in cheaper accommodation, not eating at expensive restaurants and generally travelling within a small budget.

"The public now looks closely at travel packages and has become far more discerning," he says.

Travellers have also been choosing overseas destinations such as Turkey and Thailand, where the exchange rates are more favourable.

US aids victims of violence

Pretoria Correspondent

The opportunity to achieve a non-racial South Africa through peaceful means is too precious to be endangered by the effects of violence, US ambassador to South Africa William Swing said last week.

Star 3/9/90

Handing over a grant of $175 000 (about R446 000) to the International Committee of the Red Cross (ICRC) to aid victims of violence, Mr Swing said.

The US government has contributed 1 338 750 to the ICRC since 1988, and R2 225 000 to the South African Red Cross and the Natal Red Cross, for victims of violence and their families.

Levelling playing fields to build a new society

BDay 3/9/90

58

LINDA ENSOR

SUPERFICIALLY the investigation into the flow of funds to financial institutions, under the chairmanship of Japie Jacobs, concerns a levelling of the playing fields between life offices on the one hand and banks and building societies on the other.

More fundamentally, however, its import lies in its being one facet of a broad, and critical, restructuring of the economy.

Advisor to Finance Minister Barend du Plessis, Jacobs says the aim is to improve the level of personal savings, to unlock its use as risk capital to fund economic growth, and to encourage the development of the embryonic black business community.

This will be facilitated if the ratio between discretionary savings and contractual savings can be improved.

"Assurance companies cannot act as entrepreneurs as they have to abide by prudential guidelines and to the trustee principle. While I don't accept the argument that life companies invest their funds unproductively, they mostly are not providers of risk capital to finance new ventures," Jacobs says.

Indirectly, life assurers contribute to risk capital by investing a substantial portion of their funds in fixed deposits with banks and building societies. They have also taken up disinvestment opportunities and participate in rights issues.

"But there are no funds directly available for new ventures and for us to meet the great social infrastructural needs of the new SA.

"I do not want to be instrumental in any plan of action which damages the institutional framework in SA. But it must serve the whole community and not only the modern sector of the economy. The crucial question is how to channel the flow of funds to benefit socio-economic needs."

Jacobs says an indication of the flow of funds to the different financial institutions is that in 1989 total discretionary savings was negative to the tune of 39%.

Contractual savings totalled R43,2bn, comprising R14,7bn in pension fund savings and R28,5bn accruing to the assurance industry. This contrasted with total personal savings of R3,9bn in 1989, R6,8bn in 1988, R10,07bn in 1987, R7,1bn in 1986, R14,6bn in 1985, R10,6bn in 1984 and R5,4bn in 1983.

JACOBS

A further indication of the flow of funds is that at end-1988, banks (excluding the Reserve Bank, the Public Deposit Commissions and the Land Bank) controlled funds totalling R206bn, building societies R30bn, long term assurers R94bn, self-administered pension funds R47bn, state pension funds R34bn, the Land Bank R10,5bn and others R18,7bn.

South Africans save a miniscule 1,5% of total disposable income, compared with the Japanese's 12%.

Jacobs points to a number of factors inhibiting the desire and ability to save, namely, declining living standards, inflation and inflationary expectations, previous negative real rates of interest and the personal tax system.

"The main reason why people have moved into contractual savings is that for the past 16 years we have had double digit inflation. People want to preserve the value of their money and contractual savings institutions provided for this need."

Jacobs believes that in terms of their yields, disregarding the appreciation of assets, the life offices would not be in such a strong position today were it not for inflation.

"As inflation is lowered they will automatically be affected," he says.

Given the need for a redistribution of wealth and the backlog of unfulfilled needs, he believes it would be unrealistic to aim for too high a level of savings as there will be a need to spend. A 5-8% figure would be appropriate.

Jacob stresses the need to continue having a very distinct dividing line between deposit-taking/money creating institutions and contractual saving institutions.

The report of the Jacobs committee is due to be completed by the year end.

Given the perspective which is guiding the committee, it seems likely the outcome may displease the life offices.

Libvest paying special dividend

Star 4/9/90

58

By Ann Crotty

The change of dividend policy (to a more generous payout) at Liberty Life and Liberty Holdings will result in Liberty Investors (Libvest) declaring a special dividend of 6c a share to shareholders registered on September 14.

In addition an ordinary interim dividend of 5,2c (4,8c) a share will be declared.

The special dividend will cost a total of R11,3 million and will be funded out of the special dividend of R12,3 million that Libvest will receive from Liberty Life and Liberty Holdings.

Payment of a special dividend is a one-off step to realign the more generous dividend policy being adopted at Liberty Life with the previous policy.

Libvests' results for the six months to August show attributable profit up to R14,9 million from R13,8 million — equivalent to 8c (7,5c) a share.

The review figures are not comparable with the August '89 figures as a result of the distribution in February of FIT shares to Libvest shareholders.

September 4 1990

Sharpeville's power to be cut off today

Star 4/9/90 (58)

Staff Reporters

The power supply to Sharpeville township in the Vaal Triangle will be cut off from today, and in Katlehong on the East Rand, refuse collection has been suspended because the town council cannot pay its bills.

In other East Rand townships, plans are afoot to limit refuse removal to once every two weeks to try to cut costs.

Vereeniging management committee chairman M L Milani yesterday announced the power cut to Sharpeville, which becomes the second Transvaal town — after Silobela township near Carolina in the eastern Transvaal — to have its power cut.

The power cut in Sharpeville, where residents have boycotted rent since 1984, will affect at least 6 000 homes.

Dr Milani said the Vereeniging council was owed about R900 000 for electricity supply, and attempts to recover the money had been unsuccessful.

Reconnected

"We have held discussions with the ANC, Cosatu, the SACP, the Lekoa council, the TPA and the local civic association on the matter but we have made no headway."

Dr Milani said it cost the council R460 000 a month to supply power to Sharpeville. The council could no longer afford to foot the bill.

He said that even if residents started paying their electricity bills now, it would take about three weeks to have power reconnected.

In Evaton, the Vaal Civic Association's local chairman Thembiso Radebe told residents at a meeting that the rent boycott would continue in the Vaal regardless of what happened in other black townships.

He said the slogan "Asinamali" (we have no money) was still relevant — six years after it was adopted.

Hilda Stewart, marketing director of a refuse collection company, Multi-Waste, said the company had been informed by the Katlehong Town Council that there was no money to pay it and it was therefore cancelling the contract, which still had seven years to run.

Mrs Stewart said her company removed up to 200 tons of refuse a day from Katlehong and she feared that the uncollected rubbish could become a major health hazard.

A source from Katlehong said the collection of refuse had merely been suspended.

Vosloorus acting town clerk Andries Vrey said the Vosloorus Town Council decided yesterday to limit refuse removal to once every two weeks to try to cut costs.

● The Soweto Town Council will hold another round of talks with the Transvaal Provincial Administration on September 24 regarding the end of the rent boycott. Arrears amounting to R516 million have been written off.

UDF in talks on services

By Musa Mapisa

स्टार ५।९।९० (५३)

The United Democratic Front held discussions with Deputy Minister of Planning Andre Fourie in Pretoria yesterday about rent and service charges boycotts in black townships.

During the talks both parties agreed that:

- Black local authorities were economically non-viable and therefore required bridging finance. However, rent boycotts resulted in the depletion of bridging finance.
- The principle of payment for services was accepted with regard to affordability.
- Negotiations were to be supported in the continuing search for solutions.
- Essential services such as water and sewerage would not be cut.
- Actions taken by suppliers concerning the possible discontinuation of services should be reasonable and sympathetic.

It was agreed that the UDF would call a meeting of the Transvaal Civic Association and the TPA later this month to speed up negotiations on rent and services issues, taking note of the Soweto deliberations and proposals.

It was also agreed that Mr Fourie would refer the concern and request of the UDF delegation to the Government that services in the townships should not be suspended.

Libvest pays out special dividend of 6c

Citizen 4/9/90

SYLVIA DU PLESSIS

SHAREHOLDERS in Liberty Investors (Libvest), the investment holding company in the Liberty Life group, will receive a special dividend of 6c for the six months to end-August, the group announced today.

This follows the declaration by Liberty Life and Liberty Holdings of special dividends of 50c and 120c a share respectively.

Chairman Donald Gordon said Libvest's attributable share of these special dividends amounted to R12,3m.

Directors had resolved to declare a 6c special dividend to shareholders registered on September 14. This would be paid with the interim dividend of 5,2c.

58

"Libvest, in the absence of any unforeseen circumstances, will continue its practice of distributing to its shareholders virtually its entire profit after tax by way of dividends," he said.

Libvest, with a 92% stake in the Liberty Life group, posted earnings of 8c (7,5c) a share for the period under review on attributable profits of R15m (R13,8m).

Bankorp rights offer terms expected today

B/Day 4/9/90

GRETA STEYN

BANKORP is expected to announce the terms and price of its R500m rights offer after a directors' meeting today, and will release its financial statements with details of its loss towards the end of the week.

The beleaguered group announced a rights offer last month and disclosed that it would announce a loss for the year to June. It had not yet decided on the terms of the offer, saying it would consider market reaction first.

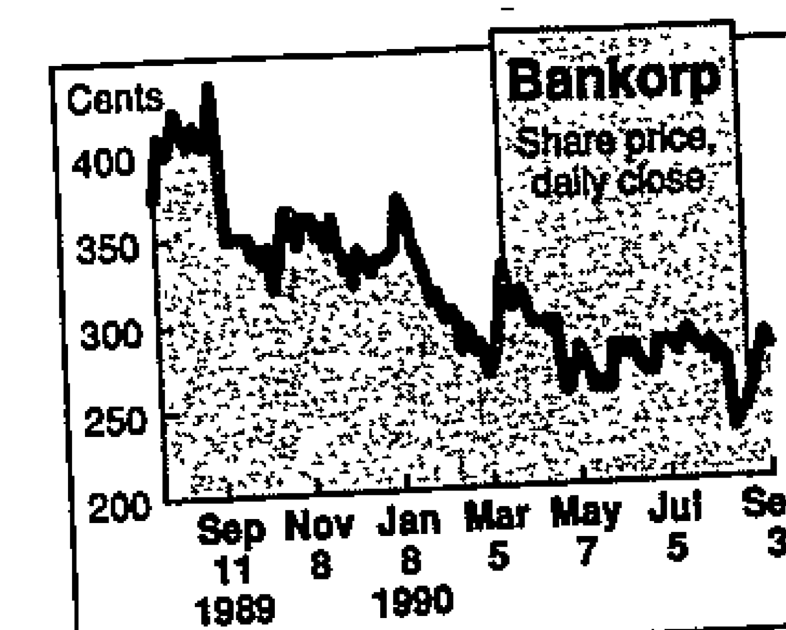
The market's reaction has been cautiously positive, with the share strengthening to 280c from 270c before the announcement (up 3,7%). The recent rise is all the more remarkable as it initially nosedived to a record low of 225c last month before clawing its way back up to 280c to exceed the level prevailing before the announcement.

Some analysts are pushing Bankorp as a "recovery share", others are sceptical and say they are waiting for new executive chairman Piet Liebenberg to come up with the goods.

Analysts say the rights offer price will probably not be cheap, but close to the current market level. A substantial discount on the market price would create the impression that major shareholder Sankorp did not value Bankorp highly.

Meanwhile, Bankorp's drive to cut its staff complement has progressed. A spokesman confirmed yesterday personnel and line managers had been on courses to familiarise themselves with the legal and other requirements of retrenchment. Some staff members had already been informed that they had been made redundant.

He added that a central support team had been created to assist staff members who had been declared redundant. He declined to say how many people would be declared redundant or how many had already received their marching orders.



Graphic: FIONA KRISCH Source: JSE

Volkskas swims against tide

Star 5/9/90 (58)

By Duma Gqubule

Volkskas yesterday surprised the financial world with the announcement of an increase in bond rates.

However, other financial institutions have no intention of following its lead.

Volkskas said existing clients would henceforth pay 0,25 percent more for their bonds, while new clients would pay 0,5 to one percent more.

Preferred clients would pay 20,75 percent — the rate most other institutions charge — while ordinary clients would pay 21,75 percent.

Dolf Wright, a Volkskas senior manager, said the bank had taken the step to curb the accelerated increase in demand for home loans, particularly in the past six months.

Banking sources, however, said Volkskas was trying to reduce its mortgage finance book because of a squeeze on its capital requirements.

The Volkskas move came as a suprise as most banks and financial institutions are expecting a drop in interest rates, including mortgage rates, in the next couple of months.

Last week in his annual report Dr Chris Stals, Governor of the Reserve Bank, said the "time is fast approaching for a drop in the Bank rate, but circumstances are not yet right".

Other banks and building societies said yesterday they were not considering raising their home loan rates.

Further rebate

First National Bank senior general manager Jimmy Mckenzie said: "We are not adjusting our bond rates. They are very attractive. Our bond rate is 20,75 percent, but there is a further rebate for some clients who operate cheque accounts and at least two other services offered by the bank and its subsidiaries.

"Some of these clients are charged 20,25 percent."

Spokesmen for Standard Bank, Allied, United, Trust Bank and Nedbank said there would be no immediate move in their bond rates.

David Southey, banking analyst at stockbrokers Edey Rogers, said the move was surprising in view of the recent decrease in bank deposit rates.

"A cut in deposit rates usually precedes a cut in lending rates.

"This is usually a clear signal that at some stage banks will be reducing their lending rates," Mr Southey said.

Don Hunter, managing director of Allied Building Society, did not think the recent moves by some banks which had reduced their deposit rates neccessarily meant banks were preempting a reduction in prime overdraft rates.

"In recent months there has been a tremendous squeeze on bank margins.

"The authorities are keeping the money market tight and, in some cases, retail rates have been higher than wholesale rates.

"Banks could be cutting their retail rates in an attempt to restore margins," Mr Hunter said.

He said Allied had no immediate plans to increase its rates.

"What is happening at Volkskas is slightly different," he said.

"It is in line with a new trend in the market towards differentiated bond rates.

Negotiating rates

"We are now beginning to see institutions negotiating their rates with clients. It is also possible that at some stage we could review the rates we charge to different clients."

One analyst said Volkskas' announcement was surprising because it was not really in the home-loans market.

It served corporate clients at the top end of the market.

What was more likely was that Volkskas wanted to move out of the mortgage market.

"It only recently came into the market by making attractive offers to its clients.

"Its rates were lower and, in some cases, it offered to pay switching costs.

"Now its margins are being squeezed and it is bringing its rates into line with the rest of the market," he said.

There have been strong rumours in stockbroking circles of an imminent announcement on closer co-operation between Volkskas and UBS.

Volkskas already has a 10 percent interest in UBS and UBS has a 30 percent interest in Volkskas.

It is possible that Volkskas doesn't want to compete with UBS and therefore doesn't want to increase its exposure to the bond market.

Major portfolio changes at Genbel

By Ann Crotty Star 5/9/90 (58)

Genbel has taken advantage of the recent tax reforms allowing companies to sell investments held for 10 years or longer to effect major changes in its portfolio.

According to MD Anton Botha (in the group's annual report) management has spent the past six years refining the content of Genbel's portfolio with the objective of increasing net asset value.

Over the six years to June '90, NAV has increased by 472c to 785c a share — a compound annual growth rate of 16,5 percent per annum.

"Some 217c, or 46 percent of the increase in current NAV, can be ascribed to the upgrading of the portfolio over this period."

But as chairman Tom de Beer says: "Earnings and dividend growth have lagged as a result of the re-positioning of Genbel's asset base in a growth-oriented portfolio."

During financial '90 the investment group significantly increased its stake in Transatlantic, made an investment in energy (through Engen), in metals and minerals (through Iscor and Samancor), diversified its gold and mining finance holdings and increased its exposure to platinum (Rusplats) and to diamonds (De Beers).

According to the report, no dividends were received from Transatlantic in financial '90 and only modest dividends accrued from Engen and Iscor.

The lower dividend declarations from the troubled gold mining industry also adversely impacted on Genbel's earnings stream.

But management believes the changes in the portfolio spread results in Genbel being better placed to achieve its mission of real growth in both income and asset value in years to come.

Referring to the relationship between Gencor and Genbel, Mr Botha says: "Genbel is not required to accept or to continue to hold any investment offered to it by Gencor.

"However, in certain limited instances, Genbel has agreed to give Gencor a right of first refusal in the event of Genbel wishing to dispose of holdings obtained via the relationship."

Banks owed R44,8-m by ailing firm

Star 5|9|90 (180) (58)

By Cathy Stagg

Three banks, which are owed more than R44,8 million, brought urgent applications against Spareco Holdings Ltd in the Rand Supreme Court yesterday.

Mr Acting Justice D Levy granted an order which authorised Bankorp, First National Bank and Alpha Bank to send agents to take control of Spareco's stock, plant, fixtures and fittings, vehicles, computers and all movable assets.

Spareco has 23 outlets in various Transvaal areas.

The three applicants each had their debts secured by notarial bonds but feared one of Spareco's other creditors would liquidate the company and so make their bonds worthless.

Two senior Bankorp managers said in an affidavit that Spareco did not have cash and they believed there was a strong likelihood that Spareco would discount sales of motor spares to generate cash.

The three banks asked the court to allow them to take over the businesses and run them until the outstanding amounts were paid off, to add all the expenses they incurred to the total Spareco owed them — and to sell Spareco's movable property or the businesses.

But after the conferring, this section of the order was deleted and a final order granted.

Spareco's branches are in Johannesburg, Louis Trichardt, Pietersburg, Potgietersrus, Pretoria, Germiston, Kriel, Middelburg, Nelspruit, Secunda, Witbank, Randburg and Randfontein.

Bankorp, owed R31,4 million, was the largest creditor.

Old Mutual sets record

Finance Staff Star 5/4/90

58

Old Mutual's employee benefits division last year paid out R1,1 billion to fund members, an industry record.

Garth Griffin, Old Mutual's employee benefits general manager, said yesterday that investment income on the assets managed by the division had increased by R254 million from R1,094 billion to R1,348 billion.

He said the upsurge in investment income had enabled the division to pass on greater benefits to members.

"For example, our total annuity and lump sum payments increased by almost 20 percent to R325 million, compared with R272 million the previous year."

The division paid out R245 million on death and disability claims, R42 million more than the previous year.

"In practical terms, this means that individuals who are unable to generate their own income received nearly R1 million a day from us," Mr Griffin said.

LOA considers social upliftment schemes

B Day 5/9/90

(58)

LINDA ENSOR

A DELEGATION from the Life Office's Association (LOA) met adviser to the Finance Minister, Japie Jacobs, last week to discuss ways in which life companies could invest in social upliftment programmes.

The LOA has appointed a subcommittee to look into the issue, which has become one of concern to the assurance industry, particularly in the light of the investigation by the Jacobs committee into the flow of funds between life offices, building societies and banks.

In the past, the industry has felt constrained from investing in risky, low return social upliftment programmes by the need to uphold the trustee principle and to achieve the highest returns for policyholders.

LOA executive director Dick Geary-Cooke said the delegation expressed to Jacobs the LOA's willingness to help with such investments, stressing the need for suitable instruments for such investments to be devised.

While the LOA subcommittee's work was at an exploratory stage, LOA participation in the securitisation of mortgage bonds by building societies was being looked into.

LOA director Jurie Wessels said it was difficult to respond to views that life assurers should invest in venture capital projects "because we do not know what exactly people are expecting of the industry.

"Life Offices do not really have the skills to identify and monitor high risk investments. They also do not feel that it is in the interest of policyholders that their retirement and insurance savings should be exposed to high risks."

FM, Sage accord stops printing of report

EDYTH BULBRING

AN AGREEMENT was reached late on Monday between Sage Holdings and the Financial Mail (FM), averting a move by Sage Holdings to obtain an urgent court interdict yesterday against the weekly magazine.

FM editor Nigel Bruce said the FM intended to publish an article on Sage Holdings in today's edition, parts of which Sage had said were incorrect.

Sage would not specify which parts of the article were wrong, and threatened to bring an interdict to stop publication.

B Day 5/9/90

Bruce said the parties had reached agreement late on Monday. He could not elaborate, but part of it was that the FM would not publish the article.

A Sage spokesman said yesterday: "I am not commenting at all, except to say there is no interdict."

Bankers to fight draft laws

BIDN 5/7/90

GRETA STEYN

BANKERS disagree with the Reserve Bank on some of the draft regulations of the new Deposit-Taking Institutions Act, and plan to object to these in a comment to the Bank.

The issues of concern relate specifically to some of the capital adequacy requirements.

The draft regulations pertaining to the new legislation, which replaced the Banks Act, are being circulated among bankers before a final version is published in the Government Gazette at the end of this month.

Bankers are optimistic that the Bank will lend a sympathetic ear to their objections, as the style of banking supervision is one of consultation with the market.

Bankers are specifically concerned about some regulations that conflict with generally accepted accounting principles (GAAP). These include the capital requirements against deferred tax. (58)

Banks have to keep capital against assets, weighted according to risk, and they object to the 100% risk rating accorded to an asset such as deferred tax. The other problem is the upward revision of investments for capital adequacy purposes — the draft regulations specify that if such a revaluation is made to top up capital, it should also be made in the bank's published financial statements.

Some banks will be worse off and others better off after the new capital weightings for assets. Home loans, for instance, carry a low-risk weighting, while instalment sales have a higher rating. This favours the building societies, as the greater part of their assets consists of home loans.

☐ To Page 2

Bankers

BIDN 5/9/90

(58)

☐ From Page 1

The draft regulations do not yet specify the level at which liquid asset requirements will be pitched. Reserve Bank Governor Chris Stals will take a decision about this at the end of this week. Bankers are eagerly awaiting a reduction in the liquid asset requirements from their present levels — a move that will ease their margins. They expect a phase-in period to avoid disruption in the money market.

On the other hand, it will prove costly to provide the Bank with the detailed information required in terms of the new Act, as systems changes will have to be made. The Bank wants regular profit-and-loss statements and more information on bad debts.

Stals will also decide whether the cash reserve requirement is to be incorporated as part of monetary policy rather than as part of bank supervision.

Volkskas alone in raising bond rate

58

3 | DAY 5 | 9 | 90

VOLKSKAS's unexpected announcement of an increase of one percentage point to its bond rate for new bondholders will not be followed by other financial institutions.

The move comes at a time when major players in the housing market are either expecting rates to decline towards the end of the year, or have no intention of following Volkskas's lead.

A report yesterday said Volkskas planned to increase its bond rate for new bonds from 20,75% to 21,75%, one percentage point higher than its main competitors. Rates on existing bonds remain unchanged at 20,75%. Prime clients' rates have been increased from 20,25% to 20,5% and rates on new prime clients' bonds will now be 20,75%.

Standard Bank senior GM Dennis Matfield said Standard's margins were not under pressure and an increase in rates was not being considered.

"On the contrary, we could expect to see bond rates come down later this year. So a rates increase is not even a subject for discussion at the moment."

Allied Group MD Kevin de Villiers said Allied had no intention at present of increasing bond rates, but if interest rates remained at present levels for the next two to three months, other financial institutions might be forced to follow Volkskas's example.

First National Bank senior GM Jimmy MacKenzie said the bank's margins were not being squeezed and there were no plans to change bond rates. Perm CE Bob Tucker said the Perm did not intend raising its rates either.

Current bond rates, for new and existing bonds, are 21% for TrustBank, while those of First National Bank, Standard Bank and Nedbank are 20,75%. — Sapa.

Old Mutual payouts reach record high

LESLEY LAMBERT 58

CAPE TOWN — Total payments made by Old Mutual's employee benefits division for the past financial year increased 52% to R1,1bn, setting an industry record.

A strong upsurge in investment income on the assets managed by the life assurer's employee benefits division enabled it to pass on greater benefits to members. Investment income grew 29% to R1,35bn.

Total annuity and lump sum payments increased almost 20% to R325m, while R245m — 21% more than during the previous year — was paid out on death and disability claims. B/Day 5/9/90

"In practical terms, this means individuals unable to generate their own income received nearly R1m a day from us," said Old Mutual employee benefits GM Garth Griffin.

Griffin urged employers to regard employee benefits as an integral part of their overall corporate strategies.

He said employee benefit issues had become central to many industrial relations negotiations and that every aspect of contractual relationships between employers and employees was being scrutinised in the current environment of consultation and participation.

Old Mutual pays out R1,1bn in benefits

Cape Times 5/9/90

58

Business Staff

OLD MUTUAL paid out R1,1bn in employee benefits in the past year — a record for the industry.

Announcing this yesterday GM (employee benefits) Garth Griffin, explained that investment income on the assets managed by the division had risen from R1 094m to R1 348m.

This R254m rise had enabled the division to pass on greater benefits to its members.

"For example, our total annuity and lump sum payments increased by almost 20% — to R325m, compared with R272m the previous year".

He said the division had paid out R245m on death and disability claims, R42m more than the previous year.

"In practical terms, this means that individuals who are unable to generate their own income received nearly R1m a day from us."

Urging employers to see employee benefits policy as an integral part of overall corporate strategy, Griffin said: "I am pleased to see that this approach is gradually taking root.

"Employee benefit issues have in recent years moved towards a centre-stage position in many industrial relations negotiations.

"In today's environment of consultation and participation every aspect of the contractual relationship between employees and employers is under the spotlight.

"Clearly, we are already in a phase where employees generally, not only industrial workers, are beginning to question existing benefit structures, realising that their voices can effect meaningful change."

For this reason, said Griffin, it was important for employers to assess and develop employee benefit strategies within a larger corporate strategic approach.

They should meet the criteria both of enhancing the employer's effectiveness, and maximising the individual member's benefits.

To this end, there should be regular communication between the employer, trustees and individual members on all aspects of employee benefit arrangements.

"Both the employer and the individual member have a right and a need to actively participate in the development of employee benefit arrangements", said Griffin.

He pointed out that employee benefit arrangements were long-term in nature, and therefore demanded long-term perspective and strategy. For this reason, as well as because of the dynamic nature of the employee benefits environment, ongoing pro-active involvement by professional consultants was vital.

And no employee benefit arrangement was complete without the built-in provision of appropriate individual counselling for individual members, in order to ensure that their various employee benefit needs were being adequately catered for.

More towns opt for rent boycott talks

Star 5/9/90 (SP)

Staff Reporters and Sapa

The explosive rent-boycott issue was further defused yesterday, with three more local authorities opting for negotiation with township residents.

- The electricity cut-off due at 2 pm yesterday in Sharpeville was not implemented.
- The Ennerdale local authority stopped legal proceedings against residents in arrears for their water and electricity accounts, in the hope of ending the two-year crisis.
- The NP-ruled town council of Parys in the Free State will be meeting the Tumahole Civic Association and the Consumer Boycott Committee soon to discuss various contentious issues, including rent arrears.

Vereeniging town clerk DP Steyn said there were ongoing meetings between the Vereeniging Town Council, the Lekoa Town Council and Eskom, to try to defuse the situation in Sharpeville, where residents have boycotted rents and service charges since 1984.

Mr Steyn said supplies would not be cut off until a final decision was made.

Ennerdale executive officer Jimmy Oliver said the local development board would meet next week to work out a system whereby residents in debt could pay back in instalments the amount owed.

A spokesman for the Tumahole committee, Ace Magashule, said tomorrow's meeting was expected to resolve the consumer boycott.

Banks take control of beleaguered Spareco

Star 6/9/90 (58)

By Ann Crotty

Control of Spareco, which has had three MDs this year, is now in the hands of three banks which are trying to secure their hefty debt exposure and enable the group to continue trading.

The options facing this motor spares retailer are: acquisition in whole by another party, a break-up and then piecemeal sale, a restructuring by the banks which would then introduce new management.

There was speculation in the market yesterday that FSI might be one of the parties interested in acquiring Spareco.

Trading in Spareco shares was suspended yesterday.

Bank-appointed agents have moved into Spareco outlets to count and take control of all stock in an attempt to establish its value.

About R44 million is owing to the three banks — R31 million to Bankorp, R7 million to First National Bank and R6 million to Alpha Bank.

There is an additional R12,6 million owing to the International Bank of Johannesburg (IBJ) which will also have to be dealt with in any settlement package.

On Tuesday a court order granted the three banks the authority to take control of Spareco's stock, plant, fixtures and fittings, vehicles, computers and all moveable assets.

The three banks each had their debts secured by notarial bonds, but IBJ did not and the other three feared IBJ or one of Spareco's other creditors would liquidate the company and so make their bonds worthless.

In addition, Bankorp officials feared Spareco would hold discount sales, which would generate cash, but also reduce the value of the assets underlying the bonds.

Spareco was listed on the JSE in November 1988 and got off to a good start on the back of the promise of growing demand for motor spares. But within a few months things seemed to go wrong.

A marketing tie-up with Midas fell through. The prices paid by Spareco chairman Chris Sladden for the retail outlets acquired to create Spareco were criticised as being far too generous.

The acquisition of Fleishmans, initially reported in August last year, was a major point of contention at a very heated AGM held in April 1990.

At that meeting dissenting shareholders demanded clarification on whether Spareco's parent company Lynsat had bought Fleishmans or whether Spareco itself was the buyer.

One company source suggested yesterday it was Spareco's purchase of Fleishmans that led to the cash-flow crisis that brought the banks onto the scene.

However, there still appears to be a question-mark over the ownership of Fleishmans, which means that there is uncertainty about whether Eddies (part of Fleishmans) is involved in the debacle.

The most recent figures available for Spareco relate to the six months to December 1989 and were published in March (apparently incorporating Fleishmans).

The balance sheet shows shareholders' funds of R31,3 million and long-term liabilities of R4,3 million

Fixed assets and investments were R30,5 million, current assets R75,5 million and current liabilities R60,2 million.

No break-down is available for any of these figures, but the June '89 balance sheet (according to the '89 annual report finalised in February '90) provides some details of the situation as at end-June '89.

Fleishmans was definitely not involved at end-June '89.

At that stage there was stock of R31,9 million, debtors of R11,4 million and cash of R3,6 million.

There were creditors (chiefly trade) of R13,2 million and bank overdrafts of R17,8 million.

A note to the accounts said that subsequent to the year-end the trade debtors were pledged in favour of the bankers

Doubts on key witness appearing

Star 6/9/90 (58)

By Adam Gordon and Marguerite Moody

Former Brixton Murder and Robbery Squad detective and Civil Co-operation Bureau (CCB) member Leon "Chappie" Maree is due to testify this morning in the bail application of an Israeli immigrant charged with foreign exchange fraud involving R29 million.

However, defence advocate H Brandt yesterday said Mr Maree had been escaping the law for lengthy periods and it could not be said for certain if he would appear today.

Mr Brandt said Mr Maree might even, in the light of an investigation by the auditor-general into the CCB's "missing millions", have a motive to disappear.

Postpone

The bail application on behalf of David Kofmansky (41) before J J F Coetzer in the Johannesburg Regional Court was postponed yesterday until this morning to enable the State to call Mr Maree.

Amother defence advocate, M Hodes SC, opposed the application by the State to postpone the case, saying State Advocate D Dorfling had had "ample time" to call Mr Maree.

The lapse in time in calling Mr Maree was "gross negligence" on the part of the prosecution, he said.

Mr Maree is a key witness in the hearing as Mr Kofmansky has testified he was working for Mr Maree when the alleged fraud took place.

Mr Dorfling said he had spoken to Mr Maree but had not yet had the opportunity for detailed consultation with him. This explained why Mr Maree had not been called earlier.

It also explained how he was able tell the court what Mr Maree's testimony would be.

On Monday Mr Dorfling said Mr Maree would deny ever having given large sums of money or false documents to Mr Kofmansky.

Mr Kofmansky had testified that the false passport, identity document and papers with false customs stamps found in his possession could be explained by the fact he was working for Mr Maree.

He had acted as a commodity broker in various arms deals between South Africa and overseas weapons suppliers, and it was in the nature of this business that normal importing channels had not been followed, he said.

Under cross-examination yesterday, investigating officer Lieutenant Pieter Welgemoed said he had no substantial evidence which linked the Kofmansky case with CCB activity.

However, he anticipated no difficulty in obtaining the co-operation of alleged CCB members in his investigation.

Mr Brandt, however, said that the Harms Commission had clearly shown that co-operation from CCB members would not automatically be forthcoming.

He submitted that these delays would lead to a lengthy investigation.

This meant his client could remain in jail for "a year or two" if he was not granted bail.

The hearing continues today.

COMPANIES

GDM's earnings will still grow — chairman

LIZ ROUSE

GDM Finance's earnings are expected to show real growth in the current year, but at a more modest pace because of the economic situation, says chairman Michael Waring in his annual review.

In the 30 months since GDM Finance's shares were offered to the public at 100c a share, the increase in shareholders' wealth by way of higher net asset value a share and dividend payments has amounted to 62c a share, he says.

Stated financial objectives continued to be surpassed. The return on average shareholders' equity at 33,3% is well in excess of the stated objective of 20%, while the group's pretax return on average assets employed of 9,3% is also comfortably ahead of the stated target of 8%. (58)

Gearing policy has remained prudent.

GDM's earnings rose to 29,3c a share in the past year from 1989's 21,3c, and the dividend total was raised to 12c from 8,5c.

BDay 6/9/90

Sage forced to sell foreign interests

BD 6/9/90. (58)

CHARLOTTE MATHEWS

NEGOTIATIONS are in progress for the sale of Sage Holdings' foreign interests, the directors announce today with the release of the group's results for the six months to June.

The directors say these interests are being subjected to an untenable degree of anti-SA pressure which could endanger their continued existence. The sale will incur a substantial realisation loss which cannot be determined yet, they say.

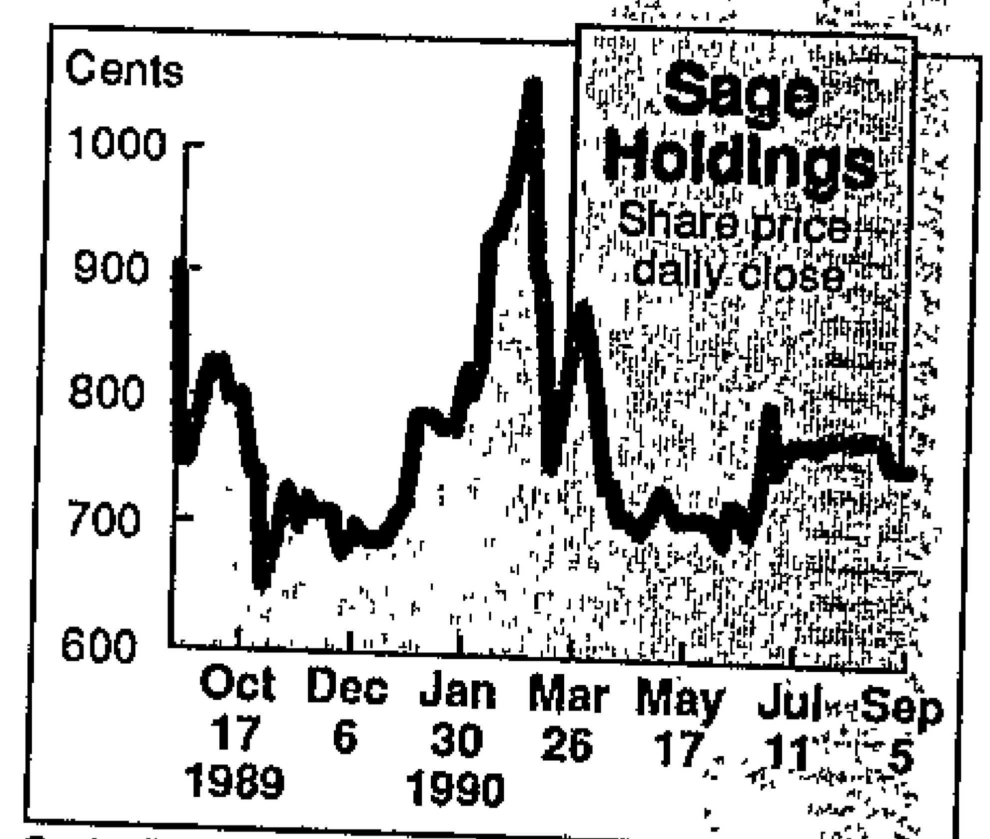
Figures to December include a contingent liability of R41,7m for the foreign exposure. The Financial Mail recently reported that the full liability could be R60m.

"Such loss is, however, capable of being dealt with within the company's existing financial resources and would not result in its exceeding its laid down borrowing ratios," the directors say.

The Sage Group has interests in financial, investment and management services, property and construction.

Holding company Sage Holdings has turned in a 9% improvement in attributable earnings to R10,9m from R10m. Earnings were affected by lower equity-accounted earnings of associated companies and an increase in profits attributable to minorities arising from the listing of Sage Financial Services (SFS).

Earnings based on an increased number of shares in issue rose 3,5% to 47,68c (46,05c) a share. As a result of higher divi-



Graphic FIONA KRISCH Source JSE

dend cover, the dividend fell to 20c from 22c in 1989.

Sage directors say the past financial structure of the holding company has adversely affected the results and from July 1 the company has been repositioned and certain assets sold.

SFS increased attributable earnings by 37,5% to R16,9m (R12,3m), which generated a 36% rise in earnings a share to 20,7c (15,2c) — or 25% to 19c (15,2c) on a fully diluted basis. Pre-tax profits rose 68% to R27,7m (R16,5m).

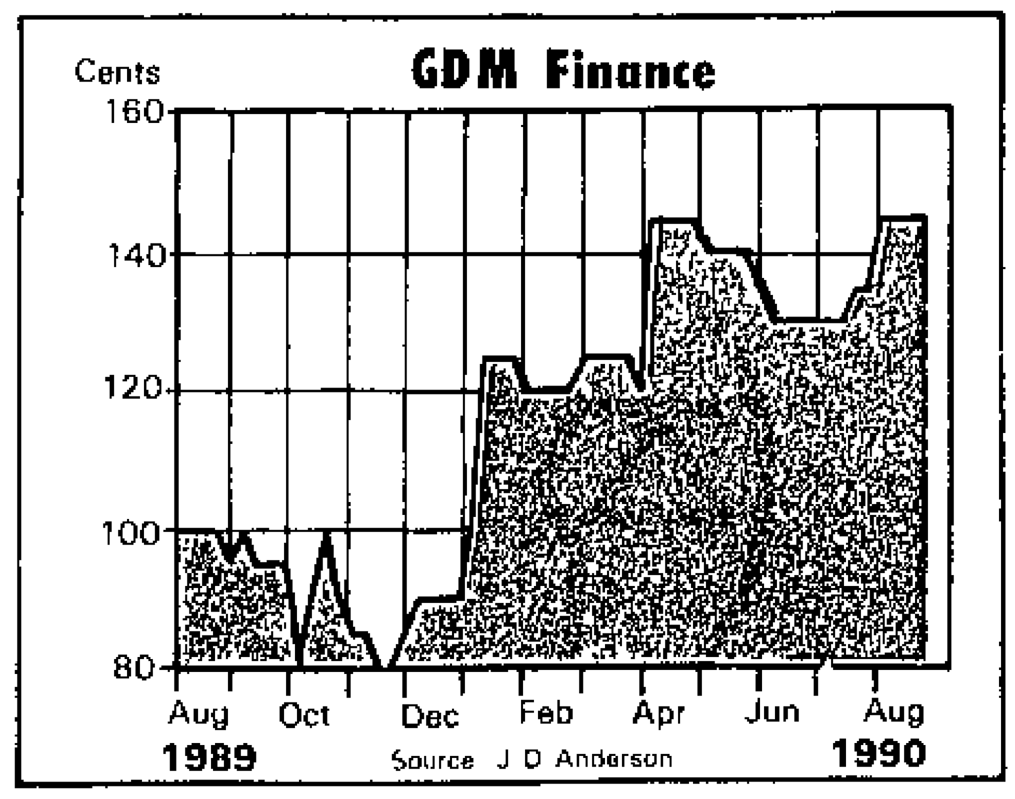
The 57% increase in the interim dividend to 11c (7c) was intended to level out the differences between the interim and final payments.

Directors note that this rate of profit growth is unlikely to be sustained in the second half as it came off a low base.

GDM FINANCE F/M 7/9/90 (58)

TRADE OPTIONS

Unlike its competitor Merhold, which has diversified into other areas of financial services, GDM Finance continues to concentrate on providing trade-related finance.



Activities: *Trade finance.*
Control: *Goode Durant Plc 49%.*
Chairman: *M Waring; group MD: J Cowper.*
Capital structure: *25,6m ords. Market capitalisation: R37,4m.*
Share market: *Price: 145c. Yields: 8,3% on dividend; 20,2% on earnings; p:e ratio, 5; cover, 2,4. 12-month high, 145c; low, 80c. Trading volume last quarter, 63 200 shares.*

Year to Aug 30	'87	'88	'89	'90
Bills receivable (Rm)	33,8	60,7	91,9	102
Pre-tax profits (Rm)	2,4	5,0	8,1	9,8
Attrib profit (Rm) ..	1,4	2,7	5,5	7,5
Gross assets (Rm) .	51	71	100	127,9
Earnings (c) ...	7,9	13,8	21,3	29,3
Dividends (c) . ..	n/a	3,5	8,5	12
Net worth (c)	n/a	66,2	79,4	96,9

Its only diversification so far from straight trade finance is into clearing and forwarding, though this is still trade-related. In July last year, the group acquired 64% of the R2m issued share capital of African Shipping (Afship), with the balance held by Nedperm, Finansbank and Afship MD John Krone. Afship was consolidated on February 1 and chairman Michael Waring says Afship contributed R74 000 to attributable profit in the three months to April 30. He expects it to make a "meaningful" contribution to future earnings.

MD John Cowper says more businesses are using trade finance to fund expansion. Benefits include the ability to increase turnover, particularly when inflation and increasing tax are restricting growth. Also, trade finance houses may put up letters of credit and forward exchange cover, rather than the client using its overdraft.

Real growth was again achieved in the 1990 year, when pre-tax profit rose 21,8%, attributable profit by 37,7% and EPS by 37,6%.

Cowper notes that even in bad times there is a need for trade finance. Usually, it means trade finance is then required locally instead of internationally, as clients switch from imports to less expensive local purchases of raw materials and stock. "Because of inflation, the monetary value of finance increases similarly," he says. "So in monetary terms turnover can increase even in a recession."

Growth in business is confirmed by the increase in debtors, which rose to R128m

F/M 7/9/90 (58)

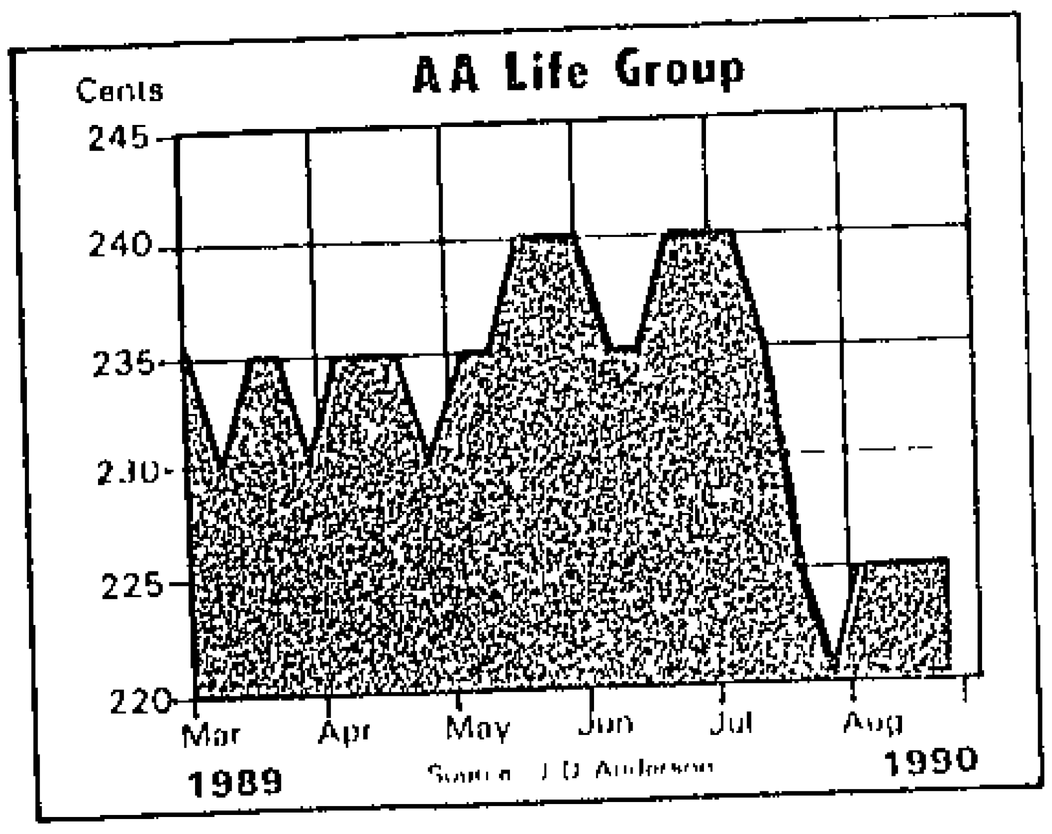
from R100m. Business is spread across a broad client base and a number of business sectors to alleviate risk. Household and consumer goods represent the largest portion of turnover, at 27%. "No one client represents more than 5% of receivables," he says. GDM does not define bad debts, but says in its annual report it "has not been unduly affected by client defaults."

Because trade finance houses are in the borrowing and lending business, gearing is normally high. Cowper says GDM would like to keep gearing between 3,5:1 and 5:1. It increased to 4:1 last year, mainly because of the Afship acquisition. Cowper expects gearing to remain around that level this year.

He forecasts the group will again achieve real growth. GDM is the best rated of the trade finance house on the banking board. The 4,9 p:e and 8,3% yield compares with 3,7 and 11,7% for Reichmans and 3,7 and 9,7% for Merhold.

Heather Formby

F/M 7/9/90 (58)



AA LIFE F/M 7/9/90

CHANGING FACE (58)

Activities: *Investment holding company with principal subsidiary involved in life assurance and pensions.*
Control: *Anglovaal about 40%.*
Chairman: *M E King; MD: B C Benfield.*
Capital structure: *71,9m ords. Market capitalisation: R161,7m.*
Share market: *Price: 225c. Yields: 2,6% on dividend; 7,4% on earnings; p:e ratio, 13,6; cover, 2,8. 12-month high, 250c; low, 210c. Trading volume last quarter, 128 098 shares.*

Year to Apr 30	'90*
Investments (Rm)	244
Total assets (Rm)	319
Pre-tax income (Rm)	6,7
Attributable income (Rm)	18,6
Earnings (c)	16,6
Dividends (c)	5,9

* 13 month trading period.

AA Life and Cruhold will disappear next week from the JSE listings and be relisted as AVF Group and Anglovaal Insurance Holdings (AvIns) respectively. Crulife will remain. These changes follow the recent transaction between Crusader Life and AA Life, in which Crusader Life became a subsidiary of AA Life Group.

For the immediate future, AVF Group will be listed in the insurance sector, as its two major subsidiaries are in the life assurance business. If diversification into other financial services goes as planned, the share may be listed under the broader area of financial services later.

Anglovaal Insurance Holdings MD Brian Benfield says an acquisition of a company in the broader spectrum of financial services next year is highly probable

Meanwhile, investors who have bought AA Life Group shares since its listing in February can consider themselves as having interests mainly in the life assurance business. The major subsidiary is AA Life Assurance while other interests include the offshore reassurance company on the Isle of Man and the Allegro unit trust Though not yet consolidated in the financial statements to April 30, the group now also has Crusader Life and its 24% interest in UK-based life assurer Pegasus.

Shareholders have been rewarded with a final dividend of 5,9c and EPS of 16,6c for the 1990 year. Benfield forecasts earnings growth of 20%-25% for the current year

AA Life's Benfield ... *heading for financial services*

F/M 7/9/90 (58)

He says the transaction with Crusader Life will enhance earnings potential because of savings on operating costs as both companies will share the same underwriting, actuarial, investment and computer services. However, he says. "The two will operate separately in their own market segments." A rights issue for Crusader Life will be announced this week; Benfield believes this will be completed by November.

Comparative figures are not available for AA Life Group. However, AA Life Assurance shows premium growth (net of reassurance) of 57% to R90,5m, a rise in investment income of 9% to R25m, attributable income up 97% to R12,1m and total assets 3% higher at R315m

The acquisition of Crusader Life and any further acquisitions will be consolidated in the 1991 annual report and shareholders will have a clearer idea of the performance. They can look forward to some exciting announcements.

Heather Formby

FINANCIAL MARKETS

PRODDING THE BMA

Last Thursday's special meeting of the Financial Markets Advisory Board could give shape to the Bond Market Association. The meeting, chaired by Reserve Bank Deputy Governor Chris de Swardt, reviewed what has so far been done to establish structures and procedures for formalising the financial markets.

This underscores the authorities' eagerness to inject some urgency into the situation. The association's start-up date has already been postponed until June 30 from September 10.

An important outcome of the meeting was that principles seen as non-negotiable by the Registrar of Financial Institutions — minimum risk procedures, client protection and so on — were thrashed out. This has given the association the guidelines needed to structure the clearing and settlement services it requires from the Universal Exchange Corporation (UNEXcor).

The association must present these requirements by end-September.

Discussion centred on the long-term clearing and settlement solution for the association. Whether it should adopt an interim solution, which may involve the additional expense of maintaining existing back office systems, is less certain since use of the JSE's gilts clearing house has been shelved. All this has been referred to the Registrar.

Another recommendation was for UNEXcor to go ahead as planned. Originally planned to be an electronic exchange facility for all the financial markets (similar to the UK's International Commodities Clearing House), it was forced to cut back its scale of operations last year, budgeted at R40m.

Step by step

It will probably evolve into a universal exchange eventually — but on a step-by-step basis — starting with the association as a client.

UNEXcor was formed on December 12 with the Reserve Bank chipping in R2m capital and the five major commercial banks and United putting up a further R8m

Designed as a utility, UNEXcor will be a non-profit organisation. Shareholders are to receive interest on loan accounts. UNEXcor will need up to 12 months to commission the association service. It expects to break even within three to five years. ■

FM 7/9/90 (58)

Robinson adds These could include paramedics, firemen and policemen. In their case the premium is likely to be stiffer, probably because underwriters consider workers in mainstream medicine to be better informed about Aids risks than those who have a peripheral exposure due to contact with accident victims

Robinson says no local underwriter will accept the policy. One was prepared to add an HIV-positive clause to stated benefits in a more wide-ranging contract but the premium demanded was prohibitive.

Alexander Forbes will start marketing its cover to medical and dental associations this month and is also discussing the cover with private nursing homes. Existing cover taken out by nursing homes protects them against claims by employees for disabilities incurred at work

Aids, Robinson points out, is not immediately disabling. Yet the nursing home — or any other employer faced with a similar problem — might feel a moral obligation to retain an Aids sufferer in a position not involving contact with patients.

Sankorp puts pep into the market

Inside Out 58

ANN CROTTY

Star 7/9/90

NOT TOO many people thought much of reports that Sankorp and Pepkor were involved in discussions about a link-up between Pepkor and Tradegro.

Myles said he was talking about it to a few guys in the market late yesterday afternoon and he almost had to remind them in what sector Tradegro was listed.

He reckoned that with just about nothing happening in the market, investors would have latched onto the tiniest whisper of the tiniest deal — and here there was a tiny whisper of a major deal and did anybody take any notice?

Mind you, about 450 000 Tradegro shares were involved in two book-overs on Thursday at around 140c — considerable volume for Tradegro.

The book-overs were done by Kaplan & Stewart, but Myles could get no gen on the indentity of the buyers and sellers — except that they were institutional investors.

So it seems the Sankorp guys are talking to the Pepkor guys (not for the first time) about a deal with Tradegro. It also seems that the Tradegro guys don't know too much about the talks.

If a deal does happen, it will probably involve merging Pepgro and Tradehold. Pepgro (in which Sanlam has an estimated 35 percent stake) is expected to emerge as the major partner, with one management team running what would be an enormous show.

Although Pepkor's Mr Wiese is reported to have loads of twine — variously estimated at anything between R100 million and R200 million — and although he has indicated a fondness for acquisitions, feeling is that he doesn't like to spend too much money on them. (Remember the termination of the Storeco/Pepkor talks?)

In terms of turnover, Tradegro is about four times the size of Pepkor, but the profit picture looks very different.

Although Tradegro's share is at 140c, its net asset value is believed to be 220c. But Myles reckons that if a deal is struck it will probably not involve cash.

He says nothing may come of the talks — just as nothing followed from the (rumoured) talks between Sankorp and Pepkor about 12 months back.

If there is something firm on the go, cautionaries are likely to be issued.

Then there was Bankorp — Sankorp is certainly doing its best to maintain a level of activity.

Myles' Mum reckoned that at 280c this was a steal — a great recovery stock. Myles was inclined to enthusiasm, but recalled her comments about De Beers going to R130.

Sentiment towards Bankorp was fairly mixed, but most analysts he spoke to seemed to think there were much better times ahead for the group.

As if to emphasise Bankorp's enormous difficulties with bad and doubtful debts, on the day before Mr Liebenberg made his official announcement, there was news from the Supreme Court that Bankorp was owed R31 million by Spareco — a company that faces the possibility of liquidation.

And International Bank of Johannesburg — in which Bankorp has a significant stake — is also exposed to Spareco.

Seems FSI rejected any interest in Spareco. If it is to be taken over, it seems Midas is the most likely acquirer.

Myles is very keen to get clarification on the ownership of Eddies.

Alpha Bank, which is involved in Spareco, is also involved in the troubled Lanzerac Hotel in Stellenbosch.

Minetek's cautionary is reported to be about a possible change of control. IEM is believed to be making a few small acquisitions. And WB Holdings' cautionary is also about some small acquisitions.

Pepkor-Tradegro tie-up talk is rife

(58) Star 7/9/90

By Ann Crotty

There is growing speculation about a tie-up between Tradegro and Pepkor, with reports in the market that Tradegro's parent Sankorp is involved in discussions with Pepkor.

Sanlam has a substantial stake in Pepkor.

Yesterday Pepkor management was not available for comment.

Asked for his comment, Sankorp chief executive Marinus Daling said he could not react to every piece of speculation in the marketplace.

Tradegro sources said management had not been informed of any discussions between Sankorp and Pepkor concerning Tradegro.

Denied rumours

Despite the lack of affirmative information, market sources were emphatic that discussions were currently on the go.

About six months ago there was similar speculation in the market. Although management on both sides denied the rumours, it is believed those talks were suspended without any outcome.

Pepkor which is estimated to have cash resources of about R200 million, is believed to have been involved in negotiations with various retail groups over the past few years, including Foschini, Bergers, Wooltru and Garlicks.

More recently, discussions to acquire Storeco/Specialty were terminated at an advanced stage — apparently over price.

Supermarket chain Shoprite, which is 80 percent-held by Pep kor, recently acquired the troubled Grand Bazaars chain from the Score group.

For its part Sankorp must be under some pressure to effect a major improvement in performance from Tradegro, which last week reported another set of disappointing annual results.

Analysts argue that major steps have to be taken to get Tradegro onto a firm profit trend.

Some have even suggested that Tradegro should be broken up into its component parts as this would ease the management/control problems.

Over the years there has also been criticism that Tradegro has not got a committed retailer on its board.

If the problem with Tradegro is related to its size, then it would seem strange to try and resolve those problems by merging it with another very large group.

Putting Tradegro (in whole or in large part) into Pepkor could undermine Pepkor's excellent performance record, with Pepkor management's attention being diverted to resolving Tradegro problems.

On the other hand, a tie-up between the two has some obvious attractions.

If Shoprite is able to digest the Grand Bazaars stores without too much difficulty, over time it might also be able to take on Jazz and Fairways — although this might be a bit ambitious.

Without Fairways' problems, a well-run Metro would be a nice cash-cow.

Assimilation problems

Stuttafords, Cashbuild and Smart Centre wouldn't present too many assimilation problems for Pepkor. They might even be sold off.

Checkers would be a major challenge to Pepkor's management team, which is headed by Christo Wiese.

The current Tradegro share price is 120c, which would put a price tag on the whole group of around R220 million.

But as the share price is way below the net asset value, a change of control would have to be effected at a higher price.

Bankorp writes off R682-m

58 Star 7/9/90

By Ann Crotty

A R682,3 million write-off, an attributable loss of R378,5 million and a R550 million rights issue to be pitched at 280c a share which will double the number of shares in issue — this is the news from Bankorp.

A final dividend of 15c a share has been declared, bringing the total to 25c — unchanged from financial '89.

Because main shareholders Sanlam and Sankorp are accepting bonus shares in place of dividends, the dividend payment will cost R5 million if all minorities opt for cash.

Although Bankorp warned a few weeks ago of major write-offs being necessary, their extent yesterday took analysts by surprise. It was variously described as brave, prudent, over-zealous.

The income statement shows two legs to the write-offs: before tax there is a provision of R295,8 million for "doubtful advances" and there's an abnormal item of R386,5 million taken after tax.

A relatively modest return to profitability is forecast for financial '91.

This is likely to be fairly small in terms of earnings per share, given that after the October/November rights issue there will be 378 million shares (assuming no consolidation of shares in financial '91).

Executive chairman Piet Liebenberg said yesterday shareholders could look forward to at least a 25c dividend in financial '91. This should be easily maintainable, given that Sanlam and Sankorp are unlikely to take up dividends until Bankorp is on a firmer footing.

The rights issue, to be underwritten by major shareholders, will lift depleted shareholders' funds to R1,2 billion.

The 280c at which the issue has been pitched is in line with yesterday's Bankorp share price.

Mr Liebenberg said the decision over the issue price had been a long and difficult one. The possible spread was from 250c to 340c.

Piet Liebenberg

He felt 250c was too low. Although he felt 340c was a fair level, there was some concern that it might provoke criticism that the major shareholders were riding roughshod over minorities.

A price of 340c might have given the impression that major shareholders were not interested in the minorities participating in the issue. He flt the 280c encourage minority support.

The issue price represents a reasonably attractive prospective dividend yield of nine percent (assuming at least a 25c a share dividend for financial '91).

There is also the possibility of a capital profit if the share price recovers. However, Bankorp critics say there is also the possiblity of a capital loss.

The chances of a capital profit or loss hinge on prospects for a recovery in the group.

While there is some concern about the possibility of even more write-offs, the general feeling in the market is that the latest write-offs leave Mr Liebenberg and his team with a very clean slate.

What is now needed is for them to turn Bankorp into a profit-generator. This involves the writing of profitable business and making the administration more effective.

Indications are that Bankorp is already making progress on these fronts.

Annualised asset growth in the second half of financial '90 was three percent, against 40 percent reported in both financial '88 and '89. (According to management it was this "injudicious asset growth" that resulted in the increased provision for bad debt.)

This change in strategy (with the emphasis on profit, and not on volume) is backed by an extensive communications exercise between head office and branch personnel.

Rationalisation of the group structure (including a reduction in the branch network from 255 outlets to 180) seems certain to result in a more effective administration.

Assuming that improving the corporate culture is not be too long an exercise (Mr Liebenberg is optimistic on this front) and given the possibility of some write-backs, at 280c Bankorp represents a good recovery prospect.

Amgold cuts back on its dividend

Star. 7/9/90

Finance Staff

Amgold has declared a lower interim dividend of 400c per share for the six months to August (1989: 660c).

Earnings were 38 percent lower at R100,9 million (R163,6 million), largely as a result of a 26 percent reduction in dividends received from gold mining investments.

Interest earned and other income were R7,4 million lower at R2 million.

There was an interest charge of R8,9 million (R0,3 million) because Amgold was in a borrowing position for much of the six-month period.

Prospecting costs rose by six percent to R18,2 million (R17,2 million), while administration and other expenses were marginally lower at R4,0 million (R4,2 million).

The market and directors' valuations of listed and unlisted investments increased over the corresponding period last year to R7,426 billion (R6,880 billion) and resulted in the net asset value per share, after providing for the dividend, increasing from 31 506c to 33 379c.

The reduced dividend distributions from the gold mining companies reflect the continued fall in mine profit margins, mainly as a result of inflation-driven increases in working costs and a continuing low gold price, the directors say.

Steps being taken by the mines to respond to these adverse circumstances include the curtailment of capital expenditure, retrenchment programmes, the elimination of non-essential costs, increased hedging operations, the raising of pay limits and a reduction in the mining of lower grade areas.

The results for the second half of the financial year will depend largely on the prevailing rand gold price and the extent to which costs can be contained, the directors say.

CORPORATE DEBT F/M 7/9/90 (58)

FEELING THE TERMS OF TRADE

THE BURDEN OF REAL INTEREST RATES IS OFTEN FELT INDIRECTLY

Most bankers would say corporate balance sheets are generally a lot healthier than in the last recession. But ask businessmen what they think about a prime rate of more than 20% and many will say their businesses are hurting badly.

One reason for the latter response is the role that interest rates have played in dampening demand. Flagging turnover growth has probably played the biggest role in curbing earnings from listed industrial companies this year.

