The broad monetary aggregate M3 grew by an annualised 9.24% between February and November, according to Reserve Bank provisional figures. Though up on the annualised 7.45% between February and October, it remains within policy limits.

February is used as the base month because subsequent growth is free of that month's technical distortions which substantially boosted monetary growth as various transactions, previously not reflected on banks' balance sheets, were brought within the definition of money supply.

M3 grew 13.84% to R182.1bn over 12 months, while from the base of the current target year in mid-November the annualised rate is 15.1% to a seasonally adjusted R182.1bn.

Revised figures for October show M3 grew at a marginally lower rate than the provisional figures published last month:
- Over 12 months, 15.77% to R179.9bn;
- From the base of the current target year, an annualised 14.22% to R178.7bn; and
- From February, an annualised 9.24%.

Growth over 12 months to October in the other monetary aggregates was:
- M1A 15.6% to R30.8bn;
- M1 24.85% to R58.5bn; and
- M2 21.71% to R152.2bn.

From February to October credit extended to the private sector grew at an annualised rate of 12.7% to R189.9bn.
**SASFIN**

**Impressive record**

**Activities:** Specialist financial and related services.

**Control:** Directors 57.5%.

**Chairman:** M.B. Glatt; MD: R.D.E. Sassoon

**Capital structure:** 11.3m 3/orrs. Market capitalisation: R11.3m.

**Share market:** Price: 100c. Yields: 95% on dividend, 21.3% on earnings; P/E ratio 4.7.

**Cover:** 2.6. 12-month high 110c, low 60c.

**Trading volume last quarter:** 13,000 shares.

**Year to June**

<table>
<thead>
<tr>
<th>Year</th>
<th>'99</th>
<th>'98</th>
<th>'97</th>
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<tr>
<td>Receivables (Rm)</td>
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<tr>
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<tr>
<td>Earnings (c)</td>
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<tr>
<td>Net worth (c)</td>
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One of the rare shares to be promoted, after little more than a year, from the DCM to the main board of the JSE, Sasfin has grown remarkably steadily since its listing in November 1987. Major assistance has probably come from the endemic weakness of the rand; a few years ago it was said that about half profits were earned in sterling and operations director Derek Krowitz tells the *FM* it's still much the same.

The report does not comment on this, though it does disclose that the remarkably low tax rate (only 2%, against 18% in 1990) derives about two-thirds from export incentives and one-third from paying tax in foreign jurisdictions where rates are lower than in SA — indeed, it may be inferred, largely in tax-exempt offshore havens. There are also tax losses carried forward of R1.6m.

Chairman Martin Glatt says that since the listing Sasfin has progressively become a more sophisticated and significant asset-based financier, with a strong and proven infrastructure. He is particularly proud of the participation last year in SA's second securitisation, in collaboration with the Discount House group. The first R30m tranche of asset-backed debenture stock of Sasfin Asset Securitisation is already listed.

A new subsidiary has been registered in Malawi and, since year-end, Tecbrent Nata (Pty), an equipment finance broker with offices in Durban and Maritzburg, has been acquired. An equipment finance marketing office has been opened in Cape Town.

Gross receivables (including those administered but not shown on balance sheet) soared from R34.3m to R63.5m. Krowitz tells the *FM* this reflects in part banks' reluctance to lend and in part the withdrawal of some competitors.

Low disclosed gearing of 2.5:1 gives substantial financial capacity. It has been suggested that Sasfin is heavily into off-balance sheet finance, but Krowitz does not see a possible clamp-down on this as a problem at this stage, securitisation being one way out.

With growing opportunities for trade in southern Africa and expectations of a marginal fall in interest rates and modest return to real growth both inside and outside SA, Glatt says that Sasfin is well placed to expand further, improving performance without lowering the quality of receivables.

The share, in common with many in the Banks & Financial Services sector, has been re-rated in the past year. When the *FM* reviewed the 1990 report, it was still 60c; coincidentally, the price of the 1987 pre-listing issue, that had seldom been topped. Though a little off the recent high of 110c, it could still have further to go, as companies like this will be in the forefront of our re-opening to world trade.

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*Michael Coulson*
NEDCOR

Slower growth ahead

Activities: Banking and related financial services.
Control: Old Mutual 52.9%.
Chairman: J B Maree; CE: C F Liebenberg.
Capital structure: 186.6m o/s. Market capitalisation: R2,939bn.
Share market: Price: 1 580c. Yields: 3.6% on dividend; 11.7% on earnings; p/e ratio: 8.5;
cover, 3.2; 12-month high, 1 600c; low, 975c.
Trading volume last quarter, 2.1m shares.
Year to Sept 30 '88 '89 '90 '91
Total assets (Rbn) ... 16.8 29.7 35.1 41.6
Advances (Rbn) ....... 11.0 20.2 24.4 30.8
Deposits (Rbn) ......... 13.1 24.4 28.9 35.4
Operating profit (Rbn). n/a 483 564 790
Atreb profit (Rbn) .... 174 257 287 344
Return on assets (%) ... 1.03 0.86 0.82 0.83
Return on equity (%) ... 19.0 18.2 17.3 17.9
Earnings (c) ........... 40 46 51 57
Dividends (c) ........... 40 46 51 57
Net worth (c) .......... 584 758 891 1 031

Though NEDCOR is forecasting further growth for 1992, the annual report makes clear that it may not match last year's 20% EPS gain.

As with other financial institutions, one of the most pressing problems is VAT and the related levy on services that, says CE Chris Liebenberg, would have pushed the group tax rate from 38% to 45% if applied to 1991 results. This represents a cost of R35m, though Liebenberg adds that more effective tax management would reduce the impact.

In addition, there is reason to believe NEDCOR will benefit less than most from an upturn in the economy. Thanks to its strong financial base, the group has been able to expand market share aggressively during the recession. Over the past two years total assets and advances have increased by 40% and 52% respectively.

Contributing to the satisfactory financial position — the September 30 risk-weighted capital ratio was 7.4%, within striking distance of the 8% requirement by 1995 — is a large exposure to the home-loan market, that carries a lower capital requirement. Since the merger with the Perm at the start of the 1989 financial year, home loans have re-

mained the largest single element in the lending portfolio. Even though the emphasis slackened last year, they still accounted for 40% of total advances.

However, while this may be good for the balance sheet, it has been less so for the income statement, and this situation could continue even once the economy turns.

Unrest and increasing defaults as homeowners increasingly felt the recession were largely responsible for last year's 47% jump in bad debt provisions. Of the total R233m (1990: R158m), the Perm's share was a disproportionate R114m (49%). Viewed another way, of the total R75m increase, the Perm accounted for R62m (83%), resulting in a static profit from this source even though certain nonrecurring, non-taxable income was brought to account.

While this particular problem at the Perm is likely to taper off in more favourable economic circumstances, it could be replaced by another: a squeeze on margins when interest rates decline.

One peculiarity of banking is that the industry seldom performs well when interest rates are in a downward cycle. The reason is that lending rates normally drop sooner than retail deposit rates (most fixed deposit rates, for example, can be adjusted only on expiry of the relevant investments), a phenomenon particularly concentrated in the home-loan market since mortgages are traditionally linked to short-term interest rates whereas the funding of these loans, because of their nature, is more inclined to be long term.

As a group, NEDCOR has tried to protect itself by shortening its deposit book. It is also protected to a degree by its emphasis on wholesale business. But while this may alleviate the problem, with the large home-loan exposure it is unlikely to eliminate it.

More positively, some of these adverse effects will be offset by benefits from ongoing reorganisation and refocusing of group activities, through enhancing the performance of individual divisions and containing costs as duplicated functions are eliminated.

One problem NEDCOR has had in recent years is that costs have risen at a rate substantially ahead of inflation. This, however, has been affected by major outlays on things like the information technology and market development, and should moderate as the new structure settles down.

Forecasting in current conditions is hazardous, but EPS growth is likely to be closer to last year's 10% gain in pre-tax income than the 20% improvement in earnings — in other words, the group will do well if it stands still in real terms. However, even a 10% rise in dividend would take the yield, at 1 580c, to around 4%, suggesting that the share still offers fair value. — Bryan Thompson
Among recommendations made in the Report of the Committee for Economic Affairs on a strategy, goals and policy for obtaining active co-operation in action against price exploitation and inflation — an inflated title all on its own — was the following:

"The powers at work in the monetary sphere and their effect are discussed mostly in highly technical language which is unintelligible to the greater part of the general public and which does not succeed in stimulating their involvement and co-operation.

The committee therefore recommends that a comprehensive attempt be made with the aid of communications experts to make the information, in so far as it is relevant to the different groupings of the community, available in terms that are understandable to each one of these groups."

Now, who managed to understand that?

Some further oddities:

- First National Bank extended the numbers of its mortgage bond accounts from 11 to 13 numbers. However, the Automated Clearing Bureau, which co-ordinates payments between the banks, could not cope with 13-digit numbers. So clients were advised to use their old numbers and bank staff transferred the funds manually until the problem was sorted out.
- An error made in February 1990, by the Central Statistical Service (CSS) when calculating producer price inflation, grew over the following months, like Jack's beanstalk, to gigantic proportions. By June 1991, producer price inflation was recorded as 14.1% (up from 13% in May). The pressure came mainly from food prices which, over 12 months, were said to have risen 42.1%; the rise in the month of June alone was reported to be 8% for agricultural food and 2.1% for manufactured food products. When these figures were published on August 12, rates in the bond market moved sharply up — the benchmark Eskom 11% gaining 14 basis points within hours of publication to close at 16.36%.

CSS then investigated its own figures. On August 27 came news that "bona fide" processing errors had been made over 17 months which by June had resulted in an overstatement in agricultural inflation of 34.3 percentage points while the figure for total producer price inflation was out by 2.9 percentage points.

The Eskom 11% that day shed 11 points to close at 16.35%. But much of the damage, in terms of inflationary expectations, has not yet been repaired. The artificially inflated figures no doubt helped set the scene for increases in consumer prices, which are now a potent force in sustaining consumer food inflation at nearly 26%. In January 1991, Pretoria Bank hoped to enter into a partnership with a large financial institution, to raise its capital base. The lure, it suggested to the FM at the time, was its link with Masterbond Trust which had a 10% stake in the bank. In April it was planning a merger with Masterbond and a rights issue to raise cash. A few months later the Pretoria Bank was placed in curatorship. In October Masterbond went into provisional liquidation.

- Lured by deposit rates much higher than those offered by the rest of the market, the SA Rail Commuter Corp deposited R249m with Cape Investment Bank. The bank has been put into final liquidation and the circumstances surrounding its demise have been the subject of a Section 417 (secret) inquiry. The fate of Commuter Corp's deposit has still not been decided; and
- A survey was conducted by KPMG Aiken & Peat's Banking & Finance Group into the level of disclosure in the financial statements of the 10 domestic banks. Of 17 requirements against which the banks were measured, Saambou failed to comply with a single one.

Ethel Hazell

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Metfund's units return 37.3 percent

Finance Staff

The Metfund unit trust outperformed the overall index of the Johannesburg Stock Exchange, but warns that a similar performance in 1992 is unlikely as the equity prices are very expensive at current levels.

For the 1991 calendar year Metfund provided unit holders, who reinvested their distributions, with a total return of 37.3 percent.

Excluding the income distributions, consisting of dividend and interest earned, Metfund achieved pure capital growth of 32.5 percent against the 24.9 percent of the benchmark JSE overall index.

Metfund increased its gold exposure to just below six percent of the fund via the acquisition of holding in Hartebeesfontein and Orafii, and also bought more shares in Samancor.

Platinum exposure was cut before the dramatic retreat in the platinum price of the last few weeks. Rustenburg Platinum was partly sold for cash and partly switched into Impala Platinum.

On the industrial side a new holding in Fraser Alexander was established while more Sunrop shares were accumulated.

Scope for real earnings growth in 1992 is limited and dependent on the rather uncertain advent of an economic upturn.

From a longer term perspective the outlook still looks positive, says Hendrik du Toit, fund manager.
Trade soars in ‘old’ life policies

By DIRK TIEMANN

DEMAND for second-hand life and endowment policies is outstripping supply as investors become aware of the tax advantages in store.

Insurance brokers say 95% of the holders of eight-year or older policies are unaware that they can multiply their original premium to boost their tax-free payout on maturity.

The older endowment policies are especially attractive. Policies bought before 1958, allow the holder to increase premium payments five times the original amount. The premium may not be tax-free, but the lump sum received at the end certainly is.

Policies bought before 1985 could cover, say, husband and wife, paying out only on the second death, allowing for longer terms, increasing the tax-free jackpot. This changed in 1985, when the payout occurred on the first death.

Most policyholders are ignorant of these advantages and realise the potential only when asked by a broker to sell.

Liberty Life assistant general manager Gavin Came says there are two market. One is the life market which does not really sell as an investment. The other is the endowment market, which is

Mr Came says surrenders with assureds have almost dried up because intermediaries are advising policyholders to sell their endowments at a price way above the cash value and not to surrender them.

Some brokers advertise these second-hand policies as a good investment opportunity for 1992 and beyond - for anyone who can still afford to buy them.

Vast

Executive director of the Life Offices' Association Dick George-Cook says sales could have increased slightly. A policyholder has options if he struggles to pay premiums.

He can surrender the policy at a vastly reduced price, regard it as paid up and cease premium payments prematurely.

He can sell the policy - the most sensible option.

The surrender value of a policy is low because the cost to the assured of keeping it on book, originally spread over its life, is now brought forward.
THE NEDCOR group is running a tighter financial services division in an attempt to “avoid duplication and to achieve greater co-ordination” among subsidiaries, says chief executive Chris Liebenberg.

The financial services division consists of the two merchant banks — UAL and Finansbank — and Syfrets Holdings.

Mr Liebenberg says in the Nedcor annual report that financial services have been operating as separate units. “An initiative to coordinate these activities where appropriate as a financial services group is under way and significant progress has been made in various areas; for example the offshore activities of UAL and Syfrets.”

The report mentions that the banking operations of Nedbank, FNB and Nedfin were regrouped in April 1991.

Five divisions were set up in Nedcor’s banking division under one managing director, with expectations of “significant rationalisation benefits”.

Remiss

Mr Liebenberg says it is too soon to speculate about a major restructuring, but “we would be remiss if we did not look at it.”

He says it was easier to restructure the banking operations because administrative costs could be trimmed. Merchant banking on the other hand is based on human capital and there are fewer opportunities to rationalise.

Mr Liebenberg says the group’s basic philosophy is to strengthen brand names, increase efficiency and improve market focus.

He describes the group as a combination of six niche players, whose markets will become even more narrowly defined.

On the international front, steps will be taken to avoid competition between the different products of UAL and Syfrets. Syfrets recently linked up with UAL in Associated Trust Company on the Isle of Man.

By DIRK TIEemann

He denies that there is excessive duplication between the two merchant banks. They have different income streams and customer bases.

Mr Liebenberg says divestment of financial services. De-centralised structures are expensive. With costs rising 25% in the year to last September, some form of rationalisation must seem attractive.

Nedcor director Leon Porter says there will be no major mergers and there is “no question of getting rid of anything”.

Sour

Some commentators believe Nedcor may either merge Finansbank with UAL or sell it. Finansbank, the smaller of the two, has seen several deals turn sour and provisions of R17-million have been made against potential losses.