For some, especially smaller companies that cannot easily afford a heavy financing burden, gearing has clearly been allowed to rise excessively. The dismal results are shown up in sharply narrowing interest covers, with the inevitable squeeze on the bottom-line performance.

But these are mostly outside the mainstream. The accompanying table — compiled from ratios calculated by broker Ivor Jones, Roy — lists a cross-section of some 200 industrials, showing latest published gearing ratios, interest covers and the amount of debt held at the date of the balance sheet.

The list is not comprehensive: many companies were omitted. But the selection is intended to offer a broad summary of debt levels.

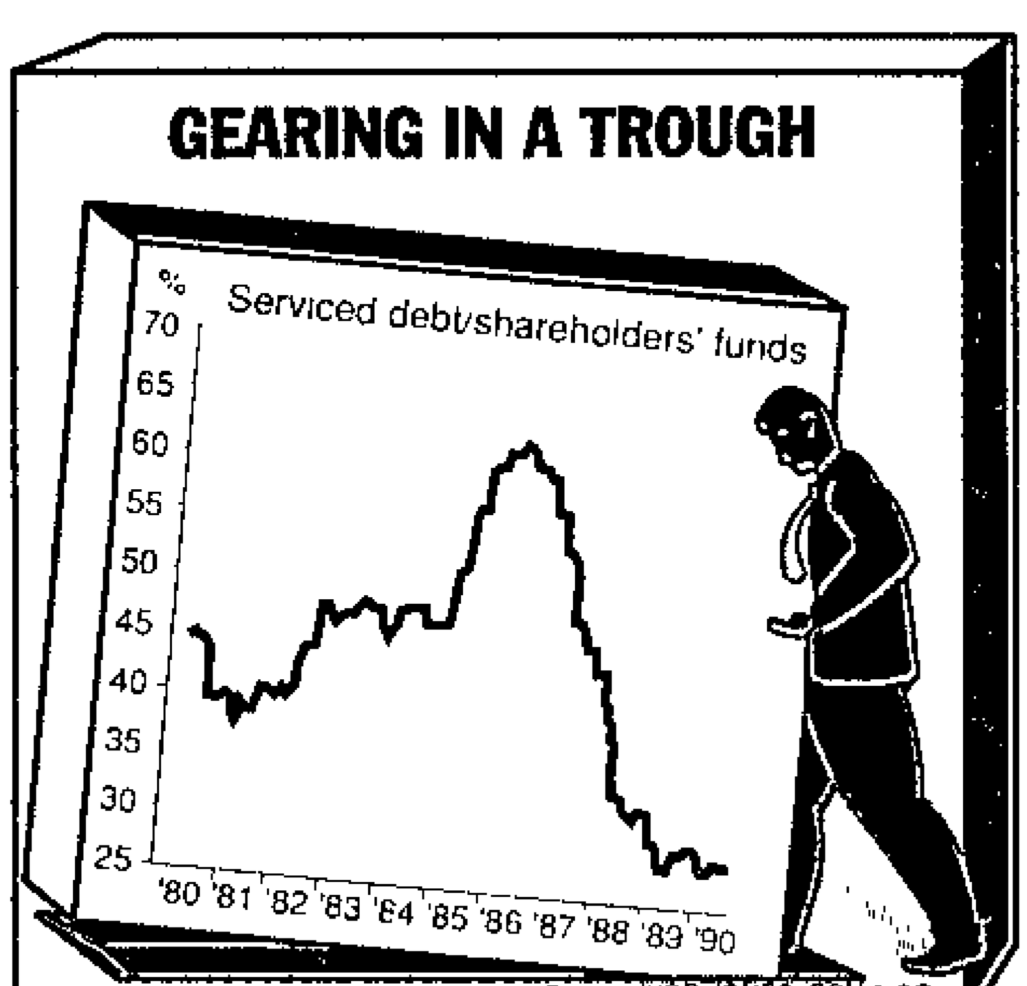
Only about a quarter of these companies have gearing ratios above 70%; a similar number have gearing of less than 20%. Roughly another quarter show debt: equity ratios of between 30% and 60% — and the bulk of major groups now fall within this range or lower.

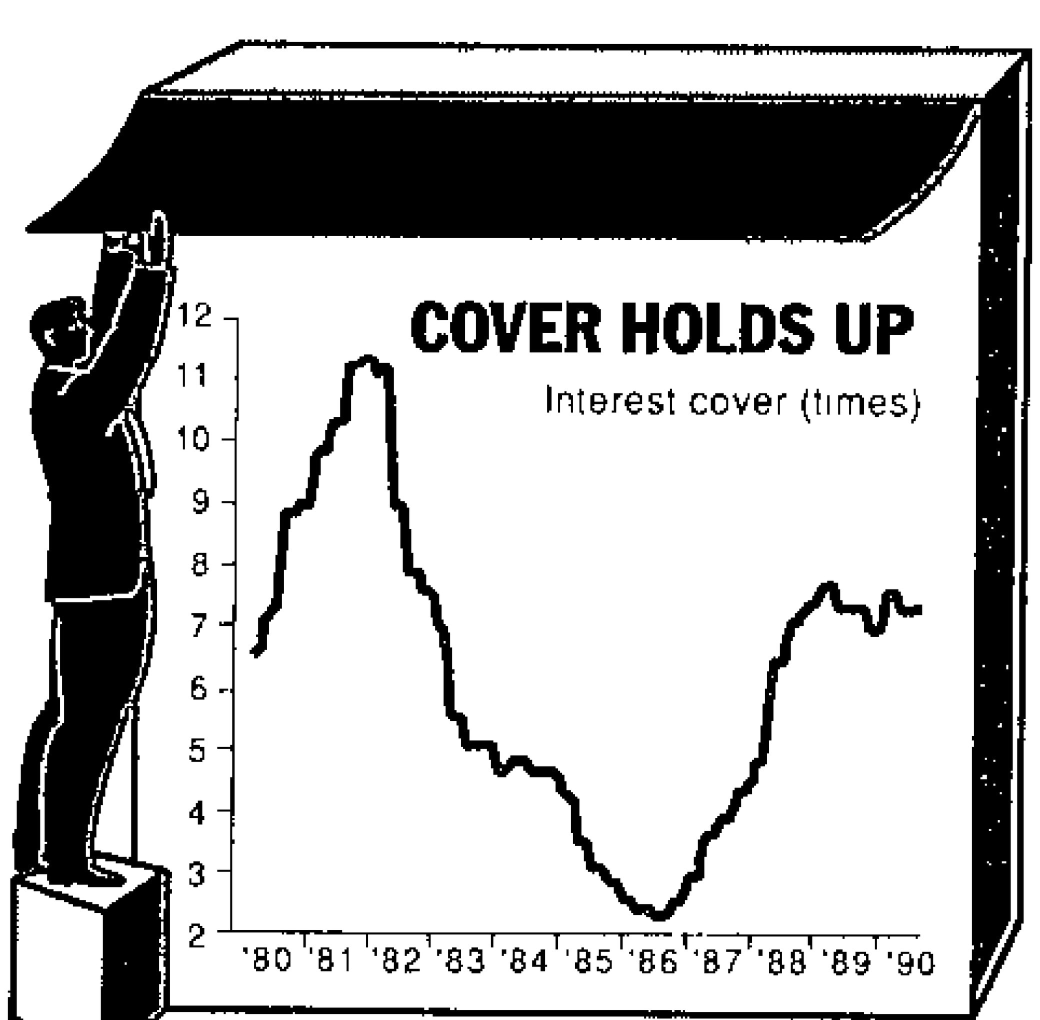
These ratios, incidentally, are conservatively calculated. Revaluation reserves, retained reserves of equity-accounted associates and all intangibles have been eliminated from shareholders' funds. Cash balances have not been offset against borrowings.

If some individual gearing levels still seem high for present conditions, though, the graph further supports the view that the mainstream is at historically low levels. Ivor Jones, Roy uses a sample of 40 leading industrials to track this trend.

For these companies, the ratio of serviced debt to shareholders' funds remains at easily the lowest level since the beginning of the Eighties — and there has been no significant upturn in the past two years. When making comparisons with peaks during the Eighties, the damage done by offshore borrowings and the resultant foreign exchange losses should be borne in mind. That hasn't happened this time. It is apparent from the relative strength of balance sheets at this stage that corporate SA has learnt one of the lessons of the Eighties. Management has little option but to take a conservative attitude towards debt when growth in the economy is at best feeble; that applies even more with real interest rates for the first time in years.

Similarly, the average interest cover for the sample used in the graph has levelled out at around 7,5 times since late 1988. While profits are no longer rising, on the basis of figures so far published the major groups have continued to cope comfortably enough with finance costs.





Reinforcing this, other data shows their ratio of cash flow to total debt has risen roughly in line with the levels seen in 1981-1982, which was the highest for the decade. The ratio of working capital to sales is far below the early-Eighties' levels, while the operating return on total assets is well above the returns achieved early in the decade.

Behind this seemingly healthy picture, though, the reality is more sombre. There is always a lag between events in the market and the general trend as shown by published accounts. Ratios of many of the companies in the table were still reflecting the momentum of more buoyant conditions in 1989. No companies have yet shown the results of a full year of conditions faced in 1990.

It should also be borne in mind that some companies "window dress" their accounts; financial year-ends may be chosen to coincide with periods when borrowings are seasonally low. For these, a more realistic position is shown in the interest cover.

One of the more positive aspects of this table is that the interest cover — which relates operating profit to finance costs — in many cases looks acceptable. But it is disquieting that many have dipped below a comfort zone of around four times. On the whole, interest covers must be in a declining trend which has yet to bottom out When groups report for end-September and end-December financial years, many will show deterioration in this ratio — with finance costs taking an even bigger toll on the bottom line.

Some with relatively high gearing look able to carry the cost without any strain. Examples are Afrox, with debt:equity of 69% but an interest cover of 7,4 times; or SA Breweries, with debt:equity of 73% and cover of 4,7 times. But others have not been coping well even with much lower debt: such as Titaco, with 24% gearing and interest cover of only 1,9 times; or Clyde Industrial, with 20% gearing and a three times cover.

In contrast, big groups visibly under pressure from high rates and inadequate profitability include OK Bazaars, Gresham, Karos Hotels, FSI Corp, Boymans and Fintech.

Even so, many investors must now be looking ahead and asking the more positive question: which shares should be considered buys in anticipation of falling interest rates? Considering the more rigorous attitude the authorities are now taking towards monetary policy, with a new emphasis on real interest rates, that may be a risky strategy.

The last downward cycle in rates underscored how sensitive the earnings of some groups can be to shrinking finance charges. The market usually looks well ahead towards such fundamental events as a drop in rates. Groups which have proven their ability to operate efficiently could well be worth watching as potential interest rate plays. Among these may be Waltons, Seardel, SA Breweries, Laser, Hudaco, Northern Engineering and Malbak.

Bankers say money market conditions indicate a dip in rates should not be too far off. It is an open question whether rates will soften sufficiently and soon enough to compensate for further deterioration in trading conditions. Profits may yet suffer more damage from unrest, cost increases and wilted consumer confidence than from borrowing costs — and those will be bad enough.

Andrew McNulty

Bad debt provision spells Bankorp loss

(58)

B/Day 7/9/90

GRETA STEYN

A MASSIVE cleanup operation at Sanlam-controlled Bankorp, mainly reflecting huge provisions for bad debt, has seen the troubled bank declare a net loss of R368,4m in the year to end-June 1990.

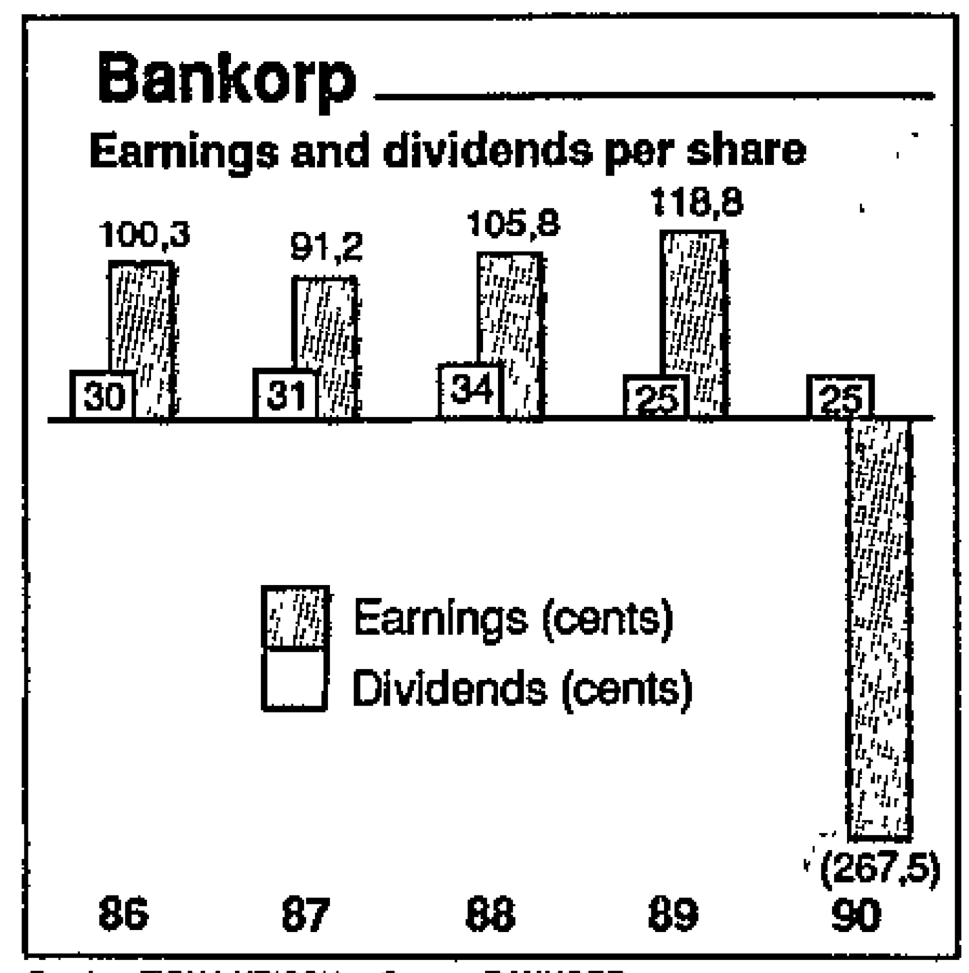
Bankorp's all-out drive for business, as the demand for credit exploded in the upswing years of 1988 and 1989, has now translated into a bad debt problem and a need for capital.

In spite of a loss per share of 267,5c (1989: a profit of 125,8c), the dividend was maintained at 25c for minority shareholders. Sankorp, Sanlam's investment arm, which holds about 87% of Bankorp, has agreed to take up extra shares instead of dividends, further to top up capital. The cash payment of dividends is not expected to exceed R5m.

Bankorp also announced yesterday the terms of its rights offer to raise about R550m. It was decided to make a one-for-one rights issue at 280c in November this year. This puts Bankorp on an attractive dividend yield of about 9% — a level at which minorities could elect to follow their rights.

Executive chairman Piet Liebenberg said yesterday that a lower price offering a higher dividend yield would have been "psychologically wrong" for the bank's image in the market, while a more expensive

□ To Page 2



Graphic: FIONA KRISCH Source: BANKORP

FM 7/9/90 (58)

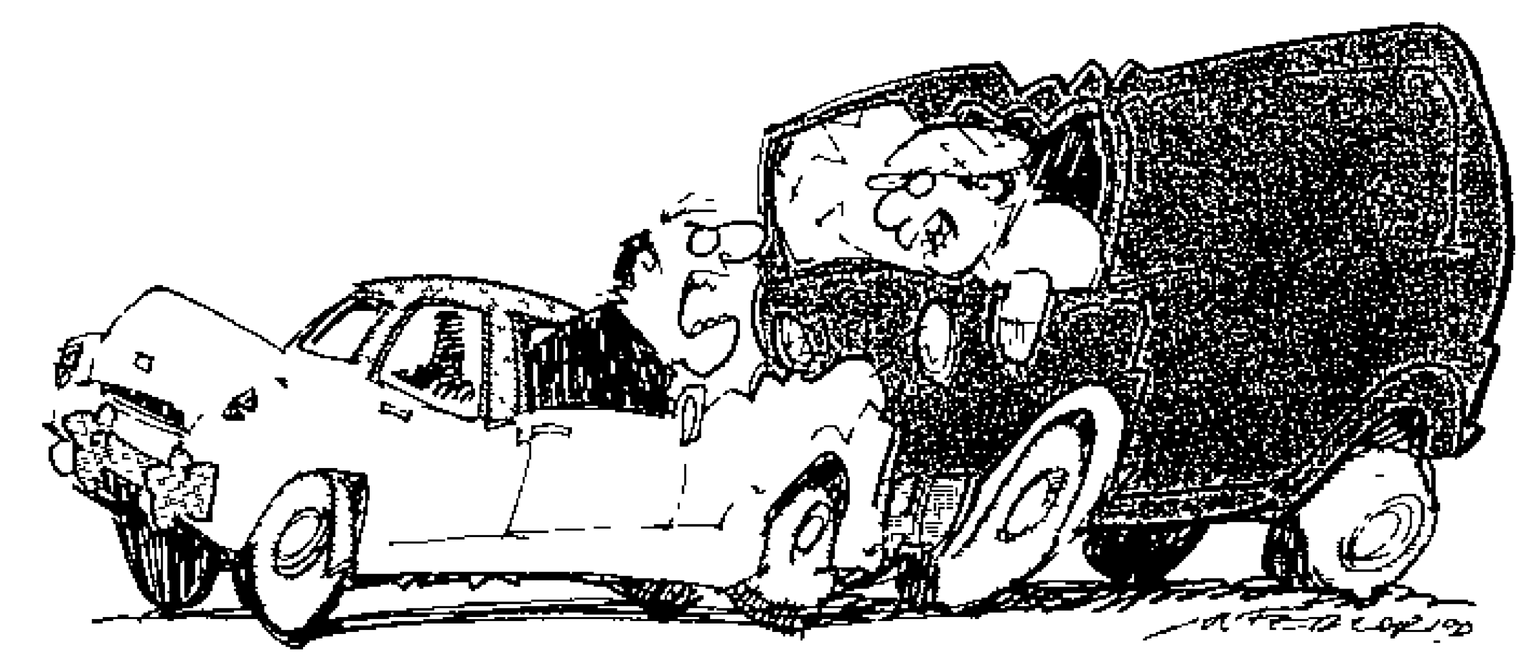
THIRD PARTY INSURANCE (58)

CATCHING A TAXI

FM 7/9/90

A plan to introduce a new compulsory motor cover, for balance of third party, is being canvassed among short-term insurers. It is in response to the increasing number of accidents involving vehicles without insurance.

Insurance sources have little to say on the matter except to confirm it is being considered by the SA Insurance Association. The proposal originated from Hollard Insurance MD Miles Japhet, an association council member, who says a committee will examine the implications. He confirms the proposal is for compulsory (legislated) balance of third party cover, administered and controlled by the insurance sector. This is a variation on previous proposals which would have seen balance of third party as a government operation, using a pool of insurers, much like the original MVA pool.



Insurance sector opinions vary. To some it is the revival of an old chestnut. Others see compulsory balance of third party as tackling a severe and growing problem. Rising insurance premiums are making comprehensive insurance much less attractive, with the lower-income groups most affected. A crash between an uninsured vehicle, for example, and a R60 000 limousine will, if caused by the former, leave the insured driver out of pocket through a R1 500-plus excess in his own policy.

Attempts at recourse to the uninsured driver often uncover a man of straw.

The problem has been worsened by non-insurance in the taxi industry. Recent statistics indicate that only 15%-20% of SA Black Taxi Association members have comprehensive insurance. No one at the association would comment this week on the balance of third party issue.

Administrative complication is one reason why balance of third party was rejected previously. Collection of premiums is only one of the problems but compulsory balance of third party is general practice in most First World countries. ■

INSURANCE FM 7/9/90 (58)

COVERING AIDS

No local insurance underwriter will provide Aids cover in the medical field, says insurance broker John Robinson, of Alexander Forbes, who has just tied up an Aids cover line with Lloyd's of London. Even Lloyd's is not wholeheartedly behind the cover — if the experience proves disastrous the underwriting syndicates can give notice to withdraw.

Robinson estimates 80 000 people in medical fields are at risk. They can now, as individuals or in groups, insure against becoming HIV-positive for R120/year for every R100 000 of cover Maximum cover is R600 000.

The possibility of extending the cover to other special risk groups is being discussed.

Bankorp lay-off nightmare

S/Times 9/9/90

(58)

BANKORP staff members clamoured to join trade unions this week ahead of big staff cuts after horrendous results and huge write-offs.

After announcing a loss of R387-million in the year to June and write-offs and provisions of R682-million, chief executive Piet Liebenberg has started planning retrenchment packages.

Mr Liebenberg will not be drawn on how many of Bankorp's 17 000 employees will be laid off. But the SA Society of Bank Officials (Sasbo) has a letter saying that 2 400 could go.

Bankorp says the letter was unauthorised.

But it has told staff that natural attrition will not suffice and that "considerable rationalisation" is likely.

The three unions represented are Sasbo, the SA Catering, Commercial and Allied Workers Union and the Banking, Insurance, Finance and Assurance Workers Union.

Graeme Rowan, general secretary of Sasbo, says 800 to 1 000 Bankorp staff members have joined Sasbo in the past seven weeks — even though Sasbo has no recognition agreement with Bankorp.

Previously Sasbo represented the members of First National, Standard and New Republic banks only.

Sasbo deputy general secretary Charles Wells had talks with J J van der Merwe, Bankorp's human resources adviser this week.

Mr Wells says: "They told us that only 16 staff members had asked that we represent them. That sounds low considering the number of people who have joined."

Fight

Another story we heard is that personnel have been asked whether they will accept a month's pay on retrenchment. Bankorp denied it.

"I told them if they proposed to offer only one month's pay they would have to fight us in the Industrial Court."

The court does not prescribe a retrenchment package, but in the recent past Sasbo successfully demanded three months' pay plus a week's pay for every year's service.

Bankorp made write-offs and provisions totalling R680-million and announced a R550-million rights issue.

Banking analysts say the write-offs — "not a bath, an acid bath" — and the R550-million of new capital are only a first step.

Haunted employees in rush to join union

By DAVID CARTE

They expect more mergers and takeovers. Pointing to a close friendship between Piet Liebenberg and Piet Badenhorst of UBS, they expect Bankorp to get closer to UBS and Volkskas.

Closer

Mr Liebenberg says he has no objection in principle to closer relations with United Group.

Sankorp chief executive Marinus Daling says Bankorp has its hands full and cannot contemplate any deal now. But there would be no problem between Sanlam and Rembrandt, ultimate controller of UBS and Volkskas.

Banking observers say UBS and Volkskas are about to clinch a deal bringing them even closer. They say that may defer any talk between Volkskas, UBS and Bankorp for three years.

Mr Daling accepts that his company will have to contribute the lion's share of the R550-million rights issue. Only last year Sankorp ploughed R300-million of new capital into Bankorp. The latest amount brings total infusions to more than R1-billion since Sanlam rescued TrustBank in 1977.

Mr Liebenberg says the write-offs were conservative but realistic.

"We had internal and external auditors go through the assets at all 255 branches and we have provided against anything that looked doubtful.

"We expect to recover large amounts eventually — but remember that some things that look sound today may not be so next year."

The write-offs reflect poorly on the stewardship of former chairman Chris van Wyk. Dr Van Wyk said he was no longer involved with group affairs and therefore had no comment.

Bounced cheques hammer retailers

S/Times 9/9/90

By DAVID CARTE

SOME of SA's biggest retailers have approached the Big Five banks to act on a rising tide of bad cheques.

Tradegro financial director Bill Chambers says the incidence of bad cheques has doubled in recent months.

Representatives of Tradegro, OK Bazaars, Metro Cash & Carry, Pick 'n Pay, Edgars, Cashbuild and Stuttafords-Greatermans met senior general managers of First National, Standard, Nedcor, Bankorp and Volkskas this week.

They complain that the banks have 31 different types of cheques, many of which are guaranteed. But each requires different procedures and all operators have no way of knowing how they all work.

The retailers have threatened to treat all cheques equally. This would upset the banks, which have ploughed millions of rands into premier prestige and status accounts.

Some retailers are considering refusing cheques unless customers have made arrangements. They will issue their own cards to customers — after checking their creditworthiness. Pick 'n Pay has such a card.

Bouncers

Retailers say there is evidence that cheques drawn on new accounts bounce most frequently — suggesting that the banks are too lax in issuing cheque books.

They are unhappy about having to check all credit-card transactions over R250, saying the limit is too low.

Mr Chambers says: "The average housewife's trolley comes to well over R250. There's nothing more irritating for the customer and those in the queue behind her than having to wait for a bank to verify the card."

Retailers also complain that banks are too slow in telling them the fate of

ANOTHER FIRST ... Jeff Liebesman (centre) and Peninsula All Suite Hotel developers Joe Davidovitz (left) and Mervyn Basserabi. Picture: TERRY SHEAN

Limitless luxury at showpiece

S/Times 9/9/90

By EVELYN HOLTZHAUSEN

FOREIGN investors convinced that South Africa is on the brink of a tourist boom have bought accommodation worth several million rands in a luxury hotel in Cape Town.

"We welcome foreign guests," says Jeff Liebesman, chairman of W&A Investment Corporation — one of the main backers of the Peninsula All Suite Hotel.

The hotel was opened this week by Privatisation and Public Enterprise Minister Dawie de Villiers.

Mr Liebesman, whose company was voted Sunday Times Top Company in 1989 and which has a 24% stake in the Peninsula, says the hotel is the first investment by the Transvaal-based consortium in property on Sea Point's Golden Mile.

Investment in the 110-suite hotel complex "is tangible demonstration of our commitment to our country and our faith in its future," says Mr Liebesman.

One of the project's consultants, Joe Davidovitz, says careful research and an absolute belief in Cape Town led to building of the Peninsula.

The Peninsula, developed from the shell of the old Athinor apartment hotel on a prime site, is owned by the All Suite Hotel group. It also owns the Centurion in Sea Point.

Each suite has its own spa bath and catering facilities supplemented by a coffee shop and restaurant offering 24-hour room service. All suites have sea views and range in price from R7 100 for low season to R62 500 for a penthouse in high season.

PEACE OR WE QUIT, MERCEDES WARNS

B Day 9/9/90

BY DON ROBERTSON

MERCEDES-BENZ SA (MBSA) has given Numsa a final warning — settle now, or the company could withdraw from SA.

MBSA's warning is backed by IG Metall, Germany's largest trade union, which has associated itself with the National Union of Metal Workers of SA (Numsa) in the past.

Launching a revamped 200E sedan and the 300TE station wagon this week, managing director Christoph Kopke said that if negotiations between MBSA and Numsa were not resolved, parent company Daimler-Benz would seriously look at its investment in SA."

Dreams

But he added: "Not in my wildest dreams do I expect Daimler-Benz to leave."

The crisis at the plant follows a 17-day "sleep-in" by a few hundred rebel workers who brought production to a halt. The group varied between 150 and 600 and demanded that wage negotiations be conducted internally and not through the national bargaining forum (NBF), through which most motor manufacturers decide pay. MBSA joined the NBF at Numsa's request.

The action by the workers was declared unlawful by the Supreme Court and police were called in last Sunday to evict them.

New discussions with Numsa are expected to take another six days before work can resume.

Worker militancy in the Eastern Cape is already affecting investment there. A German company has cancelled plans to build a laminated wood-board factory at Berlin, near East London, giving strikes at MBSA and boycotts as the reason. About 200 jobs have been lost.

Revenue losses at the MBSA plant are about R13,5-million a day, totalling almost R230-million in the latest stoppage. Lost wages total about R300 000 a day.

About 180 vehicles on the assembly line will have to be scrapped because they will not meet quality standards. The dip tank is also damaged and could cost millions.

The company's profitability has also been hit. Asked how the labour problems had affected the company, Mr Kopke said: "If I were an investment man, I would not invest in MBSA."

Mr Kopke has repeatedly warned that the company's viability and growth would be endangered if labour problems were not solved.

Turning

Mr Kopke says, however, that if negotiations are successful they could mark a turning point in relations between the company and the union.

In the last four years MBSA has lost R2,4-billion in revenue because of strikes. The factory has been closed for at least two months a year because of labour problems.

This does not take into account the annual one-month shutdown over Christmas.

Mr Kopke discounts suggestions that the East London plant will be moved. He says it would cost too much to move the R500-million operation.

Bid to end rent boycott in Vaal

C/Press 9/9/90

THE Vaal Civic Association and the Vaal African Chamber of Commerce will meet the Lekoa City Council this week in a bid to resolve the rent-and-service-charges boycott.

The council announced it would attempt to persuade the Vereeniging Town Council and Eskom not to disconnect the electricity supply to Sharpeville and other townships within the council's jurisdiction.

This week the TPA said steps to cut off water and electricity supplies would be taken by the Black Local Authorities – which are autonomous bodies over which the TPA has no say and thus cannot prohibit or order to cut off bulk supplies.

Report back on rent talks

C/Press 9/9/90

MEETINGS will be held in Soweto today to discuss the rent agreement reached last week between the Soweto People's Delegation, the Soweto Civic Association, the three councils and the Transvaal Provincial Administration.

Residents in Alexandra, Vosloorus, Thokoza, Katlehong and Mamelodi will also meet to discuss the ending of the rent-and-service-charges boycott.

In Dobsonville residents will meet at the Kopanong Hall at 9am, and will be addressed by Sister Bernard Ncube. SCA president Isaac Mogase will address residents at the Diepkloof Hall at 2pm.

The SPD's Cyril Ramaphosa will address a meeting at the Meadowlands Stadium at 2pm, Ellen Khuzwayo will speak at the Ibhongo High School in Dlamini at 2pm, and Rev Lebamang Sebidi will speak at the Dutch Reformed Church in Pimville at 2pm. SPD secretary Pat Lephunya will address meetings at Khuthala Lower Primary School in Protea North at 10am, at the Roman Catholic Church in Tshiawelo at 2pm, and at the Lutheran Church in Naledi at 3pm.

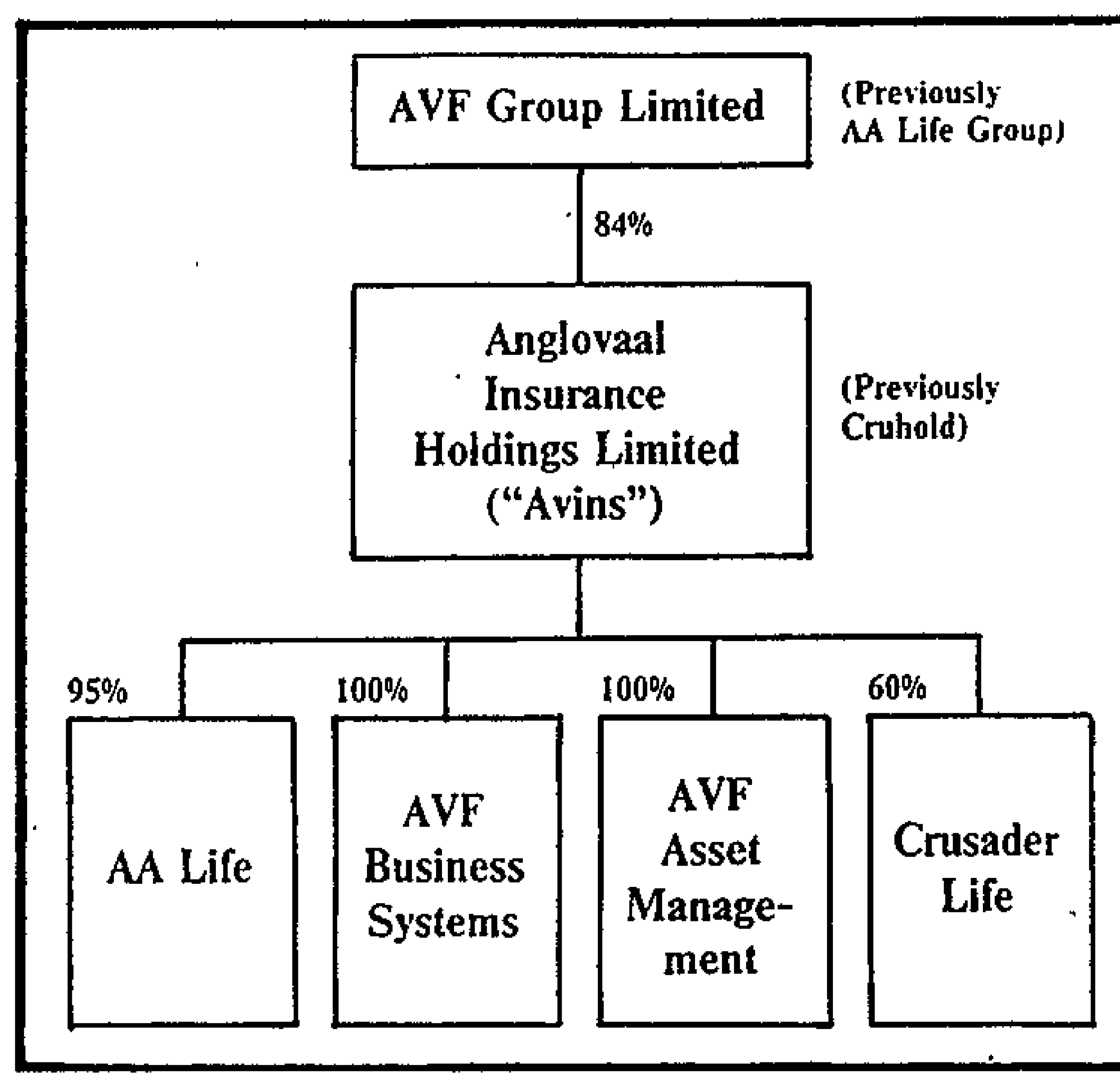
The SPD and the SCA have proposed that single, non-racial town councils be established and all arrears be written off.

JSE listing today . . .

New insurance group formed

CAPE TIMES 10/9/90 (58)

By PIETER COETZEE
Financial Editor



A powerful new insurance group, Anglovaal Insurance Holdings (Avins), has been formed and will be listed on the Johannesburg Stock Exchange as from today.

At separate general meetings last week, shareholders of AA Life Group and Crusader Life Holdings passed resolutions changing the companies' names to AVF Group and Anglovaal Insurance Holdings (Avins) respectively.

They also agreed to Avins acquiring 95% of AA Life Assurance Association's issued ordinary shares from AVF group in consideration for the allotment and issue of 123,8m Avins ordinary shares.

As a result, AVF Group now holds about 84% of Avins's issued ordinaries, thus becoming its holding company.

This completes the formation of a new R500m life assurance group, headed by AVF group.

Meanwhile, the JSE has agreed to the listing of the Avins consideration shares from today in the "Financial — insurance" sector and to amend the listings of AA Life Group and Crusader Life Holdings to take account of their name changes, also with effect from today.

The last day for dealing in AA Life Group and Crusader Life Holdings shares was on Friday and therefore existing share certificates are no longer good for delivery.

Dealings in those shares for the period September 3 to September 7 will be for special settlement on September 18.

Shareholders who have not yet surrendered their existing shares to the transfer secretaries to effect the name changes are requested to do so as soon as possible.

New share certificates will be despatched on September 10 or within five business days of receipt of existing certificates.

Avins group CE Brian Benfield anticipates that the new group will soon be recognised as one of the major players among the country's financial institutions.

"The new group structure introduces a concept which is unique in SA as the two life offices' administrative recources are to be combined to form a seperate company known as AVF Business Systems.

"We expect that the new group will achieve considerable savings in administrative overheads and a strengthening of recources in the financial, investment, actuarial, technical and information divisions.

"AVF Business Systems has been established with this objective in mind."

"It is further envisaged that our investment management company AVF Asset Management, will administer the assets of the two life offices," said Benfield.

The life offices will, however, be kept seperate and by so doing, the directors of both companies anticipate that their respective areas of expertise in the direct marketing, broker and field operations will continue to develop along established lines without upheaval.

Rates reflect ease in liquidity squeeze

B\D 10/9/90 GRETA STEYN (58)

THE recent decline in money market interest rates reflected a move by the Reserve Bank to loosen the liquidity squeeze it had imposed on the banks, senior bankers said at the weekend.

At the height of the liquidity crunch in the first half of the year, banks had to borrow from the Bank at punitive interest rates — in the worst case, as high as 22,75%. The high cost of cash at the Bank's discount window kept rates in the market high as long as the squeeze continued.

The money market shortage has eased by about R3bn from the record average level of R4,8bn in January.

Reserve Bank Deputy Governor Chris de Swardt said progress in containing money supply growth had obviated the need for the Bank to reduce the liquidity base of the banking system.

"Although it was not the conscious intention of the Bank to send a message to the market, the decline in the money market shortage should be interpreted as a sign

□ To Page 2

Squeeze eased

B\Day 10/9/90 (58)

□ From Page 1

that satisfactory progress is being made with the Bank's objective of lowering the rate of increase in the money supply."

He added that recent Bank operations in the market were aimed at smoothing fluctuations — "but not at preventing a more fundamental reduction in the shortage".

With easier liquidity conditions, banks have become less desperate for cash. They are no longer prepared to pay high interest rates in the market and the rate the major banks pay for call deposits has dropped to below Bank rate at 17%.

Rates have already discounted almost half a percentage point drop in Bank rate. The key liquid BA rate has eased to 17,85% from 18,4% in three months. The Treasury Bill rate has followed the same trend and fell from 18% to Friday's 17,62% — seven points lower than the previous week's tender.

The declines in longer-dated money market rates have been even more marked in a reflection of the market's belief that Bank rate will be cut. One-year negotiable certificates of deposit have lost about 1,5 percentage points in about two months.

Sentiment in the gilts market, however, is less bullish with interest rates edging higher. The market has probably already discounted a drop in Bank rate and Eskom's Loan E168 was at about 15,97% on Friday from about 15,91% a week ago.

But sentiment has been somewhat more bearish on government stock than on other more popular paper, such as Eskom's.

Seven FSI companies suspended on the JSE

Star 11/9/90 (58)

By Magnus Heystek

Seven companies in the FSI fold were suspended on the JSE yesterday in what is seen as a prelude to the group's much-rumoured restructuring.

At least three companies — thought to be Homemakers, Hunts and Teamcor — are to be delisted after the restructuring, informed sources say.

Analysts believe details of the final restructuring will be announced within about a week or so.

The companies suspended at the request of FS Group are FS Group itself, FSI Corporation, W&A Investments, Homemakers, Hunts, Teamcor and Formscaff.

A company statement yesterday said the proposed restructuring would lead to a simpler and more efficient group structure.

Analysts expect Homemakers, Hunts and Teamcor to be sold into W&A at prices very close to net asset value.

At this stage it looks as though no rights issue will be necessary for W&A to facilitate the restructuring — the third in as many years.

According to the scant information available at this stage, W&A will house all the operating interests of the FSI Group, with a possible listing on an overseas stock exchange being sought as well.

Lower output, leaner margins erode Marlin

Sow 11/9/90

By Jabulani Sikhakhane 58

Hit by lower production at the Kwaggaskop quarry, reduced margins and a less favourable exchange rate, granite producer Marlin has reported a 54,4 percent drop in earnings to 38,3c per share for the year to June.

Group profits after tax and minority shareholders' interest at R16,585 million were 15,7 percent lower than the directors' forecast of R19,7 million made in February when the interim figures were announced.

Operating income was R21,9 million (R29,8 million). Finance charges rose from R670 000 to R3,7 million.

A final dividend of 7c per ordinary share has been declared, making a total of 14c for the year — 16c lower than in 1989.

Chairman Peter Gain attributes the poor perfomance to production problems at the Kwaggaskop quarry in the Eastern Transvaal.

Management expected production would be back to normal by March, but problems continued into July.

Other negative factors included severe price-cutting by competitors.

Margins were under pressure as production costs rose faster than the price of stones, while the less favourable rand/dollar exchange-rate added more pressure.

Marlin is considering acquisitions and expansion opportunities, both locally and overseas.

Marlin Holdings — the pyramid holding company — posted maiden attributable earnings of R3,5million, equal to 22,9c per share on an annualised basis.

Earnings were 5,7c and a dividend of 5,6c has been declared.

Parys cuts power, water to township

Star 11/9/90. 58

By Melody McDougall, Vereeniging Bureau

The Parys Town Council yesterday cut electricity services and 90 percent of the water supply to residents of Tumahole.

About 40 000 people are affected.

Parys town clerk Joop Ferreira yesterday said the disconnection of services was the result of township residents not having paid their bills for the past three months.

He said Tumahole owed the council about R235 000.

Stressing that the decision to cut services was not a political one, Mr Ferreira said it was strictly a business matter.

Mr Ferreira said the water supply had been reduced to 10 percent of normal flow. This would ensure sufficient water for drinking and cooking purposes.

According to Mr Ferreira, a meeting would be held on Thursday between the town council, the Tumahole Town Committee, the police and the Tumahole Civic Association to discuss the issue.

New interest in provident funds

58 (380)

B Day 11|9|90

LINDA ENSOR

THERE has been a resurgence of interest in provident funds, particularly among trade union members, the Mouton Committee's draft report on the retirement industry has noted.

LOA figures indicate that in 1989 404 pension funds were newly registered compared with 855 new provident funds.

"An important feature of this development has been the emergence of benefits payable on "resignation"' that explictly allow for the progressive inclusion of part or all of the employer contributions," it says, adding that as recently as 1989 very few funds made explicit provision for this kind of "vesting".

The report recommends that consideration be given to the development of appropriate guidelines on inclusion of vesting employer contributions in "resignation benefits".

The report notes a trend for companies to establish provident funds in addition to pension funds to give their employees the choice of which they wish to belong to.

Accrued

Few retirement funds offer reasonable transfer benefits and there is very little encouragement for "resigning" members to preserve or transfer their accrued "retirement assets" to another fund on changing employment.

By 1989 26% of funds were prepared to grant withdrawing members a share of the employers contributions; in 1985 only 1% of participating funds granted this benefit to members who wished to transfer their accrued retirement assets to another retirement funds.

The impact of continuing inflation on pensioners was a matter of concern to the committee which said its eroding effect on pensions has a severely negative impact on the security that pensioners derive from their membership of retirement funds.

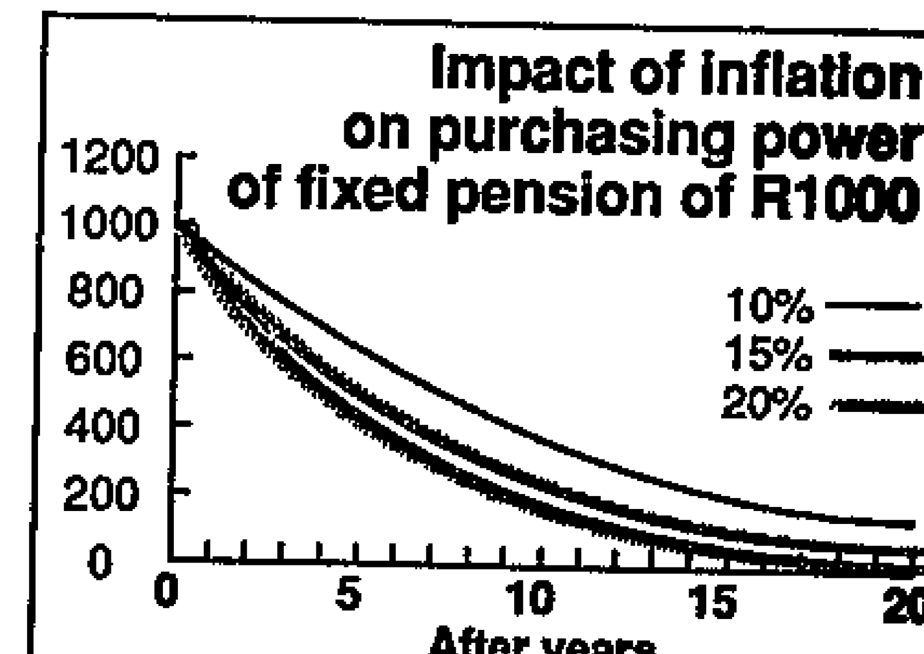
It says over 90% of funds increased pensions from time to time on an ad hoc basis. In 1985/86 the average increases amounted to about 60% of the inflation rate.

"But even if pensions are increased every year by 60% of the rate of inflation, the purchasing power of the pension is seriously eroded over time."

Rates of interest have not kept pace with the rate of inflation with the effect that members have "been forced to lend their contributions to the retirement fund at an uneconomic rate of return . . . It is interesting to note that 54% of funds still pay 6% or less to withdrawing members. As recently as 1985 this percentage was 96%".

Another area of concern is the amount of retirement assets paid out to members when they leave a fund on resignation or retrenchment. The report says the leakage as a percentage of the inflow of contributions is about 15% with the trend intensifying in the eighties. "This problem continues to be a significant weakness in the retirement provision systems in SA."

The committee estimates that the cost to the state of granting income tax concessions on retirement provision will be between R5bn and R8bn in fiscal 1990 — equivalent to about 55% to 90% of the total contribution inflow to funds. This, the report says, "is a very considerable indirect subsidy".



Graphic: FIONA KRISCH Source: MOUTON COMMITTEE REPORT

In 1988 there were 1 151 private funds (including self-administered and exempted industrial funds) with an average number of 1 793 members, 10 852 insured funds with average number of 286 members and 18 government funds with an average number of 81 056 members. This gave a total of 12 021 funds with an average of 551 members each.

The report says the large number of insured funds shows that insurance companies have been successful in drawing smaller companies into making provision for their employees' retirement needs.

In 1970 33% of all formally employed people were members of a private retirement fund, in 1980 this was 80% and by 1986 the percentage was 82%. But while coverage has improved, the absolute numbers of uncovered persons increased significantly between 1960 and 1985.

In 1988 retirement fund assets of R94bn represented 23% of the market capitalisation of the JSE.

JSE, banks differ on gilts clearing

B Day 11/9/90

(58)

GRETA STEYN

THE JSE is pushing hard to convince Registrar of Financial Institutions Piet Badenhorst that the entire gilts market should use the JSE's Gilts Clearing House (GCH) — in the face of strong resistance by the banks.

Bankers were shocked to learn Badenhorst could decide to go against the recommendation by the Financial Markets Advisory Board to ditch the JSE's system. The market had initially assumed that the implementation of the board's decision was a mere formality.

Regulation

But Badenhorst, who recently held two meetings with representatives of the banks and the JSE, said yesterday: "It will be a tough decision based on what is in the best interests of the market." He could not indicate when finality would be reached.

At the centre of the issue is the formalisation of the gilts exchange — the Bond Market Association (BMA) — which cannot take place until a clearing system is in place. The banks maintain the GCH is an inadequate system and the regulation of the exchange should wait until a proper system is in place.

But JSE GM Darrell Till said: "The JSE is not promoting the GCH as such. What we want to see is a regulated market and that cannot occur until a clearing system is in place. The postponement of the formalisation of the BMA until a new system has been developed could mean another year or more of an informal gilts market."

As a gesture to the banks, the JSE has dropped the clearing price per transaction for non-JSE members to R12 from an initial R20. However, JSE members would continue to pay R25 if the GCH is used — a plan which has triggered unhappiness among some brokers.

Till said: "We do not like keeping the playing fields unlevel but because we are keen to see a formal market, we are prepared to lower the cost of clearing to draw the other players."

He added that the JSE would not allow non-JSE members to deal on the gilts floor until the market was regulated.

But the banks said the status quo had worked fine for years, and waiting a little longer until a more acceptable clearing system had been developed would do no harm. The lowering of clearing costs had not convinced them to fall in with the JSE's plans as they believed the GCH was fundamentally inadequate. The feeling among dealers at banks, who did not want to be quoted, was that the JSE's main interest was revenue and not the market.

New chief for TrustBank

Star 12/9/90 (58)

Finance Staff

Extensive reshuffling of top posts at Bankorp by executive chairman Piet Liebenberg has brought 52-year-old Johan Howell to the post of TrustBank's chief executive and the appointment of two new group senior general managers.

Jerry van Vuuren, formerly senior general manager of TrustBank has "officially resigned."

The departure of three more senior men is believed to be in the offing.

Mr Liebenberg said in a statement yesterday that announcements earlier this year of Bankorp's new structure, and the departure of Dr Chris van Wyk, had left vacancies in the executive team.

"We have now rounded off our top team in the new Bankorp," he said.

The new senior general managers are Eben de Klerk, 50, who takes over the services division, and Daantjie du P Steyn, 53, who takes over the recently formed risk management division.

FOR 30 YEARS

Mr Howell was previously chief executive, services division, in the new Bankorp structure. Before that he was executive manager, corporate services and joint ventures.

He has been with Bankorp for 30 years, of which 27 years were with TrustBank.

Mr de Klerk retains his current position as managing director of BankorpData, which he founded about six years ago. Before that he was general manager, TrustBank data processing services. He was been with Bankorp for 26 years.

Mr Steyn, before his appointment as head of the risk management set up in June this year, was general manager, administration, at Senbank. Before that he was general manager in the corporate financial services department at TrustBank.

Mr van Vuuren is replaced as senior general manager, Cape Area, TrustBank, by Gert Venter, 45, general manager at BankorpData.

The management committee now consists of:

Piet Liebenberg, executive chairman.

Hennie van der Merwe, chief executive, Senbank.

Johan Myburgh, chief executive, Santambank.

Johan Howell, chief executive, TrustBank.

Doug Anderson, chief executive, central treasury.

Eben de Klerk, group senior general Manager, servicesdivision

Daantjie Steyn, group senior general manager,risk management division.

Modifications to finrand system

Star 12/9/90 By Magnus Heystek (58)

Major adjustments to the financial rand system have been unveiled by the Department of Finance.

Henceforth immigrants will be allowed an increased settling-in allowance up to a maximum of R500 000 via the finrand.

But certain restrictions have been introduced to contain possible abuses.

Until yesterday immigrants were allowed to bring in R200 000 via the finrand, regardless of the use the money was put to.

Now R20 000 will be available in cash to cover expenses. The balance may only be used to buy homes and cars.

Requests for the release of more funds must be submitted to Exchange Control. The release of finrands for investment in the first five years of residence will be evaluated on the basis applying to foreign investors.

In the event of immigrants leaving within the first five years of residence, they will be allowed to re-transfer any funds brought into SA through the same channel by which the funds were introduced.

Switch-off catches residents unawares

(58) Star 12/9/90

By Musa Mapisa

The disconnection of water and electricity in Tumahole township near Parys on Monday has changed the lifestyle of the 40 000 residents.

Parys Town Clerk Joop Ferreira said the disconnection had come about because residents had not paid their bills for three months.

Buckets

The township now owed the council about R235 000.

Mr Ferreira said the decision to cut services was strictly a business matter, not a political one.

Women who had forgotten to store water before leaving for work yesterday were seen in the afternoon moving in streets with buckets on their heads.

After touring the township, The Star team stopped at a supermarket to buy cold drinks They were warm.

The stench of rotting meat hung heavily in the air.

One customer was buying candles, while a small boy struggled out of the shop with a five-litre container of paraffin.

Some residents, like the Modise family, were using gas for cooking and lighting.

Music could be heard form their home. It came from a battery-operated hi-fi set.

Star 12/9/90 (53)

E Rand power cuts loom

By Therese Anders and Abel Mabelane

The electricity supply will be cut off in Tokoza and Katlehong tomorrow, according to notices issued to residents yesterday.

Pamphlets warning of the power cuts in the township were dropped by helicopter.

The notice said: "As a result of your five-month rent and service charge boycott, it has become inevitable that the provision of essential services by the council can no longer be rendered. The funds of Katlehong are now exhausted."

Tokoza administrator Gert Muller said power would be cut at 7 am tomorrow. He said Tokoza owed the Alberton City Council R1,5 million in electricity bills.

Mr Muller said the Alberton City Council had agreed that power would be restored if residents could pay the average daily usage of power.

He said various community organisations such as the ANC, the civic association, the taxi association and the local chamber of commerce had been invited to a meeting with the council today in an attempt to avert the power cut.

● According to ANC regional secretary Joe Nkuna, many eastern Transvaal township residents are loath to begin paying their service accounts because of councillors' previous records of corruption.

Mr Nkuna has urged the Transvaal Provincial Administration to step in quickly and appoint administrators in all townships throughout the eastern Transvaal.

He was commenting on why many township residents were still not paying, although the rent and services boycott was called off on August 31.

All service payments are to be made before September 17, yet The Star has been told that in KwaGuqa (Witbank), Mhluzi (Middelburg) and Wesselton (Ermelo) there has been little or no response.

In KwaGuqa, the TPA appointed three councillors as administrators several months ago.

It has subsequently been discovered that these were illegal in terms of the Black Local Authorities Act.

● The Mamelodi People's Delegation and the local city council are due to meet tomorrow to discuss the rent issue in the township

Suggestions from both parties will be submitted to the TPA for consideration.

● The Kimberley City Council has announced that water and electricity services to the nearby Galeshewe township will be cut from September 18, prompting township mayor Taolo Bosvark to appeal to residents to start paying their rentals and service charges arrears.

Mr Bosvark said residents had been boycotting rent and services charges since March this year, and they now owed about R6 million to Kimberley Town Council

He said it was not his council's intention to cut services, but since the suppliers were intent on doing this there was nothing the council could do.

If residents started paying by September 18, they might be able to convince the town council not to proceed with a switch-off, the mayor said.

Heavy govt borrowing unlikely

GRETA STEYN

FINANCE director-general Gerhard Croeser yesterday moved to calm fears in the capital market that government would place heavy borrowing demands on the market during the remainder of the fiscal year. B/Day 12/9/90

He told a seminar on government spending in Johannesburg last night government would probably need only a further R800m from the gilts market, in spite of an increase in its financing requirement.

Fears that government would draw heavily on the gilts market had fuelled bearish sentiment on government stock and widened the difference between the interest rate on its long-term stock and Eskom's to more than 50 points at one stage. (58)

Croeser said the latest revision of government's financial situation yielded a financing requirement of R12,4bn. Government had already financed R7,7bn of that — R5,5bn on the open market and R2,2bn from the Public Investment Commissioner (PIC), which invests the government pension funds in gilts.

"The PIC is a huge source of finance that we can tap if we need to. It could provide an additional R4bn during the rest of the year, which means we would need only a

☐ To Page 2

Borrowing B/Day 12/9/90

(58) From Page 1

small amount from the open market Our borrowing needs should not place any upward pressure on market interest rates"

He also noted government expected a small overrun of about R500m on its revenue. This would mainly be the result of an expected R828m overshoot on personal income tax — a spin-off, he said, of higher-than expected wage increases. Revenue from company taxes, however, would be significantly less than budgeted (by R480m) On the spending side, an increase of 12,9% instead of the budgeted 11,8% was expected The deficit would be slightly more than 3% of GDP, compared with a budgeted 2,8%.

On the longer term aims of fiscal policy, he said "Far more emphasis needs to be placed on spending of a socio-economic nature, especially in a new SA. We will continue using the 'peace dividend' from less spending on defence to this end"

Bankorp purge sees another three quit

Star 13/9/90 (58)

By Magnus Heystek, Finance Editor

The purge at Bankorp continued yesterday with the news that three more senior executives had resigned.

Gideon Kotze, senior general manager for the Witwatersrand area, has already vacated his office, while two other senior general managers, Koos Morland and Gerbie Strydom, currently both at Senbank, the merchant bank in the Bankorp group, are believed to be on the verge of resigning.

Bankorp officials declined to comment yesterday on the latest development, but it is understood the resignations are a foregone conclusion.

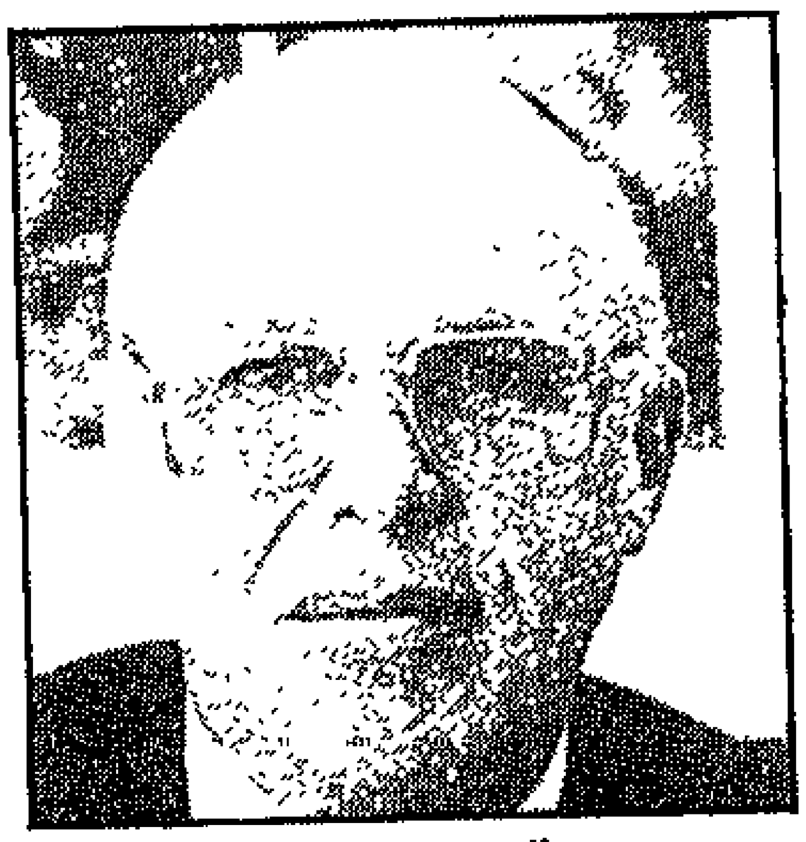
None of them was available for comment.

It was reported yesterday that Jerry van Vuuren, senior general manager in the Cape, had left the bank.

Johan Howell, a career banker at TrustBank, has been appointed managing director of TrustBank in place of Chris van Wyk, who resigned two months ago.

This brings to six the number of senior executives at TrustBank, now a wholly owned subsidiary of Bankorp, who have left since the departure of previous MD Kobus Roets.

Banking circles say the purge at Bankorp is now basically complete, with perhaps one or two minor forced resignations perhaps still in the pipeline.



Johan Howell

TrustBank has been in the spotlight since last November when Mr Roetz left suddenly, barely months after his appointment.

The position of managing director has been vacant since last November, with the functions being filled by the chairmen of the bank, first Dr Chris van Wyk and then Dr Piet Liebenberg.

Last night Mr Roetz declined to comment on the latest departures of senior staffers, widely described in banking circles as "Roetz's men".

While some shake-up at executive level at Bankorp and TrustBank had been widely expected since Mr Liebenberg took control in June, banking circles have been buzzing over the number of senior bankers leaving the group.

The developments come hard on the heels of Bankorp's disastrous results last week, which showed losses of R368 million in the year to June.

In a move not unrelated to the current events, a Bankorp official said yesterday the group was trying to reduce its assets from levels of R35 billion to about R30 billion.

Thereafter, growth in assets would be "very much in line with the Reserve Bank's indicated growth rate of a one percent increase in assets", he said.

It is known that Bankorp has made a complete turnaround in its lending approach since Mr Liebenberg's arrival.

Under Dr van Wyk, TrustBank, in particular, was very aggressive in its chase for assets at a time when the Reserve Bank was trying to convince bankers to scale down their lending activities.

The subsequent strict monetary policy appplied by the Reserve Bank, coupled with increased reserve asset requirements, impacted heavily on group profitability.

While the spokesman refused to specify how the reduction in assets would be brought about, it could mean some clients would be called on to reduce their borrowing exposure to various subsidiaries.

September 13 1990 Star 13/9/90 55 58

Half a million on East Rand face blackout

By Claire Robertson, Pretoria Bureau

More than 500 000 East Rand residents could be without electricity from today as the first blackout hits Reef towns.

Tokoza and Katlehong — the latter the scene of some of the worst recent township violence — were informed by way of leaflets dropped from helicopters this week that electricity would be cut this morning.

The move follows austerity measures introduced by the Government at the end of August. Local authorities hit by rent and service-charges boycotts were informed that bridging-finance coffers had run dry and assistance with service payments would be curtailed.

Germiston town clerk Tonie Heynecke yesterday received offers of help from local industries who had heard of the Katlehong blackout. Some wanted to help pay for electricity.

Tokoza officials have said they would continue with attempts to resolve the rent boycott through negotiations.

A meeting between organisations and the township administration on Monday ended in a deadlock, said the Transvaal Provincial Administration. The TPA could not comment further on the blackouts as "each local authority is autonomous".

Katlehong and Tokoza are two of the most cash-strapped East Rand townships.

23 municipalities owe money to Eskom

STAR 13/9/90

Highveld Bureau

Twenty-three Transvaal municipalities are now in arrears with Eskom since the Government stopped bridging finance two weeks ago to townships boycotting rent and service payments.

Eskom refuses to divulge how much it is now owed, but it is believed to run to several million rand.

Communication manager Johan du Plessis said Eskom was confident of being repaid the outstanding millions, which were accruing interest from the day of default.

"We feel (the situation) is under control at present, but there is cause for concern where some white local authorities are cutting off supplies to townships."

He said each defaulting local authority would be given 60 days to meet its payment, after which legal action would be taken.

However, he stressed that Eskom's policy was to negotiate with townships.

Tough conditions put dent in Vektra earnings

53 Star 13/9/90

By Ann Crotty

Tough market conditions resulted in FSI subsidiary Vektra reporting a 42 percent drop in earnings from 50,4c to 29,1c for the six months to June.

An interim dividend of 15c has been declared — down from the previous interim's 15c.

The tough trading conditions were in line with expectations and it seems that Vektra management decided to go for market share at the expense of margins.

Turnover was up 14 percent to R226,8 million (R199,2 million), which was apparently above growth in the overall market and means that Vektra has picked up market share.

But operating profit was down five percent to R14,5 million, reflecting a squeeze on margins — from 7,7 percent to 6,4 percent.

The performance was also knocked by a more-than-doubling of finance charges to R8,5 million (R3,9 million).

Chairman Alan Schlesinger attributes this sharp hike to the higher interest rates and "continuing high levels of inventory".

Pre-tax profit was down 47 percent to R6 million from R11,4 million.

A lower tax rate helped soften the blow at attributable-earnings level with a drop of 39,6 percent to R3,5 million (R5,8 million.

There is an extraordinary loss of R12,7 million, which will put a dent in the balance sheet. Financial '89's balance sheet shows shareholders' funds of R52,4 million.

Mr Schlesinger says the extraordinary item arises from the write-off of goodwill in accordance with changes to the UK Companies Act.

Vektra is a 75 percent subsidiary of Teamcor. It is though the restructuring currently under consideration by FSI management will involve the delisting of Teamcor.

Large bank exposures fall under scrutiny

GRETA STEYN

THE Reserve Bank is talking to banks whose exposures to individual clients are large relative to their capital bases — including Alphabank, to whom troubled Spareco owes R6m.

Registrar of Banks Hennie van Greunen said yesterday: "We are monitoring banks' large exposures in preparation for legislative changes next year that will compel them to keep us informed about this. The emphasis in discussions with banks on the issue has been on risk management."

According to Alphabank's latest available BA9 financial return to the Bank, the small merchant bank's capital base is R3,2m — significantly lower than its R6m exposure to Spareco. However, Van Greunen points out that the figure in the BA9s does not represent a bank's total capital base as hidden reserves are excluded. These are not available to the public.

B/Day 13/9/90

Alphabank MD Charles van der Walt declined to divulge the actual amount of capital, but said R3,2m was too low. He said the security against the Spareco exposure was adequate and there was no cause for concern.

58

Asked whether an exposure to a single client that exceeded a bank's capital base was prudent banking, Van Greunen responded:

"In some cases it would not be prudent. It all depends on how the risk is managed. In the SA situation, it is unavoidable that exposures to individuals will exceed the capital base."

Although the current Banks Act did not compel banks to inform the Bank of their exposures, the Bank had started preparing the climate for when the new Deposit-Taking Act would come into effect.

14/9/90

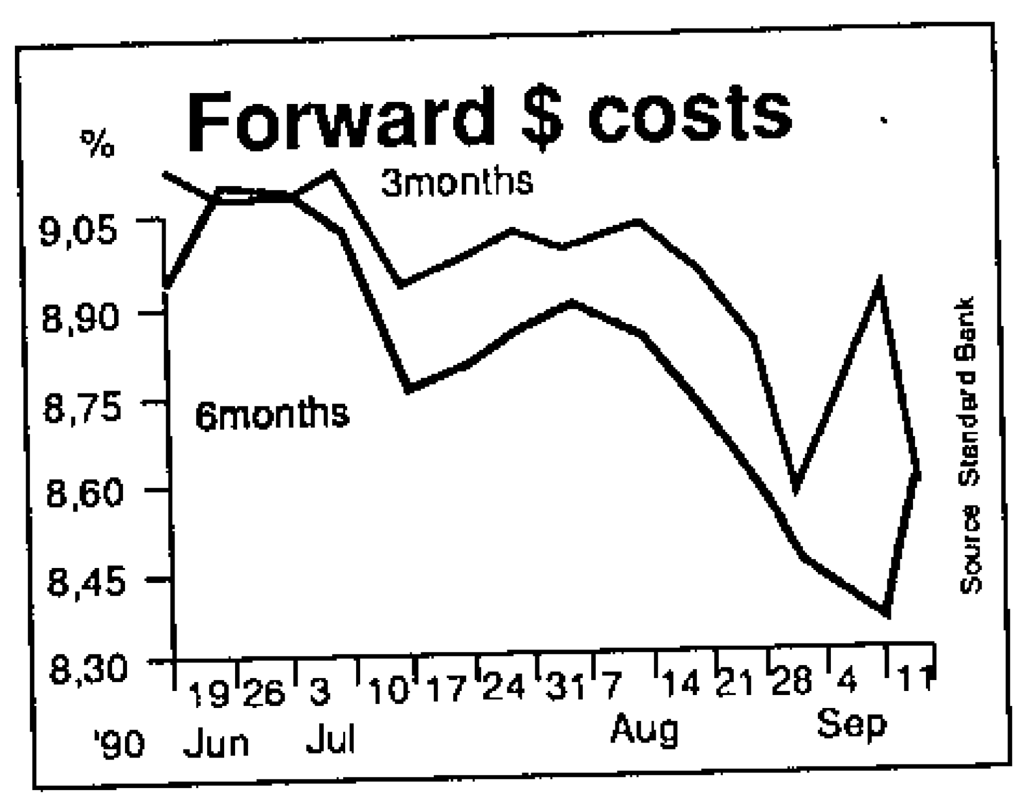
Proposals to securitise assets have come from banks and building societies as well as the non-banking sector and include mortgages, car loans and other receivables

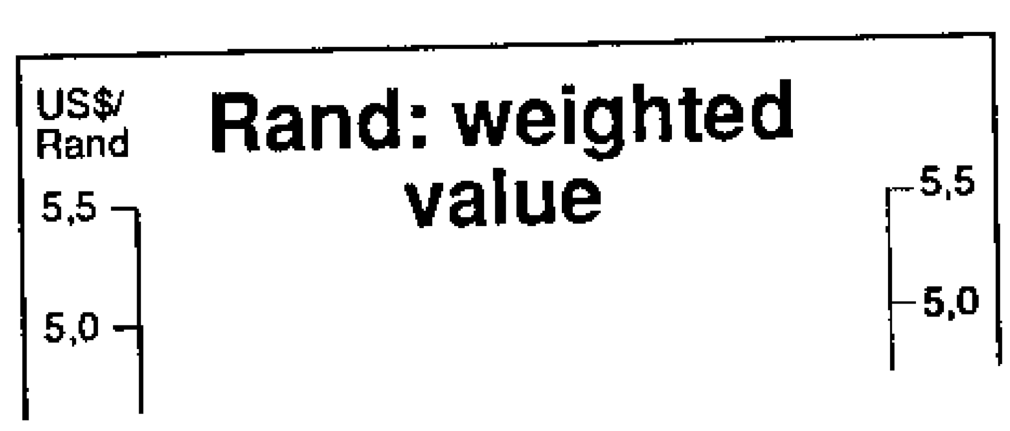
"Banks and building societies should retain no residual risk," says a Bank spokesman. The issue structurers are grappling with this. "The non-banking sector is outside our jurisdiction."

It stresses its responsibility is to protect deposit-holders, not investors. "Our concern is investors may consider regulators' approval of a scheme a form of protection," says the spokesman. He points out that the Bank's responsibility and involvement ends when it has determined an issue meets requirements.

Pim Goldby's Robin Marsden says there are other reasons for delay in new issues.

MARKET INDICATORS





Austria Schil	**4,290**	**0,233**
	4 950	0,202
Holland Guilder	**0,688**	**1,453**
	0,792	1 263
US $ value of SDR	1 232	**1,387**
US $ value of ECU	1 042	**1,308**
Financial Rand		
Cost per US $	4 005	**3,941**
Discount (%)	29,379	**34,367**

Year ago figures in light print
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only

FUTURES

M-t-M	Open interest contracts 31/8	Open interest contracts 7/9	Week's volume contracts 31/8	Week's volume contracts 7/9	Value R000's 7/9
2 918	1 097	977	2 887	1 459	43 080
2 924	1 995	2 228	4 021	2 026	59 603
2 960	260	230	20	80	2 422
3 250	440	440	220	0	0
1 608	1 322	1 284	6 565	3 500	57 671
1 638	1 757	1 764	4 453	3 243	54 717
2 838	367	407	606	270	7 690
2 822	323	363	342	188	5 378
385,75	156	162	565	328	12 741
395 00	41	71	111	131	5 194
397,00	125	125	0	0	0
15,92	302	342	140	150	10 633
15,82	80	170	1	110	7 842
17,12	353	343	13	15	14 358
16,20	138	138	107	56	53 732
15,60	48	48	5	5	4 805

Source SA Futures Exchange

INSURANCE (58)

EARLY WARNING

FIM 14/9/90

By the end of this week, Registrar of Financial Institutions Piet Badenhorst should know whether alarm bells are ringing in the short-term insurance industry. The latest returns (to end-June), including those from five (unidentified) insurers whose solvency margins were in decline, will have been thoroughly analysed

Badenhorst is now assisted by a computerised early warning system, developed from a program borrowed from the North American Insurance Commissioners This, used for the first time to analyse end-1989 returns, prompted his subsequent call for special returns The program highlights when any one of about 10 factors, considered critical to the health of an insurer, goes out of line. These include the rate of growth of premiums (AA Mutual's headlong growth was a prime cause of its demise), underwriting results, operating results — including reserves — and the expense ratio.

Nico Fourie, the assistant registrar who monitors short-term companies, says no one ratio is critical in itself, though legislation places much reliance on solvency margins. There is no magical formula that pronounces a company healthy, Fourie says, and circumstances will vary among insurers. The quality of a reinsurance programme must be considered, Fourie points out, in assessing a company's solvency margin. In any case, he agrees, an excessively high solvency margin might mean the company is not putting its capital base to work efficiently.

None below 15%

Of the five insurers subject to special attention, none had a solvency margin below the statutory 15%. One was marginally below 20%, the others close on either side of 25%. So no disasters are expected.

A concern in the industry, voiced by leading brokers, is that the five have not been identified. To name them, Badenhorst feels, could have caused a confidence problem, equivalent to a run on a bank.

Another broker view is that the Registrar was ill-advised to mention the five, because he then aroused unhealthy speculation.

Mibsa (formerly Minet) director Rod Pearson believes most problems will be removed if the industry gets its rating policies in order — without, he adds, any cartels being formed. The industry has a history of entering a rate war almost every time it enjoys a fat year or two.

Having absorbed R400m premium income after the AA Mutual debacle in 1986, short-term companies entered a highly profitable cycle. Then the traditional rate-cutting ensued Unrealistic rates, rising motor car repair bills, an increased crime rate and a sprinkling of insurance catastrophes sent underwriting results plunging (see table).

At one time, the Registrar's office dictated a guideline that underwriting income should at least match the aggregate of claims, commissions and administration expenses That ignored investment income. Badenhorst's view is that the formula is still a desirable goal but it is impractical to make it a perennial requirement. Recent underwriting results make the point.

Fourie does not expect the latest analyses to display a sudden improvement in any key ratio — "more likely, the deterioration will be seen to be slowing down," he suggests. ■

INSURERS' RESULTS

Insurer	Period	Underwriting	Last full year
Guardian	interim to 30/6/90	profit R7,9m reversed to loss R5,5m	profit 9,2
M & F	interim to 30/6/90	profit 5,4 down to profit 11,6	
Protea	interim to 30/6/90	profit 3,2 reversed to loss 13,9	loss 1,6
CU	interim to 30/6/90	profit 8,0 reversed loss to 11	profit 11,5
SA Eagle	interim to 30/6/90	profit 7,2 reversed loos to 11	profit 20,6
Santam	interim to 31/3/90	profit 13,5 down to profit 1,1	profit 26,1
GA	year to 31/12/89	profit 6,4 down to profit 4,3	
IGI	year to 31/3/89	profit 19,2 reversed loss to 4,6	
NEG (part of M & F 30/6/90)	interim to 31/12/89	profit 14,3 down to profit 5,4	
A & G	year to 31/12/89	loss 0,4 down to loss 6,1	
Fedgen	year to 31/12/89	profit 1,6 reversed loss to 8,2	
Concord	year to 31/12/89	profit 4,3 down to profit 1,2	

ISSUING FOURTH

Diners Club (DC) has learnt the cruel lessons of the market the hard way. After being launched 40 years ago as the first plastic charge card by New York businessman Frank McNamara, it's now in the unenviable position of being the fourth most popular card in use in the world — after Visa, Mastercard and Amex.

In short, DC International has been upstaged by competitors in a market it created. In fairness though, DC started out essentially as a charge card for businessmen — something they could pay their restaurant bills with in the knowledge that their company would pick up the tab.

Today more cards may be in use in the hands of individuals, and purchases may cover a multiplicity of goods and services but in most instances payment terms are still strictly 30 days.

That's very different from a bank-issued credit card where the recipient has access to ongoing credit through his card in accordance with his personal financial standing.

58

Needless to say, that gives bank credit cards an attractive advantage, and is no doubt partly responsible for why DC has slipped to number four position in the card stakes.

However, DC is not taking it lying down. It's fighting back with all the resources it can muster — and that means offering an improved service to its existing customer base, innovating to better serve their needs and looking for new sources of income and markets to serve.

DC SA currently has over 80 000 cardholders and 19 000 establishment members and is hoping to hit 100 000 through additional promotions by the end of the year.

DC cards are apparently among the 2,6 cards that the average South African carries around in his or her wallet. The mission of the management is to keep the DC card uppermost in mind. After all, if a card is going to be used to conclude a purchase, it might as well be a DC card.

Service is on the cards

FM 14/9/90

Diners Club's personal way of doing business hasn't changed

58

Peatling . . . building a service ethic into the organisation

Hugh Peatling, MD of Diners Club SA, has been associated with the organisation for 23 years. Yet he still gets personal calls from cardholders asking him to update their travel insurance before they go abroad.

What's more, he attends to their requests himself.

It's all part of the DC ethos — putting service and customer satisfaction before all else. That attitude, espoused throughout the organisation from the MD down, is what has made DC one of the most sought-after and prestigious charge cards in the world.

Says Peatling: "People pay lip service to service excellence. But if you compare the service you offer with world standards, how good is it? We don't try to be all things to all people, but we do try to be everything to our select target market, which is very demanding. We're trying to offer a quality of service unmatched by anybody else."

Talking to Peatling, one gets the impression that DC is serious about service. It's not for nothing that the company invests substantial resources in training and people. As Peatling says, DC is trying to give its customers the best service possible, and it can only do that if its systems and people are good.

"We measure and monitor our service levels continually," he says. "We hold at least two internal conferences a year which take the form of a 'think tank' where we concentrate on strategic planning, define what we need to do to better serve our market, and spend the rest of our time running to achieve it."

Today DC is a very different organisation from the one Peatling joined in Johannesburg 16 years ago. "It was a tiny organisation by comparison," he recalls. "We had around 28 000 cardholders and 6 000 establishments signed up. The turnover we were doing in a year, then, we now do in a month."

In addition to the growth in turnover, management is much more scientific these days with much more focus on DC's specific target market

"There has been segmentation in the credit card industry," he says "DC has concentrated its efforts on its target customers. Before we do anything now, we tend to research it much more throroughly with our target market There is far more communication with our cardholders and establishments, both written and verbal, than there ever was before. And it's vitally important that we maintain it."

The main communication mechanism is via the monthly statements sent out to cardholders — an important regular contact — and DC's glossy *Signature* magazine that circulates bi-monthly to cardholders.

Still, Peatling frets that the card business — like many others in a technology-driven world — has become impersonal. The only real contact with customers, he says, is now vested in the field staff who call on them to ensure that service levels are being maintained.

However, he insists, people still remain the key. "From good people comes good service. But you have to have the systems in place to

FM 14/9/90 58

will help to offset the high cost of DC's borrowings (DC invariably pays its listed establishments and restaurants daily on receipt of their invoices and then has to bill cardholders for payment). It's all part of DC's focus on looking after the customer, he says.

"You have to get your share of wallet. Our average member carries 2,6 credit cards around in his wallet, and you have to make sure that DC is uppermost in his mind when he spends. That's the challenge of the market today — internationally.

"New cards are coming on the market all the time, JCB in Japan, Discover from Sears, Roebuck in the US. Who knows? After that the next general purpose charge card could be Edgars." ■

SECURITISATION

F/M 14/9/90 S8

ON COURSE?

The flurry of activity caused by SA's first asset securitisation issue in March has seemingly died down. Though several new issues are "far advanced," all appear to be waiting for clear regulatory guidelines.

This directive has come from the Reserve Bank's position paper at a recent meeting of the Securitisation Interest Group. Though this is only a draft, the Bank says it will remain firm on two issues:

□ A clean transfer from the seller of the assets to the buyer must be established; and

□ The characteristics of the special purpose vehicle should not fall within the Deposit-taking Institutions Act.

The position paper concept has been adopted from the UK's regulatory approach to provide a platform for discussion. The draft was devised after discussion with financial institutions and audit firms.

"The Bank hopes to promote the orderly development of securitisation and ensure that deposit-taking institutions use securitisation prudently," says a spokesman.

Proposals to securitise assets have come from banks and building societies as well as the non-banking sector and include mortgages, car loans and other receivables.

"Banks and building societies should retain no residual risk," says a Bank spokesman. The issue structurers are grappling with this. "The non-banking sector is outside our jurisdiction."

It stresses its responsibility is to protect deposit-holders, not investors. "Our concern is investors may consider regulators' approval of a scheme a form of protection," says the spokesman. He points out that the Bank's responsibility and involvement ends when it has determined an issue meets requirements.

Pim Goldby's Robin Marsden says there are other reasons for delay in new issues. "The industry is waiting to see how the deposit-taking regulations will affect banking, with a question mark on liquid assets."

Also, the timing is not favourable. Interest rates are expected to come down. As most issues will be variable rate, the paper will be difficult to sell. "Life offices will want fixed rate paper, to lock into current rates."

In terms of market sophistication investors have some way to go, says Marsden. "Because of credit enhancement, where the predominant credit risk is picked up by a third party, the instrument is as good as a gilt."

Agrees KPMG Aiken & Peat senior consultant Des Hudgson: "The market perception is that risk is high compared to gilts. Overseas, prepayment and interest rate risks can be passed on to investors, who are used to evaluating them."

Both consultants believe a properly structured issue will work. Hudgson adds that lack of clear guidelines on VAT is a problem. "We have a very regulated environment and no certainty in tax law - it could be changed retroactively."

They agree a rating structure is essential. Hudgson says: "My biggest fear is we'll get securitisation issues which crash. That could destroy the market — this is why the rating agency's role is so important."

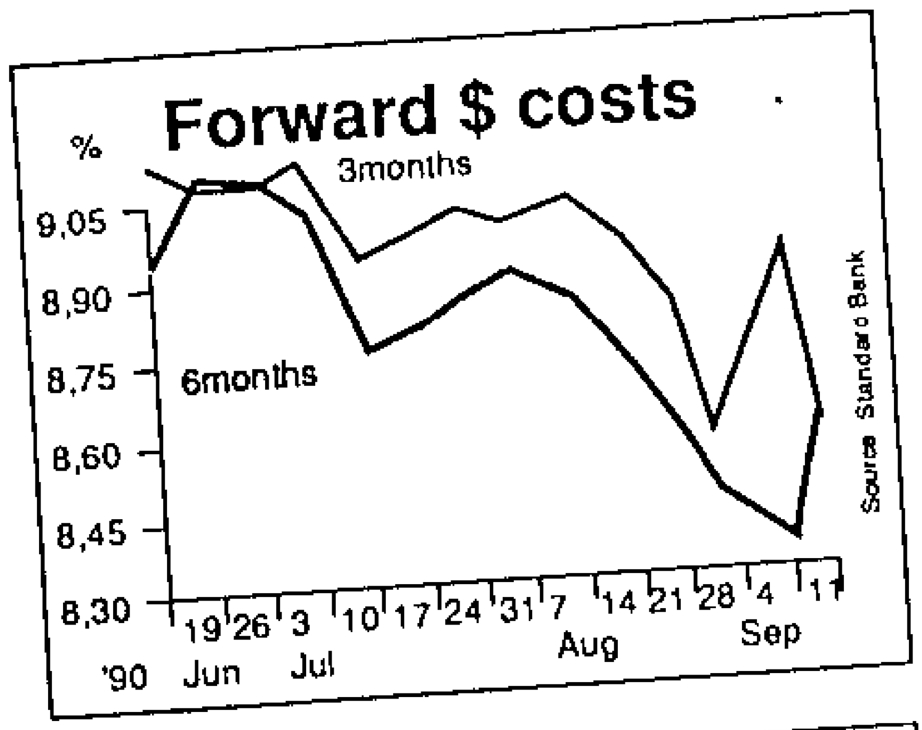
Republic Ratings' Dave King says the three-month-old agency can rate any issue "as long as it is a sensible one." It also advises companies on how to qualify for a premier rating. Having given Eskom an AAA, it is now rating paper for the Post Office, Transnet, Land Bank and Umgeni Water.

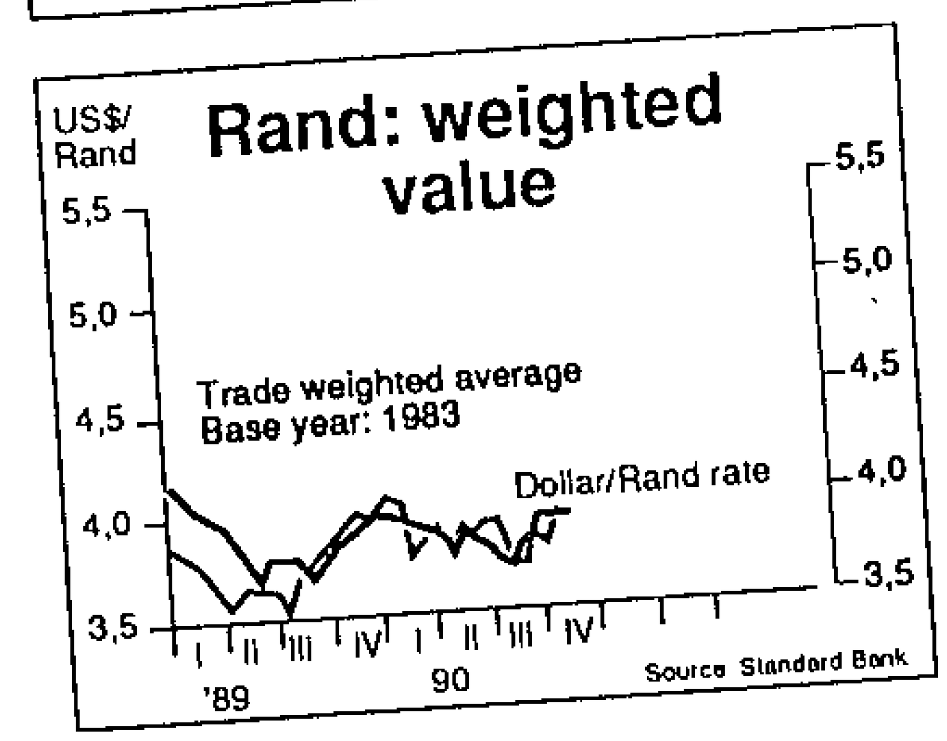
It is also giving indication ratings to some large corporates which want to test their rating before considering issuing paper in the marketplace. However, it must still establish credibility, which should come with time.

Hudgson says the next issue is likely to differ markedly from MS101 (though this will be a benchmark for some time) and may even be fixed-rate. "It should be structured so that investors know when they will get their money back. Mortgage bonds are usually taken for 20 years, but many are repaid in four to seven as property is sold. The structure has to be very sound to carry this new risk and comply with Reserve Bank guidelines."

Jacquie Bullard

MARKET INDICATORS





RAND'S PRICE

Sep 11 1990	R1 equals	One foreign unit equals (R)
SDR	**0,280**	**3,573**
	0 288	3 478
ECU	**0,297**	**3,368**
	0 339	2 949
UK £	**0,208**	**4,804**
	0 228	4 377
US $	**0,387**	**2,585**
	0 354	2 825
Canada $	**0,450**	**2,222**
	0 420	2 381
Switzerland Fr	**0,508**	**1,969**
	0 606	1 650
France Fr	**2,045**	**0,489**
	2 366	0 423
Germany DM	**0,610**	**1,639**
	0 703	1 422
Japan Yen	**53,985**	**0,019**
	51 845	0 019
Italy Lira	**454,750**	**0,002**
	503 370	0 002
Zimbabwe $	**0,973**	**1,028**
	0 795	1 258
Austria Schil	**4,290**	**0,233**
	4 950	0 202
Holland Guilder	**0,688**	**1,453**
	0,792	1 263
US $ value of SDR	1,232	**1,387**
US $ value of ECU	1,042	**1,308**
Financial Rand		
Cost per US $	4 005	**3,941**
Discount (%)	29 379	**34,367**

Year ago figures in light print
Average of the Telegraphic Transfer buying and selling rates used by the banking sector for the day for amounts up to R20 000 depending on foreign currency involved
The above rates are for guidance purposes only

FINANCIAL FUTURES

	Closing prices Sep 10 1990 Bid	Offer	M-t-M	Open interest contracts 31/8	7/9	Week's volume contracts 31/8	7/9	Value R000's 7/9
All share index: 2 926								
September	2 910	2 925	2 918	1 097	977	2 887	1 459	43 080
December	2 921	2 928	2 924	1 995	2 228	4 021	2 026	59 603
March 1991	2 950	2 970	2 960	260	230	20	80	2 422
March 1992	3 240	3 260	3 250	440	440	220	0	0
All gold index: 1 598								
September	1 605	1 612	1 608	1 322	1 284	6 565	3 500	57 671
December	1 630	1 645	1 638	1 757	1 764	4 453	3 243	54 717
Industrial index: 2 866								
September	2 815	2 860	2 838	367	407	606	270	7 690
December	2 800	2 845	2 822	323	363	342	188	5 378
Dollar-Gold: 384,85								
September	383,00	388 50	385,75	156	162	565	328	12 741
December	393,00	397,00	395 00	41	71	111	131	5 194
March 1991	396,00	398,00	397 00	125	125	0	0	0
E168: 15,98%								
November	15 93	15,91	15,92	302	342	140	150	10 633
February 1991	15,83	15,81	15,82	80	170	1	110	7 842
3 Month Liquid BA: 17,85%								
November	17 15	17 10	17,12	353	343	13	15	14 358
February 1991	16,23	16,18	16 20	138	138	107	56	53 732
May 1991	15,65	15,55	15,60	48	48	5	5	4 805

Interest on Initial Margin = 16,98%

Source SA Futures Exchange

BANKING

SPREADING THE NET

(58) FM 14/9/90

One of the most neglected areas of banking is the broad base of people who don't earn enough to make it worth the banks' while to chase their business.

The payment of wages and pensions to these people is extremely expensive. It is estimated that each pension or UIF payment costs at least R15 in administration fees. Multiply that by 3m-4m payouts a month and it's clear why government and other large employers are desperately seeking ways to cut costs.

Computer supplier Unidata and First National Bank (FNB) believe they have a solution. They have developed an innovative service — known as Cash Paymaster Services — which they claim can cut payment costs by as much as 40%.

The cash payment system is based on automated teller machines that verify thumbprints rather than personal identification numbers. Beneficiaries identify themselves by pressing their thumb on a special reading device built into the automated teller. Designed by Unidata, it scans the thumbprint, at the same time measuring the heat and oxidisation level of the beneficiary's blood. In other words, the machine can only be activated if the person is still alive.

The companies are taking no chances. Gangs of thugs can be ruthless in robbing pensioners and would think nothing of cutting off their victims' thumbs to get their money, says Bert Roux, GM of Unidata's retail banking division.

The service was developed for the KwaZulu government but it has already generated considerable interest among employers elsewhere in SA. Queries have also been received from Europe. Unidata and FNB predict that within three years Cash Paymaster Services could generate annual revenues of R500m.

"Under the current system, black pensioners have to identify themselves by inking their thumb and pressing it on paper. Their inkstained thumbs make them easy marks for tsotsis," says Roux.

As well as being more secure than the traditional method of distributing payments, the new computerised system is also much more efficient. Pilferage is expected to be dramatically reduced. KwaZulu secretary for Welfare and Pensions Daan du Plessis says about R30m is lost each year through pilferage.

"The new system will prevent pilferage, as well as provide us with instant consolidation, which can currently take four months.

"We will go live with 10 automated teller machines in January. The system should pay for itself in a matter of months," says Du Plessis.

The next organisation to adopt the system is likely to be the black miners' savings fund, Teba-Cash. It will soon begin testing the service.

Other applications, including exports to neighbouring countries, are expected to follow shortly. ■

SAGE HOLDINGS

MORE ANSWERS NEEDED

F/M 14/9/90 (58)

Not unexpectedly, Sage Holdings has announced an uninspiring interim earnings performance and confirmed plans to sell its US interests.

These were established in the early-Eighties, but it has been clear for some time that they were running into difficulties. Last year's annual report noted that certain foreign interests needed additional development capital to establish their viability. Earlier reports (*Leaders* August 17) indicated that a debt of US$15m may have to be repaid, probably through the financial rand, which would mean a bill of some R60m.

The directors now say the companies are showing enough progress to warrant the injection of additional funds, but are being subjected to anti-SA pressure that could endanger their continued existence. As a result, their sale is being negotiated with several interested parties, but a "substantial realisation loss," whose amount cannot yet be determined, will be incurred.

Management says only that it can be dealt with by existing financial resources and will not result in laid-down borrowing ratios being exceeded. A restructuring of the balance sheet was completed after June 30, so the effects are not yet clear. But a pro forma balance sheet shows interest-bearing debt cut from R63m to R25,5m, with redeemable prefs of R7m and shareholders' funds exceeding R226m (including R57m convertibles).

Earnings marginally up

On that basis, gearing may not rise to excessive levels, though shareholders have still to learn what loss will be taken in the US. Problem is, the group has shown a tendency to change its accounting policies more often than most. Much more detailed accounts are needed to assess the position.

What is clear is that the group has yet to place earnings back on the growth path seen during the first half of the Eighties. Interim EPS were only marginally higher, with the 3,5% increase blamed on lower attributable retained earnings of associated companies and an increase in profit attributable to outside shareholders in subsidiaries following the listing of Sage Financial Services (SFS) in mid-1989.

SFS, which has long held the more profitable operations, did well enough. Its EPS were up from 15,2c to 20,7c, though the directors note that the latest interims are not strictly comparable with the previous year's, before the recapitalisation and SFS listing. A slower pace is expected in the second half.

But the concerns about profitability relate to the top company, Sage Holdings. On these accounts, the group has yet to demonstrate that it has resolved the problem of how to ensure an adequate flow of cash at the top (*Companies* June 1). The restructuring may have done the trick. But shareholders do not have enough detail — or the earnings performance — to judge.

Andrew McNulty

BANKORP F/M 14/9/90 (58)

WIELDING THE HATCHET

If R550m sounds a hefty capital injection even for a large banking group, Bankorp chairman Piet Liebenberg is under no illusions that there can be any quick fix.

He believes it will take the next three years to achieve recovery and allow the new structure and refocused management systems to settle down. Assuming profitability matches targets, Bankorp will then "be a candidate for a merger." The main purpose of any mergers done at that stage would be to run the Sanlam/Sankorp shareholding down to below 49%.

After the long history of disappointments going back over more than 15 years, minorities might well wonder why that route should not be taken now. Liebenberg's response is that, until profitability and the image has been rejuvenated, there would be little prospect of attaining an acceptable price.

By all indications, when Liebenberg accepted the Bankorp chair on March 8 he had little idea of the size of the task. Later that month, he asked Bankorp's management to start working on a detailed analysis of the group's assets. The analysis covered five categories: those producing fair to good profits; those whose profits did not meet these criteria; those which produced income but were carried at a loss; those which provided no income; and the group's operating equipment, such as desks and fittings.

F/M 14/9/90

"As a competitor I knew they had major problems," he says. "But it was only after I joined the group in June that I began to form a picture. Now the news is out. One can always handle bad news better than uncertainty."

(58)

The R295,8m provision for doubtful advances covers a wide range of items, though there are a few big ones which are being given attention. Liebenberg is hopeful the full value of these provisions will not be realised.

At least part of the R386,5m abnormal item results from changes in the accounting policy and the restructuring of the group's business and will be non-recurring. Among these are R53m for the write-down of government, municipal and other stocks to market value, the R70,9m deferred tax write-off and the R29m write-down of systems development costs and hardware. Now that TrustBank is the only part of the group offering cheque accounts, Santam Bank has written off the software which handled its cheque accounts in the past.

The remaining R233,6m of the abnormal item comprises additional depreciation against advances and transfers to the contingency reserve. This may be seen as indicative of a large hatchet swung by new management. But Liebenberg contends the exercise has not been excessive. "We did not play games or overkill," he says. "We have provided for, and written off, what we think is necessary. We think this is realistic. Nothing more and nothing less."

While the loss has slashed the share's net worth in half, it has also reduced the asset base to a level where acceptable returns may be achieved sooner rather than later. The rights issue, involving a doubling of the issued share capital, would only add about 146c to the June 30 net worth of 361,2c.

Liebenberg says he will emphasise return on equity (ROE) rather than return on assets and will aim for an ROE 5% above the inflation rate. Assuming a net worth of around 510c after the rights issue, a 20% ROE would require EPS of about 101c. It would also imply a prospective earnings multiple of less than 2,8 on the 280c market and rights offer price.

When compared with the latest loss of 267,5c and the 1989 EPS of 125,8c, that may not seem unreasonable — except that the rights will mean a substantial earnings dilution and economic conditions have become even tougher for banks.

Liebenberg must be aware that Bankorp has endured a long process of deterioration, fuelled by wrong strategic decisions and neglect. Nevertheless, he believes the problems will be resolved by the restructuring, with

INTERDICT SOUGHT

On Tuesday September 11 Sage Holdings and its chairman and MD Louis Shill brought an urgent application to interdict the *FM* from publishing an article by Jim Jones intended for this week's issue.

The application was postponed to Friday September 14 to enable the *FM* to file an answering affidavit. Mr Justice Joffe forbade any publication on the nature of the application until he has given a judgment.

P.T.O.

each of the businesses focused on what they are good at — Trust, for example, concentrating only on retail and smaller business markets — and an effective risk management system in place.

The next step starts in October, when installation of "proper management systems" will start. It will take until June 1991 for these to go down to branch level.

Retrenchments are expected, as well as a limited infusion of senior management. Liebenberg was hoping to fill the outstanding senior jobs with internal appointments. As the *FM* went to press, the group announced the appointment of Johan Howell, formerly CE of the services division, as CE of Trust-Bank; Eben de Klerk, MD of Bankorpdata becomes senior GM, services division; and Daantjie Steyn, formerly Senbank's GM, administration, was appointed senior GM, Bankorp risk management.

Extensive recruitment of management from other groups is not expected. He contends that no organisation can absorb many outsiders; try to bring in too many, he says, and they get rejected by the old culture.

There has been only limited progress towards improving what has long been a dismal standard of disclosure, though the plan is to lift disclosure to competitors' levels within three years. A first step was taken with the disclosure for the first time of bad debt; at the end of the current year interest payments and receipts and other income may be specified, with other improvements later.

Even with these massive write-offs and provisions, the partial disclosure means that uncertainties remain Liebenberg has himself been in the chair for less than three months. It remains difficult to see any point in chasing the shares or following the rights at this stage. Investors who want to take a position will have opportunities later.

Andrew McNulty

FINANCIAL RAND

IMMIGRANT RULES

FM 14/9/90

A new financial rand (finrand) concession structure for immigrants was announced by Minister of Finance Barend du Plessis this week, effective Wednesday 12.

"The main difference is we want to encourage their acquisition of assets as opposed to having loose funds available, as this led to abuses," says Reserve Bank GM Exchange Control John Postmus.

Previously, banks could release R200 000 in finrand per immigrant family unit once permanent residence had been obtained without follow-up controls. On application, further funds could be released later for other expenditure or investments within the first three years.

Now each family can have R500 000: R20 000 for immediate release to cover settling-in expenses and the other R480 000 to buy a house and a motor vehicle, if brought in during the first year of residence.

Says Postmus: "We have found these are the most prominent expenditure items."

Documentation confirming the purchases will have to be shown to the Bank and the house title deeds lodged there. Requests for release of additional funds will have to be submitted to Exchange Control.

The release of financial rand for investment purposes during the first five years of

FM 14/9/90 58

residence will be evaluated on the same basis as for foreign investors. After five years, immigrants' remaining foreign assets can be released to them via financial rand.

Immigrants wanting to leave permanently within five years will be allowed to retransfer any funds brought to SA in the way in which they brought them in, but, after that, will be treated as normal emigrants. ■

Resignations confirmed

58

Star 14/9/90

Finance Staff

Bankorp yesterday confirmed the resignation of two more senior executives at Senbank, the merchant arm of the banking group.

As speculated in The Star yesterday, they are Gerbie Strydom, senior general manager, and Koos Morland, general manager, both of Senbank's banking services department.

Mr Strydom is succeeded by Estienne du Toit, until now head of Senbank's financial services department. No successor has been announced for Mr Morland.

While no further resignations at senior executive level are expected, large-scale staff layoffs , estimated by some sources to be 2 000 to 3 000, are forecast for the next few weeks.

Acknowledging that some members of the restructured Bankorp group will lose their job, Dr Etienne van Loggerenberg, communications chief, said yesterday estimates of 3 000 were"way out of line".

"The restructuring of the group is being undertaken in a scientific and humane manner, which includes counselling and discussions with various trade unions," he said.

Becoming ozone-friendly has cost industry millions

Star 14/9/90 (58)

Staff Reporter

There has been a 60 percent reduction in the manufacture of chlorofluorocarbons (CFCs) in South Africa, according to Ian Macdonald, chairman of the Wildlife Society's ozone assessment board.

Mr Macdonald said that since the first Ozone Awareness Day on September 15 1989, there had been remarkable changes in southern Africa and overseas.

"Millions have been spent by industries in converting to ozone-friendly gases," he said.

According to Mr Macdonald, the gravity of the ozone threat was emphasised by the amendments to the 1987 Montreal Protocol made at a meeting in London in June, which included the agreement that CFCs would be totally phased out by the end of the decade.

The process of phasing out many other chemicals known to be ozone depleting had also been accelerated.

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A cut above the rest

Diners Club cards are exclusive. But who uses them?

F(M 14|9|90 (58)

It may be a sought-after change card — but what soft of person uses a Diners Club card? What is the profile of the average cardholder?

Much research has gone into establishing the exact parameters for membership of DC — both for corporate and individual members — and there is a wealth of material available on the subject

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McCANN 207169

14/9/90 58

For a card that prides itself at being targeted at the A-plus income bracket, it comes as little surprise to learn that the average individual cardholder's income is around R78 000 a year. Moreover, 44% of them earn over R100 000 a year and 10% over R125 000 a year. Collectively, DC members in SA earn a staggering R4,5bn a year and their combined household incomes total an even more impressive R5,04bn a year.

Demographically, 85% of them are English speaking and 15% Afrikaans speaking. About 61% live in the PWV with about 12% each in the Cape and Natal. They are mostly men, 92% of them to be exact, mostly married (87%) and fairly young — 70% of them are in the 35-55 age group.

"DC has traditionally had an older image," says marketing manager Adrien McGuire. "But we've consciously tried to bring the average age of members down."

More interesting, 15% of cardholders either own their own businesses or are chairmen or partners of businesses, about 32% are MDs or directors of companies, 13% are professionals and about 21% GMs or senior managers.

Of course, it's nice knowing something of their lifestyles and how much money they have in their pockets. But the multi-million dollar question is: How do they spend it?

Well, as one would expect, they travel a lot — especially by air. About half the air tickets sold on cards in SA are paid for on DC cards. They hire cars too — an average of three times a year per member. They take holidays — both within SA and abroad — and spend on average 15 nights in SA hotels on holiday or on business each year.

Total local hotel billings debited to DC in the first four months of this year was R30m and the total for the year is expected to be R100m.

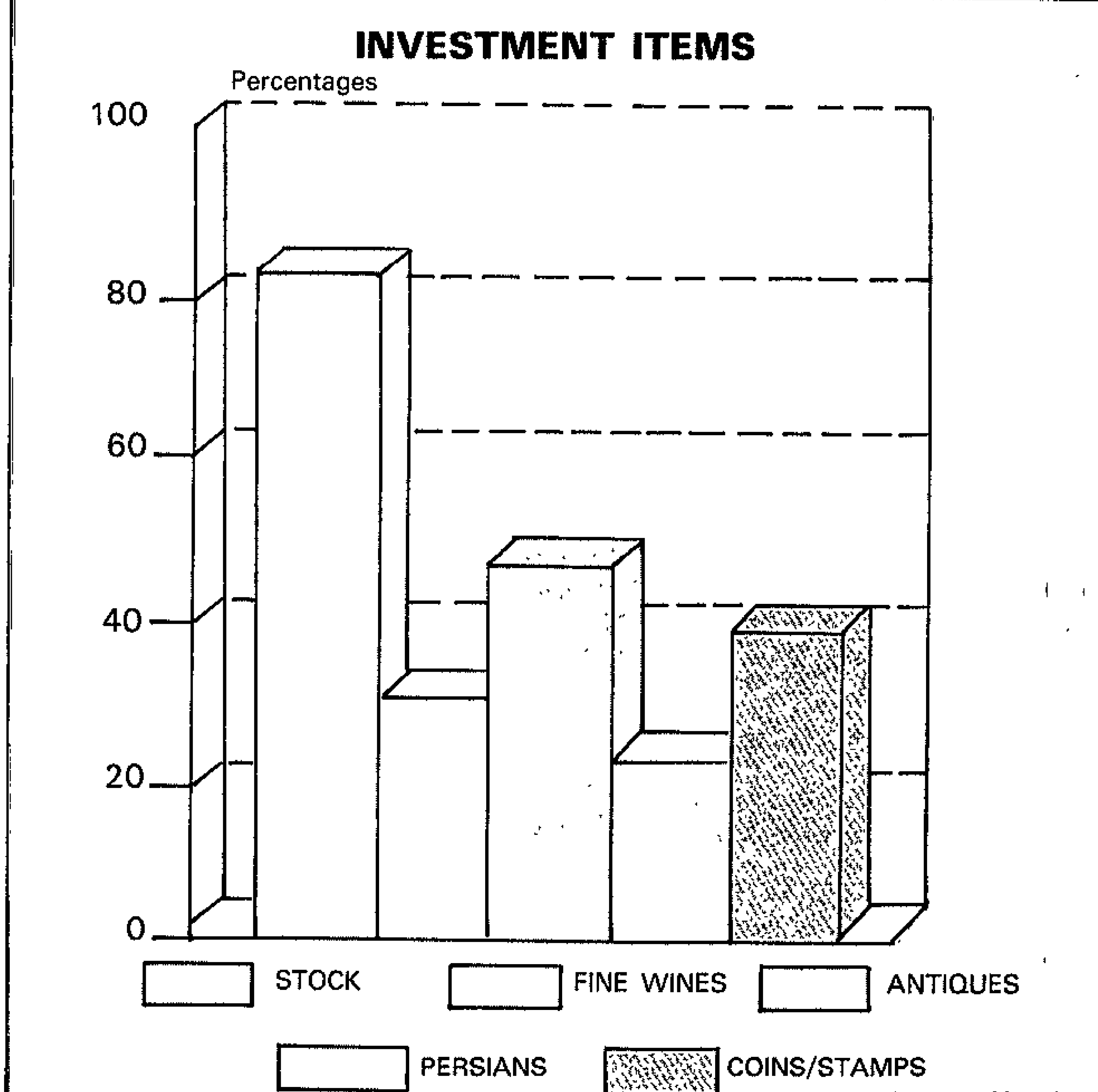
Last but not least, they dine out. During the first four months of the year they spent a total of R23m on restaurant meals — excluding those they purchased as part of their hotel accommodation. The projected spending by members on restaurant meals for the year is R75m.

On a more personal level, they drive cars — an average of three per household — principally Mercedes-Benz, Toyota and BMW for business use with a similar preference for private use, but with Ford and Volkswagen included.

Seventy-nine percent of them bought shares on the JSE, 28% consumed fine wines, 44% purchased art and antiques, 21% Persian carpets and 37% coins and stamps. Seventy-two percent bought beer regularly, 66% perferred whisky, 47% brandy and around 39% drank sherry, liqueurs and port quite frequently.

When it comes to outside interests, most (55,7%) like wildlife, 50% collect wine, 39% like to travel, 31% photography, 24% enjoy hiking, 23% gardening, with 18% and below showing interest in the arts, gambling, stamp collecting, flying and equestrian activities.

As far as sport is concerned (both passive



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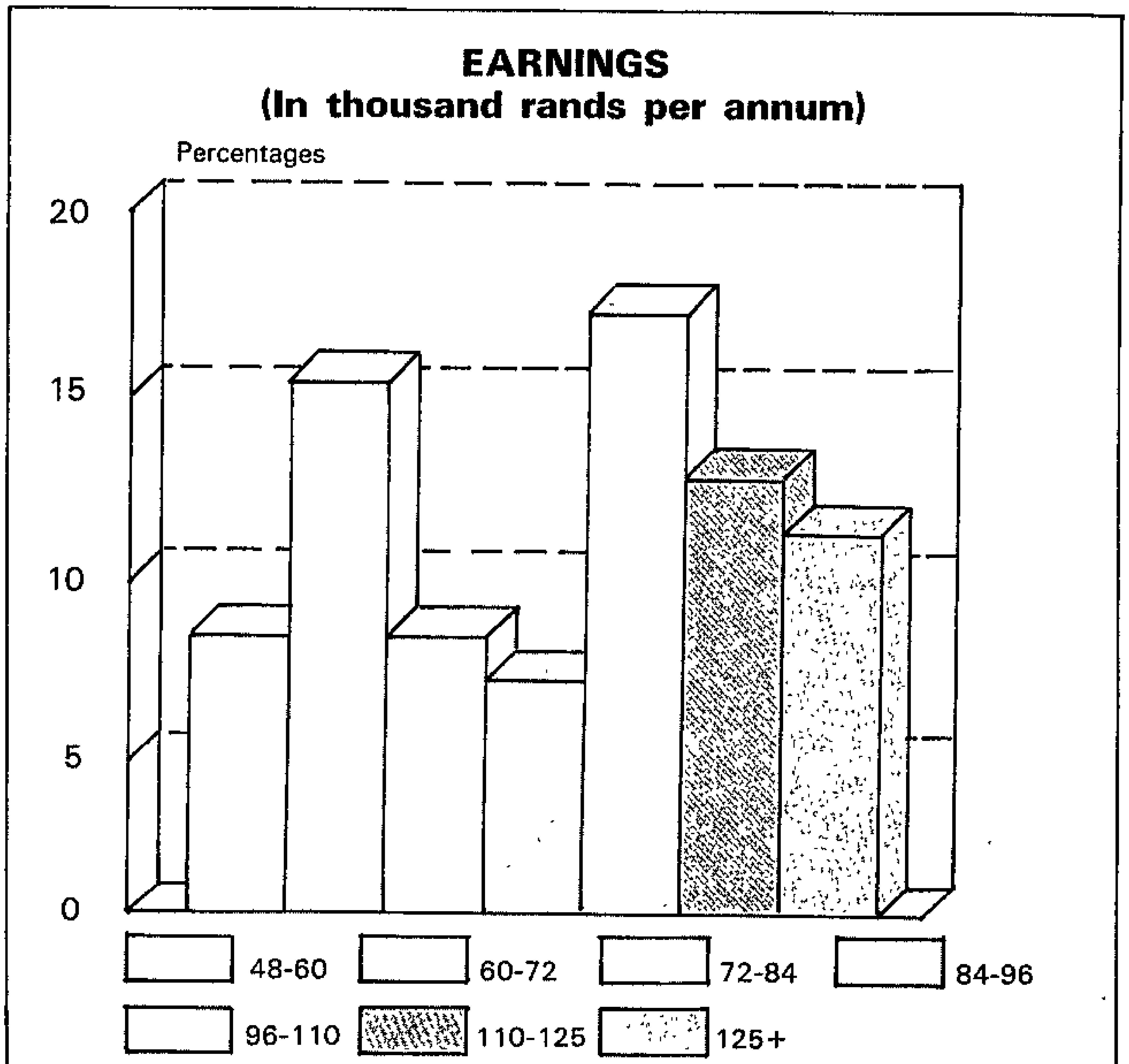

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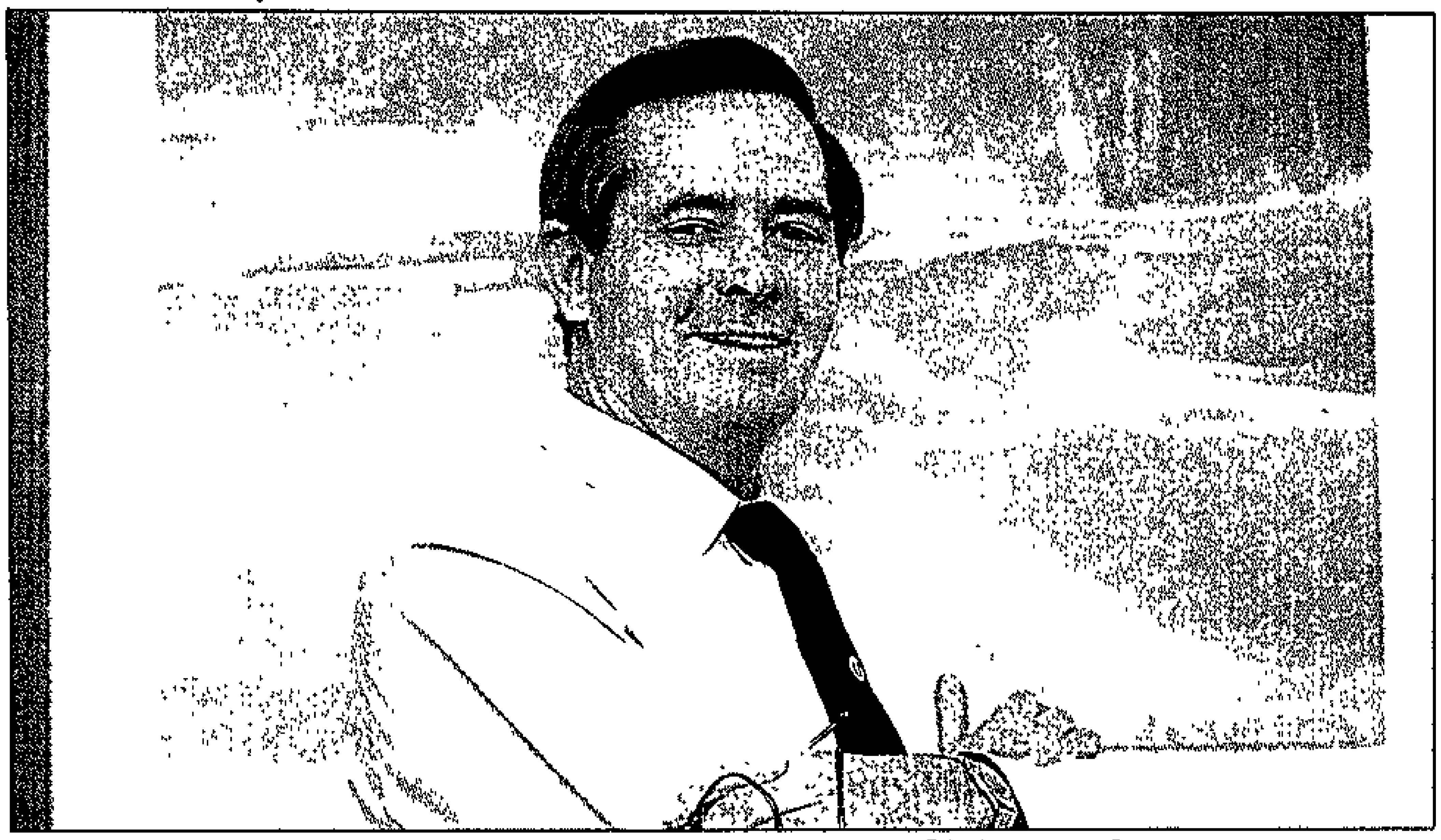


Bonnette ... bracketing Diners Club members

F/M 14/9/90 (58)

and active participation), 45% were keen on golf, 42% like tennis, 38% rugby, 31% cricket, 19% squash, 17% water sports, 15% jogging and 11% sailing.

Under 10%, in descending order, came soccer, fishing, motor sports, gym, aerobics, athletics, winter sports, bowls, cycling, horse racing, aerosports and martial arts.

DC administration manager John Bonnette says DC follows a fairly rigorous set of criteria when it comes to vetting applications for membership. It obviously looks at what

F/M 14/9/90 (58)

income bracket the applicant falls into, whether his lifestyle is likely to fit the profile of the average DC member and what his or her occupation is.

Also, things like homeownership, job stability and credit ratings from banks and credit bureaus are taken into account.

The criteria for corporate membership, he says, is similar, except some aspects, like homeownership, are disregarded in favour of an examination of the type of business the applicant runs and how long it has been established.

As a result of the careful screening process, Bonnette says, about 18% of all card applicants are rejected. At least two senior managers vet all applications and all those turned down are subsequently referred to the GM for further evaluation.

"We have a high social responsibility to ensure that we don't place cards in the wrong hands," he says. "Credit is too easily available today. Especially with cards with a no-limit ceiling like DC, the majority of people will run into trouble if they are not disciplined in their usage. Members must use their cards strictly in accordance with their ability to pay." ■

ed to the start of operations at No 8 shaft and general cost escalations all contributed to the 21,3% rise in unit costs.

CIBG achieves its projection of R3,9m

B 10cm 14/9/90

58

LESLEY LAMBERT

CAPE TOWN — Newly restructured and significantly enlarged Cape Investment Bank Group (CIBG) has achieved its projected net income of R3,9m for the year to June, but, as with others in its sector, profits have remained under pressure as a result of strict monetary policy.

The merchant banking group was significantly restructured during the year. It bought the Corbank Group, hived off Corporate Merchant Bank to Investec and reorganised and expanded the scope of the new enlarged operation.

In addition to net income, CIBG reported a R560 000 profit from the disposal of shares in subsidiaries and the group restructuring. A significant transfer of R6m of retained earnings to the internal reserve left R814 000 in the retained earnings kitty, resulting in an amount of R5,3m for distribution.

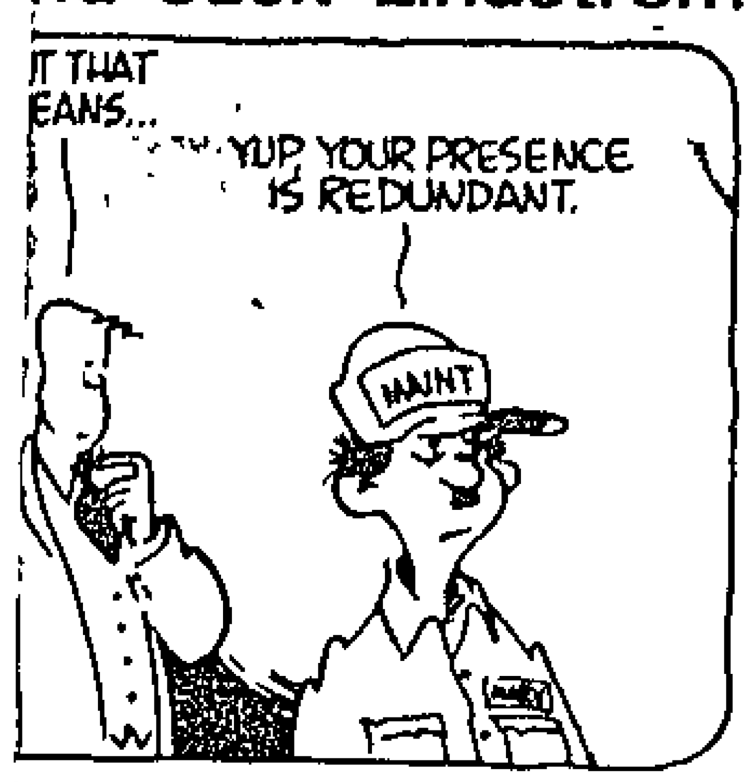
Of this R1,9m was set aside for dividend payouts, including an interim dividend of 7c a share and the declaration of a final dividend of 6c a share to a larger number of shares in issue.

The consolidated balance sheet shows shareholders' funds grew more than six times from R5,8m to R37,8m and deposits and other accounts, including the internal reserve, grew from R81,5m to R335,9m.

Trading assets, investments and other accounts grew from R58m to R126,5m.

MD Andy Swartz said the group's long-term strategy was to expand into foreign exchange dealing and the establishment of an international presence.

nd Jack Lindstrom



Life assurers' activities are curbed by draft Bill

B/Day 14/9/90

(58)

LINDA ENSOR

LIFE assurers will be required to limit their activities to long-term assurance business in terms of the draft long-term assurance Bill currently under consideration by the industry.

Sanlam senior GM George Rudman, in a comprehensive response to the new Bill, says implementation of this clause will limit life offices to a greater degree than before.

"At present some offices do portfolio management of assets not registered in their own name, perform administrative functions for pension funds, unit trusts etc.

"Although life offices will still be able to do all this peripheral business in subsidiaries if the Bill remains unaltered, I feel that a somewhat wider scope will be more productive," Rudman says.

He believes that the Registrar should be allowed to permit an assurer to perform functions related to its long-term assurance business as long as he is satisfied such business will not have a detrimental effect on the assurer's financial condition.

This clause is in addition to the one requiring composite insurers to separate their long- and short-term activities into separately registered companies.

There is also a requirement in the draft Bill that the Registrar's approval is necessary if an assurer is to allow someone else to hold its assets on its behalf, for example, a nominee company, and it will not be allowed to deal in its shares under the name of a nominee company without official approval.

Sanlam senior GM George Rudman

"As I understand it, these requirements are not there to limit the holding of shares in the name of nominees, but so that the Registrar can determine the true holdings of the assurer and who the effective owners of the assurers are. This seems reasonable," Rudman says.

He believes an improvement to the draft would be to allow assurers to invest in all shares listed on a recognised stock exchange in SA without the need to seek approval as is required now, rather than only in companies incorporated in the country. This would enable them to invest in rand hedge stocks such as Richemont, and for these investments to quality as cover for their liabilities in SA.

Rudman says the requirement for at least two independent auditors "does not go down well in the industry . . ."

He feels the role played by the statutary actuary in the life assurance industry diminishes the importance of an auditor's certifications, even though the new Deposit Taking Institutions Act states that a deposit taking institution with assets of more thanR10bn must have two independent auditors.

CIBG achieves its projection of R3,9m

B10cm 14/9/90 (58)

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MD Andy Swartz said the group's long-term strategy was to expand into foreign exchange dealing and the establishment of an international presence.

TrustBank's cool new man in a very hot seat

Cit 15/9/90

D C LOUW

58

FOR a man sitting in a very hot seat, Johan Howell is remarkably relaxed.

No use trying to deny that a loss of R378 million is enough to shake the foundations of any big company.

Senior executives have left in droves, voluntarily or otherwise, about 2 600 ordinary staffers will be forced to leave and new people will be called in to try and prevent a total collapse.

Johannes Joachim Howell, the new chief executive of TrustBank, sits in his modest office on the top floor of the TrustBank building in Eloff Street, Johannesburg, trying to restore stability and calm.

After an uneasy weel in which festering wounds have been cut open and exposed, morale in the Bankorp group is low. Very low.

The first thing that strikes you when meeting Johan Howell is his relaxed manner. He takes the time to meet me at reception himself and show me into his office.

The jacket goes immediately — "I'm a bit hot".

No bank talk. I want to know more about the man behind the desk.

And so it happened that Johan Howell told me about his military-career father who can speak Zulu, his five children, his philosophy and his marriage to TrustBank, which started 30 years ago.

Like most senior executives, Johan Howell has an impressive curriculum vitae.

At the age of 24 he was appointed branch manager of TrustBank and already showing his mettle.

After his marriage to Martha Steyn the couple moved around until the kids were born. (There are five of them — three red-haired girls and two blond boys).

They then settled down to try and create a stable environment for the children, first in Cape Town, shortly afterwards in Johannesburg.

And yes, he just loves the Golden City, a wonderful place to live in!

He has a wonderful and intelligent wife ("She's my best friend, we share everything"), clever kids and a squeaky clean work record.

He plays tennis, he tries to eat healthy foods and he believes in total integrity.