Finansbank’s contribution to group earnings plunged 22% in the year to September and consolidated net income was down 23.5% to R14-million.

Mr Liebenberg says the recent appointment of Irak Botha as managing director of Finansbank precludes any sale or merger of the bank.
THE MONEY MARKETS  by Sheridan Connolly

Reserve Bank Resists Sliding Rates

The Reserve Bank continued its struggle against strong liquidity levels and sliding rates this week. Despite a high Treasury bill tender of R280m, the allotted rate came in four times oversubscribed at 16.09%, down from last week's 16.13%, indicating that liquidity levels are unchanged.

Continued downward pressure on rates indicated the market is anticipating an imminent cut in the official Bank rate. Market players expect a cut of at least one percentage point within the next two months, and institutions are thus funding short- rather than long-term investments.

Reserve Bank Governor Chris Stals has so far ignored the market's lead for a cut in Bank rate but some analysts expect him to bow to pressure should the December consumer inflation rate come in lower than November's 15.5%.

The 90-day BA rate eased to 16.35%, bringing it to 1.15% points below the Reserve Bank's 17.5% rediscount rate, and with little room for any further downward movement, some analysts feel rates are at rock bottom.

The money market shortage dropped to R1.40bn on Thursday, far down from R2.86bn on Tuesday. The drop, which was in line with market expectations, followed a routine inflow of money arising out of government spending which is processed at the beginning of every month.

In the capital market, trade was quiet and volumes were thin with a general lack of interest following the festive season.

Rates followed a downward trend this week with players expecting a cut in official interest rates. The key Escom 168 dropped to 16.12%. Interest was mainly in the medium-term stock which would offer investors a better value should there be any cut.
Entry of foreign banks a fillip for the local sector

ENTRY of new foreign banks into SA can only aid the banking industry's existing trends towards higher technology, lower handling costs and higher quality of service, says the Bank of Lisbon.

Furthermore, foreign banks could boost SA's foreign trade, promote the country's role as a regional financial centre and broaden the base of the local foreign exchange market.

In its latest Economic Focus, the bank notes the revival of interest in SA operations among foreign banks. It says "several dozen" such banks have opened representative offices in SA since the introduction of domestic political reforms and the loosening of local financial regulations.

The Bank of Lisbon finds few potential drawbacks in the local financial services industry as foreign banks are established.

Shortages of skilled labour in the banking sector should not be intensified, since considerable retrenchments of bank staff have occurred over the past year or so and could be followed by more.

Neither should the arrival of foreign banks create an overtraded banking sector, says the bank's report: "SA may be underbanked in the sense that large numbers of non-whites do not possess bank accounts, and this could mean that large financial resources may be currently untapped by the banking system."

As trade between SA and the rest of Africa expands, new foreign banks could help provide buyers' credits for the increasing number of SA exporters wanting to sell into Africa.

New foreign banks could also help the SA financial system make a bigger contribution towards economic development in other African countries. "Financially, SA could easily become a convenient intermediary operating between the developed financial markets of the industrial countries on the one hand and the developing countries in Africa on the other", helping to promote SA as a regional financial centre.

A long-standing deficiency of the local foreign exchange market is the limited number of active dealing banks. New foreign banks which conducted forex business would add to the liquidity of the local market.

They could also, by opening up new credit lines, alleviate those problems experienced by domestic banks whose limits on forward commitments come under pressure.

No new foreign banks have been established since 1970, and three have withdrawn from the country. Among the obstacles still remaining to foreign banks setting up in SA are the debt standstill and the prohibition on the establishment of foreign bank branches in SA.

The debt standstill is a problem because international capital adequacy standards mandate that provisions be made against new lendings of more than a year to any country which has debt-rescheduling arrangements in force.
Home buyers lose out on interest payments

MANY home buyers were not being paid interest on deposits for properties they were in the process of buying, industry sources said at the weekend.

The position was also applicable to people who paid deposits for the leasing of flats or houses, they said.

"Unscrupulous estate agents are failing to inform home buyers that they are entitled to interest paid on any deposit placed when renting or buying property," one source said.

An agent, speaking on condition of anonymity, said there was no binding obligation on estate agents to inform consumers that interest was payable on these deposits, either until transfer took place or the lease was terminated.

"If the lessee/purchaser is unaware that he is entitled to any monies when paying his deposit, this money will automatically be paid to the agent and the board in an equal split," he said.

Estate Agents' Board assistant manager Clive Ashpol said unless there was a written agreement, interest was legally payable to the Estate Agents' Board in full.

"This money is placed in a board fidelity fund, to be used for the protection of the consumer should any of his monies be misappropriated by the agent.

"However, due to the high costs to the agent of maintaining a trust account for deposit monies, the board has resolved to return 50% of any interest received to the agent," he said.

A major property dealer said home buyers should insist that interest payment at a fixed rate be made at the time of signing.

\[To \text{ Page 2}\]
Barprop's performance in financial 1992 is expected to be hindered by continued difficult trading in the property market and fewer new developments.

Nonetheless, chairman EM Groeneweg predicts in the annual report that the dividend, based on cover of 1.2 times, will increase six percent from 11.5c a share to 12.2c.

He says growth in 1992 will come from rental escalations in respect of existing leases, additional rental income from acquisitions and new developments and interest from cash held for investment.

It is actively engaged in the acquisition and development of investment properties mainly in centralised areas, the maintenance of existing developed properties and the leasing of accommodation to financially sound tenants.

Barlow Rand holds 78 percent of the ordinary share capital and 100 percent of the deferred ordinary shares.

In the year to September, group turnover moved up marginally from R46.5 million to R46.9 million, while operating profit declined from R43.8 million to R43 million.

Mr Groeneweg attributes the marginal decline in operating income to lower rental income resulting from the disposal of certain investment properties and a higher requirement for property maintenance.

After income from investments grew 34 percent from R8.5 million to R11.4 million and interest expense increased eight percent from R3.3 million to R3.5 million, pre-tax profit fell two percent to R18.8 million.

A decrease in the effective tax rate from 40.5 to 32.2 percent resulted in attributable profit rising 12 percent from R3.9 million to R10.9 million.

Mr Groeneweg says the decreased tax charge follows deductions for repairs to property and a lower rate of company taxation.

Based on a higher number of shares in issue, earnings per share increased nine percent from 12.5c to 14.18c. The dividend for the year was 11.5c a share, eight percent higher than the payout of 10.71c in financial 1990.

The extraordinary profit of R2.4 million relates to a net surplus on disposal of properties.

The balance sheet remains strong, with cash on hand of R63.9 million and investments properties valued at R510 million.

Barprop, priced at 150c, is trading on a P/E ratio of 10.9 and provides a dividend yield of 7.4 percent.

A projected dividend of 12.2c a share in financial 1992, places the share on a forward dividend yield of 7.9 percent.

COMMENT: Barprop touched a high of 170c five months ago before losing ground to 135c and recovering to its current level of 135c. A break below 145c will signal a reversal of the positive trend.
IPG in ties-up with Gradwells

By Frank Jeans

In a major deal to start off the new year, Investec Property Group (IPG) has acquired the management division of one of the country's leading property companies, Gradwells Real Estate Management.

While the financial details of the transaction have not yet been disclosed, the deal adds approximately R400 million to IPG's countrywide portfolio, which is at present considered "enormous but not out of the question," to be worth more than R2 billion.

Included in the deal is the newly formed Braamfontein property management division, which is responsible for the management of several large properties in the Johannesburg area and the New Market area.

Gradwells' portfolio of more than 100 buildings is concentrated in the greater Johannesburg area, and it complements the management of the newly acquired subsidiary, 1 Kuper & Company.

**Property trusts**

IPG also manages the Meri-prop and Growpoint listed property trusts.

Property management is becoming a highly specialized business, demanding qualified and experienced staff, says Mr. Simon, the managing director of IPG. "The introduction of VAT will require extensive training of computer programs related to property management." Both IPG and Gradwells clients will benefit from the economies of scale that the enlarged business will create.

"From this point," says the managing director of Gradwells, "we will continue to operate independently from IPG under the direction of the managing director, Conrad Roosen.

**Syndication arm**

Investec Property Group was formed in 1990 when Investec expanded its property management business with the acquisition of Real Estate Investment's syndication arm. The company's syndication arm is involved in all aspects of the property market, including brokerage, valuations, and development.
Women hope to found own bank

AN INFLUENTIAL group of women, including high-ranking members of the ANC, is investigating the possibility of creating a women's bank to improve women's financial muscle.

One of the women, Lirato Matlare, confirmed yesterday that the group, which included ANC international affairs director Thabo Mbeki's wife Zanele, was investigating the possibility of establishing such a bank.

However, she emphasised that the idea was still at conception stage and that no formal structures had been established.

Nor had the proposed Women's Development Bank finalised ideas on how it would relate to other financial institutions or the timeframes for its establishment.

Talks with a wide range of organisations were taking place, Matlare said, although she denied that the UN had been approached with the idea.

One possibility is that the bank will only allow female customers. It is likely to be aimed at developing women's community projects.

Some form of credit and savings scheme specifically designed for women's needs, particularly poor women, is also being canvassed.

Matlare said the group was exploring various ideas for the proposed bank, which could take one of many forms.
Sanlam’s Dividend Trust leads pack

CAPE TOWN — Sanlam’s Dividend Trust was the best-performing unit trust in 1991, a survey by the University of Pretoria’s Graduate School of Business has shown.

The Dividend Trust produced a total return of 44.7%, while the Sanlam Industrial Trust, which was tops in 1990, took second place last year with a 44.6% return.

While the Industrial Trust ranks second in the industry over a three-year term and first over five years, the Dividend Trust has been one of the worst performers among general funds over a five-year (18.81%) and a 10-year (18.21%) period.

The Dividend Trust converted from a specialist fund to a general fund on September 1 last year.

Sanlam Unit Trusts GM Otto Jackel said that as a specialist fund it had invested only in shares which generated a high income. It was decided to convert the Dividend Trust into a general fund to enable its share portfolio to achieve capital growth.

General trust Sanlam Trust produced a total return of 33.6% last year while the Sanlam Index Trust achieved a return of 30.6% compared with growth in the JSE All Share Index of 25.7%.

The performance of the Sanlam Mining Trust, which generated a return of 16.5%, was affected by the difficult year experienced by most mining shares, said Sanlam senior portfolio manager Stafford Thomas.

The All Gold Index declined 4.9%.

However, Thomas believed 1992 should see a revival of mining shares. He said industrial shares should continue to advance but at a slower pace.

“Mining shares should show an improved performance this year given that the upturn in the US economy materialises. The recent strength of the US stock market supports this view.”

There was no fundamental restructuring of portfolios in the last quarter of 1991, Thomas said, and the mix of mining and industrial shares and liquidity levels remained much the same as in the previous quarter.

Sanlam unit trusts as a whole were heavy purchasers of Murray & Roberts shares in the last quarter, buying a combined 740 000 shares. A total of 580 000 Malbank shares were bought, while other large purchases were the 170 000 Pick & Pay Holdings and 177 000 Truethold shares bought by the Industrial Trust. The Index Trust bought 132 000 Sasol, 100 000 Beatrix, and 74 500 GPSA shares. The Dividend Trust bought 100 000 Mid Wits shares and 52 200 CNA Callo counters.

The largest sales were the 1.5-million Rainbow and 75 000 Altron shares sold by the Industrial Trust and the 73 000 Trans Natal shares disposed of by the Mining Trust. The only other fund to sell off shares was the Dividend Trust, which sold 25 000 from its Kirox holding.

At end-December liquidity levels were as follows: Sanlam Trust 8.1% (10.8% at end-September); Sanlam Index 10.2% (9.2%); Sanlam Dividend 16.4% (15%); Sanlam Industrial 15% (15.7%) and Sanlam Mining 11.5% (7.1%).

By the end of 1991 there were 209 000 investors in Sanlam’s five unit trusts, which had a total value of more than R1.7bn. The Industrial Trust declared an income distribution of 16.2c a unit, the Index Trust 24.6c, and the Mining Trust 7.8c. The next distributions of Sanlam Trust and Sanlam Dividend Trust will be declared at end-March.
Syfrets edges away from pricey equities

ANDREW GI

SYFRETS Managed Assets, which manages the Syfrets unit trusts, has increased liquidity in both its equity-based portfolios and picked up gilt-edged securities in a move away from over-priced equity markets.

Announcing results for the three trusts, portfolio managers said world equity markets were over-priced following "questionable" rises in share prices.

World markets had been spurred by the sharp fall in interest rates while the JSE had followed this lead with help from continued buying pressures from institutions constantly deploying their growing cash flows.

"Although the international environment will be more positive for economic growth in 1992, world markets remain on very high ratings. We therefore believe world share markets will remain vulnerable during the coming three to six months," they said.

Results for 1991 show Syfrets Growth Fund achieved returns in excess of the equity market and inflation.

An all-in return of 41.57% for unit holders was reported compared to a 28.5% return for the JSE overall index and inflation of about 15.5%.

Income distribution of 2.59c a unit in the fourth quarter brought total distribution for the year to 11.82c. Total assets grew to R469.4m from R261.3m.

Reporting for the first time, Syfrets Trustee Fund distributed 1.33c a unit in the fourth quarter, resulting in a return of 6.53% for the three months. Total assets were R336.7m.

Syfrets Income Fund reported a 4.07c payment for the quarter, bringing to 15.84c a unit the payment for the year.
Safegro fund boasts 31% return

IGI's Safegro Unit Trust has reported an average 31.2% total return on its repurchase-to-repurchase value for the 12 months ended December.

IGI Fund Managers fund manager Peter Linnell said the return compared favourably with the inflation rate and beat the JSE All Share Index's 26% rise for the year.

The fund's total assets rose 34% to R312.2m while it boosted its stake in blue chip holdings for the quarter. The Safegro fund's main equity investments at the year-end were Richmont, Sunbop, Safecr, Salife, Anglo, De Beers, Engen, SA Breweries and ABSA. It added Investec Bank to its holdings while increasing its interests in Royfood and Rembrandt.

Linnell said the fund decreased its liquidity to 12.5% from 15.6% for the last quarter. He did not expect liquidity to change dramatically this quarter.

Although Linnell expected the market to remain bullish in the long-term, he said its performance would probably be sluggish for the first half of the year: "A slower global recovery...coupled with the fact that market ratings are near all time highs may impact on equity performances in the initial stages of this year," Linnell said.

In the longer-term, Linnell expected the anticipated drop in interest rates, the lifting of sanctions and the present scrip shortage would see the market move higher over the next two years.

The fund's main equity exposures were industrial holdings (17.35%), mining houses (3.51%) and beverages and hotels (7.24%).
The selective investment portfolios of unit trusts once again ensured that most funds offered good returns to their investors in 1991.

Funds in the Sanlam and Syfrets stables, which released their 1991 returns yesterday, show returns in excess of 30 percent over the year, compared with the 25.7 percent growth rate of the JSE overall index.

However, the bulk of their investments are limited to about 20 key blue-chip industrial and mining shares, which have driven the market over the past few years.

Sanlam's two major funds — the Dividend Trust and the Industrial Trust — showed returns of 44.7 and 44.8 percent respectively, while Syfrets Growth Fund's return was 41.57 percent.

Stafford Thomas, senior portfolio manager at Sanlam unit trusts, says that industrial shares should continue their advance into 1992, but at a slower pace than last year.