Dad, 82, and still alive, was the role model. The discipline and integrity stuff all come from Dad who used to be a colonel in the army.

"The important lesson he taught us was never to procrastinate. That is very relevant in my job today."

Has there ever been a time of reaching a crossroads, facing a crisis?

Not really, comes the affable answer. The most difficult part was moving into senior and managerial positions.

"It was difficult for me to realise I had to differ from people above me and not shut up. I've always been the so-called troublemaker, the one to bring things into the open."

Inevitably we touched on the Crisis. How is he going to handle the thing?

What steps is he going to take to lift the morale of his people?

What about rumours that another 2 000 to 3 000 staff might have to be retrenched?

"The most important thing to do is to try and calm the whole situation down and make people trust me.

"There are certain steps I'm planning to take to bring the situation under control, but they aren't for publication. It's unfortunate that bad management has a ripple effect and can influence a lot of people.

"We are sitting with a situation where we have too many people for the jobs available. Bad management is like an arm full of gangrene: no use trying to cut out just a part of it; you have to amputate the whole arm."

Harsh words, but again, total honesty is the only policy Johan Howell can advocate and practise.

"It's no use trying to put up a facade, to pretend. People are not fools, you can't ever bluff them.

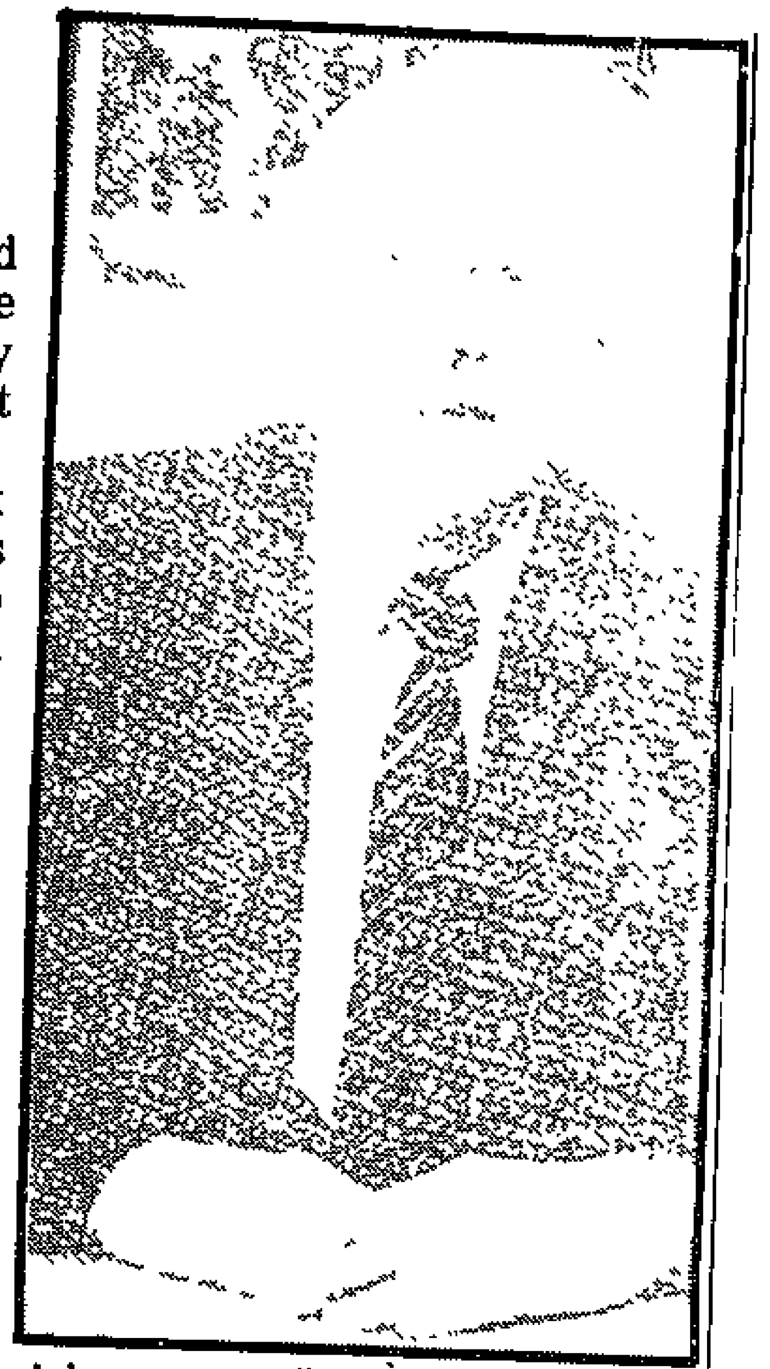
"I can't be like this now and somebody totally different the next day. If they know where they stand with me, they can trust me."

It isn't a very enviable task awaiting Johan Howell. But he's ready to take up the challenge. So okay, what is he really like? Just short and sweet, please.

"I'm stubborn, ambitious (not for position and money, but to contribute on managerial level to improving the company) and I like working with people. They can talk to me."

Before I knew it I was talking to him. "I just so happen to be a client of TrustBank myself and I have experienced certain problems."

He listened attentively. I had the feeling I could trust him. He even had time to walk me to the lifts again.



Johan Howell . . . I like working with people

Reef township war is costing Putco millions

Star 15/9/90

SHAREEN SINGH

PUTCO services in war-torn townships are being severely affected and the company is losing millions, says the company's managing director, Jack Visser.

Putco had not yet pulled out of the affected townships but if the situation continued and became "highly dangerous and intolerable", the company would have to reconsider its business strategy, Dr Visser said.

Losses in July amounted to R2 million and figures for August are expected to be much higher as the violence escalates.

The hardest hit area is Vosloorus, where Putco has reduced its services by pulling out 35 buses. Services in other townships have been disrupted.

Inconvenience

When major attacks take place, passengers are picked up outside the township. This is a major inconvenience for commuters.

In Vosloorus, Tokoza and Katlehong, buses have been operating outside the townships since last week.

Passenger intake during the past three weeks has dropped by 50 percent in Vosloorus, 30 percent in the Evaton and Orange Farm region and 20 percent in Soweto.

Three buses have been completely burnt out in the Soweto-Dobsonville area in the past three weeks and one in Vosloorus. Forty have been damaged since violence started.

Although one driver was recovering after being shot while driving a company car, drivers had not yet complained about servicing the townships, Dr Visser said.

☐ NEGOTIATION BREAKTHROUGH

Delicate talks solve rent boycott

Special Correspondent

C/Press 16/9/90

VERY few people knew how delicate the negotiations were which led to the solving of the rent boycott in Greater Soweto – or what the consequences could be

The local authority and the ANC-orientated Soweto People's Delegation (SPD) have agreed to co-operate after nearly five years of boycott action

Just three months ago members of the SPD and councillors of Soweto, Diepmeadow and Dobsonville did not even talk to each other Now they are co-operating with the Transvaal Provincial Administration in an effort to solve Soweto's problems Decisions are being taken by the five groups based on investigations done by a Joint Technical Committee (JTC) which they have appointed

The great breakthrough is that for the first time SPD leaders have accepted that people have to pay for services while local black councils and regional service councils are being recognised

Leaders like Albertina Sisulu, Ellen Kuzwayo and Cyril Ramaphosa – who were considered to be too radical to negotiate with – now support the new proposals and are presently explaining it to the street committees in Soweto The groups are expected to sign the final agreement on September 24

For September an all-inclusive tariff of R55 per month is payable From October an interim service fee of R22 a month will apply, plus 12 cents per unit for electricity consumed, with discount on a sliding scale for usage of electricity A working group of the Joint Technical Committee is to make proposals on realistic and affordable tariffs

Electricity meters were destroyed on a large scale during the boycott action In cases where accounts were delivered, the figures were often untrustworthy Without control over costs, the use of electricity soared sky-high and the average household was consuming up to four times more than a similar household in Johannesburg

Meanwhile, the meters have been repaired and a computer system installed in the TPA's Johannesburg offices to handle bills for the three councils of Greater Soweto and Alexandra

An important factor in the agreement is that representatives of the Soweto Civic Association will accompany meter readers on test readings During the boycott action some of the meter readers were murdered

Soweto residents will now have to be disciplined in their use of electricity For years electrical heaters have been used day and night, and the plates of stoves turned on to heat homes.

Electricity will now have to be used according to need and ability to pay, which should bring about savings for the councils. Eskom has been approached to launch an information campaign in this regard

Bills to the value of R116 million as well as an amount of R399 million were written off on August 31 this year The term "bridging finance" is misleading because these amounts are never repaid

Instead of paying instalments on amounts in arrears, each household in Soweto will also pay an additional levy of R5 per month which will be used to form a community fund under the control of an independent trust in which all five parties will be represented.

The finance obtained through the new payment system will only cover about a quarter of Soweto's running expenditure This is considered to be a first step to make inhabitants used to paying for services and the amount will be gradually increased.

The Soweto Council's running costs for each household averages R256 a month With the new tariff the monthly deficit for each household will be R196

The money for the deficit will have to be partially financed by the Central Witwatersrand Regional Services Council, the TPA and the government.

In Johannesburg, 70 percent of the income comes from property tax and profit on payments for electricity by the private sector – as well as 11 percent from public bodies The people in Johannesburg would be paying very high tariffs if the business sector – which is supposed to serve the complete metropolis – did not make a contribution

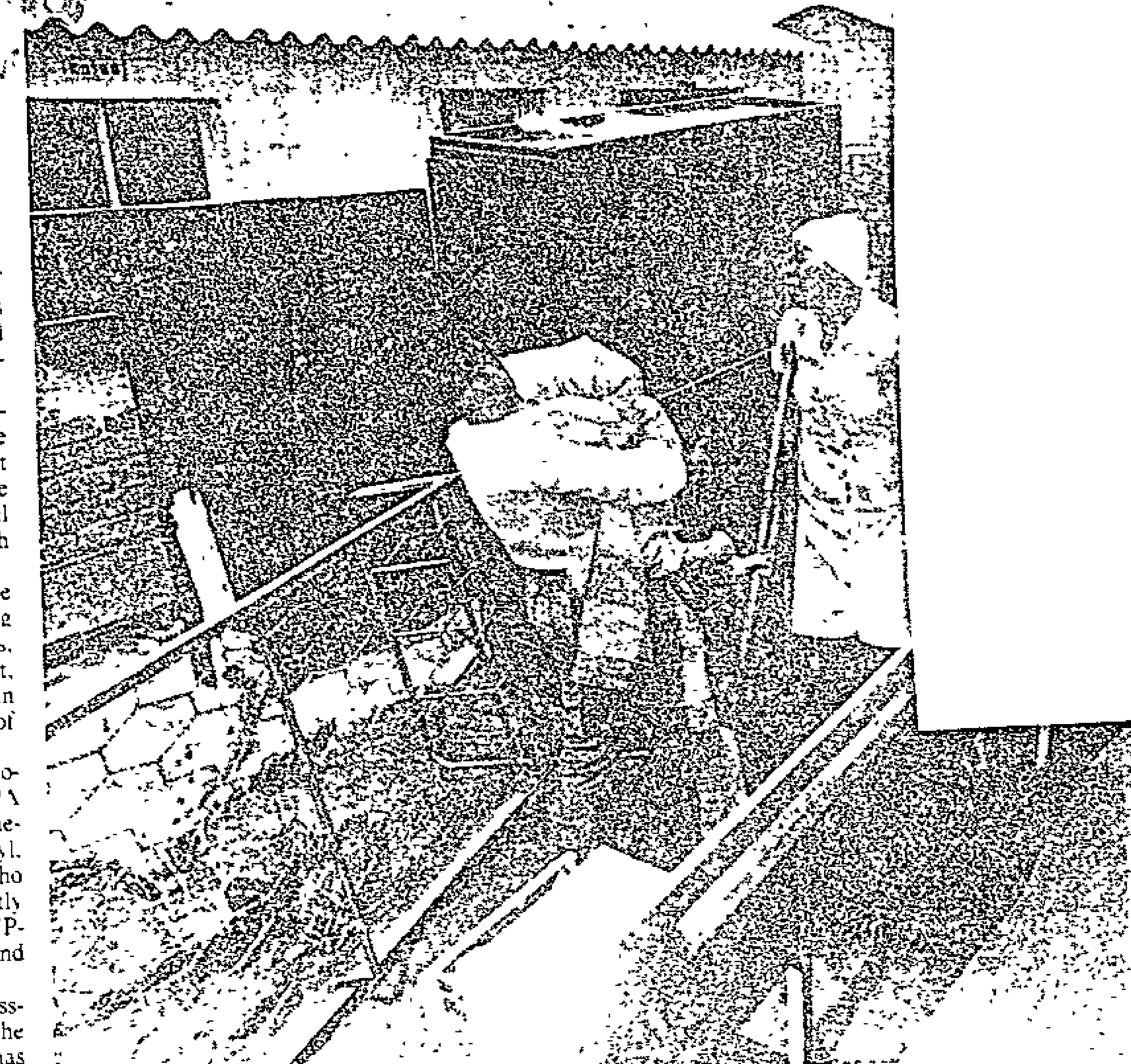
A joint source of income already exists in the form of regional services council levies About 85 percent is already being paid by businesses in Johannesburg, and 77 percent of these amounts are being spent on improving infrastructure in the areas of black councils

The five groups plan to form a Metropolitan Chamber to serve as an interim consultative forum with the aim of conducting research on proposals for non-racist and democratic approaches towards policy within the metropolitan area The Johannesburg City Council will be invited to serve in the Chamber as the sixth institution

The Joint Technical Committee will once again be instituted under the Metropolitan Chamber Working groups will do research on a variety of important issues, including problems of financing local management, possibilities of a joint fiscal basis for the metropolitan area, transfer of houses to tenants, and the upgrading of hostels, services and infrastructure

What would be the position of the TPA in this process? Firstly, it has become clear the image of the TPA has improved among black people as a result of the negotiations under the leadership of Olaus van Zyl, MEC, and the conduct of Fanie Ferreira, MEC, who chaired the meetings Further, the TPA recently "saved" the black township at Carolina when the CP-controlled town council threatened to cut off water and electricity

These negotiations form the framework for successful negotiations elsewhere in the region While the boycott had been a political action in the past, it has now become a local issue Many problems still have to be addressed, but they can be overcome through negotiations



Evictions stalled . . . this could have been a possible scenario if the almost five-year rent boycott was not solved. Residents will now gradually be made used to paying for their services.

SEPTEMBER 1990

Squeeze on black housing!

C/Press 58

By COLLETTE CAINE

Upped deposits no picnic for buyers

IN a shock move two major building societies in the black homes' market have pushed up house deposits from 10 percent to 20 percent, drastically reducing the chances of many to own their own homes.

The two building societies – the SA Perm and the Natal Building Society – are also asking employers for guarantees and are applying income rules for bonds more strictly than before.

At the same time major building contractors are adopting a wait-and-see attitude before tackling new developments. Some have even reduced the prices of newly-built houses by as much as 15 percent to get rid of existing stock.

United Building Society General Manager Piet Kruger said the UBS was sticking to the 10 percent minimum deposit, but was being more selective in granting loans.

He ascribed the downturn in development in black areas to:

- The high interest rate;
- Uncertainty about the government's first-time buyers' subsidy scheme;
- Township violence; and
- Bond boycotts in areas like Khayelitsha, Old Crossroads and Daveyton.

He said it was extremely difficult to invest in new developments unless the political situation normalised.

He welcomed an announcement this week that the six-month bond boycott of 1 400 houses in Old Crossroads and Khayelitsha in the Cape had been discontinued.

Observers, however, don't think it would do much to restore confidence in the black housing market.

Building Industries Federation of South Africa (Bifsa) economist Dr Charles Martin said the increases in interest rates on home loans to 21 percent had a negative effect on the building industry.

National Association of Home Builders (NAHB) executive director Johan Grotsius said some members of the association were wary of future involvement in black housing.

The uncertainty about the future of the government subsidy scheme for first-time buyers had hit the industry hard.

In June the government announced it was immediately limiting the black housing subsidy scheme for first-time buyers to people earning less than R2 000 instead of R3 500 a month.

After representations from the NAHB and other organisations, the scheme was reinstated and granted R30-million to last to the end of the year, but the future of the scheme remains uncertain.

The cutting of the subsidy showed the building industry in black areas was not healthy because it could not survive without the subsidy, Grotsius said.

Builders are not optimistic about this week's launch of the Urban Foundation's R3,5-billion loan guarantee scheme which limits loans to R35 000.

Builders point out that plots cost up to R12 000, leaving just more than R20 000 for a house – which cuts into profits.

But pulling out of black housing is not a solution for many developers who have invested millions of rands in land and other assets and make a huge slice of their profits from black housing.

Gough Cooper Homes marketing manager Russel Cuthbert said the company was dedicated to the black homes' market, and despite difficulties, would not be pulling out.

"We do 90 percent of our business in the black market and have invested more than R20-million in land alone. We are trying to find ways around the problems being experienced in the black homes' market," he said.

Gough Cooper last week reduced house prices throughout the Reef by up to 15 percent. Although this cut their profit margin, the company hopes to recover their losses by increasing sales.

Bester Homes manager Rob Henderson said the company was still heavily involved in black housing, but not to the extent it had been.

Henderson predicted higher minimum deposits would further reduce the number of houses being built.

17/6/90

Residents flock to pay service charges

By Therese Anders and Abel Mabelane

WITBANK — KwaGuqa residents yesterday streamed to municipal offices to make their first services payment in more than six months.

In terms of an agreement on Friday between the Transvaal Provincial Administration, the Witbank Civic Association and the KwaGuqa Town Council, residents are to pay a flat rate for this month only.

The rate for houses with electricity is R30; those without electricity R10; and squatters and hostel dwellers R5.

Witbank Civic Association publicity secretary Dominic Mdluli said the electricity payment would not be enough to meet the township's September account with the Witbank Town Council. The balance would be provided as bridging finance from the TPA.

Mr Mdluli hailed the agreement as a major victory.

"The people in the township are very happy," he said.

From next month the tariff for squatters will be between R15 and R20, down from the pre-boycott rate of R45.

Pensioners will now pay only for electricity, and will no longer pay rent or service charges.

Residents in permanent houses will, from October, pay R21 a month for township services and 8,66c a unit for electricity. A resident from each zone will accompany meter readers to check the readings.

Economical

In another development, the Alberton Industrialists Association has paid the Alberton City Council R100 000 to keep the power supply in Tokoza going while an economical rental is being worked out, Tokoza administrator Gert Muller said at the weekend.

Power was cut by the Alberton municipality on Thursday as a result of the rent boycott by the residents.

Mr Muller said the R100 000 was paid on Friday and the TPA had agreed to pay the difference if there was a shortfall.

He said it was agreed at a meeting held between the civic association, the council, the TPA and industrialists that residents had to start paying R70 a month to the Alberton council.

Mr Muller said the TPA had appointed Nigel Mandy to serve as mediator between the Tokoza council and the local civic association.

He said it was agreed that residents must start paying the R70 during September and October. Between now and the end of next month, the parties would negotiate an economical rent for the township.

Mr Muller said the civic association had been told to inform Tokoza residents to start paying the R70 before or by Friday this week.

Atteridgeville to continue boycott

OS SS 88 Star 17/9/90

By Mckeed Kotlolo
Pretoria Bureau

Atteridgeville residents yesterday resolved to continue the rent boycott until the local council resigns.

A mass meeting convened by the Atteridgeville-Saulsville Residents Organisation (Asro) and attended by hundreds of residents rejected the freezing of rent arrears in the area and demanded that they be written off.

Speakers from various area committees of Asro expressed their constituency's decision to demand the immediate resignation of the councillors. The residents unanimously resolved to continue with the rent boycott which started in April this year.

The areas' representatives said residents were not even prepared to pay the flat rate because the local council was guilty of misusing funds.

"Our case is different from that of Soweto and other areas where a flat rate had been suggested, because their councils did not misuse any funds as was the case in Atteridgeville," said one speaker.

The residents also rejected a decision that Asro take part in the planned joint committees with the council.

But they mandated Asro to continue to negotiate with the council so that they could "educate councillors and show them their faults".

One speaker said the council had early this year been found guilty of gross mismanagement by the Kriel Commission of Inquiry, which recommended to the Transvaal Provincial Administration that the council be disbanded.

They also called on the Government to build affordable houses for the people and demanded a single tax base for the whole of Pretoria.

Asro is to meet the local council tomorrow.

DGI entirely in Libvest camp

Star 18/9/90

58

By Ann Crotty

DGI Holdings has become a wholly owned subsidiary of Libvest with the acquisition of the 10,99 percent of DGI (valued at R67,7 million) that had been held by a minority shareholder.

Payment was effected through declaration of a special DGI dividend payable only to the DGI minority and valued at R58,3 million. Libvest paid the minority an additional R9,4 million, funded by the issue of 2,3 million new Libvest shares.

DGI owns 33,3 percent (and 50 percent of the voting rights) of Liblife Controlling which is the ultimate controlling company of Liberty Life.

Minorities get a raw deal

58 Star 18/9/90

Diagonal Street

ANN CROTTY

Despite sustained efforts by both Colfin management and the JSE Committee and, despite the fact that only R1,5 million cash is involved, it could still be some time before the Manserv minorities see any sign of an offer from the company that acquired control of Manserv back in February.

The new, much more stringent takeover regulations that are due to come in to force in October should protect minority shareholders from the fate being suffered by the Manserv minorities.

At this stage the JSE is considering legal action to force Financial Ltd to make the offer to minorities that it undertook to make at the time that the 89 percent stake was bought from the majority shareholder.

The February deal involved Naas Ferreira (acting on behalf of Financial Ltd) acquiring the Manserv cash shell from the Map Consortium. (The Manserv assets had been sold into what is now know as Colfin, leaving Manserv with cash of R15 million.)

The majority shareholder received 105c a share for its 12,8 million shares but the holders of the remaining 1,6 million shares have so far received nothing.

Colfin MD Jeff Wiggill says that the deal included an undertaking from Financial Ltd to make the same offer to the minorities.

As additional security Colfin arranged for Mr Ferreira to pledge the 89 percent stake he had acquired with a firm of attorneys — this was to act as security for the offer to minorities and would be held until such time as a suitable bank guarantee was lodged with the JSE. (Colfin management was acting as coporate consulant to Manserv which was then under the control of Mr Ferreira.)

Not delisted

Months passed and no offer was made to minorities. Manserv remained suspended and although the JSE threatened to delist the share if no offer was made, it was not delisted.

In normal circumstances if assets are not injected into a cash shell within six months, the shell is delisted. This has not happened in the Manserv case.

The JSE's Richard Connellan explains that a decision to delist Manserv would have been to the detriment of the minorities.

Meanwhile there is confusion as to exactly what, if any, assets have been purchased with the Manserv cash. Speculation includes a 20 percent of Osprey, 25 percent of Lanchem, 80 percent of a cash shell which was to be used to acquire an engineering operation and, 100 percent of Chamrey Mining.

Colfin had insisted that any assets sold into Manserv should be subject to a "fair and reasonable" valuation by a specified firm of accountants. That firm has not been consulted and no "fair and reasonable" statements have been issued to shareholders.

(In this instance the value of assets acquired would not been relevant if an offer had been made to the minorities.)

Towards the end of April, UAL Merchant Bank wrote a letter to the JSE on behalf of Financial Ltd stating that R1,5 million had been deposited as security for the offer to the Manserv minorities. On the basis of this letter the JSE agreed to release the shares that had been pledged to the attorneys.

Financial rands

It subsequently transpired that the money on deposit was financial rands.

In terms of Reserve Bank regulations these could not be used to fund the offer to minority shareholders and the Manserv shares were suspended.

(Financial rands can be used only to buy listed equities).

Mr Connellan says that because the minorities were being prejudiced, permission was sought to use finrands to make the offer. Permission was not granted.

The Manserv minorities have still received no offer. The funds cannot be used for the transaction and they cannot be withdrawn from UAL until the JSE authorises withdrawal.

UAL's Tim Sewell describes the letter to the JSE as a "banking letter".

But according to Mr Connellan, who is determined that an offer will be made to the minorities: "What UAL gave us was certainly a clear statement that it held funds for a specific purpose with regard to a specific situation."

Bank approval

Meanwhile an associate of Mr Ferreira explains that the delay in making an offer is due to the need to get Reserve Bank approval for the restructuring at Manserv.

"Hopefully everything will be in place by the end of the week."

The weakness of the protection afforded to minorities by the existing JSE takeover regulations is highlighted by the fact that if the JSE does have to institute legal action to force Financial Ltd to make the offer, the case may drag on through the courts for a few years.

This is little comfort to the minorities.

The proposed panel system has the force of law behind it. If any party contravenes a panel decision, immediate action can be taken without reference to the courts.

Ennerdale boycott goes on

Star 18/9/90

Residents of Ennerdale, south of Johannesburg, decided yesterday to continue boycotting the payment of service charges until the local management committee introduces "affordable" rates. Their refusal to pay follows the arrest of several people after battles between police and residents last week when residents marched to the Ennerdale Civic Centre, which was later set alight. — Staff Reporter.

Still no queues to pay rent

Star 18/9/90

By Montshiwa Moroke

Most Soweto residents have not yet started paying rent in spite of an agreement in principle between the Transvaal Provincial Administration (TPA), the Soweto People's Delegation (SPD) and the Greater Soweto councils to end the rent boycott.

This was revealed by a check at the townships' administration offices yesterday

After a 15-hour meeting in Pretoria on August 30 it was decided that township residents would pay a uniform tariff of R55 for September and from October an interim service charge of R23 a household plus electricity on metered consumption of 12c a unit.

The Soweto agreement was to have been referred to various parties' constituences for ratification and another meeting has been scheduled for September 24 for formal agreement.

Comments from sources ranged from "no change at at all" to "a slight improvement" compared to the period before the latest developments

It appears to council sources that residents have adopted a "wait and see" attitude before they decide to pay because there had not been any formal agreement between the three parties.

The other assumption is that people have not fully grasped the implications of what was discussed at the talks and are perhaps waiting for a mass consensus on whether to pay.

The rent boycott was started in June 1986 after the Government's declaration of the state of emergency. The state of emergency was revoked in June this year.

There are still no queues at rent office.

The mayor of Soweto, Samuel Mkhwanazi, said "We are keeping our fingers crossed"

More stability for insurers 58

LINDA ENSOR

THE solvency margins of short term insurers — which showed a sharp deterioration in the first quarter — have stabilised, Registrar of Insurance Piet Badenhorst said in a statement. BD 12/7/90

Special returns for the second quarter to end-June "show that there has been a stabilisation of the negative trend of underwriting results," he said.

The returns submitted showed that the lowest solvency margin reported was 27% compared with the previous low of 19% and was well above the statutory minimum of 15%. The quarter to end March showed that solvency margins of four had shown a sharp decline.

Following the results of the first quarterly returns, Badenhorst held meetings with representatives of the five insurers concerned.

He said that despite an improvement in the second quarter, he would continue to ask insurers to submit quarterly information "to enable my office to relate to managements on a closer and ongoing basis".

Libvest buys out minority interests in DGI

ROBERT GENTLE and
EDWIN UNDERWOOD

LIBERTY Investors (Libvest), the investment holding company which jointly controls the ultimate holding company of the Liberty Life assurance group, has bought out minority interests in DGI Holdings for R68m. B Day 18/9/90

DGI, formed in 1978 after share restructuring in Liberty Life, therefore moves from a 89%-controlled Libvest subsidiary into a 100% wholly owned subsidiary.

A Liberty spokesman said yesterday the move was merely a rationalisation of Libvest's interests. "It is a cleaning-up exercise. Control of the Liberty Life group remains the same."

DGI's 33,3% stake (50% of the voting rights) in Liblife Controlling, the ultimate holding company of the Liberty Life group, remains unchanged. 58

Consequently, joint control of the Liberty Life Group via Liblife Controlling still rests with Libvest and Standard Bank Investment Corporation (SBIC).

The interests of the DGI minority were valued at around R67,7m, or 90% of the net asset value of DGI attributable to the DGI minority. The transaction itself was structured in two phases.

Firstly, a special dividend of R58,3m was declared, payable only to the DGI minority. Secondly, the interest in DGI held by the DGI minority was acquired by Libvest for R9,4m.

Bankers' cash reserve levels to be reduced

GRETA STEYN (58)

IN A concession to banks, the Reserve Bank is to lower the cash reserves level they are compelled to keep against their deposits. B/Day 19/9/90

A significant reduction in the cash reserves banks have to keep against their liabilities is one of a set of new prudential measures being circulated among banks for comment.

The overall thrust of the proposals is to encourage banks to fund longer term in an effort to discourage excessive "mismatches" that occur when banks borrow short and lend long. Banks that fund excessively at the short end of the money market will be penalised.

The Reserve Bank has declined to comment until all the regulations pertaining to the new Deposit-Taking Institutions Act are finalised and gazetted.

Bankers had hoped that the requirement to keep cash reserves would be scrapped as there is a growing belief that this measure forms part of monetary policy and not banking supervision.

If the proposals are gazetted in their present form, all reserve requirements — both cash and liquid assets — will be scrapped for long- and medium-term deposits.

For short-term deposits, cash reserves that are needed to comply with prudentiality will be lowered to 4% from the current 5%, but liquid asset requirements will be upped from 15% to 16%. In addition, savings accounts will now be defined as short-term deposits.

The net effect is that short-term funding becomes more expensive than medium- or longer-term funding from a cost of reserving point of view.

With many banks geared for a cut in Bank rate within the next few months, they are funded short and are not too happy with the proposals.

However, the new Act and its regulations are expected to come into effect only early next year.

Bankers have already commented to the Bank on other regulations circulated earlier this month. They have objected to some of the capital to asset requirements, but no major disagreements have emerged.

Shares fall as oil surges again

Star 19/9/90 (58)

Gold prices failed to hold above $390 yesterday in spite of another surge in world oil prices, which hit nine-year highs as the first significant effects of lost Kuwaiti and Iraqi oil hit the markets.

The Johannesburg Stock Exchange and other world share markets reacted to the higher oil prices with sharp falls.

Spot prices for "prompt" North Sea oil — oil for use in the next few days — reached $36,50 whileNovember futures for the world benchmark crude, Brent Blend, rose 90 US cents to close at $33,90 a barrel.

Gold fell $2,40 in New York to a close of $388,10 after closing in London at $388,25. It opened in Hong Kong today at $387,70 after closing yesterday at $392,20.

In London the FTSE-100 index set a new closing low for the year, losing 30 points to close at 2 064.

Frankfurt's DAX index fell 2,2 percent to a 1990 low as foreign investors accelerated the market's downward swing by offloading.

In Paris shares tumbled through chart support levels.

Shares in Zurich closed lower across the board in moderately active trading but the market showed some resilience compared with other European bourses.

Tokyo stocks closed lower, but rebounded from an earlier slide of more than 1 000 points in the key 225-share Nikkei index. The index ended 480,78 points, or two percent, down at 23 884,82.

Commenting on the fall in Johannesburg, where the industrial index fell 68 points to a nine-month low, an analyst said the slowdown in economic activity had made trading conditions discouraging. With other economies also facing recession, exporting companies particularly were facing difficulties.

According to recent forecasts in the Economist magazine, net profits of South African companies in basic industries (metals, textiles, lumber, chemicals and construction) should increase by only seven percent in 1990 over 1989

The seriousness of the situation became clear yesterday when Sappi reported a 44 percent slump in earnings to 181c a share for the six months to end-August. Sappi's share price fell 7,8 percent to a 12-month low of R26,75.

Analysts warned that with the expected 20 percent drop in earnings for industrial companies, this sector could weaken further. They pointed out that at current levels most industrial stock was still overpriced.

At Monday's R70, AMIC was trading on a P/E of eight times which is still high considering the state of the economy.

— Finance Staff and Sapa-AP.

Soweto's elderly may lose out

Star 19/9/90

By Montshiwa Moroke

Soweto tenants who continued to pay their rent during the four-year boycott, are waiting to see what the attitude of the authorities is going to be towards them.

Those who appear to have been mostly affected are the pensioners and conservative residents.

They continued to pay, in spite of warnings by civic organisations not to do so, because they were afraid of losing their homes when the council started evicting defaulters.

A council administration source confirmed that the only people who had been consistent with their payments were the pensioners.

Diepmeadow mayor Moses Khumalo said it was the council's view that residents should be compensated for the risks they took in the face of serious threats to their lives and property.

He said that when the matter was raised at last month's meeting between the Transvaal Provincial Administration (TPA), Greater Soweto councils and the Soweto People's Delegation (SPD), discussion was totally rejected by the SPD.

"As far as negotiation with the SPD is concerned, those who were paying their rent during the boycott have lost out. They did not want even to consider the matter.

"For the sake of peace we let the matter rest. If the issue should come up again it will be dealt with by councils outside negotiations with the SPD," Mr Khumala said.

A spokesman for TPA said the matter had been discussed with the other parties.

"We have to wait until Monday when the signing of the formal agreement takes place. Then, you will have to get all five standpoints on how they are going to address the matter."

Momentum lifts premium income

Star. 20/9/90 (58)

By Duma Gqubule

Momentum Life (formerly Lifegro) has more than doubled its total premium income for the year to June to R946,3 million from last year's R452,4 million.

However, management says a comparison with the results of the previous year is not meaningful because the comparative figures include the results of Lifegro Assurance Limited for only six months, while a full year's results are included for the current financial year.

Investment income increased to R442,3 million, when compared with the R238,8 million achieved last year.

Total income stood at R1,39 billion after R691 million previously.

This left a net profit of R505 million (R180,1 million) after total expenses of R883,6 million (R511,1 million) were incurred.

Weighted average earnings a share improved to 23c from 11,6c.

A final dividend of 7c (4c) a share has been declared, making a total dividend of 13c (7,5c) a share for the year.

Star 24/4/90 (158)

Deposits in banks to get tax benefits

Finance Staff

Measures could be announced later this year to rectify the imbalance in tax benefits offered by insurance companies as opposed to banks and building societies.

Deputy Minister of Finance Dr Org Marais told the annual meeting of the Northern Transvaal branch of the South African Property Owner's Association this announcement could be expected in November.

He said there was a good chance that in future interest on money invested with banks and building societies for five years or longer could be tax free. This he felt could improve this imbalance.

It was also investigating encouraging private saving even further by taxing financial institutions and reducing taxes on interest. This policy could already be seen by the fact that at present the first R2 000 of interest on saving was tax free.

The government would continue to move away from property development and this would be left to an even larger extent to private initiative and funding.

SOUND ECONOMY

To effect the intended political change, the government needed a sound economy and would therefore not drop the bond interest rate below the inflation rate.

This monetary policy had already helped to improve the economy, proof of which was the increase in the balance of payments and the foreign exchange and gold reserves.

Plans were also afoot for a devalution of taxes to local authorities in alignment with a proposed federal system.

Momentum's progress lives up to its name

B Day 20/9/90 (58)

ZILLA EFRAT

MOMENTUM Life, SA's fifth largest life group, outperformed its forecasts in its first year as a listed and enlarged group.

For the year to end-June, a period of consolidation, Momentum has declared a dividend of 13c a share — up on the 12,5c forecast. Earnings of 23c a share are higher than the expected 19c a share.

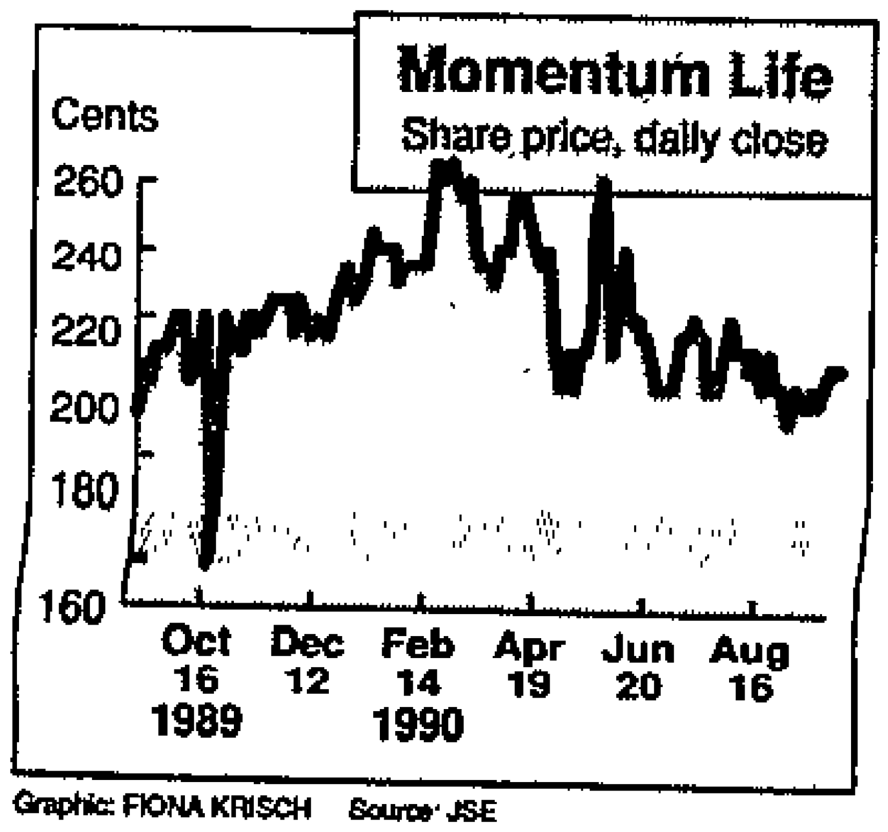
The Rembrandt/Volkskas-held group was listed in March last year after it acquired the businesses of the ailing Lifegro group.

MD Niel Krige says the positions of 750 employees, including 400 full-time representatives, were made redundant in rationalising Lifegro's activities with those of Momentum.

In addition, the group's activities were simplified further by rationalising many subsidiaries under the moratorium.

The integration of Lifegro's life portfolio with Momentum's administration systems should be completed by December and result in improved service and substantial cost savings, says Krige.

He adds that the savings brought about by the rationalisation of individual life business activities already amount to R20m a year. And further savings are expected in the current year.



Graphic: FIONA KRISCH Source: JSE

Steps have also been taken to increase the profitability of the Momentum's group and pension business. Products, services and management fees were reviewed, and this has already led to improved efficiency and profitablility, he says.

Krige says the restructured marketing division generated a satisfactory rise in new individual life business, while the pensions division obtained new funds amounting to R377m for investment. Of this, R322m will be administered for clients.

Because Lifegro was consolidated only from January 1989, comparison with the previous financial year is difficult.

However, total premium income rose 20% to R946m, while the group's total assets increased from R5,06bn to R6,02bn.

Total assets under administration amounted to R6,63bn at the end of June.

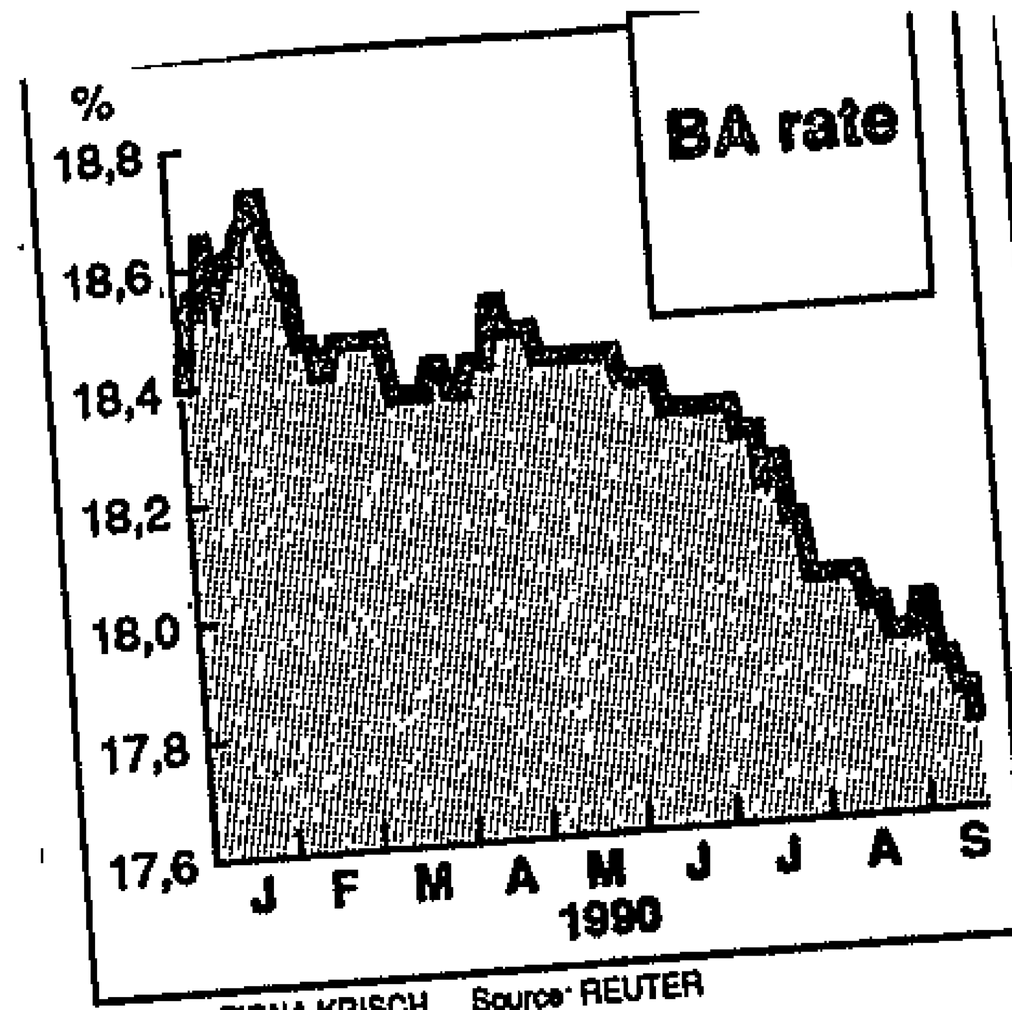
On total income of R1,4bn, the total outgo was R883,6m.

After the transfer of R489m to the life fund, the net disclosed taxed surplus was R16m.

Chairman Blignaut Gouws expects the business environment in the current year to remain restrictive and competition between life assurers and other financial institutions to become even more difficult.

But real growth in earnings is expected, he says.

He adds that the group is budgeting to increase sales volumes by about 30% in the current year. Momentum, which has a 5% share of the local market, sees major opportunitities in existing markets and within its holding groups. It also plans various productivity improvements.



Graphic: FIONA KRISCH Source: REUTER

Reserve Bank acts to counter liquidity

58

GRETA STEYN

THE Reserve Bank has intervened in the money market to counteract liquidity inflows, but the market remains comfortable and falling interest rates reflect the easier cash conditions. B Day 20/9/90

The key BA rate fell further this week and has already discounted more than a 0,5 percentage point cut in the Bank rate. Similarly, the Treasury Bill (TB) rate is 45 points below Bank rate — the rate at which TBs are exchanged for cash at the Bank's "discount window".

Bankers' estimated yesterday the Bank had in recent days taken about R500m out of the money market in "dollar swaps". This entailed taking rands out of the system by selling dollars that were kept on deposit at the Bank.

Market participants are growing increasingly restless to see a cut in Bank rate, and the size of the shortage is an important indicator of policy. A senior banker says the Reserve Bank wants to prevent the money market shortage — the banks' debt to the Reserve Bank — from sinking below the psychologically important R2bn level.

A move to let it shrink now could be interpreted as a signal that action was imminent on Bank rate, an analyst said. The Bank seemed comfortable with a shortage of about R3bn.

Even at that level, banks were not complaining as it represented relief from the crushing liquidity squeeze the Bank imposed earlier this year. Their margins

☐ To Page 2

Money B Day 20/9/90

58 ☐ From Page 1

were healthy as they had not had to approach the Bank for ultra-expensive finance at the "discount window".

The easier liquidity conditions are reflected in significant declines in money market interest rates. The BA rate has been on a declining trend since May this year and has lost about 65 points since then. The TB rate started following the BA and other asset rates down from July.

"If market conditions are anything to go by, a cut in Bank rate is overdue. The easier liquidity reflects positive factors such as the trade surplus and the sharp fall-off in the demand for credit."

He added that the oil price increase, and Bank Governor Chris Stals's agenda on inflation had made it virtually impossible to forecast when official interest rates would be cut.

IGI/SAFLIFE FM 21|9|90 (58)

BRUISED BY THE RATES WAR

SAFLIFE
Activities: *Investment holding company with principle subsidiaries in life assurance and pension fund management.*
Control: *Hosken Consolidated Investments.*
Exec chairman: *I M A Lewis.*
Capital structure: *29,6m ords. Market capitalisation: R111m.*
Share market: *Price: 375c. Yields: 5,3% on dividend; 8,8% on earnings; p:e ratio, 11,4; cover, 1,6. 12-month high, 400c; low, 220c. Trading volume last quarter, 102 441 shares.*

Year to Mar 31	'87	'88	'89	'90
Total assets (Rm)	84,8	95,6	416,9	708,1
Life fund (Rm)	39,6	53,6	357,0	563,1
Total profit (Rm)	2,2	3,0	6,2	9,8
Earnings (c)	7,2	10,5	21,4	32,8
Dividends (c)	5	7	12,5	20

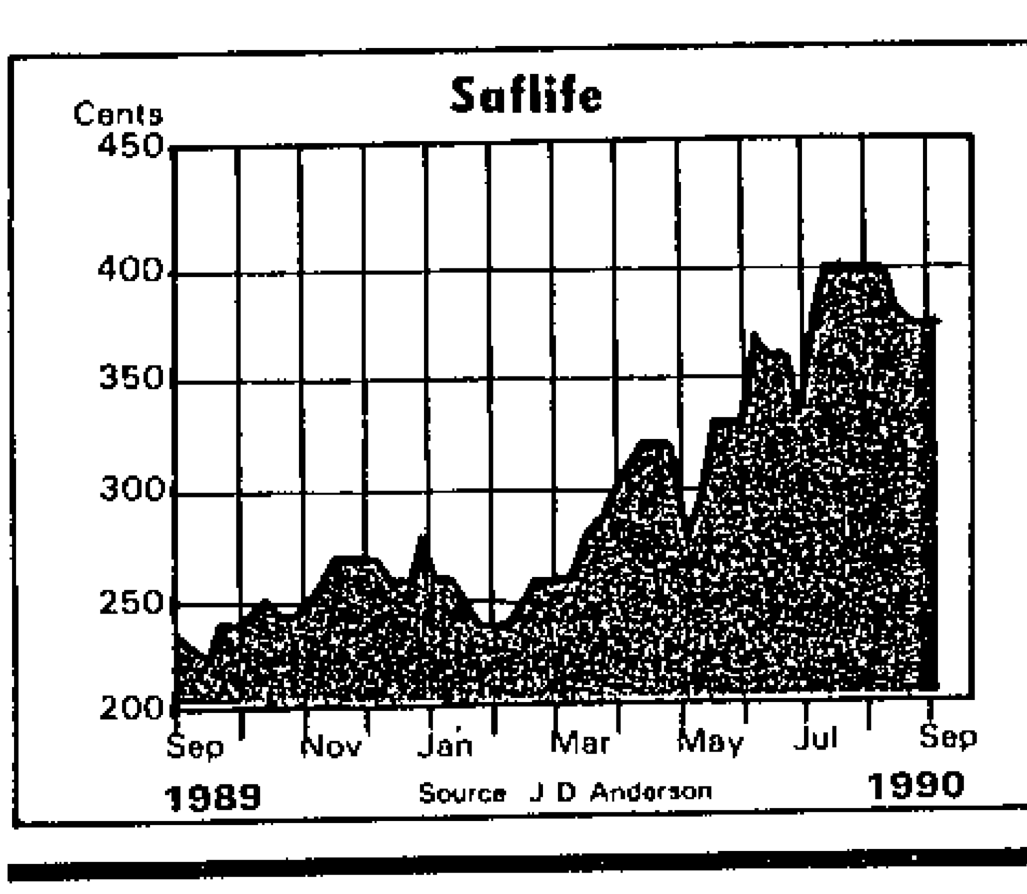
IGI INSURANCE
Activities: *Short-term insurance.*
Control: *Hosken Consolidated Insurance.*
Exec chairman: *I M A Lewis; MD: P S Denniss.*
Capital structure: *15,0m ords. Market capitalisation: R67,5m.*
Share market: *Price: 450c. Yields: 9,3% on dividend; 44,8% on earnings; p:e ratio, 2,2; cover, 4,8. 12-month high, 700c; low, 450c. Trading volume last quarter, 51 312 shares.*

Year to Mar 31	'87	'88	'89	'90
Total assets (Rm)	267	363	770,9	1 036
Net premium income (Rm)	249,9	292,1	338,1	362,6
Underwriting income/loss (Rm)	1,1	8,5	19,2	(6,3)
Taxed income (Rm)	10,0	23,7	35,3	34,6
Earnings (c)	105,0	213,9	227,1	201,8
Dividends (c)	12	30	38	42

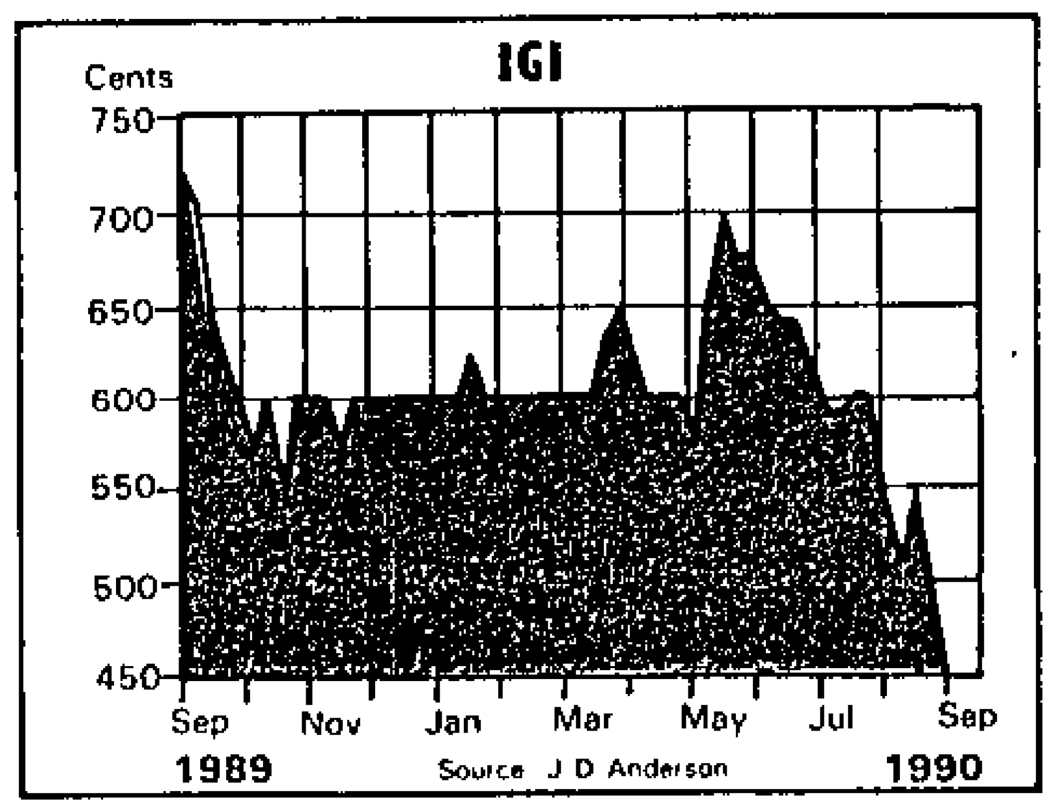
The different circumstances of life and short-term insurance companies are clearly illustrated in the results of the two listed members of Hosken Consolidated Investments (HCI), IGI Insurance and SA Life (Saflife).

Like most other short-term insurance companies which have been involved in the latest rate war, IGI Insurance posted a large underwriting loss. The 1990 figures show a wild swing from an underwriting profit of R19,2m in 1989 to a loss of R6,3m.

Executive chairman Michael Lewis says the loss was a result of the market's "disastrous practice of rate cutting in order to attract investment funds." Consequently, undiluted EPS fell 11% to 201,8c.



Saflife, on the other hand, saw the life fund rise 57% to R563,1m and retained income rise 59% to R3,7m. Its earnings were therefore up 53% to 32,8c.



Lewis says recurring premiums rose 79% to R109m, though there was a decline in single premium business. However, group assets rose 53% to R613m. IGI Life Assurance is the most important contributor to profits within Saflife, and transacts mainly recurring individual life business.

But, as short-term insurance is the major contributor to holding company HCI, it is the performance of the short-term arm which HCI shareholders should worry about. In the 1990 year, the short-term business continued to contribute nearly 80% of total attributable income. Investor concerns about the profitability of the short-term activities were probably the main reason why HCI's price plummeted from 740c in July to 600c.

IGI's Lewis ... *more premium increases this year*

IGI has shown the same trend and is trading at 450c after having reached 700c at mid-year. Saflife's price performance has been more bullish, in line with the more favourable performance. However, there appears to be little prospect of improvement for both HCI and IGI until the upward revision of premium rates is firmly in place.

Heather Formby

MILSTAN FM 21|9|90

INSURANCE COSTS

Activities: *Retails electronic consumer products.*
Control: *Directors and staff 51%; Homemakers 31%.*
Joint MDs: *S Etkind; M Etkind.*
Capital structure: *27,3m ords. Market capitalisation: R19,1m.*
Share market: *Price 70c. Yields: 11,4% on dividend; 27,6% on earnings; p:e ratio, 3,6; cover, 2,4. 12-month high, 100c; low, 60c. Trading volume last quarter, 64 150 shares.*

Year to Feb 28	'89	'90
ST debt (Rm)	0,5	3,1
LT debt (Rm)	0,3	1,1
Debt:equity ratio	n/a	n/a
Shareholders' interest	0,30	0,33
Int & leasing cover	n/a	n/a
Return on capital (%)	14,8	12,9
Turnover (Rm)	95,8	109,1
Pre-int profit (Rm)	8,3	7,8
Pre-int margin (%)	8,7	7,2
Earnings (c)	22,5	19,3
Dividends (c)	7	8
Net worth (c)	62,5	73,8

Though sales of electrical consumer products have been hit by the downturn in consumer spending, an increase in insurance replacement and corporate business has helped Milstan show a 14% increase in turnover. Large organisations such as Eskom and the Chamber of Mines are also good customers and have kept a steady stream of orders going.

But the "better deal" given to insurance companies and the larger customers, as well as the highly competitive environment in which the retailer operates, caused a squeeze on margins. It is also the reason why debtors have increased by almost 40%.

Tighter margins caused pre-interest profit to fall 6% and the pre-interest margin narrowed to 7,2% from 8,7%. This was partly attributable to a large cut in interest received compared to the previous year, when the group had interest income of R1,2m. Interest received was reduced to R372 000 mainly because of a drop in cash balances. Joint MD Milton Etkind says cash was used for the 51% purchase of Hi-Fi Specialists and a 100% shareholding in the Natal-based electronics stores, Clives.

R52-bn needed to wipe out apartheid

Star 21/9/90 (58)

By Michael Chester

The SA Chamber of Business yesterday said estimates indicated that it would cost R52 000 million to wipe out apartheid and achieve immediate black/white parity in education, health and social services at a single stroke.

This was spelt out by Sacob in a major policy document reviewing the economic options facing South Africa and setting out proposals for a 10-year socio-economic programme.

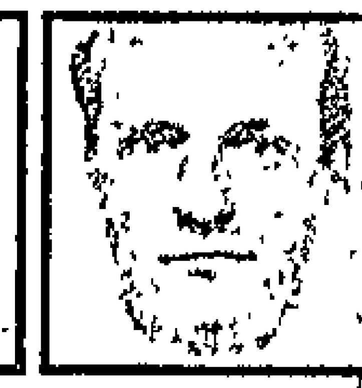
Copies of the document have been sent to several leaders.

Sacob said the sheer magnitude of the challenge underlined the caution that was needed against unrealistically high expectations of rewards from the reform process.

● Full Report — Page 8
Opinion — Page 10

Questions that pop up time and again

Money Matters
MAGNUS HEYSTEK



I'VE been writing this column for more than two years and during this time I must have answered hundreds of questions, either in the Reader's Queries column, over the telephone or in private.

I decided to go through some of these letters to try and determine which questions are most often asked. Occasionally advice given two years ago is no longer applicable today. Much can depend on the state of the equity market, etc.

So here are some of the questions most frequently asked:

What is the best investment?

The answer to this depends on a number of factors, but more importantly, on the personality of the questioner. Some people can stand the volatility of the stock market while others cannot. It serves no purpose to advise someone to invest money in the stock market if they are going to have heart failure every time the market collapses.

While equities have been the best performing investment during the Eighties, with an average compound growth of 27 percent (the JSE all share index), it might not have suited some people. It could have made them unhappy, anxious and restless. For people like that one has to recommend more assured investments like endowment policies, retirement annuity policies, property and even fixed-deposits.

What are unit trusts?

Despite the fact that unit trusts have become very popular as a means of investment, many people still don't understand what unit trusts are.

A unit trust is an indirect investment in the stock market via a management company. The industry is strictly controlled by the law which prescribes to the management company how they must invest unit-holders' money.

While unit trusts have been excellent performers during the last 15 years, one has to bear in mind that the returns are not guaranteed and that it is an investment with a fairly high degree of risk.

Star 22/9/90 (58) (22)

Which unit trusts are best?

It depends which period one takes to make the comparision. In the 10 years to end-December 1989 Old Mutual's Investors' fund, its general equity fund, had an average rate of return of 27,16 percent (with dividends reinvested) and Guardbank came hot on its heels with an average growth of 26,52 percent.

Over a five-year period they were also the best performers with Old Mutual recording an average growth of 33,70 percent and Guardbank 28,61 percent.

While these two funds have consistently outperformed all the other funds, once again there is no guarantee that this will continue in the future. Past performance, however, is the best guide one has to future performance.

Is property a good investment?

This question, admittedly, is a difficult one to answer. Residential property prices have not kept pace with inflation, despite what many people have been led to believe.

According to national figures, the price of an average residence has grown at an average rate of around 11 percent compared with an average rate of inflation of 14,7 percent for the last 10 years.

So why does an investment in property remain one of the best one can make? It's called gearing, a mechanism which allows you to borrow money from someone else (quite often at favourable rates of interest) and invest it in something that appreciates in value over time. The capital growth on this asset belongs to you in total.

If this is taken into consideration, it changes the picture completely. Property still remains the cornerstone for everyone's personal financial wealth plan.

It's such a pity that so many millions of people have been excluded from this opportunity over the last 40 or so years. A large and wealthy black-middle class would have made an enormous difference in the ideological battle between capitalism and socialism currently raging in our townships.

Marginal and average rates of taxation?

Many people seem to be confused by these terms but they are really quite simple.

The average rate of tax is the average of all tax a person pays after deductions have been taken into consideration. For instance, a married person with a taxable income of say R40 000 per annum in the current tax year will pay R7 400 in tax, equivalent to an average rate of 18,5 percent.

Marginal tax refers to the rate of tax earned on every EXTRA rand earned. Take again the example of the married person earning R40 000. Here the marginal rate of tax is 36 percent. This means that should the person somehow earn an extra R1 000, the marginal rate of tax would be 36 percent, or R360 in extra tax.

Currently the maximum marginal rate of tax is 44 percent on a taxable income of R80 000 per annum or higher. On R80 000 the average rate of tax is 29,6 percent, rising to 38,2 percent on a taxable income of R200 000.

Fast-growing African Life for JSE

(58)

Business Times Reporter

AFRICAN LIFE, which claims to be the fastest-growing life assurer in South Africa, is to be listed on the JSE.

It will publish a prospectus in the coming week and the listing is expected to be completed within a month.

African Life specialises in small policies and has achieved strong growth in black, coloured and Asian markets. It has 2 200 shareholders, 1 600 of whom are policyholders who came on board in a R27-million issue last year.

After the listing, Southern Life will hold 82% of the shares. The rest will be held by customers and staff. About 70% of shareholders will be people of colour. The listing is to enable holders of the unlisted shares to deal in them.

African Life lifted premium income from R17,6-million in 1986 to R49,2-million last year. It forecasts premium income of R64-million in 1991. Dividends grew from 2,6c in 1986 to 7,9c last year and are forecast at 9,5c in the current year.

Managing director Bill Jack says township unrest has slowed policy sales — but he expects a revival.

"Sales in the first five months of the year were up by 35%. It seems September sales are up about 25%. We believe the rest of the market is virtually standing still.

S/Times 23/9/90

Computers

"Our experience is that one-off traumas depress our salesmen temporarily, but they do well when the troubles are continuous."

African Life has a staff of 800, 600 of whom are salesmen. Brokers account for only 15% of business. Salesmen operate in similar fashion to the "Man from the Pru", calling on clients.

One reason African Life can process policies cheaply and make small ones pay is that it uses Southern's computers.

Life-assurance shares offer these dividend yields on the JSE: AVF 5%, Fedsure 5,8%, Liberty 2,7%, Metropolitan 5,5%, Momentum 4,9%, Southern 4% and Saflife 5,7%.

Analysts believe that with a 20% dividend increase almost certain, African Life could receive a 5% historical dividend yield rating. If so, the price could be 150c to 158c.

That would be a reasonable capital gain for policyholders, who paid 110c for their shares less than a year ago.

Mr Jack doubts that many policyholders will sell in a hurry. Before inviting them aboard, African Life undertook shareholder education. It will follow it up after the listing.

Southern Life underpinned the shares at 110c, so there was no risk to policyholders up to the listing. The underpin falls away on listing.

BILL JACK . . . happy

The SADF will probe the blast.

Accord for rent boycott agreement

C/Press 23/9/90

THE signing of an accord to ratify an agreement ending the rent-and-service-charges boycott will take place in Soweto tomorrow.

The accord will include the writing-off of arrears, the establishment of a metropolitan chamber to investigate the setting of regional, non-racial and democratic approaches, the creation of the Greater Soweto People's Trust and the creation of a joint technical committee in which the Johannesburg City Council will be invited to take part.

C/Press 23/9/90

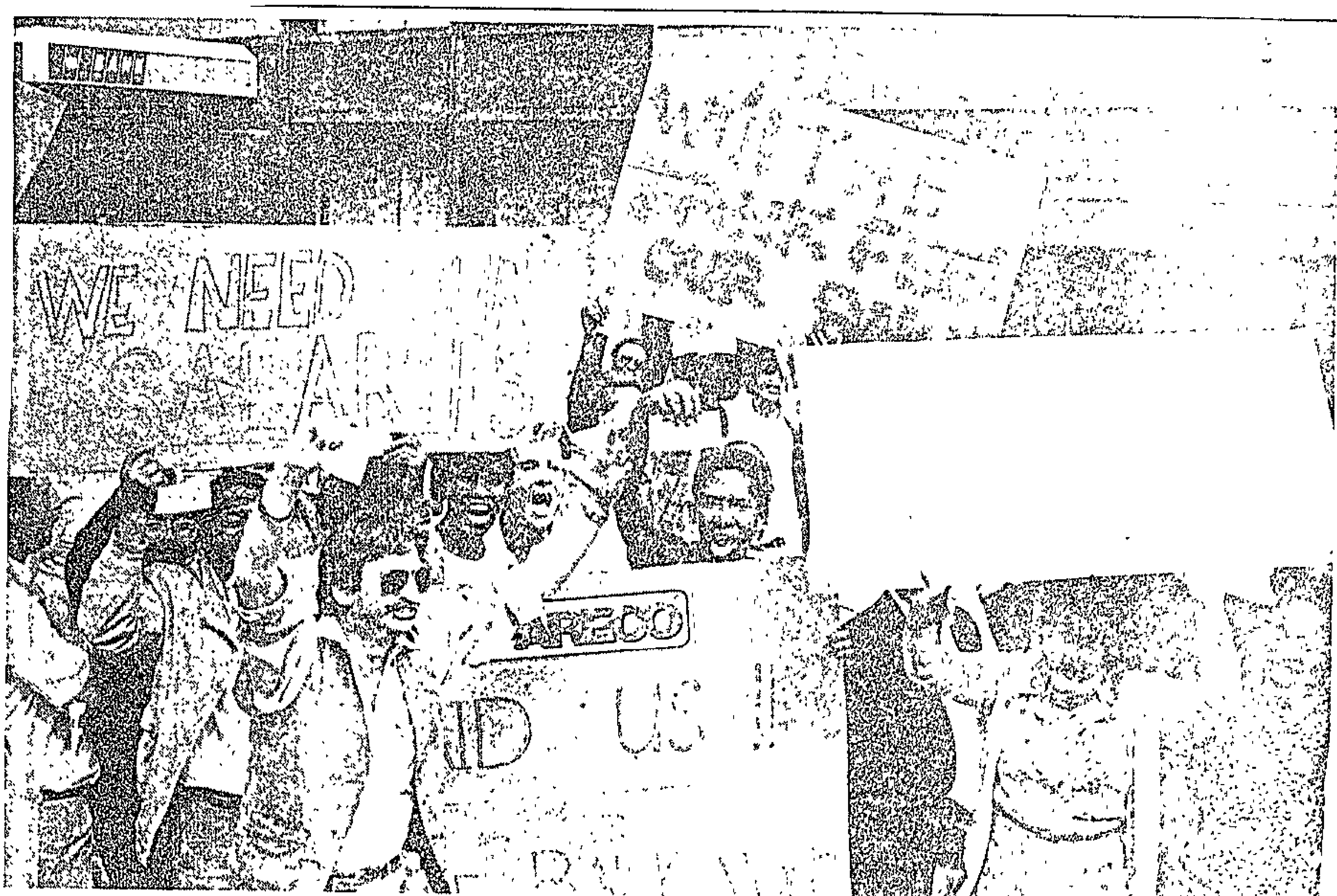
'Third force' ANC dissidents – Vlok

ALTHOUGH the matter was "still being investigated", it had been argued that the so-called third force in the violence might be a dissident group within the ANC, Law and Order Minister Adriaan Vlok said on Friday.

Addressing the NP-dominated President's Council, Vlok said the "most worrying" aspect was that the moderate faction of the ANC leadership apparently did not know about this as it had "lost control of the militant youth who were in favour of this dissident faction".

However, he said police had so far found no proof of the existence of the so-called third force.

Reports by CP Staff, CP Correspondents and Sapa.



Hundreds of Spareco workers picket Trust Bank after their cheques were not cashed. Pic: TLADI KHUELI.

Unpaid workers demand salaries

C/Press 23/9/90

By DESMOND BLOW and SANDILE MEMELA

THREE hundred Spareco workers protested in front of the Trust Bank in downtown Johannesburg on Friday when the bank refused to cash the cheques of 683 employees.

Carrying placards and yelling "We want money!" they refused to leave the bank until ordered out by riot police.

However, they staged a sit-down protest in front of the bank until 4pm when the riot police reappeared and ordered them to disperse.

Earlier this month four banks to whom Spareco, an automobile spares company, is indebted for R60-million, obtained a court order freezing its assets until a court action which they are bringing against the company is heard next month.

Staff were asked to stay on and continue working for the full month.

Germiston branch manager Janet Walker said staff had continued to work for the company and all money they had earned was banked with Trust Bank

Trust Bank spokesman Etienne van Loggenberg said there were not sufficient funds in the bank to pay the employees.

He said their client Senbank had instructed them not to pay out salaries – amounting to R1-million – as the company's assets had been frozen

"I feel very sorry for the employees, but they must take the matter up with Spareco," he said

"We stamped their cheques 'refer to drawer' and they can submit them as claims against Spareco when the case of creditors is heard next month."

The three other creditor banks are First National Bank, Bankorp and Alpha Bank.

Most workers said they felt betrayed by the company which had plunged them into unexpected hardship and an uncertain future

African Life to seek JSE listing

African Life is to seek a listing on the JSE. (58) Star 24/9/90

African Life achieved 49 per cent growth in net premium income in 1989, largely through concentrating on life policies in the low monthly premium market, says the company.

An offer of shares will be made to policy-holders, existing shareholders, employees and business associates.

Ahead of publication of the prospectus, African Life's MD Bill Jack says: "The company services 160 000 premium-paying life policies in the low monthly premium bracket, with a network of 23 branches nationwide and a sales force of over 600." — Sapa.

le of going to press | Justice Hiemstra, was institut-

Formal end to rent boycott

Star 24/9/90 (58)

Staff Reporter

Soweto's four-year rent and services boycott is set to end today with the historic signing of the Greater Soweto Accord ratifying an agreement reached last month to write off the R516 million in rent arrears.

The Transvaal Provincial Administration (TPA), the Soweto People's Delegation (SPD) and the Soweto, Dobsonville and Diepmeadow local councils will all sign the accord.

One of the most important decisions to be reached will be the establishment of a metropolitan chamber by the five signatories.

The Johannesburg City Council will be invited to join the chamber and look at new models for local government and investigate the possiblity of a common tax base for Johannesburg and Soweto.

The Soweto agreement comes in the wake of a decision by the province to cut bridging finance to black councils. MEC Fanie Ferreira will chair the meeting.

Vaalauto goes to motoring sector

Star 24/9/80

Finance Staff

Vaaltrucar subsidiary Vaalauto is being listed in the industrial motor sector of the JSE today

The listing follows a restructuring in which Vaalauto acquired the entire issued share capital of and loans to Vaaltrucar's other subsidiary companies for R7,9 million

This was settled by the issue of 2,374 million ordinary shares and 4,125 million renounceable letters of allocation to Vaaltrucar.

Vaaltrucar is now a pyramid holding company, its sole interest being a 75 percent stake in Vaalauto.

Banking shares resist lower market trend

BiDay 24/9/90 (58)

NEIL YORKE SMITH

BANKING shares have maintained strong JSE performances, managing to hold onto recent price gains while the rest of the market has edged lower.

The banking index, at about 1 700 points, is well above its May lows of about 1 400. The overall index, currently at about 2 750 is trading much lower than the 3 400 highs seen in February and March.

"Some of the individual shares have fallen slightly off their year's highs, but overall the sector is showing strong gains over prices earlier this year," an analyst said.

Volumes in the banking sector remained reasonably good, especially compared to the rest of the market which had been trading lower on very thin volumes, he said.

The sustained performances were attributed to a combination of good fundamentals which underpinned solid earnings and speculation surrounding rartionalisation in the industry, he added.

"Buiding society shares have found especially strong support as a result of speculation regarding takeovers and strategic stake building by instituttions."

The new Deposit Taking Institutions Act — expected to come into effect early next year — would make it easier for suitors to build big shareholdings in building societies, he said.

Speculators and prospective buyers had been bidding share prices higher ahead of expected rationalisation in the industry, he said. "Companies like Allied, NBS and Saambou have recorded significant price gains, reflecting both good earnings potential and institutional stake building."

Bosses of most of the major banking groups have confirmed their interest in acquiring some of the smaller players in the industry.

But they stressed assets would not be chased at any price and deals would be struck only if they would boost future earnings.

At 181c Allied shares are showing gains for the year of 22%. Shares in another building society group,Saambou, are trading at 114c — about 21% higher than at the beginning of this year.

Volkskas shares, at 1 550c, reflect an increase of about 30,6% for the whole year.

Banking leaders like Standard and First National have experienced less dramatic share price rises. But with increases of 6,8% and 11,1% ,they contributed to the sector's performance compared with the overall index.

Big increase in insurance premiums is on the cards

B1044 24/9/90

GILLIAN HAYNE

SHORT-TERM insurers say they are looking to raise premiums for personal and domestic policies by an average of 20% because of the dramatic increase in both the number and cost of claims over the year.

However, most companies confirmed they would be placing greater "penalties" on the worst affected areas, rather than introducing a standard across-the-board increase.

Protea Insurance's Andrew Tainton said the reality of the situation was a huge increase in thefts and claims since President F W de Klerk's February 2 announcement.

He blamed the rise on the criminal element which erupted after the political changes, and cited as an example 66 burglaries reported in one night in the River Club suburb of Sandton. On average, Protea will be increasing premiums by 25%.

SA Eagle MD Peter Martin confirmed an increase was planned, scheduled for October, of 20% for motor vehicles and 10% on selected household insurances such as break-ins and thefts.

The increases could be attributed to the unrest, the increase in unemployment levels and the economic downturn. Fraud and misappropriations were also on the increase.

Mutual and Federal is considering an increase of 17%, said GM Bunny Attree.

Aegis Insurance group MD Brian Seach, addressing the feeling of disquiet among policy-holders fuelled by the sudden industry increase, said there was no collusion between the companies.

58

Upswing

Aegis, despite trying to keep premiums down by isolating the high risk areas — by geographic area, age group and the like — was hoping for an average increase of 20% by the end of October.

He suggested future short-term insurance would have to change. Because of the unexpected and vicious upswing in claims, people would have to increase their excess, only claiming on costly losses.

A spokesman for Commercial Union said although they were not thinking of an across-the-board increase, they would be looking at increases on the merits of each case.

A Santam Insurance spokesman confirmed a 20% increase for November 1.

Councils try to head off power cuts

(58) Star 24/9/90

Mamelodi City Council, which has until today to pay the R3,5 million it owes Pretoria City Council, has urged local residents to pay their rent and service charges promptly to avoid power cuts.

In Daveyton, the town council said yesterday it would accept a service charge of R70 per household per month in an effort to recover more than R3 million owed to Benoni Town Council for electricity.

A statement issued by the Daveyton council said agreement had been reached with about 10 000 residents who attended a meeting yesterday.

Notices

Pretoria City Council has issued notices to both Mamelodi and Atteridgeville councils giving them until today to pay their electricity accounts or face a blackout.

Mamelodi and Atteridgeville owe Pretoria about R3,5 million and R1,7 million respectively.

Mamelodi council revealed that rent and service charge arrears by local residents amounted to R22 million. It warned residents that they could find themselves without vital services in the months ahead unless they paid at least their current monthly accounts.

The local council and the Mamelodi People's Delegation (MPD) reached an agreement two weeks ago to freeze rent and service charges arrears on condition that the defaulters paid their current accounts.

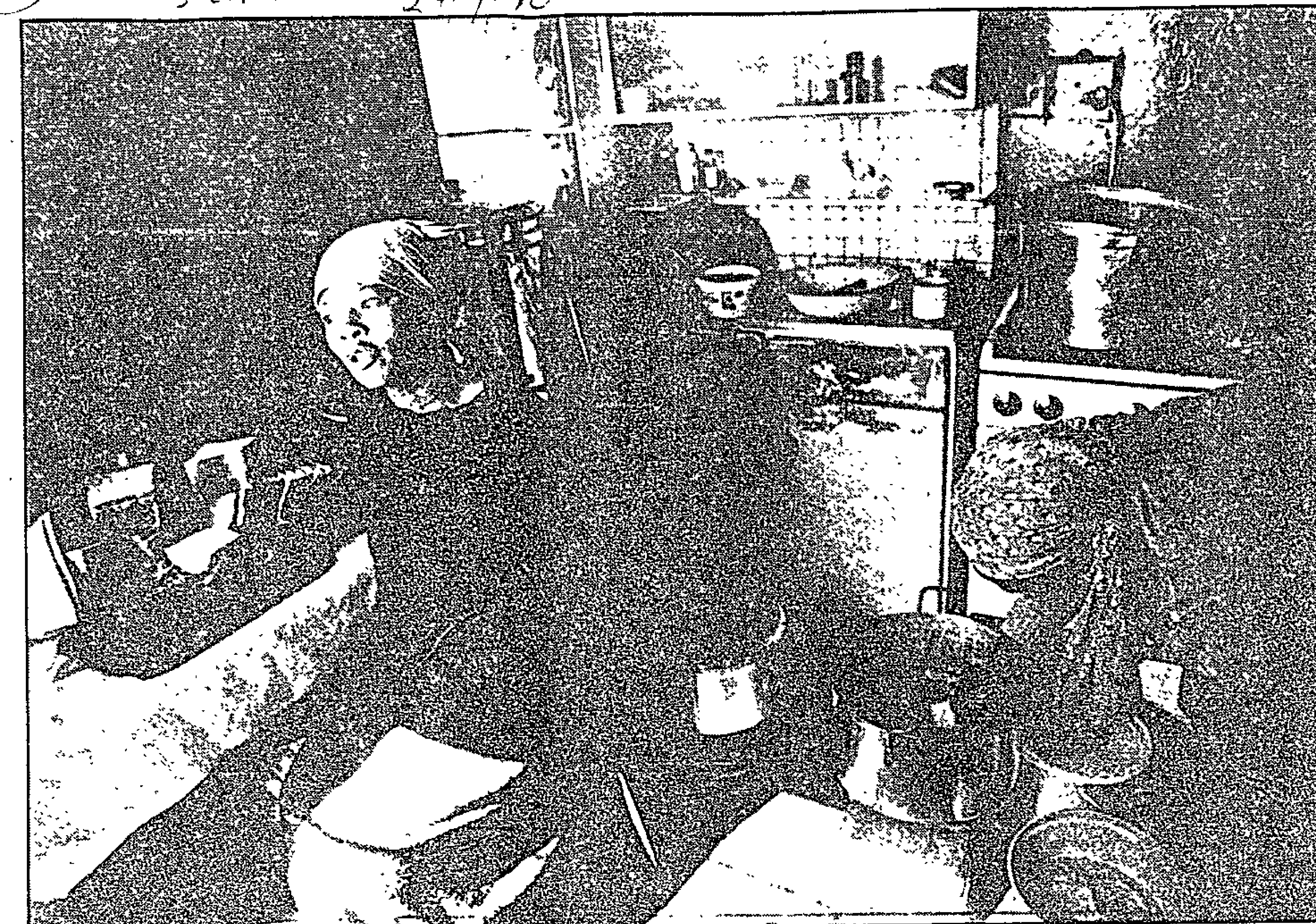
"The council is optimistic that the residents will realise the gravity of the matter and make an earnest attempt to settle their accounts."

Daveyton council said about 10 000 residents met yesterday to discuss threats by Benoni Town Council to cut the black area's power unless the debt was settled.

The flat rate of R70 per month for services was an interim rate, the statement said. Daveyton mayor Tom Boya pleaded with residents at the meeting to pay more than the agreed amount if possible to help prevent a switch-off.

Residents of Daveyton's lower-income area of Etwatwa are excluded from the R70 charge. They will only have to pay R50 per month for services.

The agreement represents a compromise on the part of the Daveyton council. It entered the meeting with the demand that some residents, like those living in the township's new extensions, pay R130 per month for services. — Pretoria Bureau-Sapa.



Life goes on . . . Annah Soko uses three pressure cookers to cope with her chores after electricity was cut in Tembisa.
Picture by Alf Kumalo.

Battling without power

By Thabo Leshilo

"It's surprising how we take things for granted, but miss them immediately we stop having them. Then their importance dawns on you like never before."

were warm.

A few kilometres away, in Xubeni section, The Star team met a mother of three, Linah Ndubani, returning from Oakmore station where she had gone to collect water in a

Official trips abroad to be queried

By Louise Burgers, Municipal Reporter

Questions will be asked at the Johannesburg City Council's monthly meeting tomorrow about its planned spending of

accompanied by two secretaries — at a total cost of R110 000. Every Johannesburg mayor has the opportunity to travel abroad when in office and can choose between Eu-

involved with housing problems to attend the conference to find out how other countries coped with their problems.

Management committee chairman Ian Davidson, city

Mr Davidson said criticism of the trips was unjustified — officials travelled business class to save money, and the budget for overseas trips by council officials had been cut to R500 000.

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Battling without power

By Thabo Leshilo

"It's surprising how we take things for granted, but miss them immediately we stop having them. Then their importance dawns on you like never before."

This was Anna Soko's reaction to the "big switch-off" after parts of Tembisa on the East Rand were plunged into darkness when the town council cut off electricity.

The council also cut off the water supply elsewhere in the township.

Mrs Soko (37), mother of five and spaza shop owner, said the power cut had disrupted her family's life.

When The Star visited her home she was cooking potatoes on a paraffin stove before going to sell food at local schools.

"I now have to wake up at 3 am — two hours earlier — to be able to cook the food that I sell, before boiling water for the children's bath and breakfast," she said.

Mrs Soko said electricity in her section had been cut off without notice on Friday.

She was losing income because perishable food got spoilt and customers were not buying her cooldrinks because they were warm.

A few kilometres away, in Xubeni section, The Star team met a mother of three, Linah Ndubani, returning from Oakmore station where she had gone to collect water in a 20 litre container. She was unable to get the water because the queue was too long.

Ms Ndubani (31) had her youngest child on her back and was carrying a parcel of clothing she intended to wash at a house near the station.

"It's tough in Tembisa," she remarked.

She said the water supply had been cut off last Monday.

"I don't know why they trouble us like this."

Asked how she had coped since Monday, she replied that her only option was to wake up and go and collect water at the station about 1 km away.

"I go to the station in the morning and at 2 pm. Sometimes, like today, I return with nothing because of the long queues."

When approached, town clerk Anton Relihan refused to comment and referred The Star to the township mayor. The mayor could not be reached at the time of going to press.

Victory for banks

58 CAPE TIMES 24/9/90

Own Correspondent

JOHANNESBURG. — Banks won a decisive victory over the JSE at the weekend after Registrar of Financial Institutions Piet Badenhorst ruled that gilt trading would continue in its present form until agreement was reached on oustanding differences.

Until last week, the JSE seemed set to win its battle to have the market route its trades through the JSE's in-house clearing system — the Gilt Clearing House (GCH).

The banks, which do about 67% of all gilts trades and operate outside the GCH, had objected to GCH on grounds of cost and efficiency. On a general level, there had also been dissatisfaction about aspects of settlement and risk management.

Badenhorst acknowledged in a statement that there had been "serious differences" between members of the Bond Market Association (BMA) — the gilts exchange scheduled to start operating by July 1991.

Following the failure to find common ground between the parties, Badenhorst said, the possibility of an interim unified market with acceptable clearing, settlement and risk management "will therefore not be pursued further".

The financial implications for the JSE and the BMA which flowed from this decision were being discussed, he added — a reference to the resultant loss of clearing revenue to the JSE.

Township plans hit by boycotts

STAR 25/9/90

By Therese Anders, Highveld Bureau

Multimillion-rand township development projects are being shelved in Transvaal areas afflicted by payment boycotts as the funds allocated for these projects are used to pay for essential services.

The projects expected to be affected include electrification programmes, the upgrading of stormwater facilities and the erection of buildings such as community centres.

Essential

The funds earmarked for these projects by regional services councils (RSCs) are in many cases to be used as bridging finance to pay for essential services such as water, sewerage and waste removal.

The relocation of RSC funds has been given the blessing of the Transvaal Provincial Administration, but the TPA has stipulated that no RSC money is to be used for settling township electricity accounts.

This means that while boycotting townships no longer face the threat of having their water supply cut, they could still have power blackouts.

Eskom communications manager Johan du Plessis said defaulting townships were now R30 million in arrears to the electricity giant.

He stressed that Eskom would not be suspending supplies to any of the more than 20 defaulting townships until all avenues had been exhausted. Eskom was now holding discussions with 15 townships in a bid to resolve payment problems, he said.

The TPA said the supply of clean water and sewage removal were absolutely essential services in all communities.

"In order to ensure that these indispensable services are rendered and that the bulk suppliers — these are in many cases the adjacent white local authorities — are paid, high-level discussions were held on the possible rescheduling of funds with RSCs.

"At this stage the only possible alternative is that local authorities with a cash-flow problem should approach RSCs with the request that capital projects earmarked for such local authorities be suspended, and that those funds be used to pay bulk suppliers for their services."

Curator appointed to supervise Alphabank

B Day 25/9/90

(58)

GRETA STEYN

THE Reserve Bank has appointed a "curator" to supervise the affairs of small merchant bank Alphabank, which was in the news recently when it emerged that its exposure to troubled Spareco, at R6m, exceeded its capital base of about R4m.

In a statement yesterday the Reserve Bank said: "The appointment of a curator was necessitated by the uncertainty of the position of Alphabank Ltd in view of the fact that the auditors of the institution were unable to express an opinion on the financial statements of the institution for the period ended on June 30 1990."

But the Bank noted that Alphabank had requested the curator's appointment.

Sapa reports Alpha MD Charles van der Walt said the exposure to Spareco had put pressure on the bank's liquidity position. The auditors had been unable to finalise the accounts as it was impossible to determine the settlement from Spareco.

"All depositors will get their money back although this could be later than the maturity date of the loans," he said.

Another small bank with a substantial exposure to Spareco is the International Bank of Johannesburg (IBJ). Spareco owes R12m to IBJ, which has a capital base of about R24m. IBJ MD Peter Gray said the bank had enough security against the exposure and emphasised it was backed by Bankorp and an unnamed foreign investor.

But rumour is rife in the market that major shareholder Bankorp is about to sell its stake as part of its effort to rationalise. A Bankorp spokesman said yesterday no decision had been taken yet.

Recession 'will last longer'

Citizen 24/9/90 (58)

By Magnus Heystek, Finance Editor

Predicting that interest rates might drop possibly by one percentage point before the end of the year, Sanlam's latest economic report warns that the current economic recession is bound to last longer than most analysts originally forecast.

Sanlam's chief economist, Johan Louw, says the decline in economic activity has been "considerably more severe than expected" — a fact which was confirmed by the third consecutive quarterly drop in real gross domestic product.

This, says Mr Louw, is creating a climate conducive to a reduction in interest rates.

However, there are several factors to be taken into consideration by the authorities before a decision on lower rates can be made.

They include the possibility that overseas interest rates can remain higher than originally envisaged and the fact that foreign exchange reserves are still at too low a level.

Inflation, while declining satisfactorily, is still too high when compared with that of South Africa's trading partners.

The recessionary conditions can be expected to last until the end of 1991 and even possibly well into 1992. While the recession is not expected to be as severe as previous recessions it could well last considerably longer.

Sanlam adds that the normal functioning of economic processes is currently being hampered by the continued deterioration of consumer and business confidence.

This is caused by the worsening financial position of individuals and businesses, the uncertain political climate, the riots and prolonged labour unrest.

The downturn in economic activity in the world's industrialised countries could deepen the recession in South Africa as a result of lower exports and higher oil prices internationally.

Sanlam points out that the higher gold price is not compensating fully for the rise in the oil price. For every $1 increase in the oil price gold has to rise by $6 an ounce to compensate.

Banks planning financial giant

Star 4/9/90 (58)

By Ann Crotty

Four major financial institutions — UBS, Volkskas, Sage and Allied — have announced they are involved in discussions aimed at a grouping of the parties' interests into a new diversified financial services group.

A merger between these parties would produce the country's largest financial group in terms of market capitalisation and would also make it one of the largest players in terms of asset base.

Because of the sensitivity of the discussions at this stage, official comment is not yet available.

In the past few weeks there have been strong rumours of a merger between UBS and Volkskas, which have strong links through cross-share holdings.

These rumours were fuelled by Volkskas's announcement last month of an increase in its bond rate — a move regarded as an attempt by Volkskas to reduce its home-loan book because of a possible tie-up with a major building society.

Steps to rationalise the various operations could include streamlining computer services, branch networks and personnel facilities.

The formation of a new group will be subject to the approval of all the requisite authorities.

● New financial giant — Page 18

UBS, Volkskas, Allied and Sage in talks

A new financial giant takes shape

Star 26/9/90 (58)

By Ann Crotty

A financial group with around R40 billion of assets — and in which the Rembrandt group would have a significant stake — could be created if discussions being held by UBS, Volkskas, Allied and Sage bear fruit.

According to today's cautionary announcement, the four companies are examining potential synergies and a grouping of the parties' interests into a new diversified financial services group.

In recent months speculation of some major rationalisation moves in the banking industry has ensured that bank shares have held up well in an otherwise lacklustre JSE.

In the past few weeks there have been particularly strong rumours of a merger between UBS and Volkskas. These rumours were fuelled by Volkskas' announcement this month of an increase in its bond rate — a move regarded as an attempt by Volkskas to reduce its home-loan book.

David Meades of brokers Meades, De Klerk describes the move as a rationalisation of the Rembrandt Group's financial service interests.

Also crucial to the move to rationalise are the Mine Officials Pension Fund and the Mine Employees Pension Fund, which have major stakes in the parties involved.

Rembrandt has a 10 percent stake in UBS and 30 percent in Volkskas. In addition, it has a joint controlling stake in Sage with the two pension funds.

The pension funds have a combined holding of 10 percent in Allied and 10 percent in UBS.

So, Rembrandt and the pension funds are important players in the proposed rationalisation.

Their hand is further strengthened by the existence of cross-holdings between UBS and Volkskas — UBS has 30 percent of Volkskas and Volkskas has 10 percent of UBS.

A merged UBS and Volkskas group would benefit from the addition of a specialised financial services group such as Sage, which offers mutual funds and portfolio management.

The deal would give Sage the opportunity to sell these services in a massive network such as was originally planned with the Allied/Sage tie-up.

The Allied involvement in the deal seems a little tenuous and comes via Sage, which has 10 percent of Allied. Allied, in turn, has 20 percent of Sage.

It is unlikely that the authorities would give the nod to a conglomerate combining two of SA's largest building societies.

Mr Meades believes that Allied may be planning to sever the link with Sage by selling its 10 percent stake to the pension funds. (Rembrandt is unlikely to be the acquirer because it is cash-strapped after the Gold Fields acquisition.)

If Allied is not part of this deal, it could end up in a merger with the Standard Bank group — as has been speculated for some weeks.

Significantly, Rembrandt's stake in the Standard Bank group is not involved in this rationalisation plan.

Again, it is unlikely that the authorities would approve of parties of this size getting together.

But this does not mean that Rembrandt will relinquish its stake in Standard. As Mr Meades says, this stake gives it a strong link with the Liberty Group.

The new Deposit-Taking Institutions Act to be introduced early next year, is seen as the trigger for moves to realign the various players in the industry.

The Act will allow an individual shareholder to hold a much larger stake in a DTI.

UBS chairman Piet Badenhorst is tipped to head any merger of UBS, Volkskas and Sage, with Dr Danie Cronje of Volkskas in the role of MD.

Scope for rationalisation is greatest in computer facilities, branch network and staff training.

Court bars FM story

S Star 26/9/90

By Malcolm Fothergill

The Financial Mail weekly magazine has been interdicted from publishing an article about Sage Holdings based on "bugged" telephone conversations and a confidential document.

In a judgment in the Rand Supreme Court yesterday, Mr Justice M M Joffe also ruled the magazine should pay the costs of an action brought against it by Sage.

The magazine sought to publish an article based on telephone conversations by Sage director Bernard Nackan and on an internal Allied Group document dealing with the group's relationship with Sage.

The telephone in Mr Nackan's office had been tapped and the tapes given to journalist Jim Jones of the Financial Mail by an unknown source.

Another unknown source had given Mr Jones a copy of the confidential Allied document.

Mr Justice Joffe said although the press had an important role to play in society, businesses were entitled to carry on their businesses without unlawful interference from others.

The fact that the Financial Mail was not party to the tapping of the telephone did not affect Sage's right to have its internal communications kept confidential, he said.

Lights go out in two townships

Star 26/9/90

Pretoria Bureau

Electricity supplies to Mamelodi and Atteridgeville, adjoining Pretoria, were cut off at 4 am this morning.

No notice of the decision was given to 500 000 people living in the area.

The bulk supplier, the Pretoria City Council, decided last night that as the townships owed it about R6,5 million for electricity, and had had three months in which to pay the arrears, there was no alternative but to cut off supplies.

The large Kalafong Hospital in Atteridgeville was not expected to be affected by today's switch-off, but clinics in both areas are likely to be without electricity.

Pretoria's management committee chairman James Leach said of the proposed power cut: "This is merely a suspension We are not following to the letter the contract between ourselves and Mamelodi and Atteridgeville, which called for a cut-off of supplies in the event of default."

He said representatives of the two townships would be attending talks today in a bid to resolve the situation. The council would maintain an "open door" policy.

COMPANIES

Details of African Life listing disclosed

(58)

B1041 26/9/90

EDWIN UNDERWOOD

AFRICAN Life Assurance will be listed on the JSE on November 15 by way of a preferential offer of 2-million shares to employees, existing shareholders, policy holders and selected business associates at 130c a share.

African Life MD Bill Jack said in an interview yesterday: "The purpose of the offer is to provide a market for the shares held by existing shareholders and an opportunity for other policy holders to also participate in the equity of African Life."

When listed, African Life will be one of the few listed companies with a majority of black shareholders. "Our intention is to be a company which is a mirror of SA society in all aspects of its activities," Jack said.

He said about 65% of African Life's policy holders were black.

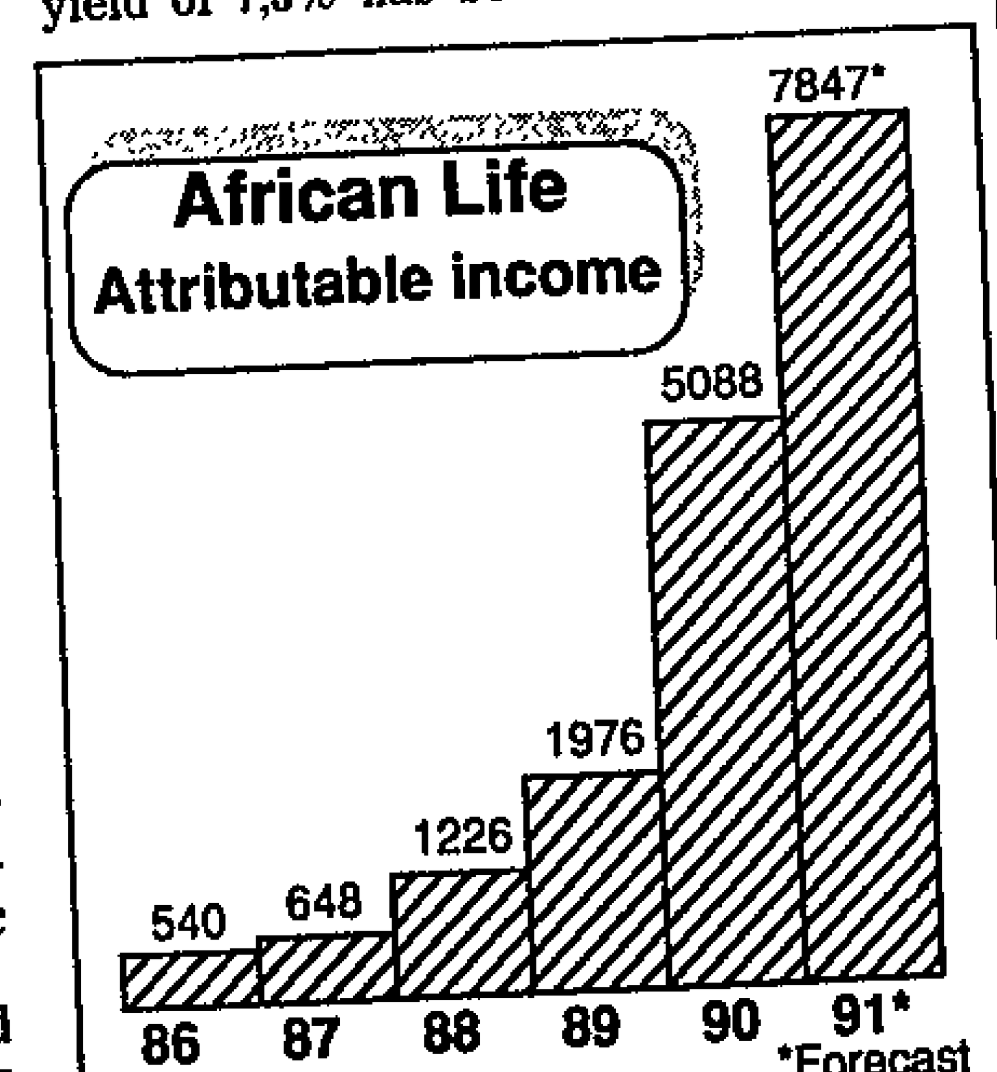
The listing would "help us achieve our objective of enlightening the understanding of our policy holders of the economic system and how it functions".

In terms of the listing, policy holders and staff will acquire 2-million ordinary shares from African Life's parent, Southern Life, at a nominal value of 10c each.

A total of about 55-million ordinary shares are to be listed and, should all the offered shares be applied for, Southern Life's shareholding will be reduced from about 81% to 77,4%.

The listing would have a minimal effect on the balance sheet. Jack said it was not necessary for African Life to raise any additional capital at the moment and no acquisitions or mergers were planned for the future.

Dividends have increased at an average rate of 32% a year for the same period. A dividend of 9,5c a share has been forecast for the 1991 year from 7,9c in 1990. The dividend yield for 1990 was 6,1% and a yield of 7,3% has been forecast for 1991.



Graphic: LEE EMERTON Source: AFRICAN LIFE

Total income before expenses is expected to rise by 29% to R79m (R61m).

Earnings a share of 11,8c were achieved in 1990 with an earnings yield of 9,1%. Earnings a share of 14,2c have been forecast for 1991 with an earnings yield of 10,9%.

African Life was still firmly committed to the growth strategy developed from 1986 and future growth would be maintained through the company's focus on its target market of low premium assurance, Jack said.

Tradegro, Pepgro call off their talks

St 28/9/90

By Ann Crotty, Investment Editor

The Tradegro-Pepgro deal is off.

Sankorp (Tradegro's controlling shareholder) and Pepgro issued a joint statement this morning to the effect that the two parties had decided to terminate negotiations.

It seems the Sankorp and Pepgro executive teams could not agree on terms for the deal and decided late last night to end negotiations.

No details were given as to the precise nature of the disagreement but it presumably relates to a difference in the valuation attributed to Tradegro by the two teams. And it is likely that the valuation of Checkers was the major stumbling block.

This morning's announcement will not take the market completely by surprise.

Pepgro chairman Christo Wiese is known to be a tough negotiator and has pulled out of discussions with other parties (most recently Storeco) at a fairly advanced stage when he was unable to do a deal at his price.

This time around, the size of the entity that was going to be created (annual turnover of more than R9 billion) and the problems at Checkers and to a lesser extent, Metro, were expected to cause difficulties.

Some analysts argued that although Mr Wiese may have been able to achieve a significant turnaround at Checkers he risked taking on such an enormous problem that it could have undermined his successful Pepgro operation.

Track record

In terms of pricing the deal, in view of Checkers weak track record over several years and the difficulty that various management teams have had in attempting to turn it around, Mr Wiese will have wanted to put a relatively low valuation on it.

He will have been much more pessimistic about Checkers' earnings potential than the Sankorp team.

Just over three weeks ago Sankorp and Pepgro announced that they were involved in discussions.

Industry sources indicate that the two parties had been talking for some time before the September 10 announcement and it seems that there were some preliminary discussions as far back as six months ago.

Banking groups in merger talks

58 Cape Times 26/9/90

Own Correspondent

JOHANNESBURG. — Allied, Sage Financial Services, UBS and Volkskas are discussing the merging of their interests into a single financial services giant, the four banking groups have announced yesterday.

Such a merger would result in the formation of SA's biggest financial services group with combined assets of about R50bn and after-tax earnings of about R400m, based on recent figures.

By contrast, banking leader Standard Bank Investment Corporation has assets of about R32bn and last year's attributable earnings were R333m.

Yesterday's announcement from Rand Merchant Bank says major shareholders in the companies — including Rembrandt and the Mines Officials and Mines Employees pension funds — were in favour of rationalisation in the financial services industry.

Speaking from London yesterday, a Rembrandt spokesman said it was too early to comment.

Directors of Sage, UBS, Allied and Volkskas said the possible benefits were very exciting.

Registrar of Banks Hennie van Greuning expressed his strong support for such rationalisation in an interview last night.

"We are aware that the discussions will occur and are fully supportive of the thinking behind the moves. The creation of such a giant would be good for SA, especially if we are to enter the international financial arena with confidence."

Stockbroking analysts said the announcement was not unexpected.

"Rembrandt has often said it is interested in rationalising its financial services interests. Rationalisation makes sense, especially given the problems of inadequate management and inefficient computer systems which have plagued the industry for so long," said Edey Rogers' David Southey.

A big group would have the economies of scale that were vital to the efficient running of sophisticated systems, he added.

It would make sense to move Allied and Volkskas into UBS and then to do a deal involving Rembrandt's insurance companies Sage and Momentum Life.

Martin & Co's Richard Jessie said any merger would probably involve UBS and Volkskas taking a strategic stake in Allied — and Sage could be delisted and split up.

At current share prices the companies have the following market capitalisations: UBS — R1,7bn; Volkskas — R666m; Allied — R549m; and Sage — R161m.

The most recent taxed profits were: Volkskas — R115m; UBS — R197m; Allied — R68,7m; and Sage — R35,7m.

In terms of assets Allied had R9,8bn; Volkskas R20,5bn and UBS R15,7bn.

Banking groups discuss big merge

Cape Times 26/9/90

58

Own Correspondent

JOHANNESBURG. — Allied, Sage Financial Services, UBS and Volkskas are discussing the merging of their interests into a single financial services giant, the four banking groups announced today.

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Directors of Sage, UBS, Allied and Volkskas said the possible benefits were very exciting.

● Full report — Page 12

Priest murder: Third man held

Cape Times 26/9/90

Crime Reporter

THE third suspected murderer of Manenberg Roman Catholic priest Father Noel Stanton was arrested in the township yesterday afternoon.

The three men, aged 19, 23 and 26, will appear in Athlone Magistrate's Court this morning.

Father Stanton, 46, of the Holy Family of Nazareth Church in Manenberg, was abducted from his Manenberg Avenue presbytery on Saturday night.

His semi-naked body was found in bushes in Happy Valley, Philippi, on Monday morning after a search by more than 200 policemen.

Shortly before the discovery, Manenberg detectives, led by branch commander Warrant Officer Joe van den Heever, reacting to a tip-off, arrested two men in a nearby flat. They also recovered goods that had been missing from the presbytery, including a video recorder, crucifix and brass candlesticks.

The 19-year-old suspect was arrested in a house in Manenberg at 12.30pm yesterday, also after a tip-off.

Lottery winner 'dies of stress'

BOSTON. — A 37-year-old cafeteria cook died of a heart attack weeks after winning $3,6 million (about R10,08 million) in the Massachusetts lottery.

Mr William Curry, 37, died on Monday, his first day back on the job at the Blue Cross-Blue Shield lunchroom after taking two weeks off to celebrate. He had been adamant about keeping his job with the Merit Food Company, where he had worked for 20 years.

His sister-in-law, Mrs Shirley Bourdon, said he had been hounded by financial advisers and people seeking money after word of his lottery win spread.

"It was the stress of it that killed him," she said.

He leaves his fortune to his wife, Maureen, and their two small children. — Sapa-AP

Hurdles to creation of super bank

BD 27/9/90 (58)

NEIL YORKE SMITH

MAJOR hurdles would have to be overcome before a merger between financial services groups Allied, UBS, Volkskas and Sage could work, analysts said yesterday.

They were reacting to the joint announcement that talks were under way between the four groups on the possibility of merging their interests into a giant financial services entity.

Achieving the hoped for benefits from rationalisation of systems, staff, premises and administration would be no mean feat, they said.

The main problems were different computer systems and different corporate cultures, they said.

All the companies had different systems and it would be a nightmare to integrate them into a single operating unit.

On the question of differing cultures, a JD Anderson analyst said Allied and UBS had long competed head on in the home loans market and had vastly different management styles and even different business approaches.

Another major issue was who would run the overall operation. Getting the respective bosses, all of whom were highly skilled and very independent, to report to a new chief, would be a big challenge.

The likely difficulty in rationalising the premises of the banking groups was also raised.

KEVIN DAVIE reports from Washington that Reserve Bank Governor Chris Stals said yesterday the Bank had no objection to the creation of a super bank.

"We have no objection, this is in line with our thinking on rationalisation in the sector," he said.

Stals said he did not foresee problems with the Competition Board.

Sanlam rejects union claim about losses

BDay 27/9/90

ROBERT GENTLE

LIFE assurer Sanlam yesterday rejected claims by the Federation of Sats Trade Unions that Sanlam policy-holders would have to pay for losses incurred by the Bankorp group.

Bankorp, which is in the Sanlam stable, earlier this month reported a net loss of R368m in the year to June.

A R500m rights issue — underwritten by Sanlam's investment arm Sankorp — was announced to raise extra cash — and a major rationalisation programme was under way.

58

Sanlam senior GM Desmond Smith said the problems faced by Bankorp had been rectified.

"Independent comparisons show that Sanlam policy-holders receive the best rewards when policies are paid out," he added, citing published comparisons showing Sanlam's payments were better than those of any other assurer in 13 out of 16 categories.

Referring to Sanlam's interest in Bankorp, Sanlam senior GM Ronnie Masson said the firm was optimistic this investment and the latest R500m would benefit policy-holders.

ALPHA BANK FM 28/9/90 (58)

THE CURATOR'S EGG

The appointment of a curator to supervise a faltering Alpha Bank came as no surprise to many in banking. In fact, other bankers were nervous of doing business with Alpha, believing it was too willing to accept excessive risk.

Their suspicions were well-founded. The fact that a curator has been appointed — a step last taken with Rand Bank in the Seventies — gives an indication of the depth of Alpha's crisis.

Alpha is a comparative newcomer to the banking scene and, two years ago, when it was granted a banking licence, the stage was set for others. Alpha's promoter, Pinnacle Group Holdings, was itself formed only in June 1986 as a financial advisory company.

Pinnacle went public in April 1988 in a contentious offer of shares but never took the step of obtaining a JSE listing. At the time its shares were being sold to the public, Pinnacle registered as a bank controlling company in terms of the Banks Act. In December 1988, and under the guidance of founder Reinhold Joubert — who was then still an employee of Rand Merchant Bank — the group was granted a banking licence and became Pinnacle Merchant Bank. In June 1989, the name was changed to Alpha Bank, controlled by Alpha Bank Holdings.

Some question whether the licence should have been granted. Says one banker: "Management seemed to lack expertise and did not take the trouble to maintain adequate liquidity. Also, there was poor cost control. High overheads force a bank to achieve higher margins, and that means they have to take greater risks."

Risk-taking became a way of life and led to Alpha's present problems. The crunch started in November when loans of R6m were approved to Spareco even though the troubled motor components distributor had been turned down by other banks. That exposure is enough to wipe out the bank's equity capital if the loan goes sour.

That has led to questions about small banks with large exposures to individual clients, compared to their capital bases Spareco was not the only risky loan. Alpha also provided finance to developer Attie Botha — until recently chairman of Pinnacle Holdings — for his purchase and renovation of the Lanzerac Estate at Stellenbosch, and a planned R25m renovation and upgrading (only about R10m was actually spent).

One property manager believes Botha paid far too much for the landmark property and called the upgrading expenditure excessive. "There is no way the hotel could be run profitably under those conditions."

An Alpha spokesman says the hotel was sold earlier this month for about R14m. Estimates of the outstanding loan hover

Joubert

around R19m but the bank insists it is nearer R14m and can be covered by the sale price.

Botha also persuaded Alpha to provide about R10m of the R40m needed to finance the extravagant Flamingo Lake development in Welkom. Under the scheme, developers would prepare the site and develop the infrastructure, including a 120-room hotel and conference centre, golf course, sports and leisure complex and two small cinemas. Prospective homeowners could then purchase stands on the site for between R50 000-R70 000.

The spokesman says the development — planned in co-operation with Welkom municipality — has been taken over by construction company Merbuild and stresses Alpha expects to see all its outstanding loans to the project repaid. He doesn't say when. And Alpha sees no conflict of interest in its loans to Botha. "Pinnacle is merely a holding company, and there is no direct relationship. Also, Botha is no longer chairman of Pinnacle." Fact is, Botha and Joubert established Pinnacle and Joubert is still Alpha's chairman. But the problems go beyond the loans There are investments in small collieries that are not doing too well at present. And, according to Alpha's BA9s, the bulk of its deposits come from municipalities.

Curatorship is designed to protect depositors, though they will probably have to wait beyond the loan maturity dates for their cash. That could be uncomfortable, especially for municipalities which have short-term deposits.

The Department of Finance has appointed Ernst & Young as curator with auditors Philip Reynolds and Lieb van Jaarsveld in charge of day-to-day activities. They will control all funds flowing to and from Alpha while the investigators probe the bank's finances. For the present no new deposits will be accepted and no existing deposits repaid. And no interest will be paid, though a new rate (retroactive to September 21) could be set some time in the future.

Detmar Schwichtenberg and Jacquie Bullard

SAGE HOLDINGS FM 28/9/90 (58)

INTERDICTING THE *FM*

THESE ARE SOME OF THE EVENTS WHICH LED TO THIS WEEK'S JUDGMENT

It started almost two months ago with a simple question about a foreign contingent liability. It ended on Tuesday with a Supreme Court ruling, after extensive litigation over the public's right to be informed about the affairs of a public company. Judge Meyer Joffe ruled the *FM* could not publish a proposed article which he described as having two main thrusts: Sage's ability to pay its liabilities in the US and its relationship with the Allied Group.

Basically, lawyers acting for Sage and its chairman Louis Shill sought to interdict publication of an article on grounds unique in SA legal history — largely that I had gathered information from clandestine tape recordings of phone conversations between Sage executives and from internal documents from Allied. Judge Joffe dismissed the *FM*'s argument that publication be allowed in the public interest. He ruled that the lawyers' arguments could not be published, though his judgment could.

As appears from the judgment, there was no suggestion that the *FM* had acted illegally in obtaining the tapes or had solicited them. They appear to have been made by a private detective investigating a suspected extramarital affair by a Sage executive.

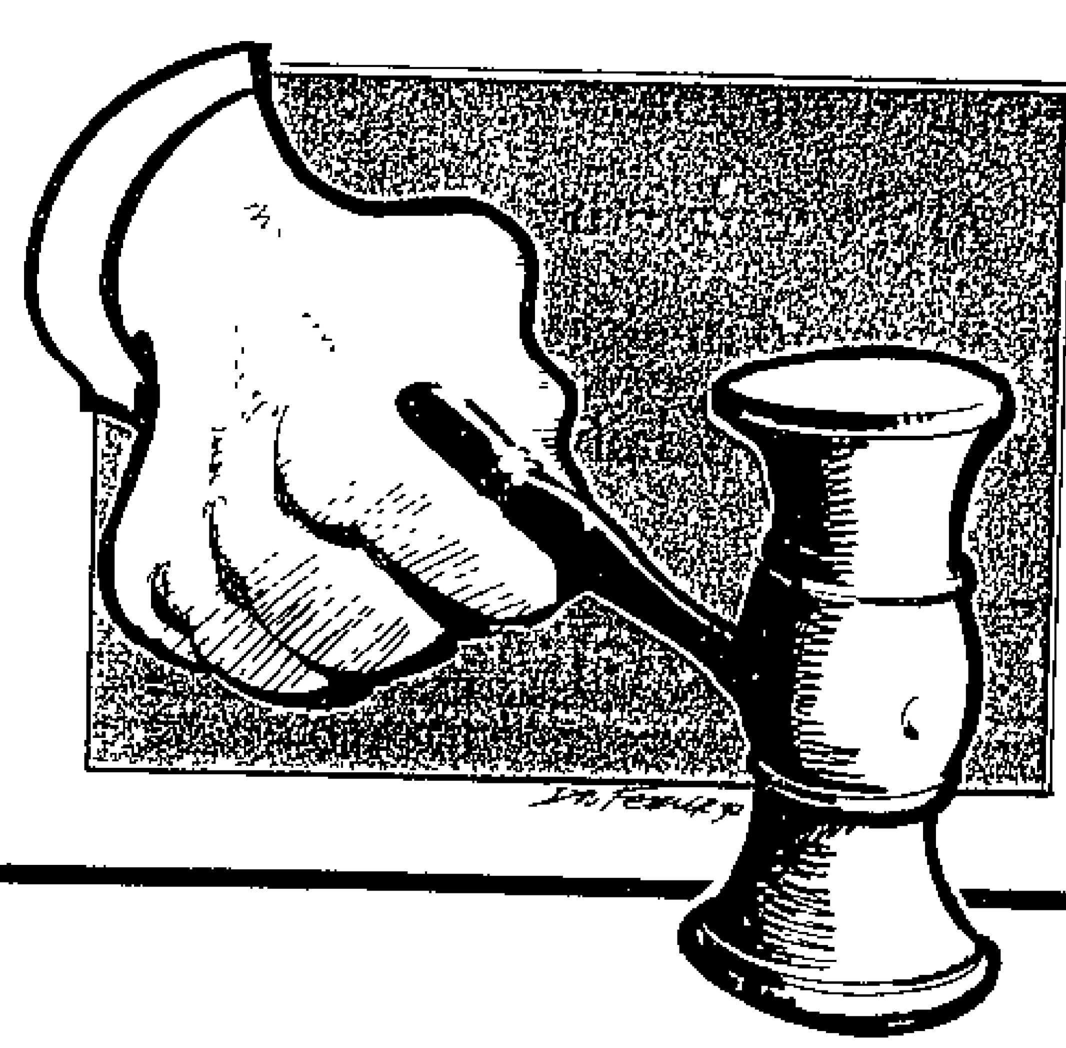
Clearly, the *FM* would not be interested in this sort of smut.

Of course, the matter might have been settled without Shill seeking to interdict the *FM* from publishing. But Shill felt so strongly about the tenor of my proposed article, its content and the sources of my information, that he believed nothing could be gained by discussing the matter outside the courts.

The interdict application was reported in the press. In the process, rumours have swirled around Sage. And while other newspapers with less information than the *FM* were publishing articles based on interviews with Shill which covered many aspects of Sage's financial affairs, the *FM* was prevented from publishing ahead of judgment. Also, the press was barred from reporting any of the courtroom proceedings pending the final judgment. How did we get here?

Late in July, my colleague, Ethel Hazelhurst, phoned Sage's Bernard Nackan to enquire about the treatment of a foreign contingent liability, stated as R41,7m in Sage's 1989 annual report Was this rand equivalent of a foreign amount calculated at the commercial or financial rand rate? Hazelhurst asked Nackan's abrupt reaction aroused our curiosity. Why was Sage reluctant to disclose the foreign amount?

Hazelhurst went on leave. My subsequent investigations led to the discovery that the actual amount due at end-1989 was US$15m — R41,7m in commercial rand, but R60m-odd if Sage had to repay through the financial rand. Also, it became clear that Sage had only noted a contingent liability. It did not indicate specific provisions had been made to cover guarantees of debts incurred by its loss-making US offshoot Independent Financial Services (IFS), run by ex-SA Sage executive Denis Kaplan. It was clear Sage had to make special arrangements to find that money.



In fact, information I had indicated that IFS owed a great deal more than $15m by August 1990, something I subsequently reported (*FM Cover Story* August 17). My investigations were extensive and eventually led to the August 17 article.

But let's step back a few days Before publishing on August 17, I discussed a draft article with Nackan — that's normal *FM* practice to make sure the points we make are factually correct and to give executives of companies under the spotlight a full opportunity for putting their views.

The upshot was an invitation to a two-hour interview with Shill and Nackan. Shill, who is used to having his instructions heeded inside Sage, spent the first half hour or so trying to set what he described as ground rules and to tell me how my article should be presented. Essentially, he wanted it to appear as a question-and-answer session — a format which allows limited scope for the sort of thorough analysis the *FM* provides. I was reluctant to accede to Shill's suggestions and, eventually, the interview went ahead.

Later, I re-wrote my draft and gave Sage a pre-publication copy to make sure I had reported Shill and Nackan's views accurately. It came back with extensive amendments — virtually all of which were incorporated into the August 17 cover story.

That seemed to be that, though Shill was

ALLIED/UBS/VOLKSKAS (58) FM 28/9/90

TIME TO GET TOGETHER

FM 28/9/90

Everything is falling into place faster than I'd expected. Sage and Allied are about to part ways and a sometimes-stormy relationship seems likely to end. That's part of what lies behind this week's cautionary announcement from Allied, Rembrandt, UBS, the Mine Officials and Employees Pension Funds, Volkskas and Sage Financial Services.

The cautionary announcement is bland — it talks of negotiations on a grouping of the various companies' interests into a new financial group, and seeking operating synergies. In reality, I believe, it marks the start of an asset strip at Sage which will facilitate Rembrandt's ambitions to establish a financial services group rivalling the likes of Sanlam, First National and Old Mutual.

Incidentally, the development comes in the wake of Sage's growing problems in the US and continuing differences between Sage chairman Louis Shill and Allied executives. It also follows apparently increasing embarrassment about Sage's performance at Rembrandt's Stellenbosch headquarters and has probably been helped along by the business friendship between Johann Rupert, Rand Merchant Bank's G T Ferreira and Allied MD Kevin de Villiers.

The concern of Sage's major shareholders has not been allayed by the court action which culminated in an interdict against the *FM* this week, when Judge Meyer Joffe found a proposed article on Sage was defamatory of the company and Shill. The judge also awarded costs against the *FM* (**see** *Leaders*).

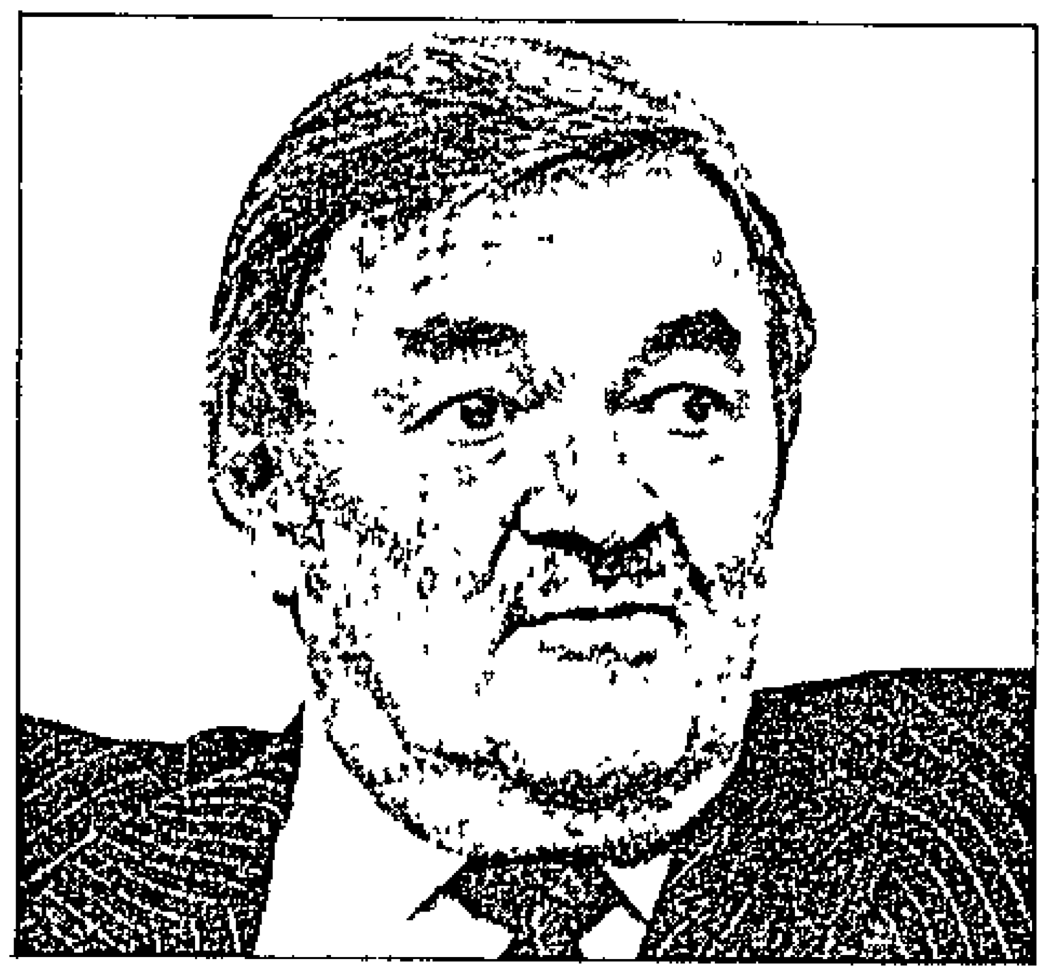
Sage's share price is weakening, which has also prompted concern in the mine pension funds which, along with Rembrandt, are the major investors in Shill's financial services group and supported Shill's attempts to take control of Allied's board earlier this year.

As I understand it, chairman Norman Alborough is heading the Allied team in talks with Rembrandt and its associates. It is not clear who initiated the negotiations but I wouldn't be surprised to learn the initiative came from Stellenbosch.

Alborough, a key player in Sage's court action against the *FM*, was appointed Allied chairman when the dispute between Shill and De Villiers peaked in public. The fact that he is now heading talks which could end in separating Sage from its 10% of Allied underscores the stresses which remain.

I would not be surprised if negotiations also include an end to the hotly disputed Allied/Sage co-operation agreement. As I have reported (*Leaders* August 17), the agreement favours Sage and has long been a bone of contention. And calls for an end to the contentious cross-holdings between the two have steadily become harder to ignore.

Two weeks ago Sage cut its interim dividend, underscoring a need to conserve cash flow. Most of Sage Holdings' interest in



Allied's Alborough ... *untying some knots*

Rand Merchant Bank has been moved into Sage Life; the Allied negotiations are the next step and will surely be followed by plans to take out Sage Life and the mutual fund management company.

The likely eventual structure is hard to predict. But Volkskas has been a problem area for years as its heavy dependence on government and municipal business turned out to be a drag on growth. Its recent headquarters move from Pretoria to Johannesburg signalled a new market awareness within top management — necessary if Volkskas's cross-shareholdings with UBS are to be parlayed into something stronger. If Allied is to be part of this restructuring it needs to free itself of the Sage cross-holding.

Presumably, negotiations will focus on establishing banking operations with closely defined operating parameters. Is there any real reason for a merger which leaves three banks — Volkskas, United and Allied — competing head-on? Negotiations will also presumably focus on arrangements which will save the participants from the expensive exercise of establishing new financial services units.