He expects an improved performance from mining shares, depending on the recovery of the US stock market.

The portfolio managers of Syfrets Managed Assets, which manages the three Syfrets trusts, say the share market has been propelled upwards, not only in the slipstream of overseas markets, but by ongoing buying pressure of institutional cash flows chasing a shortage of quality scrip.

Sanlam's other two general trusts, the Sanlam Trust and Index Trust, produced returns of 33.6 and 30.6 percent, while the Mining Trust returned 16.3 percent.

The following income distributions have been declared: Index Trust — 24.8c, Industrial Trust — 16.3c, Mining Trust — 7.8c.

Syfrets Growth Fund's total assets at year-end were R459.4 million, up from R281.3 million a year earlier.

A total income distribution of 11.62c has been declared.

Its Trustees Fund, launched at the beginning of October and reporting for the first time, distributed 1.33c a unit, making a total return for the quarter of 6.35 percent.

The Income Fund paid 15.84c, while the fund's total return on the relatively risk-free portfolio of fixed-interest investments was 14.92 percent.

IGI Life Fund Managers unit trust Safegro put in a strong performance for the year to December, reporting a total return in excess of inflation and the overall share index.

The return on capital plus income yielded 31.2 percent. Assets rose from R23.2 million to R30.1 million.
Ailing Brand gives up DBSA duties

LESLIE LAMBERT

SIMON Brand relinquished his duties as chairman and CE of the Development Bank of Southern Africa (DBSA) yesterday after a sudden deterioration in his health.

Brand, who has been receiving treatment for cancer, was admitted to hospital on Monday. His condition was described by colleagues yesterday as serious.

Interim arrangements to fill the positions which he has held since the DBSA’s inception in 1983 were implemented yesterday. The functions of DBSA chairman and CE were separated, with president of the DBSA council of governors, former Finance Minister Owen Horwood, appointed chairman, and GM, and André van Grange acting CE.

Brand has played an influential role in economic planning in SA. He has long been associated with reformist socio-economic thinking and has been a key participant in most of the major recent socio-economic development initiatives.

The credibility the DBSA slowly built up in recent years has been attributed largely to his leadership.

Van Grange, who assumed responsibility as acting CE yesterday, is regarded as being of Brand’s mould.

While at the SA Reserve Bank he was involved in establishing the DBSA and managing the secretariat responsible for SA’s debt rescheduling in 1985 and 1986. He then joined the DBSA.
NORWICH Life's NBS Unit Trust remained fully invested for the year to end December with an average 25.07% total return.

This compared with the 26.5% jump in the all-share index for the year. Norwich NBS Unit Trust spokesman John Bowman said that despite a dismal performance on the JSE in the closing weeks of the fourth quarter, the overall quarterly figures were excellent.

The market value of the fund stands at R25m. The fund decreased its liquidity to 6.5% from 13.2% for the fourth quarter.

It declared an income distribution of R77c a unit for the six month to end September. The fund had a 50% weighting in mining shares and, despite a disappointing overall gold share price trend, most of the fund's mining shares performed well, Bowman said.

Its top five holdings at year-end were Absa, Anglo, De Beers, ICI, and Richemont. It added Amnion, Malhak, Mid Wits, and PP Rust to its interests and those in Interleisure, Lebowa, and Sappi grew.
Guardbank Growth Fund provides total return of 33%}

THE Liberty Life group's general equity unit trust, Guardbank Growth Fund, achieved a total return of 33% for the 12 months ended December compared with the all-share index gain of 26.5%.

Guardbank's two specialist unit trusts, Guardbank Resources Fund and Income Fund, disclosed total returns of 22% and 17.6% respectively.

Liberty Asset Management director Dave Galembro said the general equity fund's strong performance largely resulted from its exposure to the mining financial and industrial sectors. The fund's performance was also backed by selective buying of blue-chip stocks of which the fund's top investments include the Liberty Group, SAB, Richmont, Rembrandt, Adcock, De Beers, Woolworths, Sasaol, Anamint and Gencor.

The Growth Fund made additional purchases in Kloof, Genor and Liberty Life during the last quarter of the year.

The fund's total assets at December, based on market value, climbed by 5% to R1,38bn (September R1,31bn) on the previous quarter while its liquidity dropped marginally to 18,8% from 22,2%.

The Growth Fund declared an income distribution of 5,4c a unit for the six months to December, bringing the year's total income distribution to 11,8c a unit.

The Resources Fund's total assets at market value dropped to R33,5m from R44,9m for the last quarter. Faced with difficult trading conditions, as a result of volatile international metal and commod-

ity prices, he felt the fund's total return of 22% for the year was satisfactory. Its liquidity dropped to 17,8% from 24,3% for the last quarter while its holdings in Kloof, Rusipats and Northam were down.

The Resource Fund boosted its yearly distribution a unit to 7,7c a share, of which the last six months came to 3,7c a unit.

The Guardbank Income Fund's total assets climbed by 27% to R45,4m from R36,8m for the fourth quarter with liquidity down to 19,5% from 26,5%. Galembro said the fund's return, including income reinvestment, outperformed all of the JSE bond indices. The all-bond index rose by 14,2% during the 12-months. The fund's total distribution for the year amounted to 18,4c a unit of which 9,1c a unit was declared for the six months ended December.

Although all indicators pointed to a drop in interest rates in 1992, Galembro expected the decline would be moderate as a result of the authorities' tight monetary policy.

While the equity market looked expensive, Galembro maintained a bullish view of share prices in the long-term: "The market is anticipating renewed economic growth for the 1990s."

However, Galembro thought renewed growth in 1992 would be moderate, but noted a shortage of quality scrip combined with new institutional money coming to the market would create further upward pressure on share prices in 1992.
Unit trusts provide safe hedge against inflation

CAPE TOWN — Investments in the R11.4bn unit trust industry provided the man in the street with a safe hedge against inflation last year — provided he avoided most gold, mining, high income and gilt funds.

The market value of all unit trust assets rose 51% to R11.4bn last year from R7.37bn in 1990, Pretoria University Graduate School of Management professor Hugo Lambrecht said yesterday.

And while the number of unit holders has not been finalised, considerable growth is expected over 1990’s figure of 735 405.

Galloping industrial shares pulled the industrial index to a high of 42.95% last year compared with 1990’s 33.15% and ensured handsome returns for investors in the industrial funds which, on a yearly repurchase-to-repurchase basis, have generated returns of 44.59% (Sanlam Industrial Fund) and 42.51% (Old Mutual Industrial Fund).

Lambrechts’ survey of returns released yesterday showed that even a few general equity funds managed to achieve returns of over 40% well in excess of the 31.05% rise in the all share index.

Sanlam Dividend Trust (44.66% on a repurchase-to-repurchase basis), Southern Equity (41.58%) and Syfrets Growth Fund (41.18%) were the top three among the general funds. Thirteen other general funds trottled along in the 30-40% band, while only three trusts — the CU Growth Fund (formerly Allegra, 23.34%), Fedgro (20.87%) and Norwich NBS (24.65%) — meandered behind in the 20s.

Syfrets Growth Fund with a return of 31.62% is the best performing general unit trust on a three year term.

while Old Mutual Investors’ takes top spot in the five-year (21.59%), seven-
year (29.20%) and 10-year (25.77%) categories. Guardbank Growth Fund takes the honours over a 15-year term with 29.20%, the survey showed.

Most portfolio managers do not believe industrial shares have the potential for much further growth this year and have their eye on mining shares as the generator of good returns. Their view is based on the expectation that an upturn in Western economies will stimulate demand for SA minerals and commodities.

However, they believe returns as high as 40% cannot be expected.

Last year most mining funds just kept pace with or lagged seriously behind the inflation rate. The two exceptions were the UAL Mining & Resources Fund, which achieved a 24.46% return, and Guardbank Resources with 20.36%.

This compared with the rise in the Mining Producers’ Index of 17.13% and the Mining Financial Index of 23.58%.

The two gold funds turned in negative returns while the high income and gilt funds either did slightly better than the inflation rate or lagged behind it. Standard Bank Extra Income Fund was the best performing high income fund with a yearly return of 19.7% on a repurchase-to-repurchase basis.
Japie Jacobs' report expected soon

CAPE TOWN — The long-awaited report on the levelling of the playing fields between banks, building societies and life offices was being finalised, the Finance Minister's special advisor Japie Jacobs said yesterday.

The committee investigating the flow of funds between financial institutions had made policy decisions after consulting the financial services sector, and the report was being written up, he said. 

It was likely that Jacobs' report would be submitted to Finance Minister Barend du Plessis before this year's Budget was presented.

Jacobs would not be drawn on the contents of the report except to say that it would not result in a radical restructuring of the sector. He said the committee had looked at the question of levelling the playing fields from a perspective that went beyond taxation.

"It is not our intention to merely introduce tax changes," Jacobs said.
Development Bank needs further R1bn

THE Development Bank of Southern Africa (DBSA) needed an extra R1bn and planned to raise part of it on foreign capital markets this year, former DBSA chairman and CE Simon Brand said yesterday.

Speaking from hospital after being forced by a sudden deterioration in his health to relinquish his tasks at the DBSA, Brand said he was confident more foreign funding would soon become available to SA development agencies and institutions.

SA borrowers' access to international capital markets had been renewed, and it appeared likely that concessory financial assistance from foreign funding institutions would soon become available.

"My impression is that multilateral institutions like the World Bank and the bilateral development assistance agencies of individual countries are keen to get involved in SA," he said.

This, coupled with additional foreign commercial funding, would enable SA development agencies to make greater progress in their efforts to address SA's pressing socio-economic needs. Evidence that something concrete was being done to address the legacy of apartheid would help resolve the violent conflict in SA.

The process of redistribution could be sped up if government agreed to formulate the national Budget in consultation with other major participants in the negotiation process.

While he believed government wanted to continue using the Budget as one means of redistributing wealth this year, Brand said strong demands from the business sector and other interest groups might water down attempts to do so.

Brand was confident SA would be able to negotiate widely acceptable political and economic settlements.

"Those who are not involved in the process now will realise that they will be left behind if they do not join in.

"On the economic side, there is tremendous potential to meet realistic expectations, provided that future leaders are sensible in their efforts to meet these expectations and do not try to buy public support by making extravagant promises which are economically unviable. Although private investors are holding back, SA's access to foreign funding is being renewed. When the major institutions such as the World Bank become involved, the private sector will follow, provided . . . we are able to resolve the violent conflict."

LESLEY LAMBERT
Changing direction

Activities: Developer of residential and industrial property.

Controls: Directors 67.5%.

Chairman: J S Rabie; MD: L T Cohen.

Capital structure: 18,4m olds. Market capitalisation: R7.7m.

Share market: Price: 40c, 12-month high, 60c; low, 30c. Trading volume last quarter, 51 800 shares.

Unrest countrywide has taken its toll on companies, such as Rabie, in black property development. In the 1991 year, Rabie lost 2,1c a share. There was also a charge below

the line, because the Natal operations closed as a result of the violence. This cost the company R7m.

Sales to blacks formed 70% of group turnover until recently. Because of the feeding, bond and rent boycotts in the townships, lending by institutions for development in the townships has been severely curtailed. It has brought township home building almost to a standstill and Rabie has substantially reduced its exposure to this market.

Its activities are now confined to its original business of designing, planning, co-ordinating and marketing exclusive projects in prime areas. But this came too late to stop the deterioration in results and the posting of the R7.4m loss for the 1991 year.

As could be expected, the effect on cash flow was a net deficit of R8m. It was funded by a R4.9m reduction in cash resources and a R3.1m increase in long-term borrowings.

The debt/equity ratio has also deteriorated. However, R8.9m of short-term finance was borrowed to finance prestige developments that have enjoyed a high degree of success. An example is the R100m, 150-unit Dolphin Beach project in Table Bay. It was 80% sold before building started.

In 1991, Rabie’s 40% of Kwiksplace Holdings (60% held by Murray & Roberts), comprising CI Park Homes, Portacamp and Zoza, made a significant contribution to operating income. These operations provide pre-built accommodation for less than R10 000.

Rabie is therefore well placed to be involved in low-price housing plans for government and private housing schemes. Rabie’s black housing activities will be confined to this low-cost area in the short term.

Kwikspace is concentrating on exports of prefab units to neighbouring states and expects good profit from this in 1992.

Additional borrowings will increase interest payments materially. Nevertheless, chairman John Rabie is on record as saying that the company will return to profit during this financial year. In what is proving to be another difficult period, it will be a commendable performance if this is achieved.

Though the price is well down, there is no need to rush to accumulate shares at this level.

Gerald Arbuthnott
Activities: Investment holding company with interests in life assurance and financial services.

Control: Anglovai (59%).

Chairman: Clive Mendil.

Capital structure: 98.7m ords. Market capitalisation: R172.7m.

Share market: Price: 175c. Yields: 4.8% on dividend. 12-month high, 280c; low, 175c.

Trading volume last quarter: 1,161,652 shares.

Year to June 30

<table>
<thead>
<tr>
<th>†90</th>
<th>†91</th>
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<tbody>
<tr>
<td>Pre-tax profit (Rm)</td>
<td>6.6</td>
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<tr>
<td>Attributable earnings (Rm)</td>
<td>18.6 (16.9)</td>
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<tr>
<td>Total shareholders funds (Rm)</td>
<td>62.3 139.8</td>
</tr>
<tr>
<td>Net worth (c)</td>
<td>89.4 141.4</td>
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† 14 month period.
† 13 months to April 30.

14-month period to June. What the directors saw as a potentially good acquisition of the high-performing AA Life in May 1990 has not lived up to expectations. AA Life, the 95% owned subsidiary of Avins of which AVF in turn owns 86%, is of course at the heart of the group’s problems. The full impact of AA Life’s high lapse rate and uninspiring investment management (which has subsequently been handed over to AVF’s 35% associate company, Board of Executors) is hard to fathom from the limited information disclosed in the financial statements.

But an obvious effect is seen in the R40m provision to bring AA Life’s life funds in line with actuarial liabilities.

Consequently, shareholders’ earnings show a loss close to R17m, and the respectable retained surplus of R21.1m posted in April 1990 is now an accumulated loss of R21.3m.

EPS have not been calculated for the period because the directors say it was not possible to allocate the special provision of R40m between current and prior periods. Both AVF and Avins followed AA Life in passing their dividends.

The question is what AVF might do with its problem child. Measures have been taken, like closing the telesales division, to pull the company into line. If these don’t work, Anglovai might have to consider selling AA Life, if a decent price can be fetched. Alternatively, it could be merged with the more stable and profitable Crusader Life.

However, director David Barber says “those options are not part of the plan at the moment.”

The performance of Crusader Life, which showed a net taxed surplus of R6m, is satisfactory, but general unease in the market pulled down its share price more or less in line with the group. The Board of Executors should continue to be a good investment.

The market, it seems, is the harshest critic of the poor performance of unlisted AA Life. This has helped to drag down AVF’s price from a high of 280c in late October to the present 175c.

Yet some analysts feel the group has taken a one-off knock. With the necessary rationalisation and restructuring in place, as well as new blood in the executive, it could be poised to show better results this year. If earnings growth of around 20% could be achieved, they feel, the share would be favourably rerated.

With a rights issue coming up — AVF plans to raise about R43m to follow its rights in the offer of stock in a subsidiary Avins, which in turn is following the rights offers of AA Life (R26m) and Crusader Life (R20m) — additional capital will be generated.