Jim Jones

DUROS/TOLLGATE FM 28/9/90

DEBT SLASHED

Six months after reporting disastrous results for the 1989 financial period, Tollgate Holdings (TGH) is preparing to release interim figures for the current year. Julian Askin, appointed chairman earlier this year, admits that these results will not be good. But the structure of the group has been changed radically, with much progress made towards reducing gearing.

TGH and its holding company, Duros, were acquired in March by a consortium controlled by the family trusts of Askin and Hugo Biermann, though effective control was taken only in June. Askin tells me a rights issue and disposal of a number of under-performing divisions have brought debt down sharply and cash flow has turned positive.

He says the rights issue raised R45m, while the sale of Arwa realised another R42m cash, which has been received. The operating divisions of Norths Industries were sold for R12m through a management buyout. Payment for this is to be made over three years but the immediate benefit is that Norths' debt is eliminated from the TGH balance sheet. TGH has retained the Norths cash shell.

In the tourism, sport and leisure subsidiary, Entercor, Deale & Huth was disposed of for R6m. The less significant advertising and PR divisions have also been sold.

Rigorous bargaining over bus transport with certain local authorities is expected to have cash-flow effects for TGH. Its Port Elizabeth and Empangeni commuter transport companies have been making losses for the past 24 months, and TGH has given notice that these operations are to close. Both are to continue until December but on terms acceptable to TGH. About 700 vehicles are involved, each with a replacement cost of R300 000. Some are to be sold to the local authorities while the rest will be moved to supplement the 1 000-vehicle western Cape operation. This, says Askin, will avoid the need for annual capital spending of about R25m.

Also sold is TGH's Transvaal commuter transport division, which has also been running at a large loss for the past two years. TGH will retain 150 of the former 650-vehicle fleet there. Management expects the closure of these loss-makers will completely staunch the cash drain in the transport division.

Askin reports that Entercor's transport divisions — Motorvia, Greyhound and Springbok-Atlas — are performing well. The 56% holding in Gants continues to depress group earnings, but Gants is seen by the group as a "major recovery situation." Restructuring is planned.

All this has reduced interest-bearing debt to R170m from R374m at December 31. By our calculations, this still gives an excessive debt:equity ratio of about 1,05. Gants accounts for about R100m of the group's debt, so action to rectify this company cannot be taken soon enough.

MOMENTUM LIFE FM 28/9/90

SET FOR GROWTH (58)

Further rationalisation in the life assurance industry seems inevitable and Momentum Life could be at the forefront of other mergers or takeovers.

FM 28/9/90 (58) · FOX

MD Niel Krige believes rationalisation will continue and even intensify. "Momentum Life has at its disposal considerable experience in this field and will closely watch developments in the financial services sector," the annual review for the year to end-June says.

MOMENTS OF LIFE

Year to June 30	*1989	1990
Premium income (Rm)	452,4	946,3
Investment income (Rm)	238,8	442,3
Earnings (c)	11,6	23,0
Dividends (c)	7,5	13,0

* Includes Lifegro for six months.

Momentum hit the headlines when it took over ailing Lifegro in November 1988. It was listed through Lifegro and has the backing of Rembrandt, which has a 30% shareholding, and Volkskas, which also has 30%. Momentum is connected to Sage Life, part of Sage Holdings, which is 22%-held by Rembrandt, as well as to Commercial Union (30% held

FOX FM 28/9/90 (58)

by UBS, which holds 30% in Volkskas, which has a 10% cross-holding in UBS). These links present considerable scope for possible mergers or takeovers.

"Rationalisation has cost benefits," Krige says, referring to the Lifegro takeover. He adds that R20m/year has been saved, mostly on staffing, computer systems and administration. Krige expects a further saving of R7m-R8m when 300 000 Lifegro policyholder records are transferred to Momentum's administration systems. A R6m-R7m saving is also expected when the old Lifegro head office in Sandton is let.

Since Lifegro was taken over only five of its 25 general management team remains and about 750 other employees were made redundant.

Krige says the 1990 financial year was one of consolidation, though this didn't stop Momentum increasing pensions business by R377m. Of this, R322m will be administered on behalf of the client and is, therefore, off-balance sheet. Other figures disclosed cannot be meaningfully compared with the previous

Momentum's Krige . . . *a year of consolidation*

year to June 1989 because it includes Lifegro results for only six months. Had Lifegro been included for a full year, premium income would have grown 20% to R946,3m, most of this made up of more profitable recurring premium business.

Krige says the group is looking for further growth and new business will probably have to be financed through a rights issue. Shareholders' funds total R102m, compared to policyholders' funds of about R6bn.

Momentum's links with Rembrandt, Volkskas and UBS offer good opportunities to extend its life and corporate business. Krige says pension business now has a "fairly modest stake" in related companies.

He believes Momentum's strengths lie in its investment flexibility, its AS 400 computer system — which can change with new developments — and relatively young management team. "For this year our focus will be on profitability and further improving the level of service," he says.

Krige points out that both earnings and dividends exceeded the pre-listing statement's forecasts of 19c and 12,5c respectively. EPS of 23c and a total dividend of 13c were declared. Though it is difficult to make any sound conclusions about the performance in the 1990 year, Krige's enthusiasm for future success is infectious. *Heather Formby*

Extraordinary times at TGH

Star 28/9/90 (58)

By Ann Crotty

Abnormal and extraordinary items have wiped R41,5 million off shareholders' funds at **Tollgate Holdings** (TGH) since June 1989.

Interim results for the six months to June 1990 show a loss per share of 18,3c a share — down from earnings of 26c at the previous interim.

Despite the loss, a dividend of 6,5c (11c) a share has been declared.

There was a 28 percent drop in turnover to R279 million (R387 million) and a 58 percent fall in operating income to R15 million (R35,8 million). Interest payments of R14 million reduced the profit to R973 000.

At this level, abnormal items cost R15,8 million. A tax rebate and income from associates reduced the loss to R10,4 million.

There was an extraordinary loss of R35,6 million. The abnormal and extraordinary items refer to losses on discontinued operations, termination of long-term contracts, disposal of assets and retrenchment costs.

The directors say the interim results reflect group performance prior to change of control.

This was effected at end-March when a consortium led by London-based Julian Askin and Hugo Biermann acquired control of TGH's parent, Duros.

The consortium paid R45 million to get control. In March this looked like a good deal as the Duros asset base was estimated to be worth R1,6 billion.

The TGH share price moved up on expectations that the new ownership team would boost performance by restructuring the asset base.

More recently the market appears to have been less sanguine about group prospects, with Arwa being sold at a price below market expectations.

In addition, the chances of selling Gant's at anything close to 100c a share becomes less likely as no news of a suitor is forthcoming.

Some months ago Kanhym's Dirk Jacobs said he would consider paying about 80c a share for Gant's. At that time the new management was reported to be looking for about 190c.

Gant's results for the six months to June show a loss of 5,7c a share — down from earnings of 9,2c at the '89 interim.

There was an extraordinary loss of R1,3 million. Turnover was down to R67 million (R129 million), with operating income of R738 000 (R14,8 million).

Figures do not include the agricultural machinery division and certain foreign subsidiaries.

TGH directors say in reference to Gant's that they are assessing certain strategies to improve its value and performance.

Entercor turned in a strong performance, with EPS up marginally to 15,6c (14,6c) a share. However there was an extraordinary loss of R6,2 million.

Bankers to seek entry to equities market

GRETA STEYN

BANKERS are gearing up to lobby the authorities to allow non-JSE brokers to deal as principals in the equities market.

Merchant bankers yesterday said they regarded banks' entry into the stock market as "well-nigh inevitable" if the deregulation of financial markets was taken to its logical conclusion. B 1094 28/9/90

Bankers currently deal in derivatives on equities — futures on the JSE indices and options on stock index futures — but cannot deal in the underlying instrument without incurring the cost of a broking fee.

Brokers also deal in derivatives but do not face the additional charge when dealing in equities. Some banks said it would be in the spirit of "levelling the playing fields" to change this situation. (58)

A "Big Bang" with one exchange for all markets — Unex — was foreseen but the banks would first have to convince Registrar of Financial Institutions Piet Badenhorst.

They had yet to formulate a request and, with the current sensitivity surrounding the banks' relationship with the JSE, did not want to discuss the issue before Unex started taking shape.

But they said the Financial Markets Control Act could be the vehicle to allow them entry to the equities market as the JSE Act could simply be scrapped and the stock exchange could fall under the first Act.

Alternatively, the JSE Act could become a plural Act and other stock exchanges could be opened.

Badenhorst said yesterday he had not received any request to allow banks to trade equities.

However, any request would be considered.

Talks on township payment under way

Star 28/9/90

58

Municipal Reporter

Negotiations are under way between the Province and civic associations to end rent and service-charge boycotts in Tokoza and Katlehong.

The chairman of the mediation team, Nigel Mandy, said about one-third of Tokoza residents had already come forward to pay for electricity this week.

In Katlehong — where Eskom is owed R5 million — Mr Mandy said the civic association had expressed willingness to resume payments.

"They have offered R30 a house, whether it has an electricity connection or not," he said

Eskom has given the Katlehong Town Council until October 8 to repay a substantial part of its debt or it would be forced to "take action".

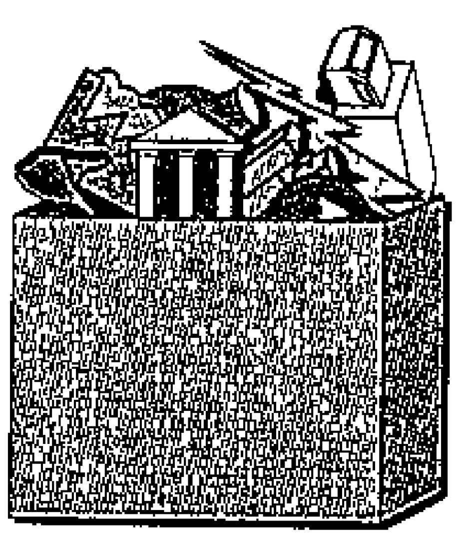
Katlehong mayor Gideon Molotsi said pamphlets calling on residents to abandon the rent boycott would be distributed.

He said that if there was no response from residents, the power cut would be enforced on October 8.

SANKORP FIM 28|9|90 (58)

DEALING WITH PROBLEM CHILDREN

SANKORP HAS CLUNG TO STRATEGIC INVESTMENTS DESPITE FAILURES



A delisting for non-performing Federale Volksbeleggings (FVB), a R550m rights issue for Bankorp and now merger talks for Tradegro — these are some recent decisions from Sankorp, the unlisted company set up by Sanlam just over five years ago to hold and oversee its "strategic" investments, that have fuelled a debate over whether the Cape assurer should — or can — play an entrepreneurial role.

Sankorp has presided over turnarounds at some major investments, particularly Gencor and Nissan. Successes such as these did much to restore Sanlam's image on Diagonal Street, where it had been under considerable strain in the early Eighties in the face of evident failures of leadership. But for FVB, Bankorp and Tradegro recoveries have failed to come — despite large injections of capital.

One question is whether Sankorp has in fact been a way for Sanlam to prop up companies that might otherwise have been put down, or moved into more entrepreneurial hands which did not have the assurance of almost unlimited institutional funds.

Sankorp MD Marinus Daling, who was Sanlam's investment czar when many of the strategic acquisitions were made, doesn't think so. He does concede errors have been made. There is no doubt in his mind, though, that the founding of Sankorp was the correct decision. "One should not think the current problems would not have been there had there been no Sankorp," he says.

Daling adds: "We have investments in companies that are under-performing. The fact that these are now under discussion is the direct result of actions by Sankorp's management. But Sankorp's overall performance is well above average."

Sankorp was set up months after a JSE buying spree during 1984, when, in quick succession, Sanlam grabbed large or controlling stakes in Kirsh Trading (now Tradegro), Protea, Malbak, Abercom, Messina and Murray & Roberts (M&R). This happened when the economy was in recession and the JSE was depressed. The then chairman, the late (and ambitious) Fred du Plessis, was quoted as saying it was deliberate strategy to buy in difficult times, when prices were depressed.

Into Sankorp went the 1984 acquisitions, as well as a number of Sanlam's other important investments. Interests now include controlling stakes in Gencor, Metropolitan Life, Santam, Sentrachem, Datakor, Automakers (holding company of Nissan) and Unitrans; jointly controlled Conshu; and associate companies Siemens and Plessey (see table).

Sanlam's liking for controlling stakes in so-called strategic investments is unusual among assurance companies. Its largest competitor, Old Mutual, has long held some 34% of Barlow Rand; it hastily bought control of Rennies, from which developed Safren, during Sanlam's 1984 spree; and a controlling stake in Nedcor followed the rights issue bail-out a few years ago. For the rest, Mutual generally shuns control.

It also treats even holdings like that in Barlow Rand basically as portfolio investments, a rare entrepreneurial exception being the active development of mineral exploration through Lydex.

Sanlam's strategic portfolio arose out of its historical role in helping the economic enfranchisement of Afrikanerdom; this included creation of employment, as well as extending Afrikaans ownership and management of big business. While Daling concedes this was part of Sanlam's image and culture, he contends that things have changed; the group now has a "SA culture." But he believes Sanlam will continue to play an important social role when investing.

"We are not simply scooping the cream from the JSE," he says. "We get involved with strategic companies and, through them, in grass-roots development. Sanlam has played an important role in this in recent years." This evidently means that gaining the best return on policyholders' funds is not the only investment aim. And the assurer does not mind investing vast sums of (policyholders') money to pursue its causes — though Daling says the strategic investments should achieve comparable returns.

But they haven't. FVB's dreary record speaks for itself. The share price (ahead of the minorities buyout) today stands at 445c, less than the December 1980 475c; there were rights issues of R100m in 1985 and about R100m in 1988. FVB is, of course, itself a sacred cow that played a prominent part in the *helpmekaar* movement.

Says Daling: "In a strict sense it was not a good investment. Looking at the history, especially the share price, it is an unhappy series of events. On the other hand, if one looks at what the group attained over the years, there is a lot to be proud of."

Successful com-

THE FULL PICTURE
Sankorp

SUBSIDIARIES	Holding %	Mkt Cap (Rm)	Net profit (Rm) 1985	Net profit (Rm) Latest	Activities
Gencor	27	11 760	458,0	1 051,0	Mining, finance and industry
Federale	62	780	(65,0)	95,3	Industry
Bankorp	80	530	53,2	18,1	Banking
Metpol	60	255	4,4	19,9	Life assurance
Santam	50	170	9,0	51,3	Short-term insurance
Sentrachem	37,5	570	(24,0)	100,3	Chemicals
Tradegro	42	280	(21,8)	38,4	Retailer and wholesaler
*Automakers	100	-	-	-	Motor vehicle manufacture
Datakor	67	90	-	22,0	Information technology
Murray & Roberts	36	290	43,2	153,7	Constr, building and industry
Unitrans	41	160	3,6	28,4	Road transport
JOINT CONTROL					
Conshu	31	150	1,1	27,1	Footwear manufacture
ASSOCIATE COMPANIES					
*Siemens	16	-			Electronics
*Plessey	26	-			Electronics

*Unlisted

Financial Mail

SA AT THE IMF

FLYING THE FLAG

FM 28/9/90 .

This week, for the first time in the memory of most people in Washington, the SA flag bedecked the White House — the traditional courtesy shown to a visiting head of state.

Of course, the adjacent Lafayette Square is no stranger to our national emblem. It has been doused in petrol there often enough prior to symbolic burning by those opposed to apartheid. But despite the presence of State President F W de Klerk in the guest house for official dignitaries, protest against his visit has been muted.

For the most part, Washington and the delegates to the International Monetary Fund and World Bank annual meetings gave De Klerk a warm, indeed encouraging, welcome.

De Klerk addressed a dinner for businessmen at which the demand for seats was substantial. At lunch he addressed the Washington Press Club after meetings with President George Bush and later, together with Finance Minister Barend du Plessis, with Treasury Secretary Nicholas Brady.

While accorded all the dignities of an official visit, there has not been a hint of the extravagant media triumph which surrounded the ANC's Nelson Mandela a few months ago. Chances are, however, that De Klerk and Du Plessis could eventually reap more tangible benefit from their visit than the ANC gained from Mandela's.

The ANC raised only a fraction of the funds it had hoped to garner from rich Americans. Maybe that was because of the R25 000 some say they were asked to pay to hear Mandela speak after he'd alienated many in the Jewish and Cuban communities by his open support for infamous leaders. Some Americans hasten to point out that now Mandela has his freedom, the world's longest-serving political prisoner is in a Cuban jail.

Ostensibly, De Klerk hasn't come to ask for anything. He was invited by Bush some time ago, but summoned at short notice by Bush himself — and the visit is very much at the US presidential pleasure.

Nor has De Klerk been involved directly in any of the IMF and World Bank meetings. However, some US bankers believe Bush was not without guile in timing De Klerk's visit to coincide with the presence in Washington of many delegates from the indigent and politically repressive black African states.

The message they say he wants to get across in a forceful manner is that while the West will certainly respond positively to poor countries that implement sensible economic reforms, he also wants better government — respect for human rights, the rule of law and greater integrity.

That is precisely what World Bank president Barber Conable has been telling the African caucus — very bluntly.

It has been suggested, too, that Bush is anxious to talk to De Klerk on Middle East strategic matters now that his soldiers could soon be facing hi-tech Armscor missile weaponry in Iraq's hands.

While De Klerk said he would not himself raise the question of continuing US trade sanctions, it was certainly discussed.

Our guess is that he put forward the argument used by Du Plessis against their prolongation: that the moral case for sanctions reduces as apartheid itself is rolled back and that this should be recognised. If it isn't and removal has to await a new constitution, there is an unnecessary constraint on economic growth.

This, in turn, will hamper the ability of government to address welfare, educational and housing shortfalls. For increased spending must be financed from growth and not higher taxes or additional borrowings.

As could be expected, Bush was sympathetic and offered help to bring about democracy in SA, but, on sanctions, he refused to move the goalposts.

De Klerk's more telling requirement is for SA to regain access to IMF support facilities — effectively blocked by the US — so that it can repay all its foreign debt and regain access to world capital markets.

This debilitating deprivation is made more urgent by SA having by force of circumstances become a good credit risk, yet still subject to a debt rescheduling arrangement. Because of this, some banks, notably the British, will soon be required by their authorities to carry an increased capital reserve against SA loans in the net, despite SA foreign debt being less than 80% of one year's export earnings.

Progressive access to greater bank financing, as bankers' attitudes towards SA soften, will not achieve the dash for freedom and support for the next economic upturn that Du Plessis wants. The situation, however, is not desperate. There is no pressure now on SA to repay debts ahead of the current schedule, which ends in December 1993.

The most difficult time for the capital account was the first six months of this year, when payments under the schedule were heavy. The current account surplus at present exceeds the capital outflow; the reserves rose by R500m in the first half of the year and by R2bn in July-August.

But renewed access to IMF facilities would certainly help the economy adjust to the prospect of slower world growth and possible higher oil prices.

It would also enable an eventual switch in policy towards greater economic growth while avoiding some of the more harsh risks that current constraints on the trade balance make inevitable.

Simply put, De Klerk's and Du Plessis' efforts at financial diplomacy aim at a more rapid transition away from apartheid to a free-enterprise economy with as few constraints on growth as possible. If they are successful, they are more likely to help the poor faster than either the continued denial of capital resources for some unspecified gain in political reform, or a contribution to the ANC. ■

panies such as Gencor, Sentrachem and Trek developed out of Federale. "The original purpose was well served," he says. "However, it's a different environment now. If you want to continue to pursue that purpose, you can do it in only one way and that is to attract capital."

This perhaps best explains why Sankorp decided to delist FVB: the market today rejects a paternalistic approach. Given the frayed history, prospects of a recovery in the market rating were slim. FVB's subsidiaries Fedmech and TEK are experiencing severe problems and could eventually have pushed the group towards yet another rights issue — with dire effects for the share price.

Another problem was that FVB's price stood 50% below net worth. A rights issue would heavily dilute net worth, making it difficult to raise equity capital even for a profitable subsidiary like (say) Fedfood. Daling says a vicious circle had arisen which made it impossible for FVB's own companies to develop to their potential.

The plan now is to concentrate on developing FVB's subsidiaries into strong independent companies. In time, Sankorp will decide whether to list them individually. In two years' time, a listing may be considered for Firestone, for example.

Daling denies Sankorp was slow to act on FVB, or that management was emotionally blinded by historical culture. "Our actions do not testify to people who became so attached to a company that they can't take action any more."

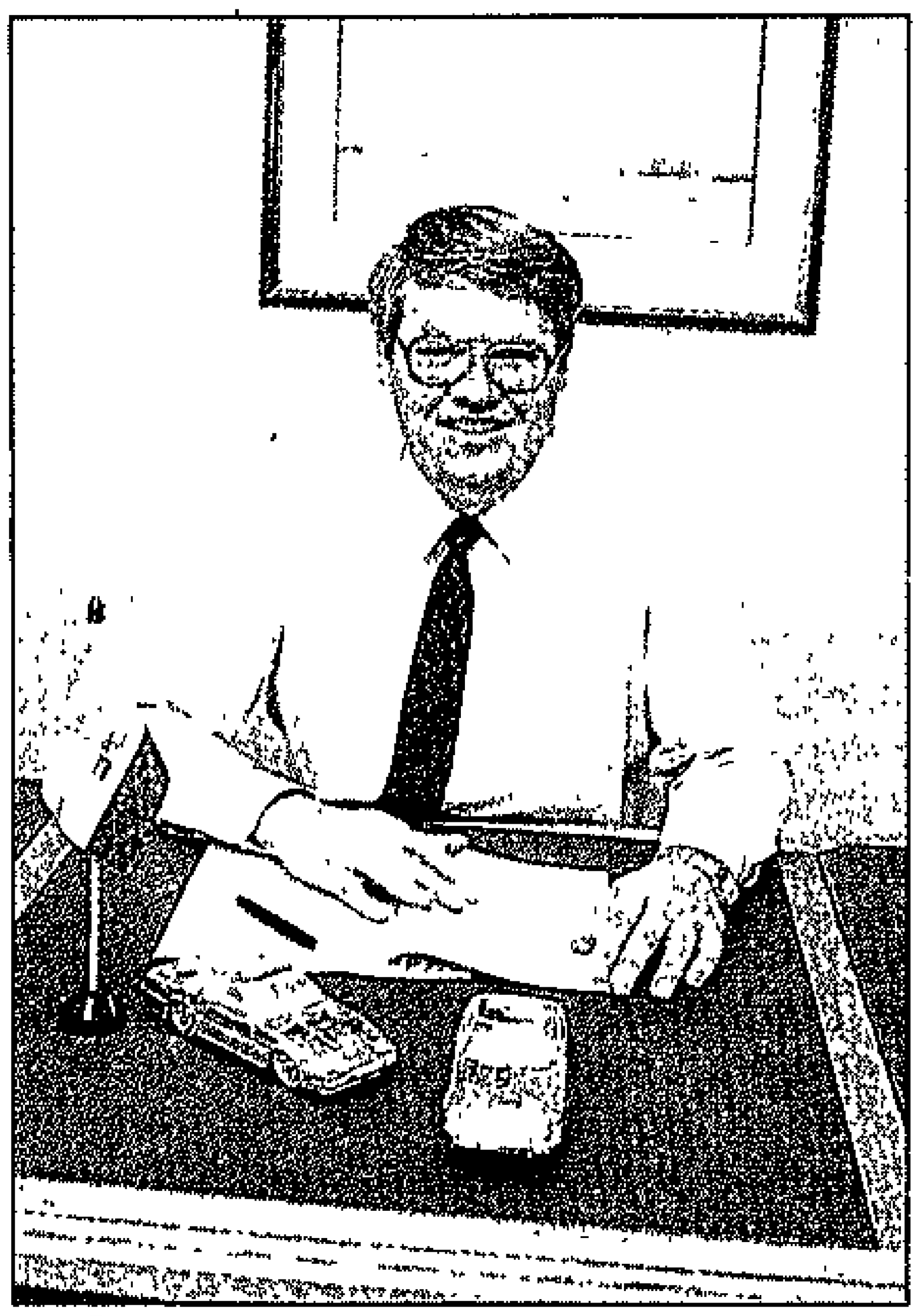
He cites "corrective action" by Sankorp after FVB posted a huge loss in 1985-1986 and the debt:equity ratio ballooned to 1,68. The portfolio was rationalised and a rights issue carried out on Sankorp's advice. Gearing recovered to 0,43 in 1989 and EPS swung from 1985's 137c loss to 86c earnings last year. With the latest setback, EPS buckled to 56c and gearing jumped to 0,65.

Daling claims the favourable economic environment concealed weaknesses in Federale for some years, but they were starkly revealed when the economy tightened. "It is difficult for a controlling shareholder to intervene when things are improving," he says. Fact is, weary investors had to watch a dismal and erratic performance from FVB over a decade — while essentially the same management team remained in place.

Bankorp's long-term performance is even more depressing. The current R550m rights issue lifts total capital injections over R1bn since Sanlam got involved with TrustBank in 1977. The Bankorp case offers most support for the view held by some analysts, that Sankorp exercises a heavy-handed but adverse influence on subsidiaries. Certainly, Du Plessis took a particular interest in the affairs of the banking group.

Daling says Bankorp's strategy of chasing market share was not inspired by Sankorp, though Du Plessis, as chairman of Sankorp and executive chairman of Bankorp, was obviously involved.

"Sankorp was aware of the strategy and



Sankorp's Daling ... *adjusting to a different environment*

should have interfered. The strategy did not work and we got Piet Liebenberg to take control. He is an experienced banker, who has lived through an episode like this before and handled it successfully."

Daling remains optimistic about Bankorp. "SA is over-banked but it is more a case of the industry being over-branched. This creates huge duplication of costs. Mergers make sense. Sankorp has over 80% of Bankorp's shares and with the rights issue our stake will increase to the upper 80%s. We will have to reduce our holding to 49%: one way is to merge Bankorp with another group; another would be to sell the stake over time."

Tradegro is a different case that sheds further light on both the strengths and weaknesses of Sanlam's strategic approach. It is probable that when Sanlam took a majority stake — acquiring outright control a year later — of Kirsh Industries through Kimet in mid-1984, the risks were not understood. Some analysts believed then that a collapse of Checkers was possible. That would have meant the loss of many jobs.

Sanlam was certainly conscious of the size of Kirsh Industries' assets and markets. Daling told the *FM* (December 12 1984) Kirsh was a major organisation whose sales accounted for some 13% of the consumer market. He added that Sanlam was most impressed with Checkers and said: "I'm sure that in five years' time we'll look back and say this (the stake in Kirsh) is one of the best investments we've ever made."

Tradegro clearly remains a disappointment. Though the considerable funds injected into it may have helped save jobs (and given Sanlam a wider exposure to the economy), they have hardly generated an acceptable return for policyholders.

Former Anglo American investment manager Jacques Desmidt levelled a trenchant criticism at a Tradegro presentation a couple

Genkor's Keys . *one of Malbak's main attractions*

of years ago. He felt the giant wholesale and retail group had been institutionalised, when it ought to be run and controlled by entrepreneurial traders. Merger with Christo Wiese's Pepkor (now under negotiation) may be a sensible step in that direction.

Sankorp has a small head office of only 20 people. Emphasis is on decentralised management throughout the group; Sankorp simply has two or more directors on subsidiary boards (usually at least two, "as it is easier for one person to lose objectivity.")

An alternative would be to regard all holdings as portfolio investments. Daling rejects this as an ivory tower approach. "We see the subsidiaries as strategic investments," he reiterates. "One cannot simply sell them, so we must be involved to influence the process."

Gencor is an outstanding success — though its earlier problems can partly be blamed on Sanlam's heavy-handed approach. The mining house endured several torrid years after Du Plessis forced the resignation of ex-chairman Wim de Villiers. The accession of Derek Keys was one of the achievements of Sanlam's 1984 buying spree; Daling said later that year that the Keys and Grant Thomas management team was Malbak's main attraction.

Automakers' Nissan, acquired as part of Messina, is a case where it paid off to patiently nurse a big loss-maker back to health. Automakers is said to have made a R100m profit last year. M&R is another group whose record was dented during the mid-Eighties, but has restored its image.

Helped by turnarounds such as these, inflation and the general surge in corporate profits in the past four years, Sankorp's profit has grown impressively. Equity earnings increased from breakeven in 1985 to R830m in the year to end-June 1989.

Against this must be weighed the losses and some fruitless rights issues. Clinging to so-called strategic interests must imply limited flexibility and substantial opportunity costs. The group can afford a long-term view, and there may be benefit in investing in social causes with above-average risks. But there is a trade-off between assuming social responsibilities and earning the best returns on funds that belong to policyholders.

Gerhard Slabber

WORLD ECONOMIC THINKING FM 28/9/90

WAITING FOR SADDAM

WESTERN SUCCESS IS BEING TROUBLED BY UNCERTAINTY OVER THE GULF

Those who determine economic policy in the major industrial nations are facing a tough choice. They must decide whether the Gulf crisis is going to be short-lived or become a more permanent constraint on growth.

They are coming under increased pressure from some politicians and businessmen — who have made the wrong choices — to reduce interest rates and ease credit to counter a period of reducing growth after eight consecutive years of rising prosperity.

If they do so in the belief that Iraqi President Saddam Hussein is capable of forcing a substantial increase in oil prices over the next year, they could, if they're wrong, induce strong inflationary pressures that will take time to contain and do great harm while that is happening.

Fresh in their minds, of course, is the October 1987 equity Crash, which was accommodated in haste by the creation of too much liquidity and led in part to inflationary pressures in some leading economies now.

Nor have policymakers forgotten the foolish measures taken after the oil shocks of the Seventies to isolate domestic economies. These created inflationary pressures that took a decade to contain.

If, on the other hand, policymakers impose greater monetary and fiscal discipline, and Hussein proves a short-lived threat, they will impose immediate social hardships on many people which, in turn, could have unpleasant political consequences.

Indeed, they could jeopardise initiatives in eastern Europe, the Soviet Union and some Third-World countries to substitute free-enterprise economies for unproductive command ones; and, in consequence, introduce deeper and more dangerous political uncertainties.

This dilemma is why Federal Reserve chairman Alan Greenspan had an argument when testifying before Congress last week over the definition of a recession. He argued that lower interest rates in the US would be inappropriate now because a recession was not necessarily signalled by two successive quarters of falling output. Instead, he defined a recession as a cumulative process of deterioration into economic decline.

In fact, Greenspan, faced with rowdy political demands for accommodation in an economy that's cooling anyway, was more likely seeking a way to do nothing rather than indulging in serious economic dispute. It was clearly a time for central bankers to reflect and worry rather than react in the market.

That is more or less what bankers, economists and treasury officials were doing at this week's annual meetings in Washington of the IMF and World Bank. They are waiting to see how Hussein jumps.

It is common cause that after eight consecutive years of growth — a rare peacetime phenomenon — the large Western industrial economies need to pause for breath.

They are all running short on capacity, so continued growth in demand will increasingly be inadequately met, resulting in inflationary pressures. Lack of savings and capital formation was bound at some stage to bring about a capacity constraint.

A reduction in real interest rates now is unlikely to generate the savings needed to enable the industrial economies to begin another growth cycle in a year or two's time.

The IMF forecasts that growth in the world economy will slow to about 2% this year from 3% last. But next year output is expected to begin picking up, at 2,5%.

In the industrial countries real GNP is expected to rise by 2,5% for this and next year, down from an average 4% in 1988-1989. Inflation is likely to increase to 4,75% but decline modestly next year.

The catch, of course, is that none of these forecasts takes into account adverse consequences from the Gulf crisis. The IMF based its forecast on an oil price of US$26 a barrel this year, reducing to $21 next year. If this trend is reversed, and oil rises to $30 for the year, the expected growth will most likely not be there. If prices level at $60 — which is one gloomy forecast — then the industrial economies will be faced with major adjustments and inevitably greater austerity.

One encouraging fact is that the Group of Seven — the US, Japan, Germany, France, Britain, Italy and Canada — was remarkably sanguine after its meeting in Washington. It still forecasts continued growth in these economies, though at a lower rate.

Significantly, they have agreed not to try to cushion any Gulf oil shock. The correct response to higher oil prices, they say, should be a monetary policy aimed at stable domestic prices and fiscal policies and practices that reflect a tighter monetary stance.

Policies aimed at greater price stability, as much in the financial markets and foreign exchanges as anywhere, remain a priority among these large national economies.

After last year's euphoria over the emergent economies of eastern Europe, there has been a more sober assessment of their prospects. Structural, supply and ownership problems have dampened the enthusiasm of the G7 innovators and, no doubt, their own first downturn in eight years has concentrated their minds on domestic matters.

Pervasive pessimism at this year's IMF meeting has more to do with uncertainty over the Gulf than serious underlying economic problems. Eight years of running growth had at some stage to be temporarily interrupted as capacity restraints emerged.

That is happening but by no means calls into question the fiscal and monetary policies applied — enhanced by lower taxes and deregulation — over the past 10 years.

PRU-BACHE DIRECTOR FOR *FM* CONFERENCE

Despite half a decade of sanctions and restricted access to the world's capital markets, SA is playing a part in the globalisation of financial markets. Of course, we have a lot to learn and some catching-up to do, but the next few years should see profound changes in the way our financial markets interact with those of the rest of the world.

Globalisation of the World's Equity Markets is the topic of Kees Schager's address to the *FM*'s Investment Conference this year.

Netherlands-born Schager needs little introduction to SA's investment community.

He has addressed previous *FM* conferences and is among the best-qualified people to put perspective on how SA will interact with the financial world.

Schager is MD of International Research of New York finance house Prudential-Bache Capital Funding as well as the house's Director of International Strategy. Before joining Pru-Bache in 1988, Schager was director of international research at Merrill Lynch and built up Merrill's research operations in Tokyo, London, New York, Sydney, Hong Kong and Singapore.

☐ The conference will be held at the Carlton Hotel, Johannesburg on November 1-2. The fee is R1 100 per delegate, reducing to R980 for each additional delegate from the same company.

Bookings are building up and it is advisable to book soon through conference manager Brigitte Petty on (011) 497-2135.

58

Indeed, current temporary difficulties (excluding whatever the Gulf may bring) are part of the normal business cycle which, if adequate adjustment is allowed, will lead of its own volition to renewed growth.

If anything, it is inadequate application of policies (as with the US federal deficit) that has precipitated the current hiccup. Nor does the cyclical decline open to question the efficacy of free enterprise or suggest that collectivism has more to offer.

The greater the element of collectivism in a mixed economy, the more severe the cyclical growth interruption is likely to have been — unless there is an independent-minded central bank to take up the monetary slack.

There is much, too, that the free economies of the West can expect to enhance their economic prospects. These include the extent to which economies have been deregulated; the scope for tax reform to encourage economic endeavour; and, of course, the enormously rapid advances being made in advanced technologies, especially information ones. The impact of these phenomena has yet to be significantly felt on growth rates.

Attempts to liberalise trade and enhance competition are important structural reforms that will in due course add significantly to potential Western economic growth.

In SA the need to adjust with great austerity to the capital shock of the mid-Eighties has put the economy in a favourable position to weather the sort of squall Hussein can raise. Of course, SA will have to maintain substantially positive interest rates commensurate with those in the economies of our leading trading partners.

Point is, the economic revolution led by Ronald Reagan and Margaret Thatcher is an unprecedented success. Its attempted emulation by eastern Europe is testimony to its durability and ability to produce. It could assist their transition to democracy.

Free enterprise based on fiscal and monetary conservatism has become acknowledged even by Third-World indigents at the IMF as the only game in town. Its efficacy is questioned only by the ignorant or recalcitrant.

The current policy hiatus is temporary. Hussein is not capable of introducing sufficient discontinuity into Western economics seriously to threaten their ability to adjust to unexpected price shocks. The enhanced resilience that freer trade and structural reforms are giving the marketplace will see to that. ■

SAGE HOLDINGS 28/9/90 (58) F.M.

INTERDICTING THE *FM*

THESE ARE SOME OF THE EVENTS WHICH LED TO THIS WEEK'S JUDGMENT

It started almost two months ago with a simple question about a foreign contingent liability. It ended on Tuesday with a Supreme Court ruling, after extensive litigation over the public's right to be informed about the affairs of a public company. Judge Meyer Joffe ruled the *FM* could not publish a proposed article which he described as having two main thrusts: Sage's ability to pay its liabilities in the US and its relationship with the Allied Group.

Basically, lawyers acting for Sage and its chairman Louis Shill sought to interdict publication of an article on grounds unique in SA legal history — largely that I had gathered information from clandestine tape recordings of phone conversations between Sage executives and from internal documents from Allied. Judge Joffe dismissed the *FM*'s argument that publication be allowed in the public interest. He ruled that the lawyers' arguments could not be published, though his judgment could.

As appears from the judgment, there was no suggestion that the *FM* had acted illegally in obtaining the tapes or had solicited them. They appear to have been made by a private detective investigating a suspected extramarital affair by a Sage executive.

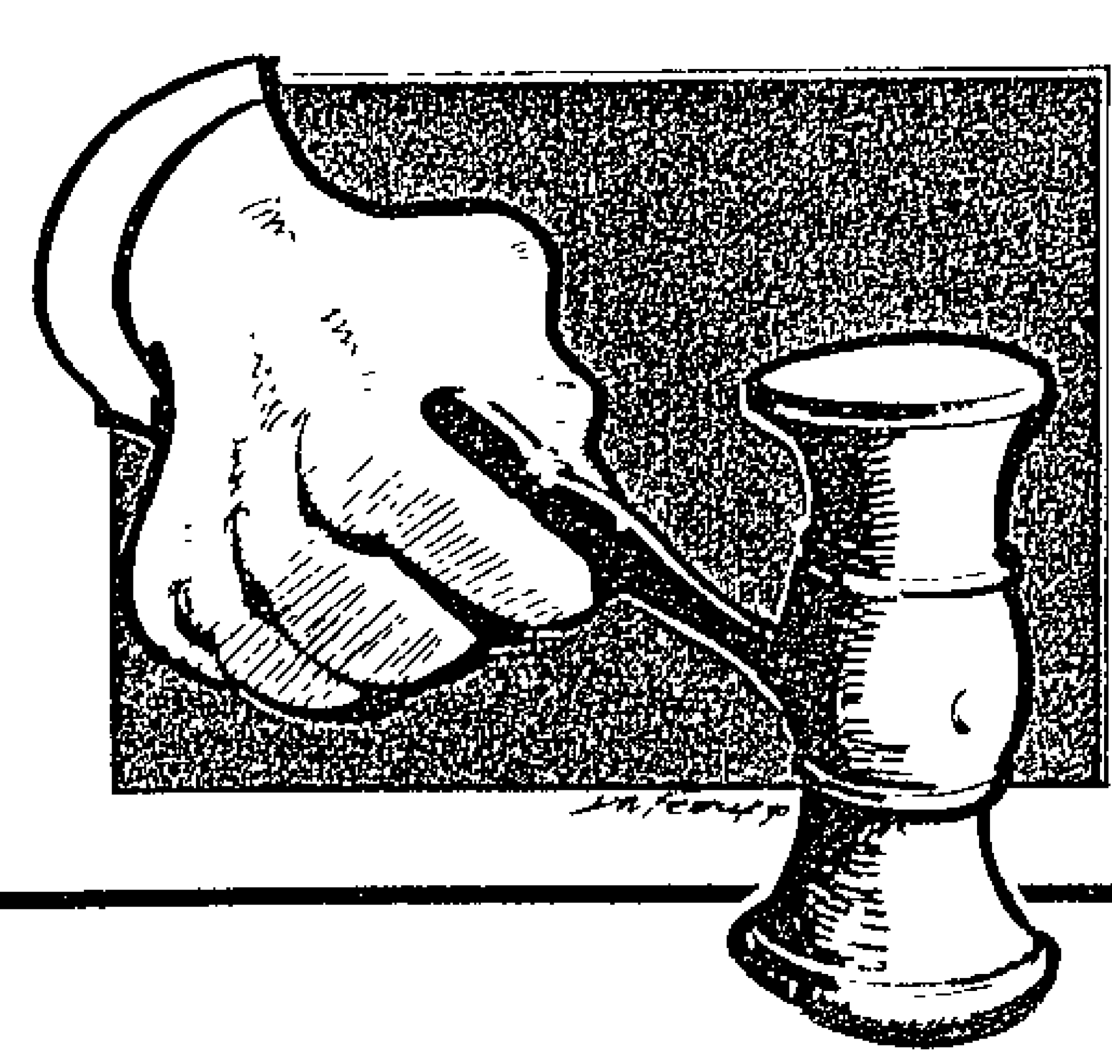
Clearly, the *FM* would not be interested in this sort of smut.

Of course, the matter might have been settled without Shill seeking to interdict the *FM* from publishing. But Shill felt so strongly about the tenor of my proposed article, its content and the sources of my information, that he believed nothing could be gained by discussing the matter outside the courts.

The interdict application was reported in the press. In the process, rumours have swirled around Sage. And while other newspapers with less information than the *FM* were publishing articles based on interviews with Shill which covered many aspects of Sage's financial affairs, the *FM* was prevented from publishing ahead of judgment. Also, the press was barred from reporting any of the courtroom proceedings pending the final judgment. How did we get here?

Late in July, my colleague, Ethel Hazelhurst, phoned Sage's Bernard Nackan to enquire about the treatment of a foreign contingent liability, stated as R41,7m in Sage's 1989 annual report. Was this rand equivalent of a foreign amount calculated at the commercial or financial rand rate? Hazelhurst asked. Nackan's abrupt reaction aroused our curiosity. Why was Sage reluctant to disclose the foreign amount?

Hazelhurst went on leave. My subsequent investigations led to the discovery that the actual amount due at end-1989 was US$15m — R41,7m in commercial rand, but R60m-odd if Sage had to repay through the financial rand Also, it became clear that Sage had only noted a contingent liability. It did not indicate specific provisions had been made to cover guarantees of debts incurred by its loss-making US offshoot Independent Financial Services (IFS), run by ex-SA Sage executive Denis Kaplan. It was clear Sage had to make special arrangements to find that money.



In fact, information I had indicated that IFS owed a great deal more than $15m by August 1990, something I subsequently reported (*FM Cover Story* August 17). My investigations were extensive and eventually led to the August 17 article.

But let's step back a few days. Before publishing on August 17, I discussed a draft article with Nackan — that's normal *FM* practice to make sure the points we make are factually correct and to give executives of companies under the spotlight a full opportunity for putting their views.

The upshot was an invitation to a two-hour interview with Shill and Nackan Shill, who is used to having his instructions heeded inside Sage, spent the first half hour or so trying to set what he described as ground rules and to tell me how my article should be presented. Essentially, he wanted it to appear as a question-and-answer session — a format which allows limited scope for the sort of thorough analysis the *FM* provides. I was reluctant to accede to Shill's suggestions and, eventually, the interview went ahead.

Later, I re-wrote my draft and gave Sage a pre-publication copy to make sure I had reported Shill and Nackan's views accurately. It came back with extensive amendments — virtually all of which were incorporated into the August 17 cover story.

That seemed to be that, though Shill was less than enthusiastic about the light I shed on the company he set up 25 years ago, of which he remains the main decision-maker. But then documents and tape recordings started to reach me.

I drafted a further article and approached Nackan for comments. There were none, but at a meeting in the offices of Sage's attorneys attended by *FM* editor Nigel Bruce and myself, legal action was threatened if the *FM* went ahead and published. The points I had made were incorrect from top to bottom, Shill averred. And as the judge said, Shill was "intrigued" to know the source of my information.

The *FM* delayed publication after agreeing with Shill through our lawyers that he would grant my editor and I an exclusive interview with Shill, Norman Alborough and Joe Pamensky. Alborough, Allied's non-executive chairman, was nominated to the Allied board by Shill; Pamensky, non-executive deputy chairman, is also a Shill nominee.

The interview was to cover the relationship between Sage and Allied and other matters raised in my draft. We rejected Shill's initial demand that he be allowed to revise the entire article, its content and our comments, though we agreed that he should check it for factual accuracy and to see that his views were fairly represented.

Bruce and I attended the interview on Friday September 7, when Shill made it clear he would not discuss points in the proposed article he alleged were sourced from the tapes. The interview was timed to take in Sage's interim results and I would have liked Shill's views on the loss-making foreign interests Sage has been negotiating to sell.

I re-wrote my draft based on corrected information gleaned from the interview and subsequent comments by Nackan after I played some of the tapes to him in my office. The following day, Saturday, Nackan came to my home to collect the rewritten article.

Our next communication was from the lawyers.

That led to the process through Judge Joffe's court and the order preventing the reporting of anything that does not appear in his judgment. In other words, I cannot tell what I discovered from the tapes and Allied document about Sage's affairs and its US interests. There have since been demands from other lawyers purporting to act for Allied — but instructed by Alborough rather than MD Kevin de Villiers — demanding the return of documents I am alleged to possess unlawfully. De Villiers, of course, is opposed to Shill's plans to control Allied — something reported extensively.

This isn't the end of the Sage saga. Litigation and court proceedings have blocked publication of my report, but Sage's US affairs are not appreciably nearer to resolution and the share price is sharply lower since the interdict proceedings started.

There have been developments, some of which the interdict prevents me from reporting. There is talk in Johannesburg that Sage is engaged in discussions to sell some assets. One story is that talks have been initiated to sell the 10% interest in Allied.


De Villiers


Pamensky


Nackan

Another is that the Rembrandt Group, Sage's largest individual shareholder, has initiated negotiations to merge Sage Life with Momentum Life, the former Legal & General now controlled by Rembrandt-Volkskas. Sage isn't telling, but the secretive financial services group probably has to raise over R60m (*Leaders* August 17) it might need to make good the debts of IFS.

The first step has been Sage Financial Services (SFS)'s sale of 15% of unquoted Rand Merchant Bank (RMB) to Sage Life, the group's life assurance arm. It's not the first time assets have been sold to the comparatively cash-flush life company — last year, the group's headquarters building went that way.

Why did Shill keep quiet about the RMB sale when the interim results were published? Did he believe disclosure would have severely damaged the share price, when coupled with the interim report's disclosure of the US problems and the dividend cut?

Whatever the reason, it's intriguing. Does Shill's secrecy signify his grip on Sage is loosening? That Rembrandt is exercising its 35% voting power? The sale leaves 11% of RMB in SFS's hands, but places Sage group's other 15% where it could conveniently be transferred to the control of Rembrandt.

Then there is talk of negotiations to sell Sage Life to Momentum (see *Fox*). It makes sense. Alone, Momentum and Sage Life are probably too small to compete effectively with the life industry majors. At least two other life offices, AA Life and Federated, have investigated the possibility of merging with Sage Life this year.

Sage Life MD Bruce Ilsley says he is not aware of those approaches, but I understand that both suitors backed off after evaluating what Sage Life could bring to a merger. Ilsley also tells me he is not aware of any plans for a merger with Momentum.

So what's in all this for Sage and SFS? RMB shares trade frequently, even though they are not quoted — latest sales have been in the 350c region. Was that the price at which Sage's shares changed hands? If so, who valued them? An independent valuation would certainly have been necessary in an arm's-length transaction.

At 350c, 15% of RMB would fetch around R29m. Then, on the assumption that Allied will no longer provide cheap computing services if Sage Life ceases to be part of the Sage group, Sage's interest in the life company might be worth R20m if sold to Momentum. On top of that, there's the 10% Allied stake, worth about R55m at Allied's present 185c. Add them together and it seems the Sage group has sufficient marketable assets to sell in SA to cover the cost of making good guarantees of IFS's debts in the US — even if the payment has to be externalised through the financial rand.

If this is the route Sage chooses — or has — to take to finance its US obligations, sales of this size would remove large chunks of the group's assets. That in turn would almost certainly hit the share's market rating. Couple that with the pressure on market rating which could also come if earnings from Allied and RMB could no longer be equity accounted and it is, perhaps, not surprising the share price is weakening.

Now, Sage Holdings shares are offered on the JSE at 700c with no buyers in sight — that's way down on 775c in August when I first drew investors' attention to the group's problems.

I believe the price will have to fall a lot further before prospective buyers will be prepared to take the bait.

Jim Jones

SORRY, CAPE TOWN

The *FM* apologises to Cape Town readers for the late arrival of the issue dated September 21. As a result of technical difficulties at SA Airways, copies became available for sale in Cape Town only on Friday September 21, and not, as usual, on the Thursday.

EBRAHIM KHARSANY

BANKING ON CHANGE

FM 28/11 90 (58)

To Ebrahim Kharsany — Islamic Bank CE and president of the new Islamic Business Chamber — religion is inseparable from everyday experience. "Islam is a complete concept of life and I endeavour to draw guidance from the teachings of the Koran."

That includes business, which means some things have to be done a little differently. The bank he runs in Fordsburg, Johannesburg, doesn't pay interest but gives clients a share of profits — usually an effective 12%-14% return on deposit. In lieu of charging interest on loans, the bank invests in Muslim ventures and either shares the profits or bears part of the loss. In the case of home buyers, the bank receives what he calls rent and shares in any increase in the value of the property.

The cost of borrowing funds on these terms is low but, says Kharsany: "We can afford to be very selective when investing money, so risk is negligible. We haven't had a bad debt."

In addition to five daily prayers, Islam also demands dedication to family and community, and the bank was set up to provide leadership, employment and business opportunities for Muslims. The new business chamber is intended to promote small and informal enterprises and lobby for the removal of anti-trade legislation. "Small business will play an ever more significant role in the creation of jobs."

Kharsany (46) was born in Surat, a port in the Indian state of Gujarat, and his family moved to SA in 1948. At the age of 12 and still at primary school in Standerton, he started his first commercial enterprise by acting as middleman between small poultry farmers and local residents. He was put out of business when the family moved to Durban, where he matriculated as one of the top students in his class.

Next came an arts degree at what is now the University of Durban-Westville. He briefly considered a career as a writer but his success at selling (encyclopaedias and life insurance) to finance his studies persuaded him to go into business. He went on to earn a BCom in Durban and in 1971 he was one of the first Wits MBA graduates.

After a six-year stint at the Schlesinger Organisation, now part of Anglo American, he formed the Corporate Financial Investment Institution.

In April 1981, after watching as Islamic banks were formed around the world, Kharsany applied to form a bank here with R200 000 raised by family and friends. The Reserve Bank, however, had problems with the idea of a bank that didn't pay interest, restricted clientelle to Muslims and to deposits held for a minimum of five years. In 1988, however, a full licence was granted.

Politically, the soft-spoken Kharsany prefers diplomacy: "I prefer to act as a facilitator of change by bringing people together." In 1980 he made his point by applying for a business permit in downtown Johannesburg — without going through white nominees. It was rejected.

Kharsany . . . *guided by the light of the Koran*

His efforts also include continuing legal efforts to prevent the removal of 67 Indian families from Pageview (made completely "white" in 1963). He's not always so patient. Last September he led some Pageview residents to a whites-only pool in conservative Vrededorp, amid howls of protests from locals. He remains optimistic about the country's future. "But we'll go through some stormy times before we see calmer days."

In between these numerous obligations, and spending time with his wife, three daughters and three sons, Kharsany enjoys reading — though now it's usually business books rather than the Brontë sisters.

He says he will be happy to see the Islamic Bank prosper as part of a move by the Muslim community into the white-dominated business sector. *Detmar Schwichtenberg*

FM 28|9|90 (58)

AFRICAN LIFE FM 28|9|90

TO THE MARKET (58)

African Life's November listing on the JSE will not raise additional capital. With shareholders' funds at a strong 38,7% of policyholders' funds, the group has enough capital to finance new policies even though premium growth last year was faster than that of any other life assurer.

Instead, the purpose of the listing will be to create a market and a price for existing shareholders who bought shares offered in November last year, as well as to widen the shareholder register to other staff, business associates and policyholders.

On offer will be 2m shares at 130c each. The existing shares will be sold by Southern Life, reducing Southern's 81% shareholding to 77,4%. Money raised from the offer will accrue to Southern.

MD Bill Jack says the listing is part of an on-going plan to give staff, business associates and policyholders a share in the business. The offer period is longer than most — from September 26 to November 2 — as Jack and his team are going around the country, explaining the listing and presenting to staff the strategic plan until 1995. Listing date is set for November 15, when the group will be listed as Aflife in the insurance sector.

The next step in African Life's share scheme will be "to widen the sphere of influence," by offering shares to organisations which can contribute additional knowledge and research.

The listing will allow shareholders to judge what sort of return they are realising. Those who bought shares in November at 110c, have seen an 18% increase in 10 months. The relatively small life assurer has achieved notable growth. In terms of net premium income and total assets, it is listed 16th largest in the *FM*'s Top Companies but is listed number one when it comes to premium income growth. Premium income grew to 42% in the year to end-March.

Projections for future growth are optimistic. The prospectus forecasts a 29% increase in premium income to R64,3m at end-March 1991, compared to March 1990, and a 54% increase in disclosed earnings to R7,8m. Operating expenditure is expected to increase by not more than the inflation rate.

EPS are forecast to rise 20% to 14,2c (allowing for an increase in issued shares in November), with a forward earnings yield of 10,9%. The dividend is forecast to increase by 20% to 9,5c, giving a prospective dividend yield of 7,3% compared with the historical 6,1%. Projections are based on the issue price of 130c.

African Life's ability to finance this growth without needing additional capital comes mainly as a result of the R27m it raised in November, when it sold 7m shares to policyholders, staff and business associates and 18m to Southern Life. After the listing, issued ords will total 55,1m.

Success has been spurred by the large number of sales staff in relation to back-up staff — a ratio of more than 3:1. Jack adds that the assurer is highly focused "We focus on low premium assurance of R35-R65 a month," he says.

Some 90% of African Life's business is in the fast-growing black, Indian and coloured market and most is recurring premium individual life business Future growth forecasts could prove conservative, bearing in mind the size of this market and the ability of the assurer to finance this growth. *Heather Formby*

BANKING FM 28/9/90

RISK REPORTING (58)

Bank executives have been closeted with the Reserve Bank to finalise the new returns to be used when the Deposit-taking Institutions Act is promulgated in January. These returns, which call for increased risk disclosure, will replace the present BA returns.

Unfortunately, the greater disclosure, at this stage, will be for the eyes of Bank officials only. Returns will not be published for individual banks, though the Registrar has indicated he intends making sectoral information and trends available to investors, economists and analysts.

However, the BA9 balance sheet and the BA7 (available only on request), which broke down banks' short-, medium- and long-term liabilities, will be replaced by the DI 900 and DI 310, respectively, so this information will still be made public.

DI 900 may also include, for the first time, details on banks' property mortgage advances, with residential property loans shown separately. Losses on residential property have been low historically, around 0,03%, so banks will be able to hold less capital against these loans.

Some 50 senior private-sector bankers attended last week's key report-back meeting. "The Bank has been encouraged by the speed at which banks gave thorough input and has tried to incorporate as much feedback as possible," says Registrar for Banks & Building Societies Hennie van Greuning.

Banks need to revise systems to comply with the disclosure requirements of the new returns, though some are already positioned. Says Van Greuning: "Our approach is, let's agree on how the risks are to be managed, but we'll compromise on the timing of compliance with new reporting standards.

"We will negotiate with individual banks on when they can comply. To minimise the cost to them we have agreed on a phasing-in period. We will try to accommodate them as far as possible if their systems cannot at this stage produce the information."

Some banks disputed the importance of including certain information, though they would not be specific. Van Greuning agrees that: "Information should not be produced merely for bureaucratic purposes, it must be useful to management as well."

FM 28/9/90 (58)

Items that could not be agreed on have been referred to the Banks Act Subcommittee, chaired by Deputy Governor Chris de Swardt. It was to meet on Wednesday September 26 to look at final comments on the returns and the attached regulations.

On the whole, banks have responded favourably to the new democratic approach. Says First National Bank senior GM Viv Bartlett: "In general, the Bank has been co-operative.

"Outstanding issues regarding liquidity, capital and accounting standards have had a sympathetic ear.

"This approach is a refreshing change from before, when regulations were laid down and difficult to change. Now it's a question of the industry and Bank working together to arrive at a better assessment of risk. It's not just legislation for legislation's sake."

However, there has been concern over confidentiality. Van Greuning assures: "The Bank has strict rules on confidentiality and we ensure the staff understand this." ■

FM 28/9/90 (58)

BANK CHARGES

FEE SOUP

FM 28/9/90 (58)

How much do you pay for retail banking services? Most people don't check but maybe they should. Charges for ATM, teller, credit card and cheque services can add up to a tidy sum each month.

Fees vary widely among banks (see table), so it's worth your while to shop around. But that's not as easy as it sounds. Many bank head offices tend to be less than forthcoming, particularly over current account charges.

At First National, for example, managers insist all cheque fees and credit card overdraft charges are negotiable. But several of my colleagues who are long-standing clients of FNB and have not negotiated, pay the rates shown in the chart. And the trend, with most banks, seems to be to increase charges on the quiet.

By way of example, one Nedbank client of 25 years' standing now pays 55/55/10 — that's a charge of 55c on any cheque up to R100, 55c for each R100 beyond that and a maximum charge of R10. Nedbank did not specifically point out the charge increases to him. His charges have more than doubled since November 1986 when they stood at 25/25/5.

Still, he was recently phoned by a Nedbank official to see if he was happy with the bank's service. He was, except for cheque fees, and was given a contact number. He called ("Sorry, in a meeting"), left a message and is still waiting for a reply four week later. So much for negotiation.

But this Nedbank client is better off than some Standard clients in the platteland — they are charged 60/60/12 as a matter of course.

In reality, most clients pay "natural" or "default" rates for "negotiable" services. It was difficult to establish these rates but branch managers were generally more forthcoming than head office staff. That's understandable, perhaps, as the banks argue the onus is on clients to negotiate lower charges. Maybe, but customers often need some leverage to winkle favours out of managers who have branch profit targets to meet.

To complicate matters, banks offer special deals. For instance, Standard does not charge for withdrawals from a PlusPlan savings account as long as the balance remains above R200. On cheque accounts, the balance must never drop below R750 to qualify for "free banking." Other banks offer similar arrangements and a myriad of other "special" deals, including reduced rates for students, servicemen and pensioners.

And don't forget hidden extras. Use an ATM of another bank and your charges soar. There is an additional 75c charge for MultiNet transactions and R1,15 to use Saswitch. Balance inquiries generally cost 50c at an ATM that does not belong to your bank. FNB subsidises Saswitch fees, so withdrawals from competitors' ATMs cost R1 each and balance inquiries are free. Government slaps a 10c levy on all debit transactions.

To compare costs accurately customers must also look at what interest they earn on their positive balance. For savings accounts interest earned tends to increase with the amount saved, starting at around 6% on balances of less than R100 to about 10% annually if a minimum balance of R1 000-R4 999 is maintained. Those with more than R50 000 can get up to 16%.

For cheque accounts, if you have the savvy to negotiate, you could get a comparatively low 2%-4% on credit balances. That's provided you don't slip into the red. Take an overdraft and you kiss goodbye to previously accumulated interest. Still, that interest benefit is better than the nothing most current account holders get.

At Standard, credit card accounts earn 11,5% (R1 000-R4 999) but you can earn 15% for the same amount at FNB.

Most banks offer special credit card arrangements. The "Gold" version of the Visa or Mastercard rips you for higher annual charges than on the ordinary variety, but offers you higher credit limits and a lower interest rate. On the other hand you need an annual income of at least R75 000, and assets of R150 000, to qualify for Gold's benefits.

In the end most consumers find it too tedious to compare fees. Perhaps that's the point. In the UK there are generally no charges for retail services — as long as accounts remain in credit. This makes it easier for consumers to compare costs, simply by looking at the interest rates they pay and earn.

But SA banks, increasingly dependent on fee income, are less enthusiastic about opening themselves to such real comparisons.

Detmar Schwichtenberg

CHECK AND COMPARE

Retail banking charges

	W/T/P ATM	W/T/P Teller	*Cheque charges	*Credit cards (ordinary)
Standard Bank . . .	60c R500 daily limit	Same as cheque	†55/55/11,00	Mastercard R24 pa Overdraft 29%
First National Bank	50c R500 daily limit	Same as cheque	60/60/14,00	First Card (Visa) R24 pa Overdraft 29%
Volkskas	40c R1 000 daily limit	Free	60/60/10,50	Visa or Mastercard R24 pa Overdraft 28%
Nedbank	45c/R100 R500 daily limit	Same as ATM	55/55/10,00	Classic Card (Visa) R21 pa Overdraft 29%
United	25c R2 000 daily limit	Same as ATM	40/40/8,00	Mastercard R15 pa Overdraft 28,5%
TrustBank	50c R500 daily limit	Same as ATM	70/70/10,00	Classic Card (Visa) R30 pa Overdraft 29%

W/T/P = Withdrawal/Transfer/Payment.
* Charges can be negotiable, depending on the bank.
† 1st R100 (cents)/each extra R100 (cents)/maximum per cheque (rand).

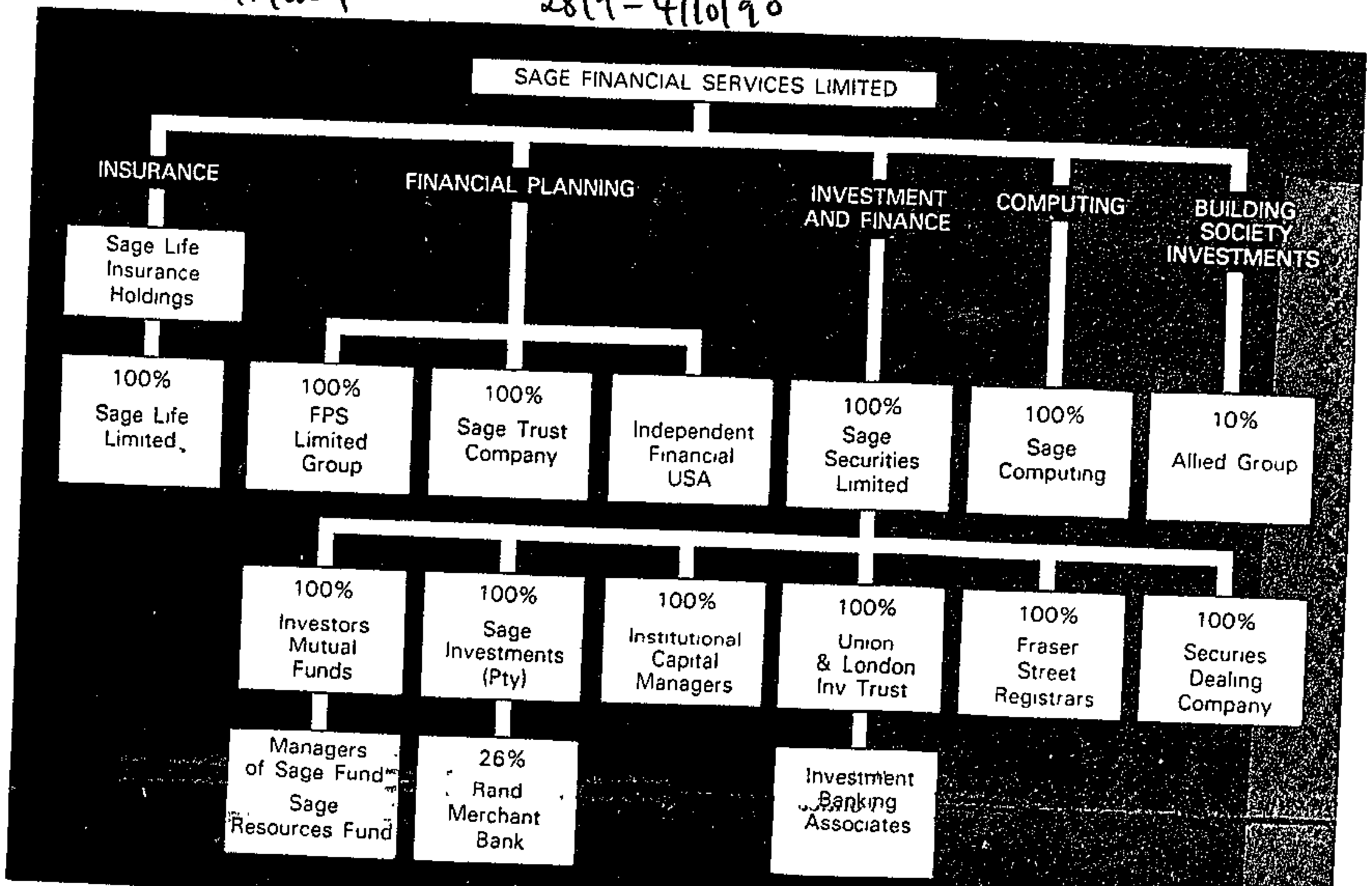
(58) 28/9/90

Sex, loss and private eyes. The Sage saga has it all

(58)

W/Mail 28/9-4/10/90

The Sage Group has obtained a court interdict to prevent publication of information of its affairs in the United States, reports
ROBERT LAING



The SFS structure ... Sage Life may be merged with Rembrandt's Momentum Life

WHAT kind of debt has Sage Holdings rung up with its US affairs? How is it going to foot the bill?

Apparently tapes made by a private detective investigating a suspected extramarital affair reveal all, but Sage's shareholders will probably never know.

On Monday Mr Justice Joffe, after hearing an application by Sage Holdings in camera, interdicted the *Financial Mail* from publishing, disclosing or in any way disseminating information based on unlawful taps on telephones owned and/or used by the company.

The urgent application was brought by Sage Holdings chairman Louis Shill on Tuesday September 11 to block the *Financial Mail* publishing a story about Sage's ability to pay its liabilities in the United States and its relationship with the Allied Group.

Little is publicly known about Sage's US exposure. The group announced in its June results that it intends selling its foreign interests. Directors said anti-South Africa pressure was killing these interests and they would be sold at a substantial realisation loss.

Edey Rogers banking analyst David Southey says: "The loss is probably \$15-\$20-million. Some of this has to be repaid in financial rands — at an exchange rate of about four — making it more than R60-million. That's a lot of money for a company Sage's size."

Sage International's interests include Dallas-based Finplan of America Inc and Independent Financial Services which opened in White Plains. Through Finplan Sage entered the US real estate development market. It purchased an office park development in Virginia Beach, Virginia for about R22,5-million.

The Swiss Investment Co of Zurich, a subsidiary of Bank Leu, held 81 percent of Sage International in 1986.

However, Sage Holdings' report in 1989 said the group continues to absorb financing costs and guarantees loans of certain of its foreign interests; its contingent liability was given as R41,7-million in commercial rands. The portfolio was R56-million by the end of the year.

Shareholders could now see their company foot a bill equal to 30 percent of the unadjusted R205-million shareholders' funds shown in Sage Holding's 1989 consolidated balance sheet.

Analysts speculate that the boardroom fight between Allied MD Kevin de Villiers and Shill may have been caused by a plan to merge the potentially cash-hungry Sage with Allied.

The main reasons given for friction between the two groups, as told to Anderson Wilson analyst Doug Ellish by De Villiers, were Sage's using Allied computer services without paying market related prices and an exclusive distribution agreement forcing Allied to distribute Sage's products.

Rembrandt said on Tuesday it proposes to merge UBS Holdings, Volkskas, United Bank, Allied and Sage. Another Rembrandt financial institution, Momentum Life, was not mentioned. Some analysts wonder if Rembrandt intends merging Sage Life and Momentum.

Sage Holdings subsidiary Sage Financial Services (SFS) recently sold 15 percent of Rand Merchant Bank (RMB) to 100 percent-owned Sage Life.

The price at which the shares were moved was not disclosed in SFS's interim statement. SFS's shareholders and Sage Life policy holders are concerned about what could be an in-house transaction involving shares in an unlisted company.

SFS's initial 26 percent holding in RMB was coupled to Sage's 10 percent holding in the Allied Group.

This follows a deal last year where buildings worth R100-million were sold to Sage Life by Sage Property Holdings.

Star

58

29/9/90

Police evict irate clients from bank

Row as cheques dishonoured

BRENDAN TEMPLETON

ABOUT 70 disgruntled Trust Bank customers were evicted by police from the company's head office branch yesterday.

The Bank refused to honour the pay cheques of the customers who are employees of motor spares company Spareco Ltd which is faced with liquidation.

But the indignant customers, ranging from middle-aged women working as clerks to young drivers, were adamant Trust Bank should honour the cheques because they had assisted in stock taking at Spareco this month under directions from the bank's auditors.

Escorted

"If we are losing millions, why can't the bank also lose millions," a grey-haired woman yelled as she was firmly escorted from the bank by a burly policeman.

The employees obtained a court order on Thursday instructing Spareco to pay their money. They went to the company yesterday to receive their cheques.

Although the atmosphere outside the Spareco office in central Johannesburg was genial while they waited for their cheques, the faces turned grim when they faced the prospect of cashing them.

When they came out of the office, an employee said he had heard the cheques would not be honoured. "What do you mean, 'how do I feel'. We want our money and we are going to get it," he said when approached by The Star.

At the bank, about 70 employees were allowed in before the manager realised the extent of the problem. The rest were kept waiting outside while a security guard armed with a shotgun kept a watchful eye from inside the bank.

Apprehension turned to anger when they were told the cheques would not be accepted.

"At no time this whole month were we told we had been fired or retrenched or should start looking for other jobs.

"Instead Trust Bank send its people in and we assist them in stock-taking and all of a sudden they say they are not going to honour these cheques," employee Tommy Passmore said.

A number of employees entered into shouting matches with the manager, demanding he accept their cheques

As the crowd outside grew, it became clear the customers inside would not leave and police were called in. They were asked to leave in no uncertain terms. "People, you can go outside now, or we will arrest you and you can spend the day in jail," a policeman, who identified himself as Captain Nortje, shouted.

Outside, the crowd which was about 200-strong, was forced 10 metres back by the police to allow other customers to enter.

Overseas flights up 8 pc Monday

SOUTH African Airways' international airfares will increase by 8 percent from Monday, October 1, according to the information given to travellers and travel agents by SAA in Johannesburg.

However, no official comment has yet been given by SAA.

Travel agents in Johannesburg confirmed that the fare increase goes into effect from October 1 — and are advising overseas travellers to book their reservations on Friday at the old prices. — Sapa.

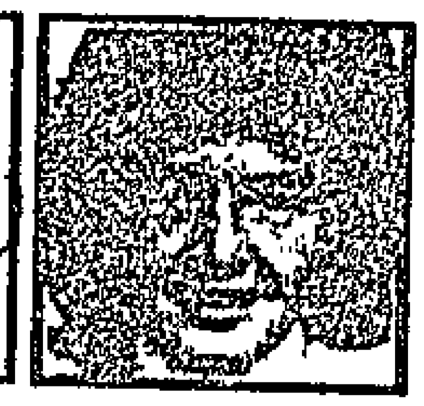
Allied's role is a bit mystifying

Star 29/9/90

Inside Out

58

ANN CROTTY



Volkskas-United — sounds like a soccer team. Allied-United? Allied-Volkskas?

Whatever about merging the computer technologies and cultures, merging the names of the financial giant that's being created could be a bit messy.

Myles remains a bit puzzled as to the role that Allied is going to play and doesn't see it fitting in that well with Volkskas, UBS and Sage. And there seems to be little doubt that UBS' Piet Badenhorst will be the big chief of it all.

The Allied share price is moving up and there's good volume in the shares which has led one or two players to believe that maybe Standard or First National Bank is trying to build up a stake in Allied. If they can establish a reasonable holding then they could interfere with any major plans.

Trading on the JSE was fairly dull this week with a few of the trickier players intent on pulling a fast one on institutions that were trying to ramp the market ahead of the September quarter end for unit trusts.

De Beers fell to R67 and the chartists are now mumbling about it going down to the R50 level. So much for Myles' Mum's talk of De Beers at R130.

The company results that came out during the week seemed to go from bad to worse and were hardly designed to start a rush into the market.

But while things are looking bleak for the brokers, merchant bankers must be feeling quite comfortable given the level of streamlining and restructuring activity that's going on. And then they've always got the hope that Pepkor's Christo Wiese will make a play for yet another retail operation.

According to Myles, Mr Wiese likes to talk to people but he doesn't like to get into bed with them.

Myles reckons that the reason the negotiations broke down was that Christo wanted to get Checkers for next to nothing — which to some people seemed like a hefty price to pay but the Sankorp team was obviously more optimistic.

Talking of Checkers, earnings projections from the Frame management are somewhat reminiscent of the promises — years ago — that one percent operating margins from Checkers were just around the corner. In financial '90 Checkers turned in margins of around 0,6 percent.

Myles reckons that, given the structural changes that have taken place in the industry, some serious operational streamlining will be needed at Frame.

Lots of streamlining at Tollgate ... accompanied by massive write-offs. The new controlling shareholders still have some way to go before the asset base is whittled down to the R45 million that was paid for control.

Next to be put under the hammer must surely be Gants and there seems to be little chance of it going for anything close to 100c.

As the market weakens, the minority shareholders (who were shareholders on September 10) in Hunts, Teamcor and Homemakers must be feeling quite delighted with their cash underpin offer.

Myles hears that the cautionary from Choice Meats refers to a possible change of control which will be done at a fairly good price.

The acquisition of Nu-Metro by Argus subsidiary CNA-Gallo should be finalised within the next few days.

Any cheap Argus/Star journalist who reckons this deal will ensure a lifetime of complementary passes to the cinema should be reminded that Mr Doug Band (currently chief executive of Argus and CNA Gallo) was the guy who, not so long ago, cut off the CNA discount to Argus employees — thereby forcing them to pay full price for their crayons and plasticine.

The customer takes centre stage

The theme of the 1990 Special Business week centres on the word "Customer":

C — Concern for customer satisfaction.

U — The "U" not the "I" approach.

S — Success strategies.

T — Training for improved customer service.

O — Opportunities opened up by customer satisfaction.

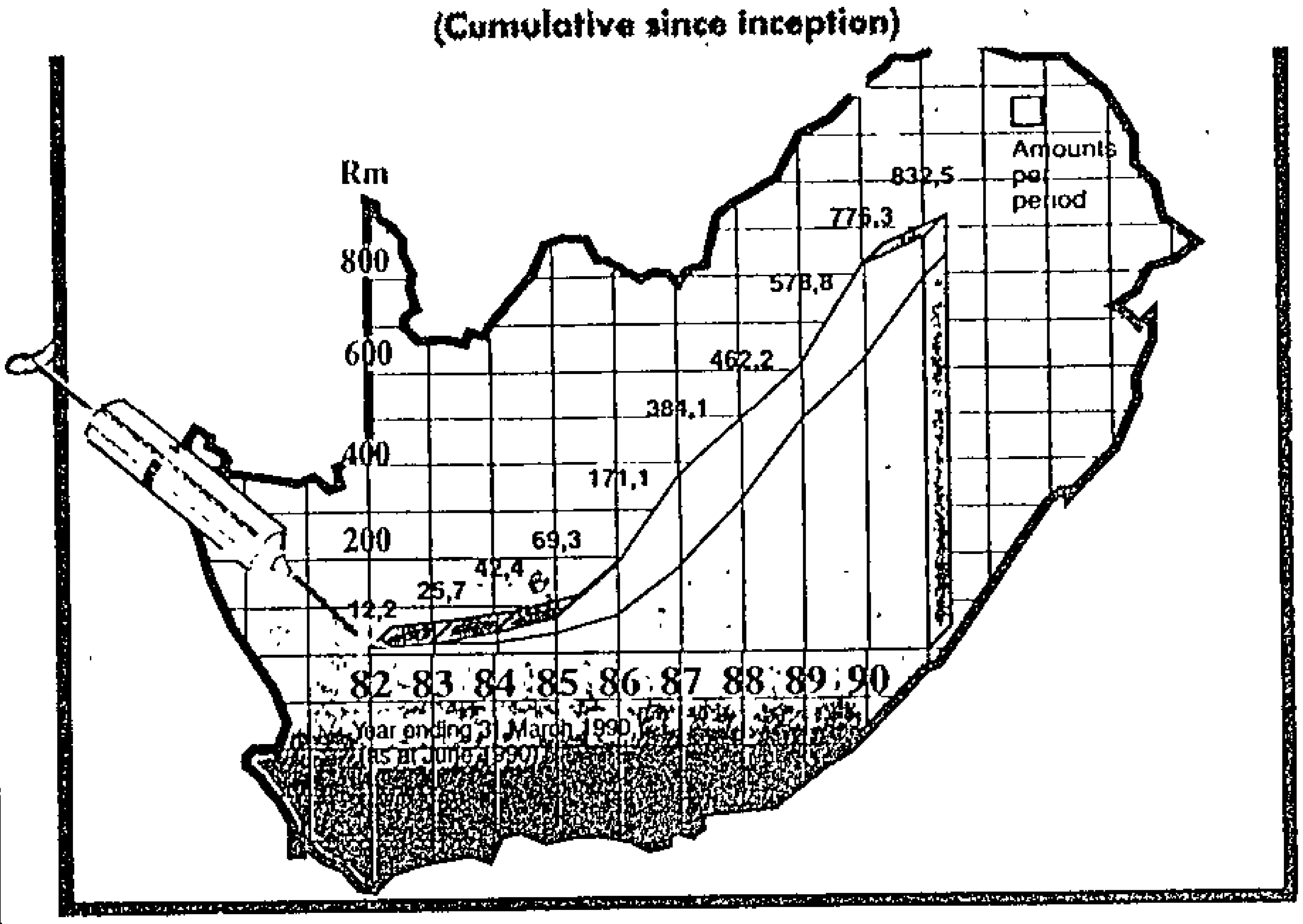
M — Meeting cutomer demands.

E — Excellence in service.

R — Rising to the challenge of fulfilling customer needs in a changing environment.

Total loans granted by SBDC: R832,5-m

(Cumulative since inception)



Southern Life now a major sponsor

Star 29/9/90

58

THE potential of small business as a driving force in overall economic expansion — and as a stabilising factor in moves towards a new democratic society — have been underscored by Southern Life Association, a major sponsor behind the Small Business Week programme.

Executive director Arie van der Zwan stresses in particular the collective role of small business as a generator of new job opportunities.

He estimates the capacity of the formal sector to provide all the jobs needed by a growing labour pool has slumped from almost 74 percent in 1965/70 to only 12,5 percent in the current economic slowdown.

About 15 years ago, he adds, the established industrial and commercial formal sectors were able to provide employment for about 75 percent of all high-school matriculants. Today it is able to meet no more than 15 percent of demand.

The solutions to boosting job creation, he is convinced, rest in the dynamic growth of the informal sector, which now needs to be regarded as the cornerstone of a stable society.

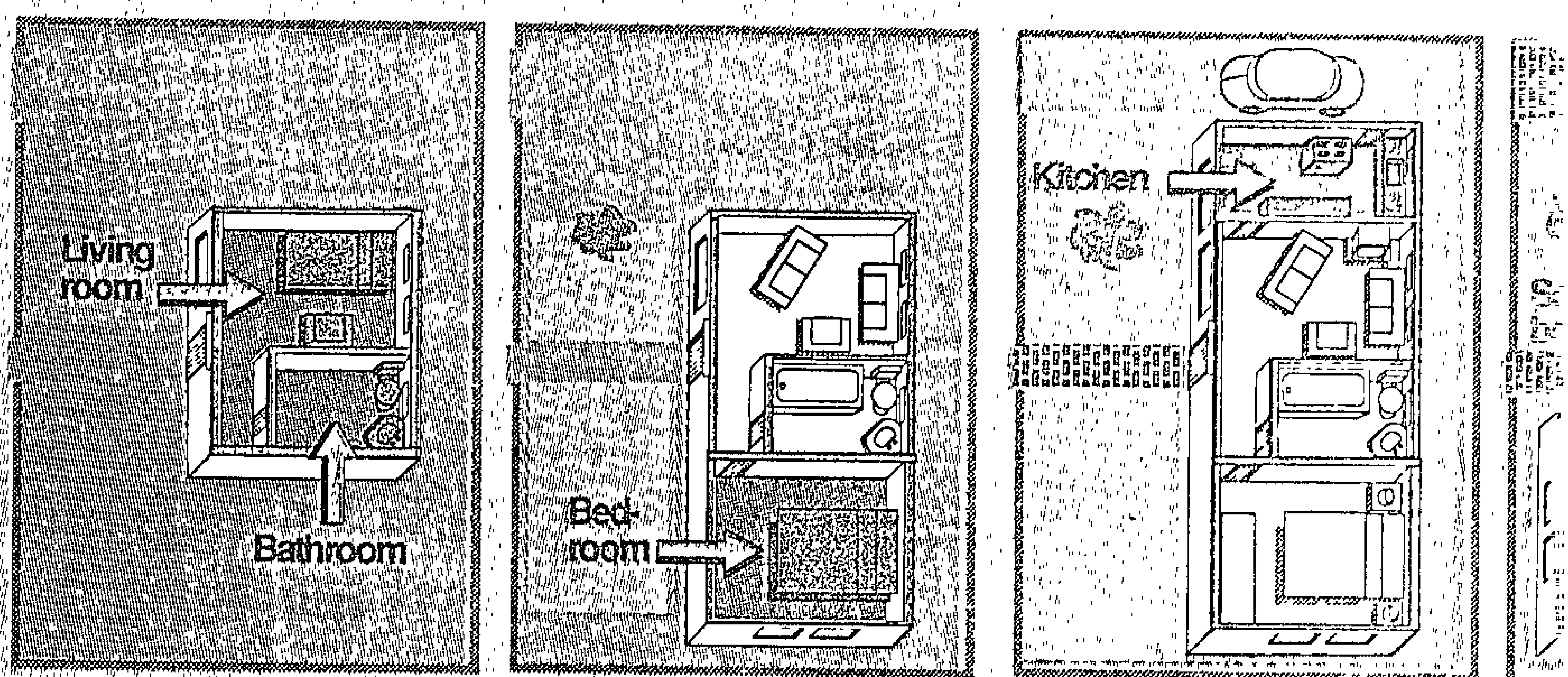
"There are many expectations in South Africa at present — one man one job, one man one house, and one man one living wage," he notes. "But the logistics of the situation are such that the State and the private formal sector will find it difficult to fulfil these expectations alone.

"Skills training and deregulation leading to the growth and development of the informal sector are vital."

He argues that vigorous support is needed for all initiatives to eliminate any bureaucratic red-tape that may still ham-string small business entrepreneurs

Star (58) 9/8/90

Incremental development of a house



STAGE ONE -
Living room plus bathroom
Bond rate: R125 per month

STAGE TWO -
Bedroom added
Bond rate: R125 + R50

STAGE THREE -
Separate kitchen added
Bond rate: R175 + R50

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Cracking SA's housing

A practical scheme — at a pared-down cost of R125 a month for a core home — offers hope to the millions of South African blacks who need homes. MICHAEL CHESTER reports.

There must have been moments when the team of experts at the SA Housing Trust were tempted to throw in the towel in the battle to solve the black housing crisis.

Every time the computers zipped out results of new research, the size of the problem grew larger — and answers looked more and more elusive.

Among the latest estimates to cause dismay:

- Surveys by the Council for Scientific and Industrial Research, commissioned by the National Association of Home Builders, showed that 78 percent of all black households — almost four in every five — struggled on incomes below R800 a month.
- Researchers at Markinor calculated the population of the squatter settlements spreading around the main towns and cities at 3,7 million.
- Other studies showed that with current interest rates running at around 21 percent, each homeless black family needed a combined income of at least R2 112 a month to stand even a chance of a home bond of R30 000 — regarded by many banks and building societies as the lowest level in conventional home-buying.

The problems, according to SAHT market development manager Mike Fowlds, were compounded by pie-in-the-sky promises that solutions were close — all to evaporate when it came to the crunch.

Now, however, the SA Housing Trust head office in Randburg is buzzing with a new wave of optimism.

Mr Fowlds watches the gleam in the eye of visitors such as Eric Ntshiqela, chairman of the Vulindena United Community of South Africa (Vucosa), which claims to represent the bulk of squatters, when he takes the wraps off details of a proposed new scheme.

There are tables and charts that show how home-buying can be brought within the reach of black families on joint incomes as low as R600 a month.

There is a scale model of how each house would start, how it could be extended and improved — and how a whole estate would look.

Better still, the SAHT has been able to invite Mr Ntshiqela to lead a full team of squatter leaders down to a pilot site, alongside the Golden Highway from Johannesburg to Vereeniging, where the builders have erected a cluster of houses.

"Until now," says Mr Fowlds, "many of the grand solutions offered by a number of politicians and well-intentioned do-gooders have proved to be mirages.

"The main concentration has been on spelling out the growing size of the housing shortages — and raising high expectations of a magic wand to solve it all.

"In the real world, there are no magic wands. The crunch comes when we talk to most homeless families about the affordability of house buying.

"The cost of conventional houses, designed to meet the requirements of most banks and building societies, is simply beyond the reach of most squatters.

"We have tried to bring the whole problem down to earth — and we reckon we may have found a few radical new answers."

Mr Fowlds pulls out blueprints to set down alongside scale models showing the development of a typical house following the new design. They show:

- STAGE ONE: The simple first shell of the house — down to the basics of a concrete foundation on a small stand connected with water supplies and sanitation services.

Brick walls and roof enclose the core of the house, 22 square metres divided into a main living room and bathroom, fitted with sinks, toilet and shower.

The total cost of each basic has been worked out about R[illegible] — and that also covers the co[illegible] services, including good r[illegible] street lighting, convenient bus [illegible]tion and taxi ranks, plus rail if possible.

Mortgage finance has alr[illegible] been arranged by the SAHT [illegible] its subsidiary, Khayalethu H[illegible] Loans.

The bond costs, allowing first-time buyer subsidies, h[illegible] been slashed to a deposit as [illegible] as R500 — and repayments [illegible] to only R125 a month.

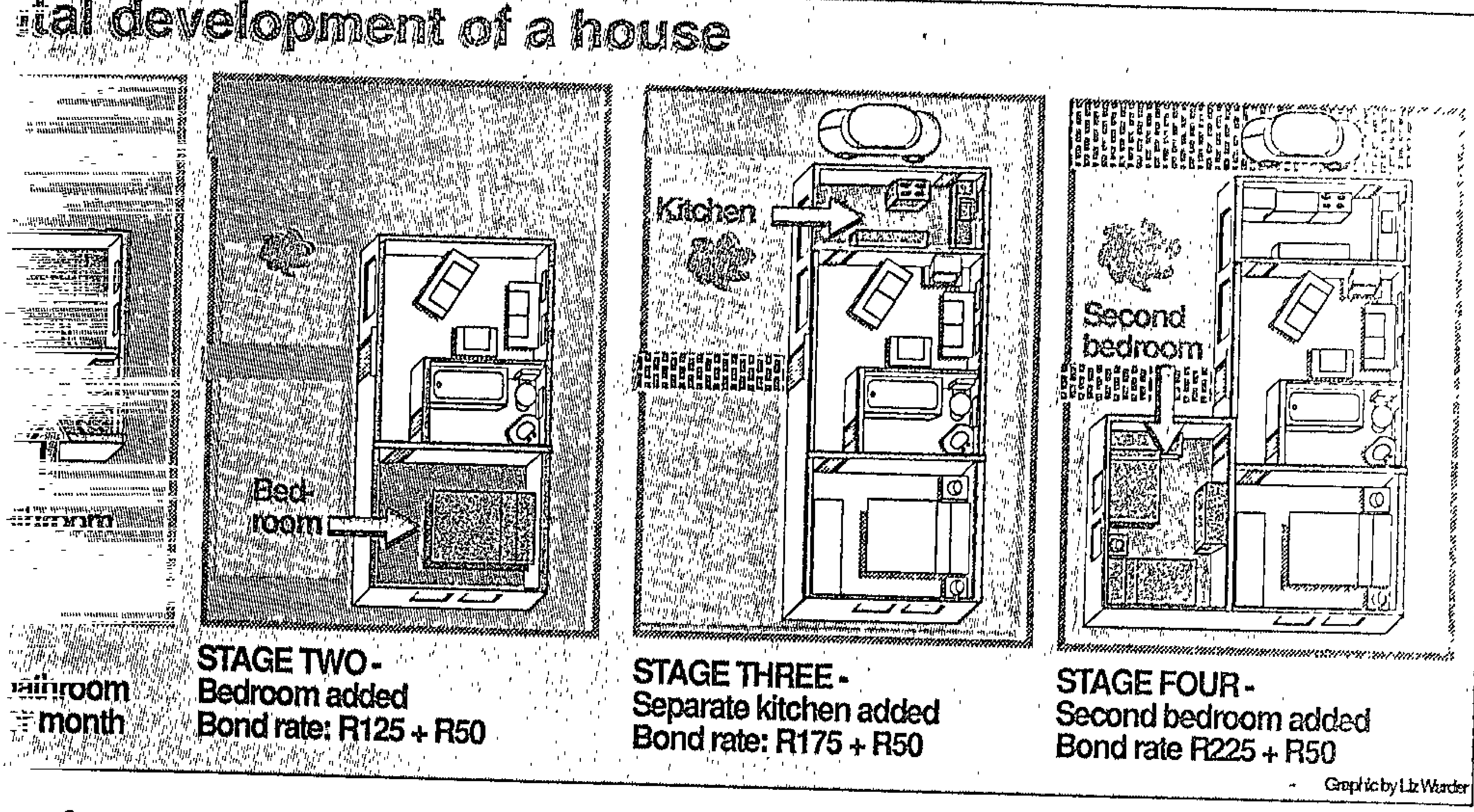
- STAGE TWO: When family [illegible] gets allow, a separate bedro[illegible] about 12 square metres — [illegible] added.

The additional cost: about R[illegible] month, bringing the total to a modest R175.

- STAGE THREE: The house [illegible] has the chance of a separate [kit]chen and pantry, providing other 12 square metres of [illegible] space.

The extra cost: another R[illegible] month, still holding repay[illegible] down to R225.

- STAGE FOUR: As the fa[illegible] grows and living standards



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Mr Fowlds pulls out blueprints to set down alongside scale models showing the development of a typical house following the new design. They show:

● STAGE ONE: The simple first shell of the house — down to the basics of a concrete foundation on a small stand connected with water supplies and sanitation services.

Brick walls and roof enclose the core of the house, 22 square metres divided into a main living room and bathroom, fitted out with sinks, toilet and shower.

The total cost of each basic unit has been worked out about R10 000 — and that also covers the cost of services, including good roads, street lighting, convenient bus station and taxi ranks, plus rail links if possible.

Mortgage finance has already been arranged by the SAHT with its subsidiary, Khayalethu Home Loans.

The bond costs, allowing for first-time buyer subsidies, have been slashed to a deposit as low as R500 — and repayments down to only R125 a month.

● STAGE TWO: When family budgets allow, a separate bedroom — about 12 square metres — can be added.

The additional cost: about R50 a month, bringing the total to a still modest R175.

● STAGE THREE: The housewife has the chance of a separate kitchen and pantry, providing another 12 square metres of home space.

The extra cost: another R50 a month, still holding repayments down to R225.

● STAGE FOUR: As the family grows and living standards improve, a second bedroom or separate dining room/study can be added at little extra cost.

"Moreover, none of the designs or lay-outs has been pegged down to a rigid formula," says Mr Fowlds. "We have already worked out as many as 43 variations on house layouts and finance options.

"The home-owner will have freedom of choice on how and when he expands or improves the house all the way from the basic unit to whatever he selects as the finished product.

"All the emphasis is on the realities of affordability. We shall be consulting members of black communities themselves on how best to tackle the details.

"Once we feel that the black communities are fully behind the scheme, we shall be setting out with similar projects on a nationwide basis.

"So far we have been able to shave the cost of home loans on the basic core houses to R125 a month, which everyone considered impossible a couple of years ago.

"Unhappily, even that may be beyond the means of thousands of homeless families. But we haven't done yet. With the co-operation of black communities, pooling all our ideas, we may be able to cut costs even more.

"The vital factor is that the housing crisis has got to be cracked somehow — and the time has come to turn talk into action."

Rand schizophrenia likely to continue

Star 2/8/90

58

By Sven Lünsche

The rand exchange rate is likely to continue its recent dual course for the remainder of the year, economists says.

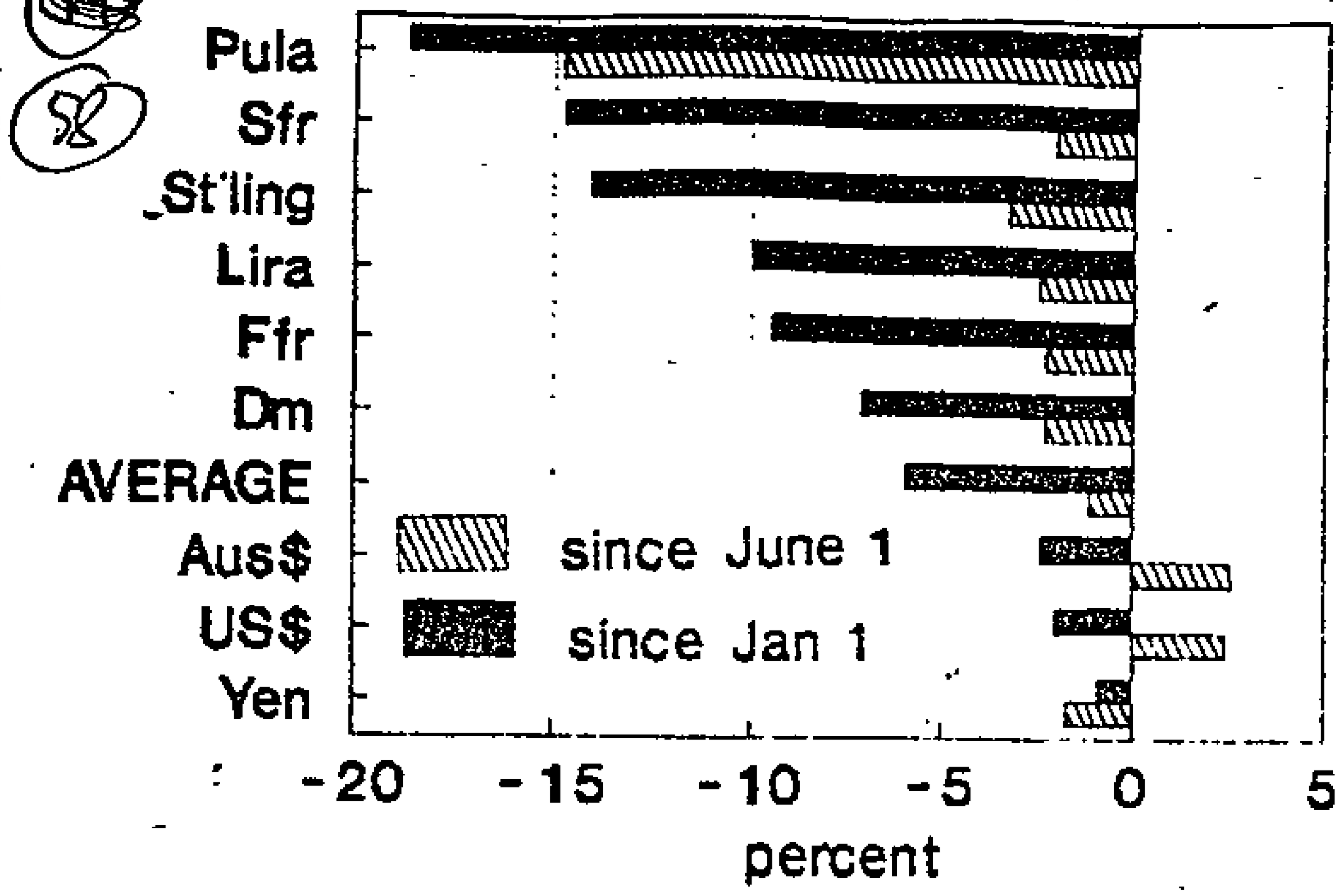
The currency rose this week to a four-month high against the dollar, but slumped to record lows against other major Western currencies, including sterling, the Deutschemark and the Swiss and French francs.

The strong performance of the rand against the dollar comes on the back of the weakness of the US currency on international markets.

Local dealers expect the dollar will continue its slide towards record lows against the Dmark in anticipation that US interest rates will have to come down to avoid a full-scale recession.

The dollar has struck several consecutive 2-1/2 year lows over the past week as it drifts towards Dm1,562, which, according to the First National Bank Treasury economist Simon Willson was its record low set in London on January 4 1988.

The expected fall is further reason for the rand to appreciate until the end of the year, says Mr Willson, but he doubts that the rand's rise will be proportionate to the fall of the dollar on international markets.



The rand this year against major currencies

He believes the Reserve Bank is uncomfortable at seeing the rand firm too strongly.

"There was little effort by the Bank to stop the rand from going through the R2,60 level to the dollar, but since then they have made efforts to break its strengthening trend," Mr Willson says.

He believes importers will buy the dollar at its weaker levels, which could further restrain the rand.

Frankel Kruger Vinderine economist Mike Brown says, however, that the Reserve Bank is unlikely to help soften the rand before the end of the year, despite some calls to aid the export industry through a weaker rand.

He predicts that the rand could settle at R2,65 to the dollar over the next few months.

"Dr Chris Stals has indicated that the tight monetary controls will stay in place until inflation is under control and unfortunately exporters, including the gold mines, will continue to struggle," he says.

However, the authorities are likely to give exports a boost once they deem it feasible to stimulate the economy sometime towards the end of the year, and we could see a weaker rand at that stage, Mr Brown says.

Against other major currencies, however, the recent decline is likely to continue.

So far this year the rand has declined by 5,9 percent against a basket of currencies, according to FNB calculations.

In July alone it fell 1,1 percent, buoyed by a 3,3 percent fall against sterling and a 2,28 percent fall against the Dmark and the French franc, and despite a 2,5 percent rise against the dollar.

Mr Willson expects falls for the year ranging between five to 10 percent, in line with the inflation differential between SA and its trading partners.

PR

UBS links with estate agencies cause tension

B/Day 1/8/90 (58)

Reports by CHARLOTTE MATHEWS

THE first two link-ups between the United Building Society (UBS) and estate agencies — Aida and Multi-Listing Services (MLS) — have caused a certain tension among other players in the field.

The major institutions spoken to said generally they were not looking for similar associations with estate agencies.

"We firmly believe in the independence of estate agents," said NBS GM operations Robert Walkerley.

Sentiments

"We would only consider such a tie-up if our supply of loans were seriously threatened — if the whole trend went that way.

"But at the moment we are not even looking at it."

The Standard Bank and Saambou expressed similar sentiments.

But Allied Building Society MD Kevin de Villiers said the Allied was definitely not going to consider tie-ups, and First National Bank GM Jimmy McKenzie said FNB was unlikely to follow that road.

"We have told the Institute of Estate Agents (IEASA) we think it is a development which is not really desirable.

"But at the end of the day we will do what we have to do to protect our business."

McKenzie said another possibility for FNB was to turn each branch into an estate agency.

"We could well use our own network of branches round the country effectively."

IEASA president Dave Miller believes the advantages of such an association are heavily in favour of the financial institution rather than the estate agency.

While the institution gains from a guaranteed flow of mortgage loan applications, what could the agency possibly gain?

"That is why it does not excite me tremendously," De Huizemark chairman Piet Hamman said.

His company was still negotiating with the UBS but he was not pushing the link-up.

"From their previous move I see they paid fairly handsomely for a minority shareholding," he said.

In August 1989 the UBS paid R5m for a third of computerised home buying and selling group MLS.

In March 1990 it acquired 25,3% of estate agency group Aida for an undisclosed sum.

"The prospect of half a million in cash is always attractive, and linking up with a large group builds up your corporate image," Hamman said.

"They also offer various advantages to your staff, such as lower bond rates.

Advantage

"Although money is freely available now, if a shortage developed they would have an obligation to help out."

Camdons Nationwide MD Scott McRae, who is also negotiating with the UBS, said the advantage to estate agents was the financial backing and muscle of a big institution.

The tie-ups already made with Aida and MLS were putting other estate agents in an unequal position, he said.

NBS shareholders see value of their investments soar

BDay 28/8/90 (58)

NEIL YORKE SMITH

SHAREHOLDERS in NBS Holdings have seen the value of their investments soar 25,4% this year.

This compared favourably with increases recorded for other building society groups.

Allied shares rose 23,3%, Saambou 38,3% and UBS 17,7% over the same period.

NBS shares are finding strong support at the 715c level and some bidders are offering 725c, giving the group one of the highest ratings in the financial services sector.

At 715c NBS yields 10,7% on historic earnings and 4,1% on dividends.

Comparative figures for another JSE high flyer, UBS, are 11,2% and 4,4% respectively.

Aside from widespread speculation regarding potential takeovers in the financial sector, the shares are supported by excellent performances from the Natal-based group, say analysts.

Earnings a share increased 39% to 76,6c for the year to end-March. The dividend was raised 26% to 29c and was covered 2,6 times.

The excellent profit performance was produced off an increase of 29% in total assets, which reached R5,7bn.

Despite tougher operating conditions real earnings growth is expected to be maintained this year.

Until recently building societies were required to use a large proportion of long-term funding.

This had a positive affect on margins during the upward stage of the interest rate cycle, but this was reversed when interest rates started falling.

Recent legislation has allowed a shift to short-term funding, ensuring greater flexibility in the management of interest margins.

This will benefit NBS (and all building society groups) as rates are expected to have peaked, according to analysts.

NBS is a relatively small player in the financial sector — its market capitalisation is about R420m.

Earnings of about R44,6m were derived mainly from the building society business (R33,8m).

Development fund earns R1m a day

B|Day 3|8|90

(58)

LESLEY LAMBERT

CAPE TOWN — The R2bn Independent Development Trust (IDT), launched yesterday for socio-economic upgrading, took transfer from government of its funds on July 16 and has earned almost R20m in interest — a rate of about R1m a day.

Chairman Jan Steyn said the IDT, which originated from the proposal in the 1990 Budget for a special development fund, had identified squatters and black education as areas for urgent financial aid.

That the IDT took transfer of the full R2bn in one transaction was something of a coup — achieved only after a trade-off with the financial authorities, said Jan Kitshoff, former broker and banker who is overseeing the fund's management.

If the full amount had been put on call, where it would have earned the best return, its weight would have placed substantial downward pressure on interest rates, playing havoc with strict monetary policy. To avoid this, the authorities planned to release the funds gradually.

But by undertaking to invest the money in capital market Treasury bills and gilts — where it would bypass the money market and flow into the Reserve Bank Exchequer account — the trust secured the full R2bn and all the interest it could earn.

The funds were placed in short-term and six-month public corporation bills (R1,5bn) and medium to long-term gilts (R500m), earning returns of between 16,5% and 19%. This portfolio was then farmed out to seven professional fund managers whose performance will be monitored to ensure the investments earn the best return.

Steyn stressed yesterday that the trust would initiate a co-ordinated development process rather than try to achieve quick solutions to social and economic problems in the form of handouts.

He also announced a widely representative board of trustees, including black

☐ To Page 2

Fund

B|Day 3|8|90

(58)

☐ From Page 1

community leaders, prominent academics and businessmen.

Since the initiative was announced in the March Budget, Steyn has consulted a wide range of community, political and business leaders. But he stressed he had sought co-operation, not endorsement, and the trust would be "vigorously" independent in its use of the funds to promote the development of "the very poor".

The Trust Deed identified the provision of housing or informal accommodation, creation of jobs, improved health, education and training as areas most urgently in need of development.

Instead of giving immediate relief in the form of hand-outs, Steyn said the trust would be working at grassroots level in rural and urban areas through community structures and other agencies.

It would give financial aid to community-based organisations and institutions and involve employers, financial institutions and the private sector through grants, investments or loans supporting or promoting IDT projects.

The trust would be separated into three financial entities: a main fund holding the state funds for which the trust would be accountable to the Attorney-General; a general fund which would hold general investments and contributions made to joint projects; and a specially designated fund for community projects which would have no accountability except conventional financial controls.

New banking legislation aims to close all loopholes

Star 6/8/90 (58)

By Derek Tommey

The Government clearly holds dear the reputation of SA's banks and building societies — and the new Deposit-Taking Institutions Act (which replaces all previous Bank Acts) is designed to maintain that reputation.

The banker's "new Bible", as it is being referred to, is probably one of the most stringent Acts ever passed.

A great deal of thought has gone into trying to close any loopholes that could lead to deposit-taking institutions (DTIs) falling into unsatisfactory hands.

The Act was signed by State President FW de Klerk on July 11 but still has to be promulgated.

The Act allows an individual shareholder to hold up to 49 percent of the shares in a DTI, but no more.

However, so many hurdles must be overcome before a shareholder can get anywhere near this figure that only a most determined organisation would seek a 49 percent holding.

For example, anyone with a 10 percent holding in a DTI has to seek permission from the Registrar of Deposit-Taking Insitutions before increasing a holding to 17,5 percent. Similarly, approval must be sought before going for 25 percent, for 30 percent or above.

There seems no provision for the Registrar to announce that he has consented to an individual investor increasing a stake in a DTI. Presumably the JSE's take-over panel will keep an eye on such developments. Otherwise, anyone getting wind of such an application could get an unfair advantage over other investors.

But it will be interesting to see what happens to the price of a DTI share after it has been announced that a major shareholder is planning to increase his stake.

To prevent collusion between shareholders, the DTI can call on any shareholder to state whether or not he is an "associate" of any other shareholder.

An associate includes a close relative or any person who has entered into an agreement or arrangement with another shareholder relating to the acquisition, sale, holding or voting of shares in the DTI.

The Act defines an associate in relation to a juristic person.

Every DTI or controlling company has to submit a list to the Registrar every December giving details of shareholders who hold one percent or more of its shares. The list has to name associate shareholders in a group.

Before anyone holding 10 percent or more of the share capital can increase their holdings, the Registrar has to be satisfied it is not contrary to public interest and not be contrary to the interests of the DTI, its depositors or the cotrolling company.

The Act allows another company to control a DTI. But the shareholding of the controlling company must conform with the same requirements as those of a DTI.

Where a company is bidding for control of a DTI, the Registrar has the power to order the company to offer the shareholders its own shares or exchange them for those held in the DTI.

The Registrar can designate an investigator, independently of the proposed controlling company, to advise on the reasonableness or fairness of the offer it is making.

The number of directors representing one shareholder on the board of a DTI or controlling company is limited to not more than 49 percent, rounded off to the next lowest intergral number.

It also limits to 49 percent the percentage of employees who can be directors of a DTI.

All DTIs will have audit committees comprising at least three directors.

A majority of audit committee cannot be employees of the DTI. Their duties include assisting the board of directors in the evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing process.

● The JSE is alive with rumours of a takeover of Allied Holdings, the bank and building society group. In the past four weeks almost 9 million Allied shares have changed hands, lifting the price from 155c to 185c.

Allied officials say that so far only two million of these shares have been registered.

It seems possible that the balance is in stockbroker accounts as investors take a position ahead of a possible bid for the company. The new Act could have an important bearing on Allied's future.

● The Registrar of Banks has withdrawn the provisional licence of the International Investment Bank of China. A senior member of the Chinese community says the bank opened its doors for business earlier this year. About two months later it closed down and its staff returned to Taiwan.

eturn of the ANC exiles

S|Times 26/8/90

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330

Thousands expected, but it will be a low budget homecoming

By MANDLA TYALA

THE African National Congress this week unveiled its plan to repatriate thousands of exiles.

Estimates of the number vary from about 10 000 by Government sources to 30 000 by the ANC.

The first returnees, who will be granted indemnity in terms of the Pretoria Minute, are expected home in less than six weeks.

The ANC was at pains this week to warn its internal supporters that this would be no victorious homecoming.

The organisation said it wanted to keep the exercise "low-key", mindful that the exiles would be coming home to massive homelessness, large-scale unemployment and a deep education crisis.

The ANC is also anxious to dispel the notion of a well-funded movement flying thousands of members in on United Nations planes and buying all available property to accommodate them.

Said Vusi Kkanyile, head of the ANC's finance department: "People seem to have this mistaken belief that the ANC has stacks of money and is ready to buy every building on sale.

"We have limited financial resources and will not be able to buy a house or rent one for each of the people coming home.

"With all the goodwill in the world, the repatriation programme cannot be met by charity and private donations alone.

"We are mobilising various communities to come up with innovative ideas to ensure their sons and daughters coming home will live in dignity. In fact, some areas have established reception committees on their own initiative."

Mr Khanyile said South Africa would not see a Namibian-style operation whic housed returning exiles i tents in reception centres be fore they were integrate into their communities.

"That was different," sa Mr Khanyile. "Those peopl came home at the end of conflict. There was a deac line. They had to be integra ted speedily into society be fore the elections coul begin.

"Our people are comin home in the middle of th conflict. They are comin home to join the struggl against apartheid."

Mr Khanyile also ruled ou reported plans of a massiv United Nations airlift.

This is the ANC's plan:

- An external repatriatio committee has been set up t take a census of the exiles The ANC says it does no have exact figures of dis placed South Africans wish ing to come home under it auspices, but return form have started flowing in.
- The ANC will continu to run external operation established to create employ ment for the exiles — farms schools, clinics and manufac turing firms.
- Internally, a social welfare department, to be headed by Mrs Winnie Mandela has been set up. Its mair function will be to help the ANC respond to the needs of returnees.
- Owing to the crisis in education, the ANC is encouraging exiles studying abroac not to abandon their studies

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Russian parliament are due to resume after the summer re-

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BANKING FM 3/8/90

Rate for the risk (58)

Among major changes in international banking have been concerted attempts by supervisory authorities, in the past 15 years, to measure risk more realistically and compel banks to provide for it. The Deposit-taking Institutions Act (gazetted last month but not yet operative) paves the way for capital requirements in line with those recommended by the Bank for International Settlements (BIS).

Precise levels are still to be determined by regulations which will not be in place until January. But banks, building societies and discount houses, all encompassed by the Act, are already measuring their own performance in BIS terms.

Capital requirements, introduced in 1986, were designed to be phased in over six years, ending January 1992. Fully phased in, these would have amounted to primary capital and reserves of about 5%-5,5% as a percentage of assets — the precise amount is determined by risk profile.

Under the new system, assets initially receive a risk weighting and this attracts a percentage of capital — which the BIS sets at 8%. "The capital can be composed of only primary capital and reserves, or a mix of primary and secondary capital and reserves, with the proviso that at least half of the capital must consist of primary capital and reserves," says a Reserve Bank spokesman.

This means a R100 000 mortgage loan, for instance, would receive a risk weighting of 50%. And if the 8% coefficient is applied, the lender will have to hold either R4 000 in primary capital or a minimum of R2 000 in primary capital and a maximum of R2 000 of secondary capital. The existing requirement (for banks but not building societies) is R5 000 in primary capital.

The impact on various institutions, of the change in requirements, will depend on a variety of factors including composition of asset portfolios and maturity structure of assets and liabilities. But it is expected that, in the industry as a whole, the new requirements will be in line with existing ones.

The new dispensation will address at least

FM 3/8/90

two anomalies.

One relates to equity holdings. Risk depends largely on marketability of an asset. Yet shares in listed companies now attract the same impairment — 100% — as fixed property. Under BIS guidelines, equities are risk-weighted at 100% and attract a capital coefficient of 8%. (58)

Another anomaly relates to mortgage loans. Risk depends also on the quality of the security backing the loan. And it is not logical that a mortgage loan secured by fixed property attracts the same capital coefficient as an unsecured advance — 5%.

If the BIS guidelines are implemented the requirement will be effectively lowered to a maximum of 4% (**see above**). There is an argument for reducing it further — that the 50% risk weighting is inappropriate in SA. This is because, in the case of mortgages, it is interest rate risk and not credit risk that is relevant. And SA institutions lend at variable rates rather than fixed rates. The only exceptions are loans offered for specified periods — on which interest charged is tailored to expectations of movements.

For this reason, some observers believe the weighting, based on risk experience in SA, should be about 12,5%. This would free substantial capital in the case of institutions with large books. Standard, with R4bn worth of loans, could reduce capital and reserves from R300m now required to R40m.

Another effect of BIS-type requirements would be to permit banks to revalue liabilities in line with assets. When assets such as fixed property become more valuable in nominal terms, the additional value may be reflected on the other side of the balance sheet under capital and reserves. This will save banks the trouble of subverting the requirements. To achieve this now, they sell fixed assets to a subsidiary and treat profits as reserves — which is why so many financial institutions have subsidiaries active in property transactions.

Banks' & Building Societies Registrar Hennie van Greuning says: "Banking is all about taking on risks and managing those risks. The process of unbundling risk and applying

FM 3/8/90 (58)

appropriate prudential requirements ensures rational decisions are made and not skewed by attempts to avoid irrational requirements. In addition this process is in line with the risk/reward concept which underlines the capitalist system." ■

sector-financed educational institution — has focused on upgrading the qualifications of teachers, and has achieved excellent matric results. Picture. ROBERT BOTHA

R2bn fund to bridge SA's 'first and third world gap'

B Day 6/8/90

LESLEY LAMBERT

CAPE TOWN — The greatest challenge of the newly launched R2bn Independent Development Trust will be to tap the valuable resources of SA's first world and apply them to the development of the third world, says chairman Jan Steyn.

At the IDT's launch last week, Steyn said the trust would use the leverage it had gained through access to considerable funds to try to bridge this gap.

"SA has a very sophisticated economy which serves the needs of the First World and has not yet found ways of addressing Third World development.

"It is the intention of the trust to use the financial leverage it has to tap available resources in the first world and make these resources work in the development of a new SA. To be able to achieve this in practice will be the greatest single challenge of the trust."

The trust's foremost objective is to promote the development of the disadvantaged people — the very poor — of SA, the TBVC countries and the self-governing homelands.

This means its funds will be directed largely towards housing, health, education and employment.

Steyn has already hinted that two projects, involving the squatting communities and black education, will be initiated by the end of this month.

But, he has made it clear that the trust will not seek instant relief or solutions to the problems of poverty in the form of handouts.

Rather, the trust will initiate a co-ordinated development process, working at a grassroots level through existing community structures and other agencies with a track-record of "delivery".

It will involve employers, financial institutions and the private sector in its projects through grants, investments or loans.

In the interests of the trusts' beneficiaries, Steyn has made his board of trustees as widely representative as possible, including black community leaders, prominent academics and businessmen — people he describes as "caring South Africans with a track record in development".

The trustees are: Old Mutual deputy chairman Len Abrahamse; Natal Indian Congress vice-president and Natal University academic Jerry Coovadia; Durban-Westville University academic Len Konar; SA Institute of Race Relations president Stanley Mogoba; retired industrialist Johan Moolman; Nafcoc president Sam Motsuenyane; consulting engineer Patrick Naylor; UCT academic H Ngubane; Transkei University principal Wiseman Nkulu; UCT academic Mamphele Ramphele; Barlow Rand and Urban Foundation chairman Mike Rosholt; SA Perm MD Bob Tucker; and HSRC president Tjaart van der Walt.

● Comment: Page 6

Real estate industry facing major upheaval

Star 9/8/90

By Frank Jeans

SUN CITY — Only a year from now the real estate industry will be substantially different from what it is now, with the big banks, building societies and other institutions taking over or linking up with estate agencies.

This was predicted by the MD of the Perm, Bob Tucker, speaking at the annual convention of the Institute of Estate Agents yesterday:

"Negotiations now taking place constitute a real threat to institutions which regard real estate as their lifeblood.

"Perplexed at being cut off, the Perm could take either the route of the UBS, which has formed a relationship with agencies, or go the way of direct entry into real estates," he said.

Looking at house purchase trends Mr Tucker told delgates that for the past 10 years, white South Africans had been able to avoid the consequences of borrowing to maintain their standard of housing and living.

However, the capacity to borrow further has, for most people, now reached its ceiling and declining real standards of living are likely to be felt.

"This will inevitably impact on the standard of housing and the purchasing behaviour of potential homeowners," he said.

Commenting on the new Deposit Taking Institutions Act, which will be introduced in January next year, Mr Tucker said:

"This will completely level the playing field between banks and building societies and it will be feasible for one institution to take as much as a 49 percent interest in another institution — where previously this was limited to 10 percent in the case of building societies.

"The act will facilitate rationalisation in the industry and it should be expected that at least one of the major home loan institutions will be involved in a merger or takeover.

"This might well result in the purchaser having a disproportionate share of its total assets in mortgage loans and that both the buyer and the acquired institution would, for a period of time, actually withdraw from the home loan market," Mr Tucker said.

Stals stays on charted course

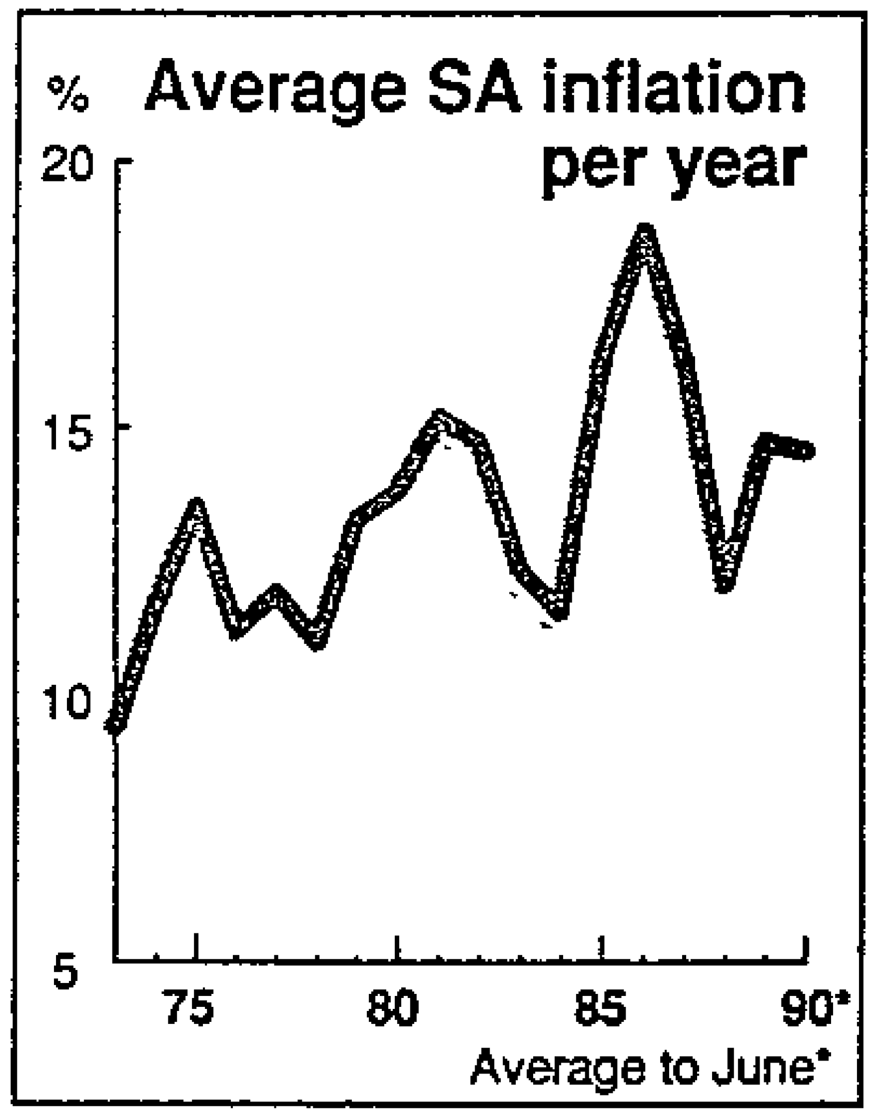
B/Day 9/8/90 (58)

GRETA STEYN

WHEN Chris Stals took the reins of the Reserve Bank on August 8 last year, monetary policy changed in content and style.

In his first major policy speech he declared war on inflation, opened fire with a surprise hike in Bank rate barely a month later and is now still sticking to his guns — much to the surprise of the markets.

Stals's stance on inflation illustrates his firm belief that the Reserve Bank has a small — if it has any — role to play in short-term stabilisation policy.



Graphic FIONA KRISCH

Economic recessions are not the Bank's main concern — its mission is the protection of the currency's domestic and external value. This view represents a major shift in focus from the past when recessions triggered sharp falls in interest rates.

Widespread applause met Stals's statement about a year ago that the time had come to hone down inflation. But almost a year after his first address at the Bank's annual general meeting, only a few stray supporters continue to applaud while the markets have grown restless with impatience to see him cut Bank rate.

The markets and some economists believe a recession, coupled with a strong BoP, equals a cut in interest rates. It would appear to be an affordable move to alleviate economic hardship.

That approach was taken to extremes after the 1985 recession when interest rates dropped to significantly negative levels in real terms.

Stals has apparently told Bank staff he hopes to see inflation go down to levels compatible with our trading partners' in the next four years.

Against that background, he has left promoting economic growth to Economic Co-Ordination Minister Wim de Villiers and Trade and Industry Minister Kent Durr.

The Bank's role is to provide a stable financial structure within which those economic policies can be implemented. He will keep monetary policy tight for as long as it takes to create that environment.

A feature of his tight policies in the past year has been to keep the money market very short of cash — squeezing banks' margins. He hoped to curtail credit growth in this way.

The policy drew heavy criticism. The Standard Bank's economists joined money market expert Pierre Faure of Sechold in calling for a flexible prime rate to cope with the squeeze. They accused the bank of "credit rationing" and departing from market-oriented policies.

Stals has put a flexible prime rate on the agenda, but the chances are that prime will not be freed before interest rates are clearly on a downward path.

Criticism was also levelled at Stals during the "repurchase agreement debacle". The ~~move to~~ bring these off-balance sheet items back on balance sheet, where they become subject to expensive reserve requirements, was initially interpreted by the market as an effort further to tighten monetary policy.

The first meeting on the issue caused an uproar which grew louder as the gilts market realised that speculation would be curtailed.