The sector has shown good growth. AVF may not catch up with other life assurance rapidly but this might be the time to consider getting in at the bottom.

Shaun Harris
Fabcos (Foundation for African Business & Consumer Services) is preparing to launch a major general insurer, backed by a bank and two insurance groups, to focus on the black market.

The vehicle will be BPI (Business & Personal Insurance), whose licence was inherited from the demise of Quorum Insurance.

The deal is being orchestrated by Fabcos and the probable shareholder line-up includes 51% of black capital, represented by Fabcos and Future Bank, with Eagle and Aegis Insurance holding minority stakes and management contracts.

Both insurers have strong black market connections and, between them, handle most of the black taxi insurance business. Future Bank confirms talks are taking place but emphasises no deal has yet been struck.

Also in the sandwich is BCE, an underwriting manager specialising in construction and electronics, which recently switched allegiance from its treaty with Fedgen (see page 28) to align itself with BPI.

Before the arrangement is finalised, it will have to be approved by the Financial Services Board, which has been kept abreast of developments but will not comment now.

Leading insurance brokers have been probing the BPI background. Price Forbes, in a newsletter to clients last month, said it would comment fully on BPI later. It then told the FM it has not been able to obtain financial information from BPI "because the shareholdings were being finalised."

The brokers feared the emergent company might lack the necessary management skills, even though capital backing was available. If Eagle and Aegis sign up as managers that doubt will be removed. Aegis CEO Brian Seach says talks are at a "positive" stage.

Both Eagle and Aegis are UK-controlled by shareholders who want to support the development of black-owned financial institutions. That also applies to Future Bank, a spin-off from First National Bank subsidiary Wesbank, and Fabcos. But BPI executives emphasise the arrangements have not been finalised — including the shareholdings — and that the issue is still "sensitive."

According to David Taylor, CE of BCE, which will operate under treaty with the new company, the tentative name is The New SA Insurance Co.

BCE brings with it about R20m of net premium income. Taylor says his company's contribution will be mainly in the specialised areas of construction and electronic underwriting. Black home-owners and business people have expressed a need, he says, for an insurer which belongs to their community.

It is understood that Fabcos, while bringing in "white" skills initially, has pledged that shareholdings will not be diluted when the technical capabilities of black managers and executives have been developed. Seach confirms this.

Taylor says construction contractors offer a huge opportunity for the new company. "Just because homes may be smaller, it does not mean they don't need insurance."
Regaining its rightful place

Activities: Banking and related financial services.

Control: AAC/De Beers (29.9%); Southern Life (25.7%).

Chairman: B E Hersov; MD: B J Swart.

Capital structure: 72,7m ords. Market capitalisation: R3,83bn.

Share market: Price: 5 400c; Yields: 3.2% on dividend; 9.8% on earnings; P/E ratio, 10.2; cover, 3.0; 12-month high, 5 400c; low, 2 825c. Trading volume last quarter, 212 000 shares.

Year to Sept 30 '88 '89 '90 '91
Total assets (Rm) ... 28 2 30 6 30 3 36.6
Advances (Rm) .......... 21 1 23 1 23 2 29 1
Deposits (Rm) ........... 29 1 27 1 26 8 32 2
Op profit (Rm) .......... 452 1 885 1 832 7 906.5
Bad debt prov (Rm) ... 124 5 181 6 294 3 262.9
Attrib profit (Rm) ..... 208 8 274 3 329 8 395 1
Return on assets (%) ... 0.73 0.90 1.09 1.06
Return on equity (%) ... 20.3 23.7 23.1 22.8
Earnings (c) ............ 386 377 485 528
Dividends (c) .......... 112 5 130 160 175
Net worth (c) .......... 1 613 1 983 2 438 3 391

Perhaps the most salutary lesson to be learnt from the virtual doubling of the First National Bank (FNB) share price over the past year is that the market is not always right.

From a corporate viewpoint, nothing much changed during this period that could remotely justify the ramping. What has happened, however, is that the market has gone more or less been forced to accept that its perceptions about where the group was heading were incorrect.

In retrospect, FNB's image has been under pressure for years for various reasons. In the mid-Eighties when its computer network was dumped and replaced with the IBM-based Hogan system, there was widespread concern over the cost and efficiency of the change. To be fair, there were probably times when even the bank wondered whether Hogan would ever be brought to heel. But it was, and few would now question the benefits which have been derived and, more importantly, will still be derived as the full potential of the system is developed.

Another decision which unsettled investors was the clamp on new business growth after Barry Swart became MD. This reflected in a virtually static total asset base between 1988 and 1990 and, among other things, in FNB being eclipsed in size not only by Standard Bank - once (a long time ago) its only real competitor - but also by Nedcor, which launched a major drive for new business at about the same time that FNB withdrew from the race.

Despite last year's leap forward, FNB's balance sheet in September 1991 was R5bn smaller than that of Nedcor, whereas two years earlier it was still R1bn larger despite Nedcor's acquisition of the Perm.

However, as with the Hogan decision, subsequent events have proved the wisdom of concentrating on quality rather than quantity of business.

For one thing, shareholders have not suffered. Adequate earnings growth was achieved simply by improving returns on the business which the group already had on its books. Return on assets rose from a mediocre 0.73% in 1990 to almost 1.1%, materially better than Nedcor's 0.83%.

For another, FNB has emerged from this period of consolidation with one of the strongest balance sheets in the business, with a DTI-based capital ratio already at the 8% level which will be required from the beginning of 1995.

In the context of preparing for a renewed and sustainable growth phase, something else that should not be overlooked is the new headquarters complex being built in Johannesburg. BankCity, due to be completed in 1995, will consolidate operations now spread among 28 buildings. Once completed, it should improve efficiency and help to contain operating cost escalations.

In the short term, FNB is well-positioned for what is generally believed will be a reduction in the interest rate pattern later this year.

This is normally a mixed blessing for banks. Cheaper credit invariably boosts business. But, especially in the retail market, lending rates often drop faster than deposit rates and this can put a severe squeeze on margins.

FNB has taken steps to protect itself by materially shortening and restructuring its deposit book to the extent that 44% (1990: 30%) now falls in the withdrawable-on-demand category and so will not cause any problems as interest rates come down.

Something else that could benefit this year's results is that there might be a further fall in bad debt provisions - or, at worst, a limited increase. Though last year's provisions were R31m (11%) down on 1990, which raised a few eyebrows given the present state of the economy, 1991's provisions still seem conservatively based given that they amounted to 0.90% of total year-end advances, a figure that compares favourably with, for example, Nedcor's 0.86% for the same accounting period.

What this means is that the previous year's 1.27% provision may have been an overkill, in which case it could well be that FNB has seen the worst in terms of these provisions and their negative impact on group profits.

Even though an upturn in the economy will probably come too late to have any material effect on new business opportunities this year, there should be further profit benefits to flow through from last year's expansion of the lending base. This should, as in the past, enable the group to at least maintain earnings in real terms.

This outlook is already discounted in the R5.40 share price, yielding 3.2% on dividends, indicating that FNB has regained its rightful place in the banking sector after an extended period of neglect.

Brian Thompson
CRUSADER LIFE  FM  10/1/92

Under a shadow

Activities: Life assurer.
Control: Anglovial Insurance Holdings (60%), Chairman: Don Rowand; MD: Bob Rowand.
Capital structure: 19.7m ords. Market capitalisation: R39.4m.
Share market: Price: 200c, Yields: 9.4% on dividend; 9.4% on earnings; P/E ratio: 10.6;
cover: 0.6. 12-month high: 280c, low: 190c.
Trading volume last quarter: 606.201 shares.

Year to June 30

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<th>'91</th>
<th>'90</th>
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Crusader Life's entry into the Anglovial fold just over 18 months ago has brought mixed blessings. In the long run, the link will probably prove beneficial, bringing administrative cost savings, strong financial backing and access to the parent group's client base and other companies.

But being a 60%-owned subsidiary of Anglovial Insurance Holdings (Avins) has so far not been plain sailing. As an independent company, Crusader Life's results show fairly consistent growth. Despite the distortions of financial statements covering an 18-month period, annualised figures show 36% growth in new business, an 84% increase in the life fund and, most important for a life assurance company, a 42% increase in the surplus.

Yeap Crusader's share price has plunged rapidly from a 280c high in September to its current R2. Perhaps the best explanation is the similar drop shown in Avins's share price. With prospects for the company looking reasonable, the question now is whether Crusader's share price can move out of the shadow of Avins.

Shareholders will no doubt be pleased with attributable earnings of R6m, leading to a dividend payment this month of 9.5c, deferred to allow a bonus share scheme to be introduced. Shareholders can elect to receive all or part of their entitled cash dividend as fully paid bonus shares, after which the final dividend will be declared. An amount of R4m has been provided for the estimated cash portion of the total dividend.

While the directors point out that dividend increases have been kept to between 20% and 25% since 1984, growth in new business is clearly putting pressure on capital. To help resolve this problem, Crusader Life plans to raise about R26m through a rights offer.

This is being followed by both Avins and the ultimate holding group AVF, while troubled stablemate AA Life hopes to raise about R26m in a separate rights offer.

Administration expenses, up three-fifths over the 18-month period to R29m, are worrying. But executive director Louis Prinsloo says that, on an annualised basis, the increase amounts to only 6.7%, a benefit of the joint administration offered by Avins.

With additional capital being raised, the share could be worth following, especially as its present low price probably has more to do with the image of other components of the group than the company's own performance.
NEW KLEINFONTEIN

Beating the cycle

Activities: Property development and investment.
Control: AFC Investments 62.9%.
Chairman: J W Mackenzie; MD: G Fischer.
Capital structure: 2,01m ods. Market capitalisation: R16,1m.
Share market: Price: 800c. Yields: 7.8% on dividend; 21.8% on earnings; p/e ratio, 4.6;
cover, 2.8. 12-month high, 825c; low, 685c.
Trading volume last quarter, 11,000 shares.

Year to June '88 '89 '90 '91
Return on cap (%) 9.1 9.3 17.6 18.0
Turnover (Rm) 3.8 5.0 8.9 8.8
Pre-tax profit (Rm) 2.2 3.7 6.0 6.0
Earnings (c) 68.4 101.6 166.1 174.5
Dividends (c) 26 39 50 82
Net worth (c) 661 747 861 1,007

Chairman John Mackenzie says land sales in industrial townships reflected economic recession and were lower, though the Woodmead Crescent and Kleinfontein Lake office parks stood out against the trend.

He says property is a lagging economic indicator; even if the business cycle in general bottomed by the third quarter of 1991, the property cycle is likely to bottom only six to nine months later. But industrial property should be highly responsive to economic recovery, so prospects for the group are relatively favourable.

This year, says Mackenzie, New Klein will embark on projects which have already been planned and will be substantially prefunded. It will also look for strategic acquisitions for short-to-medium-term development. Absence of borrowings will ensure that holding costs are no drain and profits should at least be maintained through what is likely to be the worst part of the downturn for property.

New projects mentioned in the directors' report include an extension to Kleinfontein Lake Office Park. Retail rights have been granted on a site next to Benoni Hyperama, Kleinfontein Lake Extension I, allowing 22 500 m² of retail and related uses.

The company still holds 360 000 shares in Ergo. No monthly income was derived from residual mining interests, but a slimes dam was sold for R1,2m, which was treated as an extraordinary receipt.

Steady growth in earnings, dividends and (probably understated) NAV during recession testifies to the sound (if conservative) management and the policy of staying ungeared. (But remember, while strong liquidity will permit new acquisitions to be financed without incurring holding costs, they will erode existing net interest received of almost R1m.) The share is difficult to pick up in any quantity but looks good value both intrinsically and relative to the rest of the property section.

Michael Cusson
Fedgen's nuptials

Federated General (Fedgen) and Aegis Insurance have broken off their merger talks. But Aegis MD Brian Seach confirms he is still interested in growth opportunities and Fedgen CEO Ronald Carter says he is still interested in a suitable marriage.

Carter, brought in by Fedsure on a five-year contract to turn around the troubled short-term arm of the Fedsure group, is emphatic that Fedgen will not be gobbled up by acquisition. It's a strong company, he says, with sound solvency margins. It is, like most of the medium-sized players in the league, interested in a marriage — "perhaps 40-40 plus 20% to another shareholder" — if that leads to economies and a better expense ratio. Meanwhile, he considers, those goals may be achieved through updating systems.

Fedgen's traditional strength has been in the construction business and the provision of compensation and other benefits for building workers. Though now much more general in character, it retains its original industry links.

But recently, Fedgen severed ties with underwriting managers BCE (see page 41), which had an underwriting management contract under which it wrote construction and engineering business for Fedgen. Carter says the BCE severance, involving R20m of net premium income, had no influence on the company's negotiations with Aegis, which Seach also confirms. BCE has now found an umbrella with Business & Personal Insurance and, if plans work out, will be concentrating in the black market.

Expense ratios may be where the merger talks foundered. Aegis had a net ratio last year of 9.5%. Fedgen's exceeded 20%. Had a merger taken place, the potential benefits would have flowed only if there were ruthless pruning of costs. Seach says overseas parents, themselves bruised by a long soft market, want quick improvements in the results of their subsidiaries. The time required to bring through the ultimate benefits of a merger was simply too long, Seach adds.
well positioned for growth following any integration of the continent’s southern economies.”

The country with the greatest number of banks to appear on the list is Nigeria, where, “since the late 1980s,” says The Banker, “deregulation has produced an explosive growth in the number of banks . . .” But combined capital of the 26 banks amounts to only $467m and assets $7,58bn.

Of the banks surveyed, the highest capital-asset ratios were those of: Gabon’s Banque Nationale de Credit Rural, 63.47%; and Zambia’s Lima Bank, 57.52%.

The SA bank with the highest ratio is Absa at 5.72%. The latest available financial statement, to March 1991, is a consolidation of the accounts of its components, so no comparison is made with previous years. Capital-asset ratios of other SA bank groups in order of ranking are:

- SBIC with 5.24% (position unchanged from the previous year);
- RMB 5.24% (6th the previous year);
- Bankorp 5.08% (8);
- NBS 5.05% (3);
- Nedcor 4.93% (4);
- FNB 4.75% (5);
- Investec 4.56% (1); and
- Boland 4.33% (7)

Greatest pre-tax profit growth was reported by FNB, 19.9% to $225m in the year ending September 1991. No figures are given for Absa, Investec or RMB. Of other SA banks:

- NBS’s pre-tax profit rose 14.2% to $31m, year ending March 1991;
- Boland 14.1% to $7m, March 1991;
- SBIC 10.3% to R240m, December 1991, and
- Nedcor 10.1% to $194m, September 1991.

No percentage growth is recorded for Bankorp, whose pre-tax profit was $30m.

If inflation is stripped out, the only bank to achieve real growth is FNB, at 4.3%.

The banks are also ranked in terms of profit to capital:
- FNB 41.4%;
- Nedcor 32.4%;
- SBIC 29.7%;
- NBS 24.4%;
- Boland 13.2% and
- Bankorp 8.5%.

The greatest turnaround was at Bankorp, which reported a negative ratio of 48.5% the previous year. No figures are given for the remaining banks.

By return on assets, FNB is placed first at 1.81%, followed by:
- Nedcor 1.48%;
- SBIC 1.45%;
- NBS 1.12%;
- Absa 0.84%, and
- Boland 0.55%.

UBS Holdings’ superior ROA was dilated by the merger with Volkskas and Allied, ranking the new Absa 5th among SA banks.

A spokesman says the low ranking is partly due to a distortion from including profits of Allied and Volkskas for only six months of
DISINTERMEDIATION

Short-circuit

Two new debt markets were opened on January 3, with the announcement in the Government Gazette that the issuing of commercial paper (including debentures) and securitisation (the sale of a portfolio of financial assets) will fall outside the ambit of the Deposit-Taking Institutions (DTI) Act.

Now corporates will be able to raise funds from the public without the intermediation of a bank.

This follows lengthy discussions between the authorities and the banking sector which has been reluctant to see lenders and borrowers by-pass the banking system.

Only certain companies will be allowed to issue paper. Those which:
- Hold net assets of over R100m; or
- Have holding companies with assets of over R100m;
- Have the endorsement of a DTI to guarantee the company’s obligations on the commercial paper; or
- Have the backing of a government guarantee.

The bank endorsement and net asset value figure of R100m will be reviewed in the future.

A company will be allowed to accept money from the public against debentures—an interest-bearing written acknowledgement of debt, issued for a period of 12 months or longer and renewable for a period of not less than 12 months—providing it complies with the Companies Act.

Debentures can only be issued for a fixed term but they may carry either a fixed or floating interest rate. Funds raised have to be assigned a specific purpose.

Banks have retained a firm hold on securitisation, which can be undertaken only through a DTI—though the DTI cannot own or control the special purpose vehicle through which securitisation has to take place.
Companies

NBS Hallmark fund doubles value

THE NBS Hallmark Mutual Fund more than doubled in size in the past 12 months and at December 31 1991 its value stood at R31.1m up against R14.8m at the start of the year. (Dec 10 1992)

In the year to December, NBS Hallmark achieved a total return of 31.5% as against an inflation rate of 15.5% and the "22.8% return on the JSE all share index".

The total return the fund has notched up since it was launched in August 1988 has been 23.7% a year, which fund manager Ken Burns describes as "a very creditable performance".

During the quarter, fund managers continued to increase the mining content of the portfolio, taking it from 22% at the end of June, to 26% at the end of September and to 30% at the end of December.

Consequently the industrial content and cash holdings in the portfolio have been slightly reduced.

The fund's liquidity was reduced from a total of 28% to 22% with the sale during the quarter of the long-dated Eskom 158 stock.

Other portfolio changes were the sale of Sunrash and Eben Falls Bros holdings and a new investment made in Salmarine.

Commenting on the fund's investment strategy, Burns said NBS Hallmark continued to add to existing holdings across the board, with focus on the mining sector.

"We will use any opportunities of a weaker market to add to existing holdings, so long as we can find fundamental value in the stocks to be purchased," Burns said.

He added that fund managers would reduce liquidity to lower levels as and when the stock market was poised for a further phase of good growth.
R50m lift for Southern Life city centre

Karin Franken

Southern Life is to spend R50m in a major facelift of its African Life Centre in Johannesburg.

Work on the Commissioner Street building will include a revamp of the shopping levels and the upgrading of the external facade of the office space.

Anglo American Property Services (Ampros) design and development director Fred Bilt said: "The building, which occupies a prime position in Johannesburg on the site of the original Carlton Hotel, was completed in mid-1966 and is ready for a revamp of this nature."

The electrical and air-conditioning services, and the lift lobbies of the office tower will be revamped, with the elevators receiving upgrading. Work will start shortly and is due to be completed by the end of 1993.

The shopping element comprises 9 500m² on the ground, basement and mezzanine levels, with the office space measuring 17 500m² on the podium level and the 19th floor tower.

The revamp decision followed hard on the heels of the Southern Life Centre upgradation in Cape Town, which was regarded by Ampros as highly successful in attracting new tenants and as being a new asset for the Cape Town CBD area.
HOME LOAN RATES

No free fall ahead

The money market started the new year on the same bullish note it closed the old. Expectations about a fall in Bank rate — the official rate at which the central bank lends money to banks — range from "later this month" to "before the Budget in March."
The rate on three-month BAs fell to 16,3% on January 3 from 16,4% throughout December, while the rate on 12-month CDs dropped from 16,8% on December 31 to 16,6% on January 3 where it remained at the start of this week.
The bond market, which was bearish for a considerable part of last year, is now in a happier mood and the mini bull run, which started in October, has not petered out. The benchmark Eskom 11%, which peaked at a closing 16,94% on October 22, fell from a 1991 close of 16,25% to 16,15% on January 3.

Home-owners are wondering whether the benefits will spill over into the mortgage loan market. Having endured high nominal interest rates for several years — they are now 18,95%-21,25% — borrowers are hoping for a more relaxed time lies ahead.

Over the past 10 years, interest rates charged on home loans have changed direction sharply several times. From 9%-11% in 1981, they had moved to 18,25%-25% in April 1985, before plunging to 12,5% in 1986. By 1988, pressures in the financial market started a new upward spiral, pushing them to a high of 20,5%-22% by late 1989. They have fallen slightly but the level has been boosted by the introduction of a tax on financial services introduced last year — a cost which banks have recovered from consumers.

In real terms, of course, the picture is somewhat different. Once the effect of inflation is removed from the figures, rates in 1991 averaged only 4,77%, says Absa's economic unit, down from 6,42% in 1990 and 4,86% in 1989. These figures are based on Absa's average nominal mortgage rate in those years — 20%, 20,75% and 19,5%.

For people who bought when the nominal rate was only 12,5%, however, the adjustment has been painful.

Home-buyers who raised mortgage loans over 30 years would have paid only R10,67 a month for each R1 000 borrowed at a monthly repayment of R1 067 for a R100 000 loan. At 20,25%, they will be paying R16,92 for each R1 000, a monthly repayment of R1 692 (though in practice the sum would be somewhat lower because outstanding debt would have been reduced).

Can they now expect some material relief? The answer is not much — and certainly not to start with.

Though institutions will almost certainly take advantage of a fall in Bank rate, and a consequent fall in the pattern of interest rates and therefore funding costs, to reduce mortgage rates, they are unlikely to offer borrowers more than the expected one-percentage-point fall in Bank rate. On a 30-year loan this represents a saving of only 83c a month for every R1 000 borrowed.

A second one-percentage-point fall is expected later in the year but only the most optimistic expect a third fall. So by year's end borrowers will almost certainly be better off than now but the amount involved will be small.

There was a time when banks may have been prepared to cut their margins for a competitive edge in the market, as they did towards the end of 1986 and early 1987, but they are less likely to do this now, though margins are considerably better than during 1990.

"There are too many other worrying factors at work," says one banker.

Stepping down

% p.a. Interest rate trends

Source: Standard Bank
IN A stunning revelation, a Government spokesman has admitted that the State knew that Masterbond, the collapsed billion-rand participation bond company, was probably operating illegally but did not act against it or warn the public because it feared it would "cause investor panic in the (participation bond) market".

And it has emerged that Masterbond particularly targeted pensioners in an attempt to get them to part with their life savings. The SA Association of Retired Persons (SAARP) in Cape Town was used by Masterbond to get its members to invest in the company.

BRENDAN TEMPLETON

A retired George businessman, Don McKenzie, is trying to get funds together to pay lawyers to represent the interests of small-time investors in the failed company.

Masterbond had about 88 companies in its empire which collapsed after funds dried up because of a fail-off in investor confidence.

Mr McKenzie is angry about what he believes is the State's failure to enforce its own laws and for not informing the public that Masterbond did not meet the requirements needed to take money from them. Masterbond advertised itself as a registered financial institution even though it was not one. It operated as a deposit-taking institution (DTI) — but was not registered as such.

Masterbond operated in a grey area of legality, claiming its business did not require it to register as a DTI, and relied on its company registration to do business.

Chief director, project services, in the Department of Finance, David Venter said curators were focusing on securing the company's investments before looking at irregularities.

Mr McKenzie says the Government knew Masterbond was operating irregularly, but failed to act.

A source, who asked not to be named, said it was not the authorities who should be blamed, but the agents who urged people to invest in Masterbond.

Clearly South Africa needed a body to regulate the conduct of investment consultants, he added.

Now many of the 12,000 people who invested in the company's short-term participation bonds may lose their life savings.

SAARP spokesman George Hope said the association had hired a lawyer to look after members' interests.

It was not just glib-talking salesmen who lured people into the scheme — respected financial nancial companies and building societies also advised their customers to invest in Masterbond, Mr McKenzie says.

Mr Venter says the Government did take steps against Masterbond. (SEE)

"I think there is more than sufficient evidence to show that the Registrar was involved with Masterbond and that negotiations were done and that, at one stage, the Attorney-General was asked to prosecute," he said.

Asked why the public was not warned that Masterbond was unregistered, he said the Government feared it would cause investor panic in the market.

"It is an enormous industry. If one company goes belly-up, you could get a run on participation bonds," he said.

Mr McKenzie and hundreds of other people who have written to him, are now unhappy because the Masterbond curators are keeping them in the dark on investigations into the company's assets.

He feels the small investors need lawyers to protect their interests when the Masterbond assets are carved up.

An account has been opened at the George branch of the Eastern Province Building Society. Its number is 92031400012 and is called the Masterbond Victims Trust Fund.

Mr McKenzie has asked victims to deposit money into the account, but only if they can afford it. He can be contacted at (044) 707-655.
New Voortrekker Simon Brand wins ANC praise

By Zilla Efrat

Few people, especially those in the public service, have managed to command respect across the South African business and political spectrum.

But one man who has is Simon Brand, 53, who this week relinquished his posts of chief executive and chairman of the Development Bank of Southern Africa (DBSA).

DBSA was inundated with letters and calls of concern about Dr Brand’s health, testimony to the high regard attributed to him by members of government, extra-parliamentary groups, business leaders and the international community.

The Mbweni, of the ANC’s department of economic policy, says Dr Brand is representative of a new breed of African intellectuals and technocrats.

“Dr Brand has obviously broken with the past and was clearly part of the new breed of producers in economic policy. He is a true democrat and unscarred development economist.”

Dr Brand’s contact with the ANC goes back about 15 years, long before such ties became fashionable.

Being economic adviser to president John Vorster, PW Botha and FW de Klerk never precluded him from forming warm relationships with extra-parliamentary parties.

Acting DBSA chief executive Andre la Grange says Dr Brand never followed a political line and has always been critical of government.

His proposals for abandoning apartheid laws go back to the late 1970s when such calls were hardly acceptable. But because of his personal style, few people dislike Dr Brand.

Mr Mbweni says Dr Brand’s main constraint has been the institutional framework in which he operated. However, this never detracted from his commitment to poverty alleviation.

Gadgets

Mr La Grange says Dr Brand’s strengths lie in policy and strategy, as well as his personal skill as a listener and mediator.

Dr Brand is a founding member of DBSA, which he helped build up from an organisation of 30 people and an annual budget of R106-million in 1983 to the 56th largest institution in SA.

Dr Brand’s interests have always been in agriculture, economics and development. They led him to serve as chairman and member of more than 19 councils, commissions and boards.

Colleagues say he is reserved and soft-spoken with endless patience, too modest to be seen chauffeur-driven or using a car phone.

But for a man described as “a brilliant student”, Dr Brand is surprisingly bad in the technical arena.

He refuses to use a personal computer and has never mastered all the electronic gadgets in his car.

“He was once stuck in his car because he couldn’t work out how to open the doors,” says Mr La Grange.

In 1984, he was one of the Sunday Times Top Five Businessmen.
Mines urged to increase cover

THE SA mining industry has been criticised for lagging behind in arranging advanced and comprehensive insurance packages, and mining houses have been advised to purchase "catastrophe insurance" to protect shareholders.

But such claims have been disputed by mining industry sources who said the concerns of shareholders were always a priority and that insurance policies were of a certain nature because mining houses did not always see themselves as being exposed to particular risks.

PFV insurance broker Trevor Malton said many policies did not cater for underground flooding, earthquakes, shaft or rock collapses or certain business interruptions.

He said that standard fire and peril covers did not meet the needs of many mining companies.

Anglovaal insurance manager Haig McLaren said as a general rule, the domestic insurance market was reluctant to give underground flood cover, but it could be obtained overseas subject to negotiation.

McLaren said: "Insurance has to provide complete protection for mining companies and requires much in-depth research and a knowledge — based on years of experience — of the risks involved."

He said some mining houses felt it unnecessary to purchase full business interruption insurance — which could be relatively expensive because of the substantial budgeted revenues — and tended to opt for standing charges only cover.

"Business interruption insurance should be designed to take into account the fact that different tax rates apply to mining revenue, as opposed to non-mining revenue."

This was confirmed by McLaren who said shareholders' interests should be protected through the use of business interruption insurance.

He said the nature of mining insurance policies was largely dependent on a mine's track record, but some mines had it within their ability to withstand small losses.

Anglo American official Theresa Erasmus said the group's policy regarding risk and insurance was to identify, measure and keep under constant review the risks to which the group's companies were exposed.

Erasmus said the corporation applied strict discipline to control, eliminate and improve conditions and practices which generated any exposure to risk.

"Our policy is to purchase, as far as available at commercial prices, insurance for those risks beyond the absorbed retention levels. This is primarily to protect the catastrophic exposures of the corporation but must also be need related," she said.

A Gold Fields spokesman said mining houses were being forced to take on catastrophe insurance.

He said the company was at present insured against fires, explosions and rioting, but not against storm damage as it was unviable and far too costly.

Malton said: "Some mining houses take the view that future mining costs are an unknown factor and that their shareholders look for meaningful dividends today and not some time in the future. These mining houses ensure their shareholders are, as far as possible, fully protected insofar as insurance will allow."
Local govt Act is slammed

THE National Interim Civics Committee (NICC), an umbrella group for civic organisations, has backed the ANC's rejection of the Interim Measures on Local Government Act and its call for a national negotiating forum on local government.

Government and ANC delegations met last Thursday and, while both parties agreed that the provision of services was a crisis requiring a national response, the ANC issued a statement rejecting the Act and calling for the creation of a national negotiating forum. 8/10/12 13/11/12

The Act set up structures and processes in terms of which locally based organisations can negotiate new structures for their areas.

The government team rejected the creation of such a forum and, while acknowledging that the Act contained inadequacies, said it served as a vehicle to move away from racially based local government structures.

While supporting the ANC's move to hold talks with Local Government Minister Leon Wessels, NICC general-secretary Sihembiso Radebe said in a statement on Friday some provincial administrations were using the Act to coerce civic groups into negotiating with white local authorities towards the restructuring of their towns.

"We note that lack of a uniform approach towards the restructuring of the towns and cities might give an opportunity to some local authorities to entrench apartheid structures," Radebe said.

"We implore the ANC (local government department) to facilitate the convening of an urgent national consultative conference to discuss, inter alia, the modalities of the proposed national negotiation forum and the guiding principles for local negotiations which would enhance uniformity at local level negotiations," Radebe said.

THE MONEY MARKETS by Sheridan Connolly

Rates drift as dealers await a cut

RATES continued sliding downwards last week, signalling the market's anticipation of an imminent cut in key interest rates.

The three-month Treasury bill rate dropped to 15.00% after easing to 16.00% last week in the weekly Reserve Bank tender. Dealers said applications for the high R200m tender had totalled R1.0bn.