Stals then said the move had been aimed at creating a sounder banking system; it was a bank supervisory measure rather than a monetary policy decision. In any event, there were some crossed lines on the issue that later firmly emerged as an effort to create a stable and sound financial environment.

The striving for improved stability, and the mission to protect the external value of the currency, have seen a change in exchange rate policy. Stals has explicitly said he wanted to keep the rand as stable as possible against a basket of currencies, of which the dollar has the strongest weighting.

When necessary, the Bank has intervened actively in foreign exchange markets to stop the rand from appreciating too much or to moderate its descent. The policy has had the benefit of containing the Bank's forward cover "losses" which last year drew heavy criticism for their money-creating effect.

A relatively stable rand also reinforces the battle against inflation as it contains imported inflation.

In the fight against inflation, one of the main thrusts is curbing money supply growth. Nonetheless, the Bank has accorded a lower profile to the money supply targeting exercise than in the past, preferring to call the projected range "guidelines" rather than targets.

Growth in the money supply is edging into the guideline range of 11%-15%. Inflation has slipped to 13,6% after peaking at 15,8% last year, credit growth has slowed to the desired level of about 1% a month and the foreign exchange reserves improved by more than R270m in July. Stals's policies are clearly working.

His test in the next year will be in whether he keeps policies tight enough to crush double-digit inflation and create the stable financial environment he desires.

But he will also be judged by whether he keeps policy too tight — even if the Bank does not see recessions as its main concern.

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Tucker: Act will shake up home loans players

B1097 10/8/90 (58)

Business Day Reporter

THE new Deposit Taking Institutions Act which comes into force on January 1 next year will facilitate rationalisation in the industry, Perm MD Bob Tucker said yesterday.

It had to be anticipated that at least one of the major home loan institutions could be involved in a merger or takeover.

In a statement issued after the Institute of Estate Agents' annual convention at Sun City, Tucker said the new Act might result in the acquirer having a disproportionate share of total assets in mortgage loans, and that the acquirer and the institution would for a period withdraw from the home loan market.

The effect of the Act would be to level the playing field between banks and building societies, also making it possible for one institution to take as much as a 49% interest in another institution. Previously this was limited to 10% in the case of building societies.

On the acquisition by United of a stake in MLS and Aida, Tucker said the Perm was aware that other discussions were taking place. He felt the estate agent industry and its relationship with financial institutions would look very different a year from now.

He suggested that the institute urgently look to its structures and practices and decide what was necessary to best serve the interests of the industry — and not any particular segment or factional interest — under prevailing circumstances.

Other factors which would affect the industry in future were a zero negative real rate of growth during 1990, a very low positive real rate of growth in 1991 and a decline in white living standards, which would "inevitably affect the standard of housing and purchasing behaviour of potential houseowners".

Tucker expected the Group Areas Act to be scrapped or at least become irrelevant in the next year. This would also affect the property market.

TUCKER

He said economic recession and factional disenchantment would lead to a relatively high level of unrest. Endemic violence should be expected, but it should not be remotely sufficient to derail the negotiation process.

"Unrest and violence directly affect home owners' attitudes and behaviour, and must be taken into account by the estate agents' industry."

Reserve Bank mission is protection of rand

Star 27/8/90 (58)

By Derek Tommey

The Reserve Bank's prime objective is the protection of the domestic and external value of the rand, it says in its annual economic report.

It adds that SA has entered a "light" recession.

The Bank says its clearly defined mission was formulated and adopted by the board of directors and management earlier this year.

The Bank sees itself as striving for a lowering of the inflation rate to a level no higher than the average rate of SA's main trading partners.

Various moves towards normalisation have enabled it to pay more attention to structural deficiencies in the economy and to formulate medium- or long-term policies and strategies.

These policies seek to rectify structural distortions and establish, within the framework of a market-oriented policy, realistic values for certain key prices: the level of real interest rates, the real effective exchange rate, real wages and the real burden of tax as the price of government services.

The Bank says it is clearly justified in its view that an uncompromising anti-inflationary attitude will serve the authorities' structural and growth objectives as:

- International economic opinion increasingly accepts that the general price level is the only variable effectively under the control of central banks in the long run.
- Relative price stability is conducive to stable economic growth.

"The establisment and preservation of relative price stability must therefore rank as the prime contribution central banks can make to fostering economic growth and development," it says.

The Bank says it has now been definitively established that a cyclical downturn of the economy began in March 1989.

However, positive growth was maintained in the consolidation phase in the second and third quarters of 1989.

This was followed by a mild contraction at annualised rates of 1,5 percent, 1,5 percent and one percent in the three quarters to mid-1990.

Total real gross domstic expenditure fell markedly in the third and fourth quarters of 1989. But it found new support in the first quarter of 1990 and staged a minor recovery in the second quarter.

Factors keeping the economy going include the relative firmness of real private consumption expenditure and the high average level of real government consumption expenditure in the past five quarters.

Another supportive factor has been the modest rate of decline in total real gross domestic fixed investment.

The soft landing in 1989 became a cyclical downturn that has been characterised by unusual mildness on both the output and expenditure sides of the economy.

Apart from the relative firmness of domestic demand, domestic production has been sustained by the continuing strength of merchandise exports and of the "net foreign balance" (excess of exports and non-factor services over imports of such goods and services).

The vigour of merchandise exports, a modest drop in the value of merchandise imports and an easier position on the services account caused the current account surplus to recover from an annualised R1,4 billion in the first half of 1989 to R4,8 billion in the second half and to R4,6 billion in the first half of this year, says the Bank.

A number of factors led to the quarter-to-quarter rate of increase in M3 (total money supply) to decline to a moderate 12,5 percent in the second quarter of 1990.

Significant improvements have been made in the area of inflation, with the rate of increase in the prices of imported goods falling back to levels last seen in 1987.

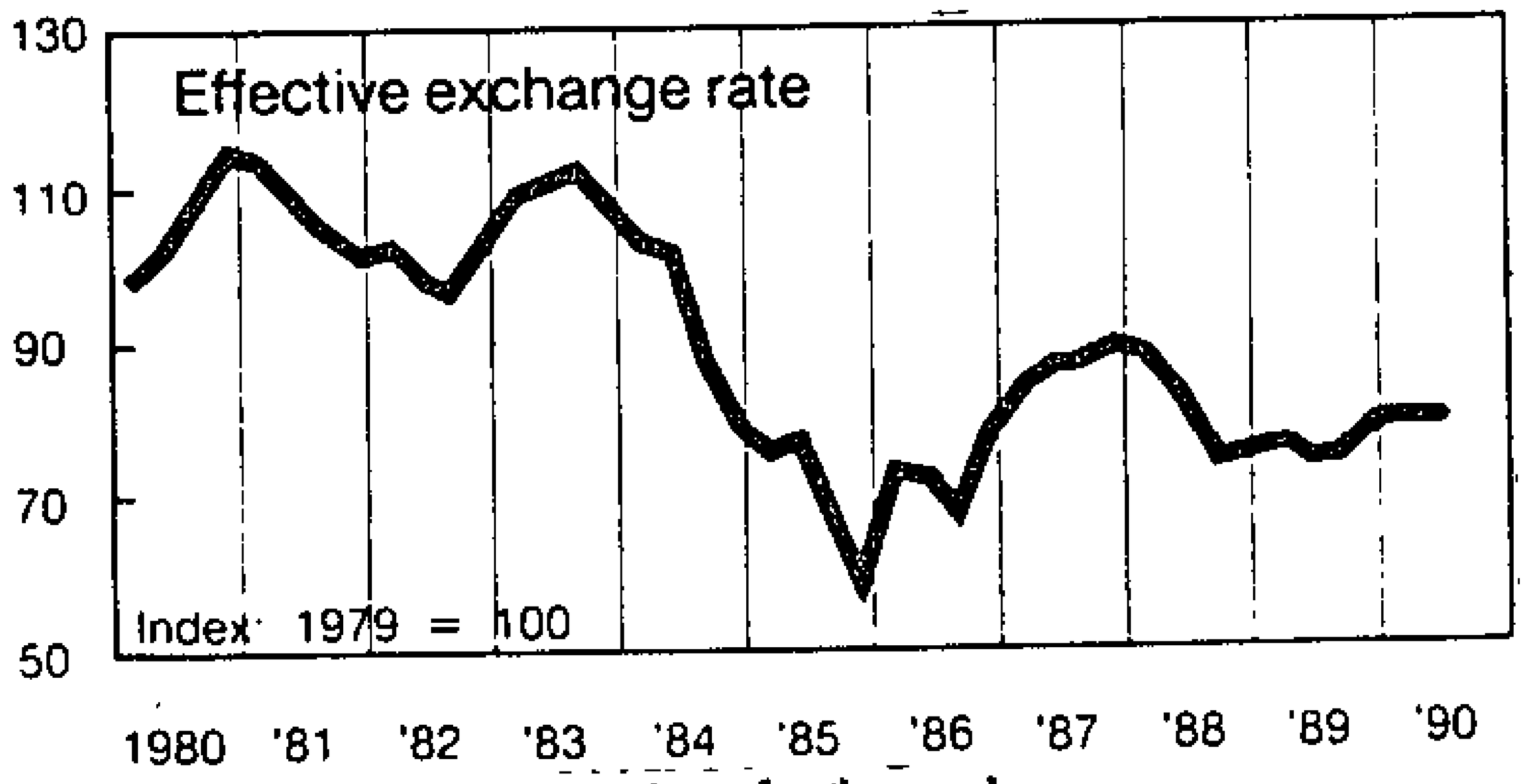
The rate of increase in the production price index fellen from nearly 18 percent in the second quarter of 1989 to 9,2 in the first quarter of this year.

However, the trend was reversed in the second quarter owing to more rapid domestic price increases.

The Bank is disappointed with the failure of the CPI to decline at the same rate as the PPI.

It says of its achievements that they are "cause for feeling encouraged rather than satisfied".

The inflation rate is still far above those of the SA's main trading partners and "an arduous road may still lie ahead in bringing it down to more acceptable levels", it says.



Better times for the rand

The increased freedom of investment action of institutional investors has greatly stimulated trading activity on the Johannesburg Stock Exchange, says the Reserve Bank in its latest economic report.

Turnover reached a record R8,6 billion in the first quarter of this year.

However, it dropped to R5,5 billion in the second quarter.

The financial institutions more than doubled their net purchases of listed shares from R3,4 billion in 1988 to R11,3 billion in 1989.

These purchases exceeded by R1 billion the aggregate amount of net new issues of listed shares, plus non-resident net sales in these two years.

Trading was also boosted by buying and selling operations of non-

UBS forecasts 10% rise in house prices

CHARLOTTE MATHEWS (58)

THE owner of a medium-sized house costing around R102 500 with an 80% bond was paying R200 more a month in the second quarter of 1990 than at the same time in 1989. B Day 14/8/90

According to the United Building Society (UBS) quarterly housing review for April to June, the building society expects that as the current recession becomes more intense, house prices are likely to increase by a smaller percentage in the remainder of the year than they have so far.

"But an overall rise of some 10% is still foreseen for 1990," it says.

Average price of a small house rose by 12% to R85 000 in the second quarter of 1990 compared with a year ago. Larger houses rose 10% to an average R146 500.

The greatest increase in house prices between the first and second quarters took place in the Western Cape, where prices rose by 4%. This was followed by a 3% increase in Johannesburg and Pretoria.

Prices declined by 2% in the Durban-Pinetown area and on the West Rand.

SA's most expensive houses are still to be found in Johannesburg, where the average price for a medium-sized house was R135 885 at the end of June. This compares with a national average of R102 554.

The UBS expects its basic mortgage rate to remain at 20,75% until the bank rate begins to decline.

Societies may opt for securitisation

58

GRETA STEYN

BUILDING societies are poised to announce the sale of a few hundred million rands of their mortgage books for securitisation, according to market sources.

The UBS pioneered mortgage-backed securities — a fledgling financial product that banks and building societies regard as of major importance. The NBS and Allied are expected to follow soon, although they are playing their cards close to their chests and do not want to reveal any details.

Meanwhile, the Reserve Bank met market representatives this week in an effort to hammer out policy guidelines on securitisation. B/Day 17/8/90

Securitisation entails the selling of a bank's assets to a company which then issues paper — securities — against those assets. The paper trades in the open market as an interest-bearing security. The advantage to banks is that it reduces their balance sheets and hence their costly capital requirements.

According to those who attended the meeting, a final policy document would be drawn up by the Bank once it had taken note of all the views in the market. They said the Bank wanted to draw up official guidelines to ensure that deposit-taking institutions were prudent in securitising their assets.

That is why the authorities are emphasising a clean transfer of assets — the bank

☐ To Page 2

Securitisation

B/Day 17/8/90

58

☐ From Page 1

selling the assets should have no shareholding or other control over the company acquiring them. This is to ensure that the risk inherent to those assets have been transferred and that the bank need no longer hold capital against them.

For the new company holding the assets to be exempted from the provisions of the Deposit-Taking Institutions Act, it has to fund itself on a purely wholesale basis.

The Bank has also suggested that the securities be sold in units of R100 000 with a view to drawing institutional investors rather than individual clients.

There is some debate between the Bank and the market whether the securities should be listed or not. The Bank would prefer the paper to be quoted on an official exchange, which safeguards investors and ensures adequate information is provided. Some in the market feel it is a costly exercise. Consensus on this issue has not yet been reached. The Bank is, however, willing to listen to market opinion.

Building societies stay strongly independent

CT Tal 14/8/90

By ARI JACOBSON

UNATTACHED building societies are confident of maintaining their independence in spite of the attentions of the large predator banks — a prelude to the Deposit-Taking Act becoming law.

Although smaller banks are also considered takeover material for the bigger banks, the real focus is on building societies with no deep allegiances and a decent home loan book. Saambou, Allied, Natal Building Society (NBS) and the United Building Society (UBS) are all considered as potential targets in the otherwise closely connected banking system.

Allied's Group Chairman Norman Alborough said highly publicised threats to independence, with the introduction of the new banking bill, failed to account for the opportunities arising from synergies.

"The option to remain independent or regroup within the banking system will be based on shareholder support."

He said the ability to sway opinion within the group was reliant on marshalling majority support from Allied's 50 0000 shareholders.

Adequate capital reserves and sound technological backing are strong ingredients for bypassing allegiances in the banking system.

Interviewed in Cape Town yesterday Natal Building Society MD John Gafney said the in-house computer facilities which NBS possesses are "state of the art technology.

"The ability to add to these facilities will keep future technology costs at manageable levels."

He said the NBS had avoided asset growth without the ensuing profits, so that capital reserve ratios along international guidelines had been maintained. "A 30% growth in assets in the past financial year translated into a 40% increase in bottomline profits."

Dividend cover policy is intended to be bolstered to three times, staving off a rights issue in the immediate future, said Gafney.

A banking analyst said building society shares have generated a flurry of activity ahead of the changing banking laws. Banks and building societies, under the new laws, will be governed by the same rules.

The real impact of this is that the present rule that no one shareholder can have more than 10% of a building society will no longer apply. A bank holding company will be able to grab a 100% stake in another.

All these holdings are dependent on the approval of the Registrar of Banks and in certain circumstances the Minister of Finance. Building societies fearing the threat of a hostile takeover would need to convince the authorities that the bid "was not in the public's interest", said a banking analyst.

Societies equipped to cut rates timeously

58

Star 18/8/90

FRANK JEANS

IN the event of a drop in the bond rate — economists generally believe a reduction is likely towards the end of the year — there could well be the opportunity for building societies to react more rapidly for the benefit of the borrower.

Previously, on a downward adjustment of the prime rate — the benchmark for all other rates — the societies have not been able to move in tandem because they have to contend with short-term funding limits.

Now, with the introduction of the Deposit Taking Institutions Act, these limits will be scrapped, thus building societies will be on a par with banks which have had no such restrictions.

A leading estate agent, Mr Scott McRae, managing director of Camdon's Nationwide, says: "There are renewed hopes of a bond rate cut following Finance Minister Du Plessis's recent hint of a interest rate cut.

"Normally, it takes some time for a drop in rates to eventually filter through to the home lending institutions.

"However, the new Act will make it possible for the societies to react more rapidly to change."

Mr McRae believes that without the funding limits, the societies should be able to increase their short-term funding and therefore respond faster to rate adjustments.

"The main element of long-term funding meant that the societies had to sweat it out, until longer funding commitments were worked through the system before they could move on the mortgage rate," he says.

"They were obviously unable to lower the bond rate when, to do so, would have placed them in a loss position on a significant part of their deposits."

Level playing field

Mr Brian Short, general manager, public affairs, of the Natal Building Society, says: "The new DTI Act will level the playing field between banks and building societies and when the new funding mechanism has worked its way through the system, building societies should be able to respond more rapidly to interest rate changes than they have done in the past.

"It will then become a matter of strategy as to how quickly they do, in fact, respond."

● Key speaker at the recent annual convention of the Institute of Estate Agents in Sun City, American realtor, Mr Chuck Bode, commenting on present interest rate levels in South Africa, said in a behind-the-scenes interview:

"In 1980 when the US Government deregulated savings and loans business, mortgage rates there went from 12 percent to an unprecedented 17 percent within a year.

"The market reacted accordingly and people just didn't buy."

Mr Bode made the point, though, that while South Africans might be seasoned to high bond rates, they should remember that although they view residential property conditions here with some gloom, "they should try conditions elsewhere in the world".

"I understand that in Japan, for instance, with prices of property and homebuilding rocketing completely out of reach of the buyer, 100-year bonds, involving you, your children and your grandchildren might not be out of the ordinary in the near future," he said.

RESIDENTIAL FM 24/8/90

Belt tightening

New houses are getting smaller. It's a trend that's been evident abroad for some time and now SA homebuyers seem to be following the international pattern.

First National Bank's Pat Lamont says the main reason is the combined effects of rising building and land costs, helped along

FM 24/8/90 (58)

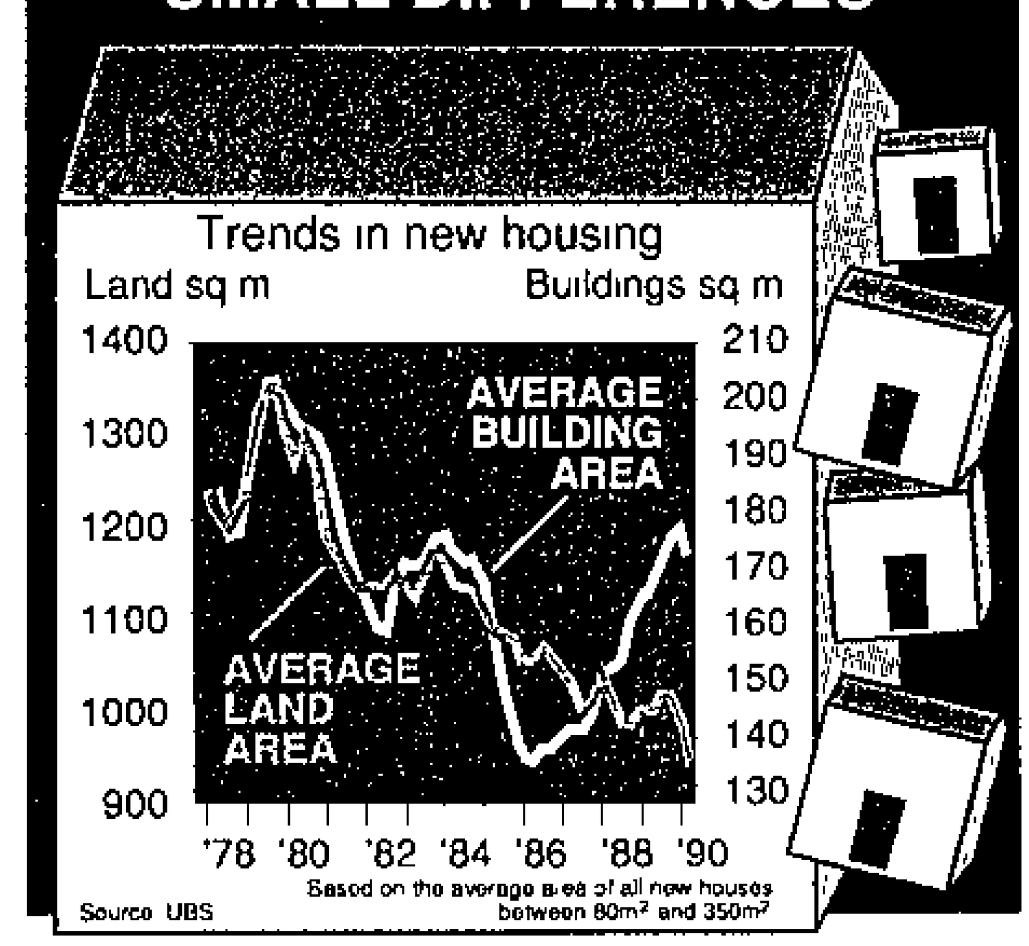
by the high cost of mortgages.

The trend is also emphasised by the UBS's *Quarterly Housing Review* (**see graph**). Author Hans Falkena points out that home building costs are rising at an annual rate of more than 20%. "The availability and cost of land has also had an effect on the building of new homes. The average stand size fell to roughly 920 m² during 1990's second quarter."

But, even if properties are getting smaller, prices are rising.

According to the UBS survey, medium-sized house prices rose by 4% on the first quarter to more than R102 000. This represents an increase of 12% compared with the same period last year — but that's below the inflation rate and an indication of just how

SMALL DIFFERENCES



Moreover, it's a trend which is likely to continue. Says Falkena: "As the recesssion becomes more intense, activity in the residential market can be expected to taper off. The number of new houses completed has already declined 12% on a year-on-year basis in the first quarter of this year and further drops can be expected during the remainder of 1990."

Some people believe the market could pick up almost overnight should there be a significant decline in the bond rate. Some, like Lamont, optimistically believe even a 1% decline might give the residential property market a boost. ■

SA in mild recession, says bank

Star 27/8/90

58

By Derek Tommey

South Africa is in a "light" recession, says the Reserve Bank in its latest economic report.

Figures given by the Bank show that the recession is nowhere near as severe as the previous one in 1984-85.

Since March 1989, says the Reserve Bank, the economy has been slowly contracting. But it says the current downswing has been unusually mild on the production and spending sides of the economy.

Total spending started declining in the second quarter of 1988 but levelled off in the first quarter of this year and even rose in the second quarter.

Dropped

Spending by individuals continues to grow, says the Bank. After increasing by 4 percent between 1986 and 1989, it has risen a further . percent in the past five quarters.

This is far different from 1984-86 when consumer spending dropped by 4,5 percent.

New mortgages granted by the banks and building societies, after growing by R10,3 billion in 1988, grew by R9,6 billion in 1989 and by a further R3,9 billion this year.

At the end of 1989, the banks held mortgage loans worth R22,8 billion and the building societies mortgages worth R24,4 billion.

The Reserve Bank notes that house buyers have been accelerating repayments on their mortgages — no doubt because in present circumstances this sharply reduces the amount of interest that has to be paid on the mortgage.

● Mission to protect rand — Page 16.

Scheme could house 2-million

CHARLOTTE MATHEWS

A STATE subsidy of R3,5bn to replace the present first-time homebuyers' scheme with a capital subsidy and to provide mortgage financing for core houses would put owning a site or a basic house within the reach of more than two-million people.

Independent Development Trust chairman Jan Steyn told the Unisa housing conference in Pretoria yesterday that such a subsidy, although a large sum, would not have to be found within a single year.

"And, perhaps most importantly, if present hidden subsidies are taken into account, this is not more than the present burden the tax payer is carrying."

Steyn based his estimate on current costs of R7 500 for a modestly serviced site, R15 000 for a minimal core house, R26 000 for a better core house and R37 000 for a conventional house.

With these prices and the current financing and subsidy system, only about 500 000 households could afford to rent a shack. If administrative constraints did not interfere with the production of serviced sites, a further 200 000 households could afford to buy them.

"If the first-time homebuyer's scheme were replaced with a capital subsidy of R6 000 and if the better core houses could be mortgage-financed, 320 000 households could afford to own a serviced site and a further 275 000 a starter house," Steyn said.

"Only 130 000 households would rent shacks, the majority of these because they want to rent, rather than being unable to afford to buy a serviced site."

His estimates did not assume help from employers.

GERALD REILLY reports that MEC in charge of housing John Mavuso told the conference urgent attention had to be given to the systematic extension and development of metropolitan areas that are subjected to the greatest urbanisation pressure. He said although the industrial decentralisation programmes had achieved results, political pressure and an unfavourable economic climate demanded a restructuring of the urbanisation strategy. Fully fledged towns had to be established.

Star 31/8/90 (52)

Reserve Bank committed to protecting value of the rand

By Duma Gqubule

The central mission of the Reserve Bank is to protect the value of the rand, Reserve Bank Governor Chris Stals said yeaterday.

Speaking to members of the Johannesburg Chamber of Commerce and Industries (JCCI) Dr Stals said the bank's other objective of maximising economic growth could only take place in an enviroment of financial stability.

"In the short term we are pursuing the objective of financial stability in order to lay a solid foundation for future economic growth," Dr Stals said.

The Reserve Bank had great sympathy for the hardships the recession had created for many people in the country. "One cannot therefore turn a deaf ear to the problems," he added.

"We have warned, however that it cannot be expected of the monetary authorities to solve all these problems by relaxing monetary policy. We should guard against the temptation to try and cure all the economic problems of South Africa by creating more money."

"At this stage the Reserve Bank has decided that it is not yet satisfied with what has been reached thus far in its quest for greater financial stability. A premature relaxation of monetery policy may easily nullify the progress made so far. This progress justifies our call for perseverance in our restrictive monetary and fiscal policies."

Dr Stals said his ultimate objectives were:

- Zero Inflation
- A rate of increase in the money supply more or less equal to the real rate of growth in the economy.
- Maintaining positive real rates of interest.
- A level of gold and foreign exchange reserves that will cover at least three months' imports.
- A sound financial system with efficient markets.

Dr Stals said it was realistic to accept that it was not possible to reach this economic Utopia. "It therefore needs sound judgement on how far one should go, and what compromises should be made between the many objectives of overall economic policy," he said.

"Developments over the next few months will be watched with care, and the Reserve Bank will not hesitate to relax policy as soon as such as such a change can be justified," Dr Stals said.

"If equilibrium between demand and supply of loanable funds can be established without an excessive increase in the money supply, we shall have no objection to lower nominal interest rates. There is however one proviso, and that is that the level of interest rates should at least exceed the rate of inflation," he said.

COMPANIES

Market intrigued as 300 000 NBS shares change hands

58

B Day 7/9/90

NEIL YORKE SMITH

A BIG deal in NBS Holdings on Wednesday has the market speculating about the likely buyer — and possible seller.

"We have no idea who traded the shares and are anxious to see who was involved," NBS GM, management services, Mark Farrer said yesterday.

"Strong gains in the share price this year could suggest some investors have decided to cash in and take their profits now."

More than 300 000 shares were traded in the transaction which took the NBS share price up to 750c. This is about 66% higher than the 450c at which the shares traded less than a year ago.

NBS's major shareholders had been steadily increasing their stakes all year, Farrer said.

Biggest investors in NBS are Norwich Life and various pension funds — including the NBS staff fund — which together control about half the equity of the Natal-based financial services group.

Rationalisation of the banking sector has long been called for, but Farrer said NBS did not really qualify as a likely takover candidate.

"We are a highly profitable entity and as such are well placed to retain our independence."

NBS's interim figures are due out next month. Farrer would not give details as to what shareholders could expect, but said the results were unlikely to disappoint.

Both the traditional home loans business and the more recently formed banking division had performed well to date, he said.

"There has been some slowing in demand for home loans, but the performance has nevertheless been good."

Cheque accounts at Allied

BD 7/9/90 NEIL YORKE SMITH (58)

ALLIED Bank has expanded its product ~~range~~ to include cheque accounts, bolstering its status as a fully fledged financial services group.

Initial marketing was likely to be low-key as there were 11 000 people waiting to open Allied cheque accounts, MD Kevin de Villiers said this week. "Once we have got all these people on the system we will begin a more aggressive marketing drive."

Allied has a strong base on which to market the product — its current client base stands at more than 1,5-million accounts — so the number of cheque accounts is likely to grow quickly.

"We are aiming for 30 000 accounts by March and 60 000 by the end of next year," De Villiers said.

Updated

Development and start-up costs precluded profits from cheque accounts in this or the next financial year, De Villiers said.

Allied was well placed technologically to expand into the high volume cheque account arena. Systems were updated two years ago.

Marketing of the new product would be directed at young income earners aged up to about 28, he said.

This was because older people usually had long standing relationships with their banks and were less likely to be lured by new products offered by competitors, De Villiers explained.

UBS senior GM (Marketing) Tienie van der Berg said Allied's expansion into cheque accounts would not affect UBS's marketing drive in the same area.

Star 8/9/90 (58)

Capitalism trium

Socialist alternative in tatters, but moral dimension needed

Today capitalism is firmly re-established as the world's primary way of conducting business. But how can a moral dimension be given to this reassertion of capitalism? Whereas wealth creation is essential for well-being, it cannot in itself make men and women happy. We are creatures of the spirit as well as of the flesh, and we cannot be at ease with ourselves unless we feel we are fulfilling, however vaguely or imperfectly, a moral purpose. PAUL JOHNSON examines this central deficiency of the capitalist system.

THE decade of the 1980s has proved to be an ideological watershed. It has been marked by a huge resurgence of faith in the power of the capitalist market system and a corresponding collapse of confidence in the capacity of the socialist "command economies".

The truth is that during the 20th century large parts of the world have given the collectivist alternative a long, thorough and staggeringly costly trial, and it seems to have failed absolutely everywhere. It was during the 1980s that this realisation dawned even in the quarters most reluctant to admit it — the rulers of the socialist-style states

Meanwhile, the capitalist world is racing ahead and is creating wealth on a scale never before dreamed of. It is clear that capitalism, being a natural force springing from instincts deep in our human natures, rather than a contrived ideology, is modifying itself all the time, and we cannot foresee how it will evolve over the next century. But judging by our experiences in this one, it seems likely that never again will any considerable body of opinion seriously doubt the wealth-producing capacity of capitalism or seek to replace it with something fundamentally different.

We are near the end of a historical epoch in which capitalism has survived the collectivist assault and is now firmly re-established as the world's primary way of conducting its economic business

And that may cause a considerable dilemma: How can a moral dimension be given to this reassertion of capitalism?

Whereas wealth creation is essential for well-being especially in a world where population is expanding so rapidly, it cannot in itself make men and women happy. We are creatures of the spirit as well as of the flesh, and we cannot be at ease with ourselves unless we feel we are fulfilling, however vaguely or imperfectly, a moral purpose. It is in this respect that capitalism, as such, is inadequate

It is not that capitalism is immoral. The trouble is quite otherwise. It lies in its moral neutrality, its indifference to the notion of moral choices Capitalism and the market system which gives it its efficiency and its power is single-minded in its thrust — that is why it is so productive.

It is blind to all other factors: blind to class, race, and colour, to religion and sex, to nationality and creed, to good and evil. It is materialist, impersonal, and non-human. It responds with great speed and accuracy to all the market factors

It is precisely because capitalism is morally indifferent — and so productive of great miseries as well as great blessings — that many idealists, early in the 19th century, saw it as evil, rejected it entirely, and sought to replace it. That line of argument ended when no effective substitute was discovered. Capitalism has to be accepted as the primary means whereby wealth is produced and the process of moralisation must begin within its terms of reference.

In a sense that process has actually been taking place for 200 years — by Factories Acts, Mines Acts, by monopoly and fair-trading legislation, and by all the countless laws devised to restrict ways in which the market system can be distorted by man's cupidity

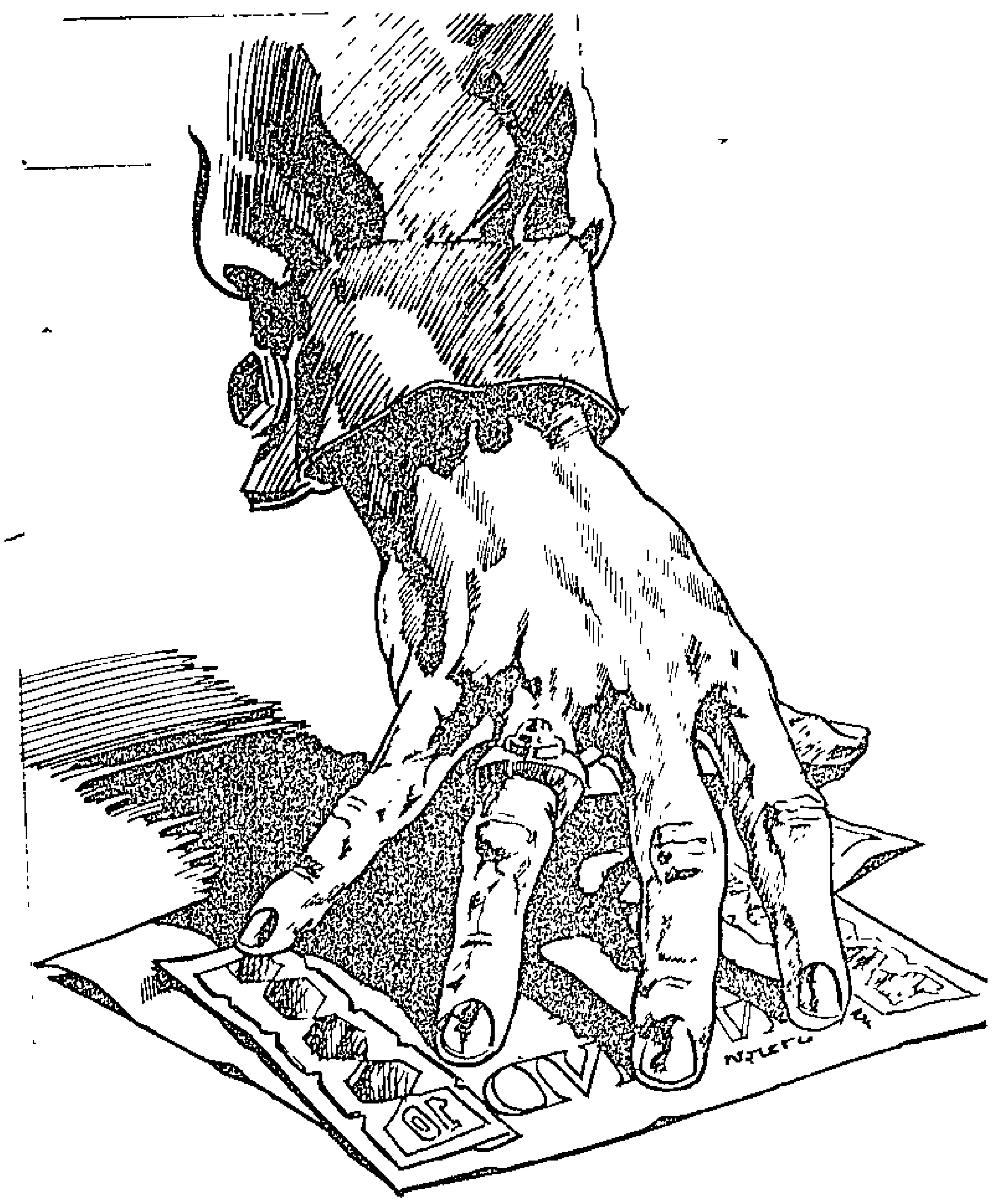
But these are merely negative attempts to correct the excesses of capitalism They do not in themselves give capitalism a positive moral purpose That is quite different and a much more difficult matter. The moment you start trying to give capitalism moral purpose, you risk interfering with the basic market mechanism which provides its wealth-creating power

If, for instance, you try to use capitalism to promote greater equality of wealth by imposing on it a steeply progressive, redistributive system of taxation, you frustrate the way in which it rewards its chief dynamic force, the acquisitive impulse, and you are liable to end by making everyone poorer.

That is the price of trying to make capitalism do something which it is not in its nature to do — promote equality. The price is paid in the shape of reduced national wealth and income — lower general living standards, inadequate health care, a run-down transport system, impoverished social services, underfunded schools

It is, however, possible to run capitalism in tandem with public policies which make use of its energy while steering it in a moral direction

This can happen in six ways.



The first, and in some ways the most important, is to provide the capitalist economy with an overall legal framework which has a moral basis This can only be done if it is accepted that a fundamental object of the just society is to establish, so far as is humanly possible, absolute equality before the law Equality of wealth is a utopian fantasy whose hopeless pursuit usually leads to tyranny. But equality before the law is a reasonable objective, whose attainment — albeit in an imperfect form — is well within the reach of civilised modern societies

This form of equality responds to a strong human need whereas few people really want equality of possessions, or believe it possible, everyone wants fairness. The notion of a fair society is an attractive concept, and one toward which progress can undoubtedly be made

The second way is for society to endorse the related but broader concept of equality of opportunity. It is one of the miracles of the human condition that everyone, however humble, possess talents of one kind or another, waiting to be of service The range of talents is as infinite as human variety itself, and the society which is swiftest to identify them and put them to use will certainly be the most efficient (as well as just) Here again, capitalism and justice pursue the same ends, for capitalism thrives on meritocracy

One of the prime functions of the market is to identify and reward objective merit, and it creates wealth most rapidly when all obstacles to equality of opportunity — social and historic as well as purely legal — are removed.

It is unrealistic to talk of equality of opportunity without taking drastic measures to make high-quality education generally available to those who can profit from it But in practice, there has never been a society in which all benefit from the standards of the best schools and universities

To begin with, throughout human history the most gifted teachers have always been in limited supply — there are never enough to go around In any case, the culture, and habits of industry which parents transmit to their children, make absolute equality of opportunity, as an abstract ideal, unattainable But it is one thing to concede the difficulties; quite another to accept the present system of educational inequality which exists to some degree in every country in the world No one single thing is more likely to make capitalism morally acceptable than giving the poor access, by merit, to high-quality education, of every kind and at every stage

Beyond access to education, societies must also assure access to the capitalist system itself The notion of "democratic capitalism" is a genuine one, and its realisation, to some degree at least, is within grasp.

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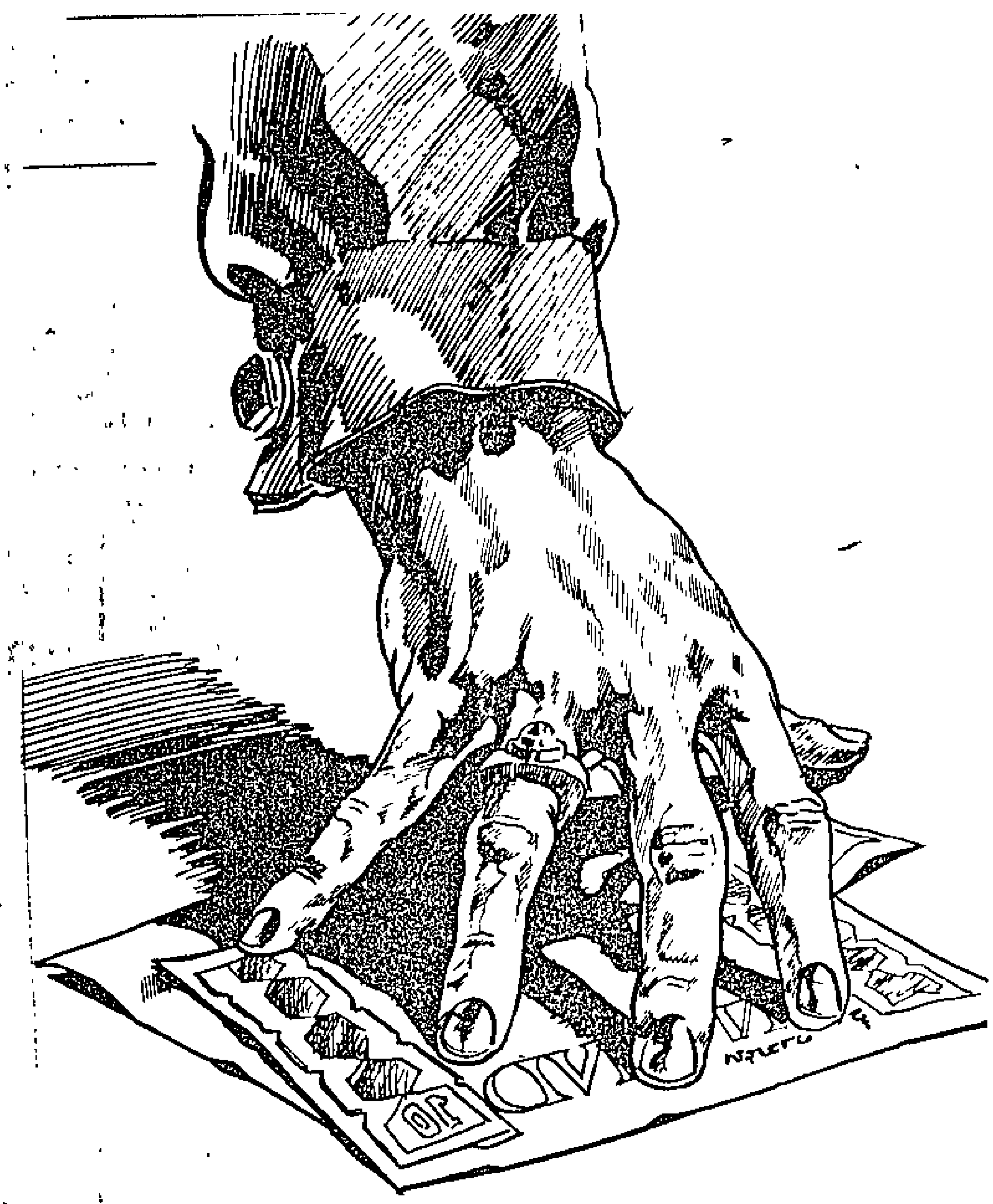
Star 8/9/90 (58)

alism triumphant

Socialist alternative in tatters, but moral dimension needed



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Beyond access to education, societies must also assure access to the capitalist system itself. The notion of "democratic capitalism" is a genuine one, and its realisation, to some degree at least, is within grasp.

There are many ways in which it can be brought about Some are old, some only recently discovered, and some are yet to be devised.

In the last half-century and more, economists have found that to take an industry into public ownership in no way democratises it — quite it contrary Nationalisation, whether in the form of a monolithic public corporation, or through so-called "workers control", merely puts the business firmly into the hands of bureaucratic or union elites, or indeed both But it is possible to establish public corporations so that they become the property of millions of small stockholders.

This is not to say that doing so will convey control of these corporations to the masses. But it does spread ownership widely and it does introduce an element of mass financial participation in the system which is new and healthy It gives millions of humble, ordinary people a sense that they are no longer entirely victims of the system that they act, as well as are acted upon, that to some small degree they have a stake in society It is a source of price, of reassurance, even of security, and it is thus morally significant

Democratic capitalism also lends itself to the old but unrealised idea of co-ownership by giving the work force easy access to the purchase of stock In any captialist enterprise, the community of interest between those who own, run, and work is, or ought to be, far greater than any conflict of interest

Access of workers to stock is the surest way of demonstrating this fundamental truth, which is often obscured by political sloganising This is particularly important in industries where the work is hard and dangerous and the profit high, such as mining and offshore oil extraction Democratic capitalism, and especially the worker stock ownership aspect of it, serves to refute one of the gravest charges against capitalist practice — that it is, by its very nature, exploitative.

Stock ownership is not, however, the only or even best way the notion of democratic capitalism can be pursued

One of the most important but least understood disadvantages of the so-called "mixed economy" is that, in its inevitable drift to corporatism, it involves tripartite deals among govenment, labour unions, and large-scale capital.

Such deals invariably leave out small business. In many areas of the world starting once's own business has replaced the fundamental human urge to farm one's own land — it is an expression of the natural creativity in man, and as such a profoundly moral impulse

Sensible, practical assistance in helping people to set up their own businesses, and ensuring a climate of fairness in which they can operate, is the best way to promote, at one and the same time equality of opportunity, democratic capitalism, and the efficiency and acceptability of the system as a whole A strong correlation exists between the number of small business starts and soundly based economic expansion

So here again the interests of justice and the process of wealth creation coincide

The fifth point is that vigorous promotion of free trade is an important way in which capitalism is legitimised morally Protectionism in any form tends to undermine capitalist efficiency by creating privileged industries, and its is unacceptable morally because it deprives the consumer of the full fruits of the market It always appears to have advantages for new, small, and weak economics — or for old, established ones meeting new and ruthless competition But in the long term, and often in the short term too these advantages are greatly outweighed by the drawbacks

Now to the sixth point Just as equal opportunities within a society are unlikely to become reality without general access to high-quality education, so free trade will not in practice be generally accepted, especially among the poorer countries, until the huge discrepancies between nations in technical and commercial skills are diminished The normal workings of the international market will not be recognised as just and reasonable until this massive gap is narrowed

Old style aid is now discredited, and rightly so For a rich national to salve its conscience by transferring cash to the government of a poor one in many cases just keeps an inefficient and unpopular tyranny in power But it is another matter to train the masses in the skills of market capitalism

Widening the availability of such skills accomplished many things simultaneously poorer countries are enabled to compete, wealthier countries benefit as new market are opened to them, the system is strengthened by giving it universality as well as fairness and consumers everywhere find goods cheaper as competition increases

Here again, the process of placing capitalism in a moral context has the additional advantage of adding to its wealth-creating power.

To sum up Doing the right thing morally usually proves to be, commercially, the right thing to do

The solutions tried up to now have invariably been collectivist ones So they have all failed It is now time to turn to entrepreneurial solutions and seek to use the problem-solving mechanism of market capitalism, which has never failed yet to provide the answers

Future of building societies 'rosier'

BDay 17/12/90

58

Business Day Reporter

THE outlook for building societies in 1991 is rosier as a result of a projected increase in residential building activity, new government legislation and a fall in interest rates forecast for next year, says NBS public affairs GM Brian Short.

On the basis of research material provided by the society's consultant economists, Econometrix, Short says in a statement that "the trend of residential building plans passed, which has been downward for more than a year, has now flattened out and is showing signs of edging upwards.

"Bearing in mind the lag between plans passed and their translation into actual building activity, a recovery can be expected next year", he says.

"The existing low level of new buildings has meant that a significant shortage of residential accommodation has arisen in many areas, both black and white. This is bound to put upward pressure on rentals in the coming year — boosting residential property prices somewhat and bringing them more into line with the cost of building a new home."

Short says that once the gap between the cost of building a new home and that of an existing house, currently between 35% and 40%, narrows to around 20% there will be motivation to resume building.

"Such a scenario, coinciding with a possible fall in interest rates next year, could see an upwardly bouyant residential property market towards the end of 1991."

Gulf crisis will have bearing on SA economy, says bank

NEIL YORKE SMITH

SA's economic performance in the year ahead will depend as much on developments in the Gulf as on domestic economic policy, says Standard Bank's latest economic review.

The higher oil price came at an unfortunate time and had created a policy dilemma for the monetary authorities, it said. Consistently tight monetary policy and the more favourable performance of the rand had begun to show visible signs of success and further declines in inflation were expected, it said.

Now the authorities would have to choose between maintaining stringent monetary policies to combat inflation or relaxing them to avoid recession, it added.

A near-term reduction in interest rates would favourably affect inflation because of lower mortgage rates but the real possibility of petrol price increases would thwart attempts to achieve single digit inflation, it said.

The authorities were caught between their desire to be, and to be seen to be, consistent in fighting inflation and the pressures to reduce monetary pressures on an economy that was already slowing rapidly.

"If too much emphasis is focused on combating inflation they run the risk of inducing a severe recession which will later necessitate expansionary monetary policy. This will will sweep aside recent gains."

Similarly, any policy that was too accommodating to pressures supporting economic expansion ran the risk of renewed price spirals.

The report emphasised SA would feel the impact of higher oil prices, as seen by recent petrol price increases.

The latest 10c a litre increase would immediately result in a 0,5% rise in domestic inflation, with a further 0,5% increase to follow as a result of the indirect impact of higher transport and input costs, it said.

Bus Day 21/9/90

Talks on creating new banking giant

B/Day 26/9/90

(58)

NEIL YORKE SMITH

ALLIED, Sage Financial Services, UBS and Volkskas are discussing the merging of their interests into a single financial services giant, the four banking groups have announced today.

Such a merger would result in the formation of SA's biggest financial services group with combined assets of about R50bn and after-tax earnings of about R400m, based on recent figures.

By contrast, banking leader Standard Bank Investment Corporation has assets of about R32bn and last year's attributable earnings were R333m.

Today's announcement from Rand Merchant Bank says major shareholders in the companies — including Rembrandt and the Mines Officials and Mines Employees pension funds — were in favour of rationalisation in the financial services industry.

Speaking from London yesterday, a Rembrandt spokesman said it was too early to comment.

Directors of Sage, UBS, Allied and Volkskas said the possible benefits were very exciting.

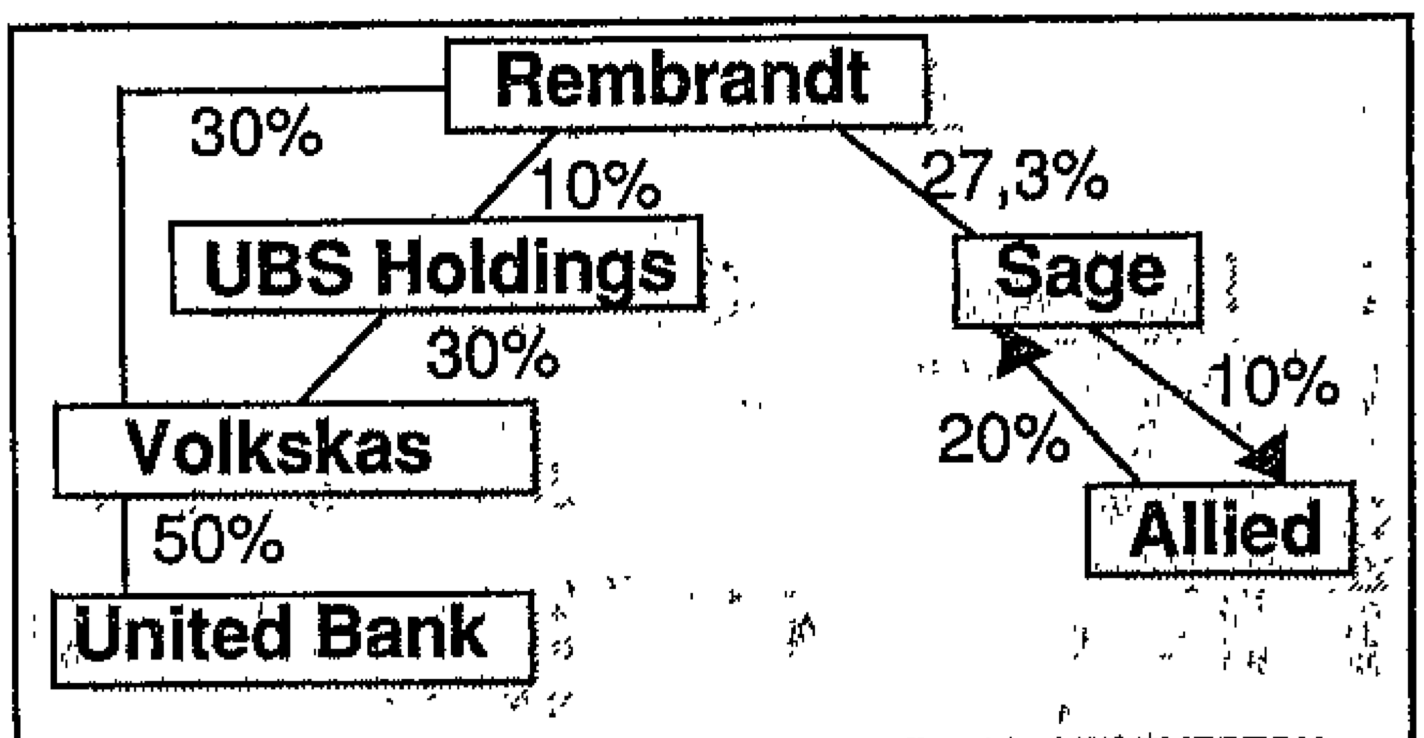
Registrar of Banks Hennie van Greuning expressed his strong support for such rationalisation in an interview last night.

"We are aware that the discussions will occur and are fully supportive of the thinking behind the moves. The creation of such a giant would be good for SA, especially if we are to enter the international financial arena with confidence."

Stockbroking analysts said the announcement was not unexpected.

"Rembrandt has often said it is interested in rationalising its financial services interests. Rationalisation makes sense, especially given the problems of inadequate management and inefficient computer systems which have plagued the in-

□ To Page 2



Graphic: LEE EMERTON

Banking giant

B/Day 26/9/90

(58)

□ From Page 1

dustry for so long," said Edey Rogers' David Southey.

A big group would have the economies of scale that were vital to the efficient running of sophisticated systems, he added. It would make sense to move Allied and Volkskas into UBS and then to do a deal involving Rembrandt's insurance companies Sage and Momentum Life.

Martin & Co's Richard Jessie said any merger would probably involve UBS and Volkskas taking a strategic stake in Allied — and Sage could be delisted and split up.

At current share prices the companies have the following market capitalisations: UBS — R1,7bn; Volkskas — R666m; Allied — R549m; and Sage — R161m.

The most recent taxed profits were: Volkskas — R115m; UBS — R197m; Allied — R68,7m; and Sage — R35,7m.

In terms of assets Allied had R9,8bn; Volkskas R20,5bn and UBS R15,7bn.

Business leaders must redress imbalances

W/Mail Supp) 17/8-19/8/90 (58)

BPSA's policy of investing in people has enabled a number of South Africans to take their place in the private enterprise system

By **GR BARR**

THE private sector can rightly claim to be one of the primary pressure groups that helped cause the South African government to begin dismantling apartheid and all its damaging effects on economic advancement for all.

That dramatic change-of-face, which began with President FW de Klerk's declarations at the opening of Parliament on February 2, has caught us all by surprise.

But from our perception, any political settlement still does remain a distant prospect. Realistically, there are going to be many major obstacles to be overcome before any material progress is achieved.

That means considerable uncertainty must exist as to where our ultimate destiny lies. And, of course, any form of uncertainty is going to damage business optimism — and reflect on the performance of the South African economy.

What is of real concern to the business community is that the public debate over the new South Africa has failed to address the vital issue of what shape our economic system must take so that it best satisfies the needs of the entire population.

We would like to stress — if there be a need to do so, given numerous examples elsewhere in the world — that a political resolution is most unlikely to succeed unless a pragmatic economic plan is also imposed.

The polemic has ranged from the free enterprise ethic through to nationalisation, redistribution of wealth, socialism and so on — but has failed to adequately detail what all these mean in reality.

It has thus become essential that the business community takes a leading role in first identifying and spelling out in detail the economic system it believes will address the needs of the community as a whole.

More particularly, it must prioritise these needs and seek out real and practical ways of dealing with them efficiently, together with all vested interests. Major challenges and opportunities lie ahead of us.

As a start, we must recognise that the new South Africa is going to bring with it major political change — possibly leading to majority rule by a sector of the population that perceptually has least enjoyed the advantages of the capitalist ethic which we espouse.

Second, it has become imperative for those who effectively hold the purse strings to the private sector economy — the large corporations, the life offices, the banks, building societies and other financial institutions — to quickly acknowledge, collectively, the imperative of seeking ways of redressing the socio-economic imbalances that currently exist.

This is not a responsibility that should or can be left to the political leaders of this country, but is also a direct responsibility of the business leaders of our economy.

It has become vital for the big institutions who accumulate, distribute, manage much of the wealth generated by the community to become far more innovative in redirecting that wealth in ways that can be most beneficial to the most important needs of that community. It also means that those benefits must be perceived by those who receive them.

Naturally, it will also require the co-operation of whatever government is in power — but the first initiative must come from the private sector.

The process has already been set in motion in various ways by organisations such as the Consultative Business Movement. But, it needs to be more vociferously tackled, and on well-constructed platforms which can be used to encourage wider public debate and initiate creative thought on the most likely financial instruments that can be employed.

To set this process in motion we recognise that while the big institutions are in competition with each other — and seek to produce the best returns for policyholders, shareholders and other vested interests — the new environment on the near horizon demands a great deal more flexibility and co-operation.

To further encourage this frame of thought we immediately identify areas whose needs are of high priority: education, job-creation, housing, base infrastructure and health.

Financial muscle and business acumen must combine to accelerate the deregulation process and remove those controls that in many instances have been imposed to protect vested interests. This has encouraged commercial power concentrations which are looked at with so much suspicion by the disadvantaged majority.

To accommodate these needs we propose that the financial institutions must take a more enlarged view of their own social upliftment programmes. More particularly, that they join resources in a manner which will avoid unnecessary duplication and focus effort.

This is already being done through the offices of organisations, such as the Urban Foundation. But other developmental areas and approaches can also be considered.

Why not create a "Development Pool" which can access a proportion of the cash flow coming from the institutions — and act as a form of differential prescribed investment for tax purposes — which can funnel resources more pragmatically into development and new wealth-creating projects.

Perhaps a less traditional and more innovative view should be attached to the manner in which contractual savings — from employer and employee — can be deployed to accommodate current as well as retirement needs.

The creation of "development bonds" can also be considered. This idea has been suggested on several occasions. In as much as the instrument would be designed to target the financing needs of a specific developmental project, the bonds could represent considerable and perceived improved investor consciousness of the use being made of government and semi-government (gilt and semi-gilt) stock.

Financial institutions have to recognise that they have no real alternative but to adapt their investment and risk parameters to accommodate the changing environment. Circumstances appear to be moving so fast that it is important that we — as the leading edge of the economic community — must take the initiative now.

It is a creative challenge, but is an encouraging one which we believe can be met if there is a fundamental change in traditional investment attitudes and the utilisation of financial resources and business expertise.

Table 7 Option Relevance Numbers

Criterion	Weighting	Inner City		Industrial Estate		Greenfield Site		Junction		Total
Cost	0.33	90 0.38	0.13	70 0.29	0.10	60 0.25	0.08	20 0.08	0.03	240
Expansion	0.25	10 0.05	0.01	60 0.30	0.08	80 0.40	0.10	50 0.25	0.06	200
Workforce	0.25	40 0.20	0.05	70 0.35	0.09	30 0.15	0.04	60 0.30	0.08	200
Access	0.17	50 0.19	0.03	70 0.27	50 0.05	90 0.19	0.03	0.35	0.06	260
Relevance Numbers			0.22		0.32		0.25		0.23	1.02

assumptions and judgments used—is the preferred option.

If this is not the intuitive preference, then the criteria and valuations should be re-examined to identify perhaps neglected criteria, e.g. status afforded a country greenfield site or an ill-judged valuation, e.g. the low weighting given to 'accessibility'. Such calculations need to be carried out a number of times, each time trying to provide independent valuations. Input from a team is useful in this respect but of course for decision assessments where the number of options and criteria may be high (7–15 say) then the computation involved becomes tedious and time-consuming unless computer facilities are available. All the more so because this form of computation has to be performed for each level and for each objective at that level within the tree: an impossible task for most people before the recent availability of the micro-computer. Not only can the micro-computer handle such calculations almost instantly but it can be programmed to act in an interactive manner so that outcomes can be quickly checked and tested against many types of assumptions or alternatives.

Markov Chain Analysis

A Markov Chain Analysis is useful when forecasting the future state of a system which consist of parts which are changing due to the movement between them of some measurable quantity in accordance with a set of stable probabilities. An example will clarify:

Suppose that the current market share of three companies X, Y and Z is 10% for X, 60% for Y and 30% for Z. A study of the records, however, indicates that in each year the buying behaviour of the customer changes in the following way:

10% of customers change from company X to company Y
and 50% of customers continue to buy from X
20% of customers change from company Y to company X
and 10% of customers change from company Y to company Z
10% of customers change from company Z to company X
and 60% of customers continue to buy from company Z.

We would now like to know, if this sort of buying behaviour persists, then what will be the market share for each company at some future date? Also, if the buying behaviour changes in a known way what effect will this have upon the market share for each company? And hence what R & D effort may be required?

First, the purchasing behaviour and current market share can be illustrated in the form of a transition diagram, as in Figure 3.

The current market share MS_0 for the X, Y, Z companies is shown in the named circles together with the annual shifting trends from this pattern. The dotted lines represent the implied transfers of customer loyalty.

A little calculation allows the consequences of such a system to be evaluated, as in the following example.

At the end of one year:

Company X will gain 20% of 60% custom from company Y, i.e. 12%
and will gain 10% of 30% custom from company Z, i.e. 3%
but will lose 10% of 10% custom to company Y, i.e. 1%

IDT gives warning

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DEVELOPMENT should never become the pawn of politicians, warned Jan Steyn, chairman of the newly-launched R2-billion Independent Development Trust (IDT) geared to help disadvantaged people countrywide.

Steyn said this is what he told Finance Minister Barend du Plessis when he was asked to serve on the IDT.

"I made the same statement to other political organistions and liberation movements including the ANC, PAC, Inkatha and the MDM. I did not need political endorsement but co-operation," said Steyn who believes "politics and development are poor bedfellows"