An aggressive midweek move by The Discount House of SA pre-empted an official lowering in the three-month liquid BA rate to 15.50% from its recent level of 16.50% but other institutions soon followed.

Towards the end of the week the money market shortage was higher - at R1.0bn on Thursday and R1.1bn on Wednesday. Dealers were unanimous that there could be at least a one-percentage-point cut in official rates this quarter and said that this was more than confirmed by bullish sentiment and high liquidity levels.

Some dealers believe Reserve Bank Governor Chris Stals could make a move by month-end should the next set of inflation figures show a downward trend.

One analyst said there would be some upward correction in rates if a cut in official rates failed to materialise within the next month or so. He noted stronger demand for long-term paper, which was offering good returns to investors.

The effects of a bullish money market spilled over into the capital market and dealers reported a substantial drop in medium-term rates. In the longer term, rates are also expected to drift downwards with the exception of the R150 bond, which should remain around the 16.500% level ahead of the options close-out in February, dealers said.

Earlier in the week, capital market rates firming slightly as players returned after the Christmas break. Dealers said despite bullish sentiment trade was expected to move sideways until fresh economic data signalled the long-awaited cut in official interest rates could be imminent.
Gilbeys, which had R46m invested with financial broking house Fundtrust at the time of Fundtrust’s provisional liquidation, had previously channelled hundreds of millions of rands through the company, former director Anri Kamfer said in a statement at the weekend.

She denied there had been irregularities and said several Gilbeys directors and other personnel had entrusted large sums of money with former bookkeeper Margaret Harding to invest through Fundtrust in the money market.

Kamfer claimed Gilbeys was well aware of the fact that Harding had invested hundreds of millions of rands through Fundtrust over an 18-month period.

However, a Gilbeys spokesman repeated the company’s claim that Harding had acted without authorisation and in contravention of the Deposit-Taking Institutions Act.

"Gilbeys at no time has ever issued authority for fixing deposit funds,” the spokesman said, adding that Harding had admitted she received secret commissions of more than R1m from Fundtrust for her unauthorised placement of R46m on fixed deposit. He said there was no further comment as this could prejudice any criminal and civil proceedings which might follow.

But Kamfer said in her statement Gilbeys had made extensive use of the money market and had produced a daily cash flow report and schedule on these activities. Gilbeys financial manager Doug Gait had allegedly managed Harding’s activities.

"Mrs Harding in her activities earned millions of rands on behalf of Gilbeys in the money market and was congratulated by Gilbeys on her efforts,” Kamfer said. She said the company had earned R700,000 in interest monthly on the R46m it had invested through Fundtrust.

A copy of an internal Gilbeys memorandum attached to Kamfer’s statement, which was sent to the company’s top executives as well as its auditors, said Harding had managed the account well.

"Mrs Harding has proved to be an excellent negotiator in the money market and the best possible interest rates are being obtained, both for borrowings and deposits,” the memorandum said.

Kamfer believed that all Fundtrust creditors would be paid in full if valuable property interests were properly administered and realised.

"If, however, the property interests are sacrificed for the sake of expediency in forced sales in execution, this will inevitably prejudice the creditors,” Kamfer said.

Kamfer and fellow former director Barrie Engelbrecht will be opposing the application for the provisional sequestration of their estates in the Cape Town Supreme Court on January 28.
Government forced to increase borrowings

By Derek Tomney

Money market sources expect the Department of Finance to increase its issue of Treasury bills in the next few weeks to raise funds to offset revenue lost from sagging tax receipts.

Recent Treasury figures show that tax revenues are falling well behind estimates.

In his Budget speech last March, Minister of Finance Barend du Plessis forecast that tax revenue would rise by R7.5 billion in the current fiscal year.

However, in the eight months to November, Treasury receipts increased by only R2 billion to R46.5 billion.

Treasury figures for December should be published this weekend, but are not expected to show much improvement.

The Department of Finance has been steadily increasing its issues of Treasury bills to ease its cash shortage.

For most of last year the Treasury bill tender issue was around R100 million a week.

It remained at that level until April 3 last year when the amount was raised to R130 million a week. On May 24 the issue was raised to R150 million a week and on November 1 to R200 million a week.

Barend du Plessis... forecast tax revenue would rise by R7.5 billion

R200 million a week.

On these figures, the Treasury is now borrowing about R430 million a month more from the money market than a year ago, although there were no plans in the Budget to increase borrowing.

Money market dealers say the expected increase in Treasury tenders could come this week.

So far, the increase in the bill issues has not had any effect on interest rates owing to the huge amount of surplus funds in the money market.

At last week's tender, R1 billion was tendered for the R200 million worth of bills on offer.

However, there seems to be a possibility that the Government's need for cash could result in some hardening in rates in the capital market.

The Treasury projected government stock issues this year at R14.15 billion and by the end of November had raised R10.6 billion of this sum.

If the Treasury limits its stock issues to the outstanding R3.4 billion in the remaining four months, rates should not be affected.

But if it continues to borrow at the rate it has been doing, some firming in short-term capital rates seems possible.

Detailed figures for November's tax collections will only be available at the weekend. However, if the October figures are anything to go by, they will not be happy reading.

In October, income tax collections at R3.5 billion were only R165 million more than a year earlier, while sales tax collections at R1.56 billion were down R30 million.

Overall, inland revenue collections in October showed an increase of R180 million on last year.

The other main source of government income — customs and excise duties — showed little increase.

Total collections amounted to R1.1 billion, up R72 million on last October.

After taking into account Customs Union payments, total customs and excise receipts for the month were R64.2 million, against R384.1 million a year ago.

In view of the low level of state revenue and the apparent inability so far of VAT to make up the shortfall, there has been speculation in some financial circles that the Government will have to increase taxes in the next Budget. A sharp hike in VAT seems to be the most favoured method.

However, any increase in taxes would seem to be an uneconomic tax on the economy in its present parlous state. Raising even more taxes from an already weak private sector could be court disaster.

There are hopes that the resurgent US economy might lift the SA economy, but this cannot be relied upon.

It looks increasingly as if SA will have to pull itself up by its own bootstraps. For this it needs a major increase in domestic savings — and also a big change in tax policy.

But there is no doubt that the economy could grow much faster than it has been doing, if income tax policy were changed so that the Government stopped using SA's seed corn to feed a bloated public service.
OM unit trusts
bullish on JSE

By Magnus Heystek

Old Mutual remains bullish about the outlook for the Johannesburg Stock Exchange, despite a general consensus that the market is very high.

This is reflected in the low liquidity levels of its four unit trusts at end-December 1991.

Roland Chute, assistant general manager in charge of unit trusts, says investments rose in companies likely to benefit from an expected increase in Gross Domestic Fixed Investment.

This approach can be seen in the additional purchases of shares like Hagglo, Chemserve, Toco, Reunert and Jacor.

Other sectors favoured include the banking, financial and insurance sectors.

Of interest was the more than doubling of the number of shares in GDM Finance, a company involved in trade finance.

The number of accounts in Old Mutual unit trusts rose by more than 13,000 to exceed 300,000 for the first time in the December quarter last year, making it the largest unit trust management company by far.

The Investors’ Fund, the largest and most broadly based of all the funds, now has assets in excess of R3 billion.

Traditionally a front-runner when it comes to investment returns, it kept up the sterling performance in the year to December, with an overall return of 35.6 percent on a repurchase to repurchase basis.

The Investors’ Fund has recorded overall performance figures over three, five, seven, ten and fifteen years of 25.8, 21.6, 29.3, 25.8 and 28.8 percent respectively.

The Gold Fund remained fully invested, with funds available for investment down to 8.62 percent.

Purchases focused on quality golds such as Driefontein, Vaal Reefs, Harties and Southvaal. Oryx was included in the portfolio for the first time and there were additions to Unisel, Deekraal and East Dagga.

The Mining Fund sold its stake in Sasol, while there was a partial switch out of Rusplats into Lydenburg.

The total market value of the Income Fund grew by 29 percent for the second quarter in succession and now stands at R61.7 million.

Overall returns, however, were below the inflation rate at 15.8 percent.
Old Mutual's unit

trusts worth R3.5bn

CAPE TOWN — The market value of assets of all Old Mutual’s unit trusts rose 46% to R3.5bn (R2.4bn) in 1991, while accounts increased by 39.499 to 564 376. Assets of the largest fund in the industry, Old Mutual Investors’ Fund, soared by R342m to R3.1bn.

The Old Mutual funds remained fully invested in the last quarter of 1991 with the liquidity of the R1bn Investors’ Fund falling to below 10% from 12% at the end of the September quarter. Liquidity of the Old Mutual Industrial Fund dropped to 6.9% (12%), the Old Mutual Gold Fund was down to 5.2% (8%) and the Old Mutual Mining Fund slipped to 5.4% (5%).

Liquidity of the recently launched Top Companies Fund with assets of about R59m was about 35% due to the heavy inflow of cash.

Old Mutual Investments assistant GM Rowland Chute said the low liquidity levels reflected bullish sentiment in spite of the stock market’s high ratings.

Returns for five of the six funds in the Old Mutual stable on a sale to repurchase basis were: Old Mutual Investors’ Fund 27.90%; Old Mutual Industrial Fund 35.3%; Old Mutual Income Fund 14.53%; Old Mutual Mining Fund 1.06% and Old Mutual Gold Fund minus 14.54%. The Top Companies Fund is new and has no performance record.

Over three, five, seven, 10 and 15 year terms the Old Mutual Investors’ Fund has outstripped the all share index and inflation, producing returns of 25.85%, 21.65%, 23.35% and 23.0%.

Chute said the weightings of those shares likely to benefit from increased Gross Domestic Fixed Investment (GDFI) were increased in the last quarter. The Top Companies Fund’s growth portfolio consists of GDFI shares such as Murray & Roberts, Hudaco and Fraser Alexander.

Among the second liners bought for their growth potential were Mashold and Secold. Major holdings are Absa, Mutual & Federal, Richemont, SunBop, Barlows and Rembrandt.

The Investors’ Fund spent R88.5m purchasing Engen shares, reduced its Sasol holding and acquired 300 000 PP Plats shares.

Selective purchasing by Old Mutual Industrial Fund focused on banks and financial services, insurance and GDFI shares.

The Old Mutual Gold Fund's purchases were focused on quality golds such as Driefontein, Vaal Reefs, Harties and Southvaal.

The Old Mutual Mining Fund sold its stake in Sasol and partially switched out of Rusplats into Lydenburg.

The total market value of the Income Fund grew by 20% to R61.7m.
Sun Life to be delisted

Sun Life is set to be delisted from the London Stock Exchange (LSE) as new owner Rockleigh is close to achieving the necessary 96 percent control of the UK insurance group.

Speculation has now focused on the future of Sun Life, which was acquired last year by Rockleigh, a joint holding company set up by Liberty Life's UK group TransAtlantic and leading French assurance UAP.

Liberty chairman Donald Gordon said yesterday that Rockleigh had control of about 95 percent of Sunlife and would proceed with the compulsory acquisition of the remaining four percent once 96 percent control had been achieved.

Sunlife will subsequently be delisted, Mr Gordon said, adding though that TransAtlantic and UAP, who will hold 50 percent each at that stage, had not yet held talks on the future of the group.

The Star's London bureau reports that Sunlife chairman Peter Grant would like to see the $800 million Sun Life re-floated, possibly as a much larger company, including parts of TransAtlantic.

Mr Gordon said that he would discuss the matter with UAP in February but added that there were certain advantages for Sunlife in being delisted.
CAPE TOWN — There would be a shake-up of the estate agency industry this year, with many firms going out of business, Seeff Residential Property MD Samuel Seeff predicted yesterday.

"We think there will be a reduction in the number of real estate agencies as more and more go to the wall," he said.

First to disappear, Seeff said, would be the many inexperienced and poorly trained estate agents with limited capital who had flooded the market when conditions were good.

Signs of difficulty were the fact that agents were cutting commissions and reducing advertising.

Seeff said the process of attrition had already begun as many agents had faded from the scene, conveyancers reported large reductions in their workload and bank repossessions increased.

He said the readjustment of the housing market would continue this year, and then prices would begin to increase. He believed 1992 would offer the last opportunity to buy a reasonably priced home.

"Potential buyers would be well advised to make 1992 the year to purchase their property, as later it will become very expensive."

The cost of housing in SA was relatively low, in terms of rand per square metre, compared with Western nations. House prices in SA had not kept abreast with the inflation rate over the past year and Seeff foresaw a continuation of the trend in 1992 as the market adjusted to the recession and political developments.

The continued high rate of mortgage bond interest would also play a role.

Seeff said Reserve Bank governor Chris Stals was resisting all appeals to make housing loans cheaper by reducing interest rates, and this had created considerable difficulty for home owners burdened with all kinds of cost-push inflationary pressures.

"Government and quasi-government employees enjoying subsidised housing are going to be the last to feel the pinch, but it is coming and when it does I predict we will see a steady decline in interest rates as the subsidised civil servant demands relief from his employer.

"When that happens, the period of adjustment in the housing market will have reached a nadir and we will begin to see prices increasing towards more realistic levels," Seeff said.
Recession bites the top bracket

THE recession has taken its toll on the top end of the residential property market. Prices have dropped in real terms, and sellers are being forced to mark down properties to secure sales.

Prices are increasing at less than 1% a month, but building costs are rising at 2% a month, according to residential property analysts.

Worst-affected are houses in the higher end of the market, in which owners are being forced to drop their estimates of their house's worth. Camden MD Scott McRae said the market was resisting over-pricing.

However, two growth areas have been identified despite the depressed state of the market: cluster housing and sectional titles. Property economist Neville Berkowitz said these were popular, not only because of relatively attractive prices but for the security they offered.

Homes showing little or no increase in prices were those in the R150 000 to R250 000 bracket. Berkowitz added that building a house was 35% more expensive than buying an existing home.

McRae said interest rates should be cut to stimulate the market and provide some relief, especially for first-time home owners. Even a small drop would be a great morale booster and have a positive psychological effect on home buyers.

There had been lots of activity during the first 10 days of January, he said, and signals for a healthy property market in 1992 were evident, but the market was "generally soft" and property analysts were not optimistic.

A spokesman for First National Bank's home loans department said he expected interest rates to drop one percentage point in the next three months, and at least two percentage points by the end of the year.
Estate agents' diploma introduced in SA

AN internationally recognised diploma course for estate agents is being offered for the first time in SA.

The CRB Property Diploma course, sponsored by the Perm and endorsed by the National Property Academy and Institute of Estate Agents of SA, will start in February.

The course was designed in the US by real estate experts and covers all areas of SA real estate including residential, commercial and industrial business.

The course may be completed in two-, three- or four-year modules, and after completion participants will be awarded full membership of the faculty.

Drexanne Evers, senior faculty instructor of the US CRB Teaching Academy, will be teaching the course that runs in Johannesburg, Cape Town and Durban.

Evers, who holds an MBA, was co-author of the book on top residential property negotiators, Tips from the Top.

Further information can be obtained from Terry Ash at (011) 674-5321.
Simon Wilson

Grooping in the Dark

has Rand-Watchers

Trace low secrets

CIN-Weather will have
Prima Bank results challenge negative view of small banks

ANDREW GILL

INDEPENDENT group Prima Bank Holdings has again challenged negative perceptions of small banks after turning in a 50% growth in net profits on an enlarged capital base for the six months to end December. Profits of R1,7m (R1,3m) translated into a 44% return on shareholders' funds after a R2m capital injection from an unnamed private placement.

Group MD Johan Bellingan said yesterday the group would be looking for further capital in the last six months of the fiscal year but not necessarily in the form of a rights issue. He said he would like to see shareholders' funds up above R30m from their current R12.5m. One possibility was bringing in a foreign partner to increase capital.

He also said a study was being done as to the feasibility of developing a R55m 180-room hotel by Caribbean Estates (in which Prima has a 15% stake) next to the Wild Coast Sun.

All divisions of the bank performed well in the period under review and profitability would at least be maintained in the second six months, he said.

The group also announced that subsidiary Prima Bank Nominees' activities had been discontinued as a result of "difficulties experienced in operating within the boundaries of the Deposit Taking Institutions Act".

Constraint

Its operations in the money and capital markets were taken on by the bank itself.

The bank, he said, had no capital constraint on growth as reflected in its risk-weighted capital to asset ratio of 10%. There was, however, a constraint on growth because of negative perceptions about small banks.

The problems involving the liquidated Cape Investment Bank, Pretoria Bank, Masterbond and Fundtrust had placed a taint on small banks. By increasing the capital base, Prima could increase its stature, he said.

Also, the bank could do "bigger and better deals" with a larger capital base.

The bank's deposit base had been shrinking as a result of negative publicity about small banks. It currently stood at about R120m.

Further growth would most likely take place within the group within the next two to three years, following the purchase of Corvest, Genfin, Prima Property Trust and Caribbean, he said.

The takeover of Corvest and Genfin following CIB's liquidation had been approved at the offer prices by the liquidator, he said, and reiterated that no losses would result from the CIB buyout and liquidation.
Allied denies guilt in dismissal case

SUSAN RUSSELL

ALLIED Group Ltd/Abba, represented by Allied Group MD Bob Aldworth, pleaded not guilty in the Johannesburg Magistrate's Court yesterday to contravening the Basic Conditions of Employment Act.

The case arises from the dismissal of executive Patrick Ronan in July last year shortly after the takeover of the Allied Group by the UBS and its merger with Volkskas and parts of Sage to form Amalgamated Banks of SA (Abba).

Ronan, who was assistant to former Allied MD Kevin de Villiers prior to the takeover battle between FNB and UBS, claims the group breached his conditions of employment by failing to give him 12 months' notice as agreed between himself and De Villiers.

He received four months' salary, R44 000, from the group and claims he is still owed R100 000.

Ronan told the court yesterday he asked De Villiers for a 12-month notice term as "protection" after an investigation he conducted into alleged irregularities and fraud committed against the company led to acrimony and threats from certain senior Allied and Sage executives.

"I conducted this investigation" over several months and compiled a 100-page report detailing evidence of the irregularities which were uncovered," Ronan said he had included a report of a R60m loss incurred in the US by Sage which, at the time, had a major shareholding in Allied. This, Ronan said, caused acrimony between himself and Sage executive chairman Louis Shill.

"My investigations were also embarrassing to certain members of the Allied

□ To Page 2
Prima Bank powers up

Finance Staff

In the six months to December 1991 Prima Bank doubled its net income (after tax and transfer to internal reserves) from R350,000 to R1.7 million.

This is equivalent to 85c a share (42.5c previously) and represents an annualised return on funds of 44 percent.

MD Johan Bellingan expects first-half profit levels to be at least maintained in the second half.

He says Prima's results were satisfactory, given prevailing economic conditions. "It is encouraging to note that all divisions of the bank performed well," he says.

A total of R3 million in preference shares was issued in the six months, in line with the board's stated strategy of strengthening the group's share capital, he says.
Strong inflow of funds to Senbank trusts

The market values of Senbank's general and industrial unit trusts rose by 22 percent and 37 percent respectively in the quarter to end December while the number of unit-holders increased ninefold. (88)

Senbank Management Company reports a significant inflow of funds — R23 million in the review period.

The price of units also increased in the last quarter — that of the general trust by 6.77 percent and that of the industrial trust by 9.9 percent.

The fund managers point out that although the expected economic growth should support share prices the JSE and Wall Street prices are currently at high levels.

As a result a more cautious approach is being taken during 1992, and if necessary, liquidity will be increased, they add.
African Bank's profit up 34%

African Bank increased its profit by 34% in the year to end September 1991 as the black-controlled group expanded its outlets, made two acquisitions and brought in new shareholders. 

The bank, whose mission is the economic empowerment of blacks, saw its profit rise to R13.6m from R10.1m the previous year on asset growth of 33%.

However, CE Jack Theron warned the bank was facing a capital constraint on growth and would need to bring more capital on board.

Shareholders' equity stands at R11.6m, up from R9.1m in 1990, thanks to stakes being taken by National Sorghum Breweries, the Ciskei Peoples Development Bank, Metropolitan Life, Premier and Pep.

About 70% of the bank is black-owned.

Its capital-to-asset ratio currently stands at about 6%. Chairman Sam Motsumane said the bank's capital constraints were the most important inhibiting factor in future growth.

He requested shareholders to consider seriously increasing their shareholdings in order to enable the bank to "grow rapidly into a major and competitive financial institution".

The bank declared a dividend of 7.5c a share, up 25% from 1990.
Some directors whose names appeared on the letterhead were elected only on March 26, 1990. He added that he would present evidence that, as was common practice, the letterheads were printed only after the election of the new directors.

Ronan has said he had written the letter requesting 12 months' notice on March 2, 1990 and presented it to De Villiers who, he said, immediately endorsed it. In response to cross-examination, Ronan stated that it was possible the wrong date had been put on the letter. The meeting, he said, could have been on May 2 and not March 2.

"I believe there is something suspicious here," Ronan said.

"There is," Cilliers replied.

SUSAN RUSSELL

THE authenticity of an agreement by former Allied Group MD Kevin de Villiers which purported to give a senior executive, Patrick Ronan, 12 months' notice, was called into question yesterday by counsel for Absa.

Fanie Cilliers SC, for the Allied Group/ Absa, submitted that the agreement, dated March 2, 1990, had been written on an Allied letterhead which had been printed only a month later, and that Ronan's dismissal on July 2 last year led to the Allied Group/Absa being prosecuted on a charge of contravening the Basic Conditions of Employment Act. Allied Group/Absa, represented by Allied Group MD Bob Aldworth, has pleaded not guilty to the charge in the Johannesburg Magistrate's Court.

Cilliers said he would lead evidence that Ronan denied the document was falsified or that he or De Villiers had backdated it. His employment was terminated shortly after the UBS takeover of Allied and its merger with Volkskas and parts of Sage to form Absa. Ronan has told the court he had been working as De Villiers' assistant at the time the former MD agreed to his 12 months' notice.

He said yesterday he knew that De Villiers, who publicly favoured FNB over UBS in the takeover battle, was initially suspended from his post after the UBS succeeded in its bid. The suspension was withdrawn and De Villiers resigned at the beginning of June last year.

Ronan has testified that he had asked for 12 months' notice as "protection" after his investigations into alleged irregularities within the company had led to threats from certain Allied and Sage executives. He also told the court he had, of his own volition, gone to the attorney-general in May last year over alleged irregularities involving the issue of 500,000 Allied group shares to its chairman Norman Alborough.

He did not go to any of his superiors because the majority of the Allied board was in favour of the UBS takeover.

"It was not that I did not have confidence in some of those people," he said. "I knew they would not want to get involved and I did not want to place them in a compromising position."

Aldworth, who became Allied Group MD on June 5, the day after De Villiers vacated his office, questioned Ronan the following day about his intention to obtain a court interdict to get access to confidential Allied documents.

Ronan said he had refused to answer Aldworth's questions unless his attorney was present. He denied he had been insolvent or had threatened Aldworth.

Ronan told the court he was a State witness in the Alborough investigation and denied he had acted as a spy or "mole" for the attorney-general. "I believe I was doing my duty as a councilor."

Ronan said that after his heated meeting with Aldworth he was confined to his desk for a number of weeks and then offered two jobs for which he lacked suitable skills. He perceived this as a "corporate strategy to get rid of me."

He denied that by going to the attorney-general he had breached his obligations to his employers and therefore warranted dismissal. The case continues tomorrow.
Investment will rise (58) Syfrets

FIXED investment over the next two years will be boosted by an interim government that will be set up by June, Syfrets forecasts, in its quarterly economic review.

The Cape Town-based investment and property group projects a modest recovery in fixed investment spending this year, with a stronger performance in 1993.

However, it warns that this scenario hinges on political perceptions and confidence, which are sorely lacking at present.

"But much can be achieved by the establishment of an interim government, and the negotiating process of the Ciskei participants must be monitored carefully."

The review says the impact of political progress of the financial markets will be positive if there is a removal of sanctions, an interim government and if negotiations steer towards a federal system.

Adverse factors could be right-wing violence, failure to address the land issue and the lack of a national plan to cope with the uneducated youth.

One of the big uncertainties this year is the upcoming budget in March, with the participation of extra-parliamentary groups the unknown factor, it says.

If there is co-operation it is most unlikely that direct taxes will be lowered because of the political sensitivity of VAT. Thus it will be some time before the consumer will be able to recover, it says.

The most disappointing factor of the downswing has been rising inflation, Syfrets says. However, it forecasts a decline in inflation to at least 14% by year-end.

Based on a deepening of the recession, bank credit and money supply growth and an improved outlook for inflation, Syfrets expects a one-percentage-point cut in the discount rate during the first quarter.
BoE ready to issue commercial paper

CAPE TOWN — Board of Executors Merchant Bank (BoE) is to launch its commercial paper operation next month and has deals in excess of R100m in the pipeline.

BoE will be one of the first banks to issue commercial paper in SA and will be doing so within the terms of the Reserve Bank’s regulations promulgated on January 3. The bank’s legal documentation and preparatory work will be completed by the end of the month and the operation will be up and running by February.

Stillborn

BoE group deputy MD Philip Biden said the emerging commercial paper market was expected to be worth hundreds of millions of rand as major corporates turned to commercial paper to meet their short term funding requirements.

But others in the industry have reservations about whether the market will not be stillborn because of the Reserve Bank’s requirement that banks endorse the commercial paper.

This requirement means that banks have to charge commission on the endorsements in order to secure a return on the capital set aside to underwrite them and this could make the cost of capital too high compared with the other available alternatives.

In terms of the Reserve Bank’s regulations companies with a net asset value of at least R100m have to be given a 50% risk weighting by the bank when their paper is endorsed. Companies with a net asset value of under R100m would attract a 100% risk weighting.

The Reserve Bank is on record as saying the endorsement requirement is only a temporary measure but Association of Corporate Treasurers technical committee chairman Tom Makinson expected it to operate for at least 12 months.

"The commercial sector would like to see it dropped sooner rather than later," Makinson said. While the measure gave credibility to the market in its early stages, it was undesirable in the long term as it would create an inefficient market and would add to the costs of the issue.

Makinson said the question of whether the commercial paper market got off the ground at all would depend on the pricing structures applied by the banks. He said there were a number of issues in the pipeline and that the banks appeared to be taking a pragmatic view on pricing.

Biden anticipated that there would be initial caution among both borrowers and investors towards the use of commercial paper and that there would be a need to educate them about the instrument’s advantages.

BoE will be targeting companies with a net asset value of R100m or more which carry a 50% weighting. The commission it will charge has not been disclosed.
OUTLOOK '92

Unit trust investors could face unexpected

\[ \text{sum mer l d } \]

fund managers
Reserve Bank damper
on the rand

THE Reserve Bank has been buying foreign currency for many months to build up reserves and dampen the rand's growing strength, which has been underpinned by strong current account surpluses.

The foreign asset component of the reserves reached a 1991 high of R2.2 billion in November.

The Reserve Bank intends keeping the rand's real effective exchange rate "on an even keel", says Deputy Governor Jaap Meijer.

**Fall**

This means allowing the rand to depreciate by the inflation differential between SA and its major trading partners.

The real effective rand exchange rate gained in October. It rose 0.7% on September on the Reserve Bank's real rand exchange index to 122.5 points. The index started the year at 122.5.

The increase came after a 6.5% fall in the nominal rand exchange rate in the first nine months of last year. This drop was greater than the inflation differential, causing a 0.6% decline in the real effective rand exchange rate.

Dr Meijer says the bank faces a dilemma: "On the one hand, a strong rand assists our fight against inflation. But on the other, we have to consider a weak economy and do not want to disadvantage our exporters."

**Test**

In 1979, the Reserve Bank's exchange rate index was 100. At slightly above 92, the rand has weakened by about 8% more than can be attributed to the inflation differential between SA and its trading partners. This is due to political factors. The index for 1985 was 74.9 and it remained about this level until 1989.

Sunlife forecasts a slight appreciation in the real rand exchange rate in 1992. The nominal effective exchange rate is expected to drop 6%, which is less than the inflation differential.

Standard Bank treasury assistant general manager Willie Potgieter says the rand could test R2.70 to the dollar while weakening to R2.20 to the pound and R1.90 to the mark in the first quarter of this year.

Mr Potgieter says the US economy is not picking up and the dollar is weak. But he expects White House intervention by the end of the second quarter to strengthen the dollar and reduce the wide interest rate differentials between Europe and the US.

He expects the exchange rate to be R3.00 to the dollar by the end of 1992.
Octodec rides out storm

Octodec, formed by the restructuring of Tumkar and listed in September 1990, performed better than expected in its maiden year, with continued growth forecast.

In the annual report, chairman A Wapnick says that despite the prevailing depressed economy, which manifests itself in the form of increased property-related expenses and a higher rate of vacancies, the property portfolio continues to perform well, in line with its historic track record of sustaining satisfactory yields in periods of recession.

Mr Wapnick predicts that growth will result from the escalation in income from existing leases.

He forecasts a distribution of about R20 million (R19.3 million in financial 1991).

Octodec, listed in the property loan stock sector, comprises a selected portfolio of managed retail, commercial and industrial properties located chiefly in the greater Pretoria area.

There are 84 developed properties in the portfolio, which have have relatively low maintenance costs and were acquired at R147.7 million.

In the year to August, turnover was R23 million and operating profit R18.1 million.

After additional income of R1.8 million, the group was able to distribute R19.3 million, which was about R1 million more than the R18.1 million forecast at the time of listing.

The total return of 40,61c per linked unit, comprising debenture interest of 39,81c and a dividend of 0.80c, translates into a yield of 18.46 percent on the issue price of the linked units.

At the current price of 290c, the shareholder provides an income yield of 14 percent, which exceeds the sector average of approximately 11 percent.

The share price appears to have upward potential in view of the group's credible performance in its first financial year and the expectation that returns will grow in the current year.

COMMENT: Octodec's price rose steeply in the first quarter of 1991 and thereafter rose between 275c and 300c.

The current price is 290c and a decisive break in either direction should indicate the future trend.
What has happened to ethics and morality?

Graham Longott looks at business practices in the new SA
Downward pressure on rates continues

SOLID downward pressure on market rates continued unabated last week with the Reserve Bank still not prepared to loosen its grip and bow to expectations of a cut in key interest rates.

Dealers said the market's mood was far more buoyant after a better-than-expected drop in the annual rate of producer price inflation (PPI) to 7.3% in November from 11.1% in October.

There was renewed optimism for an emerging downtrend in the consumer price index (CPI) which could allow Reserve Bank Governor Chris Stals room for some easing in official interest rates.

With a lot of cash in the market, the Reserve Bank issued two special Treasury bill (TB) tenders in the week — a seven-day R500m tender and a five-day R800m tender.

Dealers said the first special TB tender, issued on Tuesday, received a very disappointing response in the market but the second issue, on Wednesday, was better received. They viewed the special issues as part of the Bank's routine mid-month operations to drain excess liquidity from the market.

In the weekly Reserve Bank Treasury bill tender, a lower average rate of 15.94% was received for the allotted R200m and applications for the tender totalled R69.5m. Dealers said lower rates confirmed the extremely bullish sentiment which had been building up in the market in the last month or so.

The special tenders brought the money market shortage more or less in line with the R1.3bn level at which the Bank is said to favour. Towards the end of the week, the Bank indicated the money market shortage stood at R1.45bn.

On the back of good liquidity levels in the market, the 90-day liquid BA rate eased to 16.15% compared to the previous week's level of 16.20%. Dealers believe the BA rate has bottomed out, saying there will be a kickback in the rate should an imminent official rate cut fail to materialise.

In the capital market, rates were only marginally moved by the PPI figures as the market had largely discounted a drop in the rate of producer price inflation, dealers said. Throughout the week, rates continued to move sideways with the market awaiting the release of fresh data, particularly the release of the CPI data due out about mid-week.
Allied document redrafted, says De Villiers

FORMER Allied Group MD Kevin de Villiers told a Johannesburg magistrate on Friday that an agreement giving a senior executive a 12-month notice term was on a letterhead printed only a month later because the first page of the document had been redrafted at a later date.

The authenticity of the agreement letter has become the central issue in a legal dispute between Allied Group/Abas and former Allied executive Patrick Ronan, whose services were terminated in July last year.

Allied Group/Abas pleaded not guilty last week to contravening the Basic Conditions of Employment Act.

The charge arises from Ronan’s claim that the banking group breached his employment contract by not giving him 12 months notice. Ronan and De Villiers have both testified that they entered into the agreement on March 2 1990.

Abas’s counsel, Danie Cilliers SC, has questioned the authenticity of the document because it is written on an Allied letterhead printed at least a month after the agreement was purportedly drawn up.

The letterhead on which the agreement was typed contains the names of directors elected on March 28 1989.

Under cross-examination by Cilliers, De Villiers said that after endorsing the two-page agreement, he told Ronan to redraft the first page because it contained defamatory and critical remarks about certain named directors. He added that he had also told Ronan it would not be good for his career if a document containing criticisms of specific individuals went on file.

De Villiers questioned De Villiers at length on when Ronan had redrafted the first page. The witness said he could not remember.

De Villiers initially said he did not see the final draft of the first page of the agreement which is now an exhibit before the court.

Cilliers asked him whether, in the light of Ronan’s “wild, irresponsible” manner in writing the first draft, he would have allowed him to rewrite the page without checking it himself.

De Villiers replied that he would have expected Ronan to come back to him with the final draft. He then told the court he could remember seeing the final draft, but could not recall when. De Villiers added that Ronan had been to see him in connection with the letter at least once before he

Cilliers asked De Villiers when he had first become aware of the allegation that the document had been falsified. He said he had first known of the allegation when he read a Business Day report of the trial last Thursday.

Cilliers put the allegation towards the end of his cross-examination of Ronan on Wednesday. Ronan had offered no explanation of how the agreement had appeared on a company letterhead which had not existed on March 2, nor did he mention the redrafting of the first page.

De Villiers said when he read the report he had felt a “degree of annoyance” because Ronan had not explained what had happened. He told the court he had decided Ronan had been confused after a long day in court and had looked forward to testifying himself and “getting the truth straight.”
Estate agents feel pinch

By Frank Jeanes

An estate agent commission war appears to be developing amid the comparatively poor trading conditions in residential property.

Desperate to get business, smaller agencies are reported to be cutting their commission below the seven percent recommended by the Institute of Estate Agents.

The difficult market, too, has forced some go-it-alone agents, who left major groups, to return to the fold as they feel the crunch of increasing overheads.

Scott McRae, MD of the Camdon's Group, says: "It is important to maintain commission levels, even in a depressed market, and we believe the recommended tariff is commensurate with top service."

"In today's world, people get only what they pay for."

Barnard O'Riain, MD of Seeff O'Riain Real Estate, says the national real estate companies have cash reserves to act as a buffer in adverse market conditions.

"We can weather the storm and choose to maintain commission levels and still provide the service expected in the market today."

He believes there could be commission-cutting at the top end of the residential market, which is feeling the effect of the downturn more severely than other sectors.

Owners of these top properties, in many instances, are not achieving the R1 million asking prices so easily in present conditions, and Mr O'Riain sees sellers demanding a cut in commission as inducement to accept lower offers.

Piet Hamman, MD of the De Huizemark-Home Buyers Circle network, advises agents to tighten up on all expenditure and warns that poor financial control in the present economic climate will inevitably lead to insolvencies.

"At present, it is virtually impossible for a single agent to be successful in administering and selling at the same time," he says.

"I know of 10 agents who have started their own businesses in the past few months and have been forced to return to employment in larger companies."

STAR 20/11/92
Downward pressure on rates continues

SOLID downward pressure on market rates continued unabated last week with the Reserve Bank still not prepared to loosen its grip and bow to expectations of a cut in key interest rates.

Dealers said the market's mood was far more buoyant after a better-than-expected drop in the annual rate of producer price inflation (PPI) to 7.9% in November from 11.1% in October.

There was renewed optimism for an emerging downtrend in the consumer price index (CPI) which could allow Reserve Bank Governor Chris Stals room for some easing in official interest rates.

With a lot of cash in the market, the Reserve Bank issued two special Treasury bill (TB) tenders in the week — a seven-day R500m tender and a five-day R100m tender.

Dealers said the first special TB tender, issued on Tuesday, received a very disappointing response in the market but the second issue, on Wednesday, was better received. They viewed the special issues as part of the Bank's routine mid-month operations to drain excess liquidity from the market.

In the weekly Reserve Bank Treasury bill tender, a lower average rate of 16.94% was received for the allotted R200m and applications for the tender totalled R659.5m. Dealers said lower rates confirmed the extremely bullish sentiment which had been building up in the market in the last month or so.

The special tenders brought the money market shortage more or less in line with the R1.5bn level which the Bank is said to favour. Towards the end of the week, the Bank indicated the money market shortage stood at R1.46bn.

On the back of good liquidity levels in the market, the 90-day liquid BA rate eased to 16.15% compared to the previous week's level of 18.20%. Dealers believe the BA rate has bottomed out, saying there will be a kickback in the rate should an imminent official rate cut fail to materialise.

In the capital market, rates were only marginally moved by the PPI figures as the market had largely discounted a drop in the rate of producer price inflation, dealers said. Throughout the week, rates continued to move sideways with the market awaiting the release of fresh data, particularly the release of the CPI data due out about mid-week.
Agents told economy will come right soon

A fillip for the property market has come from political observer Harald Pakendorf, who counters fears of a slump in house prices in the wake of future black dominance in government.

At a meeting of estate agents of the Seeff O’Riain group, Mr Pakendorf, a former editor of the Vaderland, said: “The economy will come right and by March, ANC president Nelson Mandela will put forward a totally different economic policy.”

Quoting from a speech by Mr Mandela in America, Mr Pakendorf said the ANC never doubted the importance of private enterprise as the engine of economic growth.

He also sees American moves for huge reinvestment in South Africa.

Comparing the Namibia scenario with South Africa’s transitional period, he said the aftermath of independence there had resulted in a buoyant property market.

Bearnard O’Riain, managing director of Seeff O’Riain, is equally confident about prospects for the residential market nationally.
Bifsa pleads for housing strategy

A national housing strategy must be implemented now, says the Building Industries Federation (Bifsa).

In its Building Review, compiled by economist Charles Martin, Bifsa says "house building remains in the doldrums with the lower income market the most seriously affected.

Imperative

"Now, more than ever before, it has become critically imperative that an equitable and workable housing policy and strategy be urgently implemented.

"Allied to this, is the introduction of an effective system of local government to administer service and housing related matters."

The federation expects improvement in the middle to upper income housing market only towards the latter half of this year.

Commenting on the "fierce tendering environment" within the industry at present, it says a further significant deterioration in business conditions generally is not expected in the short term.

"Activity levels will rather exhibit a general sideways movement over the next six to 12 months."

Looking further ahead, Bifsa sees the building cycle reaching its lower turning point during the second half of this year. A more sustainable demand for work is expected in 1993 and 1994. A rise in building costs, which have shown a sideways movement during the year, are expected to decelerate marginally this year.
Southern among top performers
Finance Staff (S8)

The Southern Equity Fund recorded an outstanding 42 percent return on lump sum investments for the 12 months ended December 31, placing it among the top performers for 1991. *Stat. 24/1/92*

The second fund in the Southern's unit trust stable, the Southern Mining Fund, achieved a return of 15.5 percent in the specialist mining fund sector.

The market value of the assets under management in the two funds is now R118 million.

New shares introduced in the Equity Fund were Amcoal, Charter, Liberty Life, AVI, Tiger Oats, Consol and Mobile.
SA on the verge of lengthy upswing, says Boland Bank

CAPE TOWN — A substantial and lengthy economic upswing will start this year — and it is time for South Africans to be positive, says Boland Bank chief economist Louis Fourie.

"The current business sentiment in SA seems to be quite negative and at times very vulnerable," says Fourie in the Economic Review.

"An objective evaluation of economic prospects for 1992 does, however, show that the day is breaking and the average South African is on the verge of better times." Fourie points out that a combination of factors, including low consumer spending over the Christmas period, have caused the pessimistic mood.

"This picture was clouded by statistical confirmation that the lacklustre performance of important world economies is due to continue for some time.

"Moreover, domestic socio-political hiccupps and an increasing crime rate created an air of uncertainty not conducive to business confidence."

"Without negating the relevance of these indicators it is important that South Africans start viewing the economy in a more positive light and take cognisance of the changing environment and opportunities offered." Fourie says SA's readmission to "the international economic playground" will increasingly rub off favourably on the domestic economy.
SOUTHERN Life's general equity unit trust, Southern Equity Fund, has disclosed a total return of 42% for the 12 months ended December, making the fund one of the top three performers for the year.

The assurer's specialist mining unit trust, Southern Mining Fund, also achieved a total return of 15.5% for the 12 months, a Southern statement yesterday said.

Southern's GM investments Carel de Ridder was confident about the future of the local economy and stock market.

He said shares should perform "reasonably well" during 1993 as interest rates decline and earnings rise.

However, De Ridder said fund managers would have to adopt a careful approach to selecting investments.

The general equity fund's total assets, based on market value, climbed to R35m to end December from R31m. The fund acquired new holdings in Ancoa, Charter, Liberty Life, AVI, Tiger Oats, Consol and Mobile during the last quarter. It also sold part of its interests in Western Deep, Gencom, Apex, Da Gama, Premier, and Iscor.
Allied/Absa acquitted in dismissal case

A JOHANNESBURG magistrate found yesterday that either former Allied Group MD Kevin de Villiers or dismissed senior executive Patrick Ronan had lied about a letter purporting to be a contract giving Ronan 12 months' notice.

Magistrate R.G. le Roux said the credibility of De Villiers and Ronan as State witnesses was "of such poor quality that no reasonable man could accept it".

The magistrate made this finding when he acquitted Allied Group Ltd/Absa, represented by Allied Group MD Bob Aldworth, of contravening the Basic Conditions of Employment Act.

The charge against the banking group arose from Ronan's claim that he was entitled to 12 months' notice in terms of an agreement purportedly signed by De Villiers on March 2, 1990.

Ronan's services were terminated in July last year shortly after the UBS won its battle with FNB for control of Allied and the subsequent merger of United, Volkskas, Allied and parts of Sage to form Amalgamated Banks of SA (Absa).

Ronan testified that he wrote a letter on March 1, 1990, requesting a 12-month notice period as "protection" because he had felt threatened when his investigation into the Sage-Allied relationship had revealed certain alleged irregularities.

He told the court De Villiers had agreed and endorsed the letter on March 2.

He was confronted under cross-examination, however, by Absa counsel Fanie Cilliers SC, with the allegation that the letter was written on an Allied letterhead which could not have existed on March 2.

He also said Ronan could give no explanation for the letterhead and the court could not accept this had been an oversight.

The court finds that either Ronan or De Villiers must have lied. It is not for the court to decide who is telling the truth or who is lying," the magistrate said.

— Susan Russell (58)
Service charge on unit trusts to be increased

CAPE TOWN — The Financial Services Board has approved a 50% increase in the maximum annual service charge which can be imposed by unit trust management companies, from 0.5% to 0.75% of the total market value of a fund’s assets.

The board’s deputy registrar, Gad Arlovich, confirmed the increase yesterday.

The annual service charge, a percentage of which is levied monthly, is imposed in addition to a 5% initial charge which covers marketing and distribution expenses and which will remain unchanged.

While welcoming the announcement, industry leaders expressed disappointment yesterday that the ceiling was not raised at least to the 1% requested by the Association of Unit Trusts.

They said the service charge covered the escalating costs of administration, portfolio management and regular reporting to clients and was not sufficient to cover costly investments in technology.

“There is a strong case for a higher fee but the industry accepts that a too rapid adjustment could be regarded as inequitable,” association chairman, Clive Turner said. The service charge had been held at 0.5% a year since the industry’s inception in 1985 and even at the new level was well below the average in any other country.

Old Mutual unit trust manager, Peter de Beyer said 0.75% would not give the industry the flexibility and financial base it required. He had hoped the ceiling would be higher so that there could be competition between that level between management companies over fees charged.

De Beyer felt all funds would be financially impelled to move to the maximum 0.75% fee immediately. He favoured no ceiling on condition that management companies were required to disclose their service charges to unitholders.

He said the low level at which the service charge had originally been set was mainly responsible for the slow growth in the number of management companies. He felt the increase was correcting this historical imbalance.
No relief on mortgage rates

By Magnus Heystek

Financial institutions are not contemplating any pre-emptive drop in mortgage rates to revive the residential property market.

"I cannot foresee a drop in interest rates — and hence mortgage rates — before sometime in March this year," Jimmy McKenzie, senior general manager at First National Bank, said yesterday.

"The prime rate, as well as the mortgage rate, will definitely be lowered sometime this quarter," said Mike Volsoo, MD of Standard Bank, adding that the factors influencing the prime overdraft rate also influenced the mortgage rate.

They were approached for comment after news that the three largest providers of mortgage finance in the UK cut mortgage rates to boost the badly battered residential market.

In addition, the UK government last Wednesday abolished stamp duty on all house purchases under £250,000.

The UK residential market has been particularly hard-hit by depressed economic conditions, with more than 80,000 houses repossessed last year.

There has been no let-up in reposessions this year, despite frantic efforts by the authorities to boost consumer confidence.

The UK move follows similar ones in the US, where interest rates have been cut to historic lows in an effort to revive not only the residential property market, but consumer expenditure as well.

The SA property market has held up well, despite recessionary conditions.

Mr McKenzie said the demand for mortgage finance was still strong.

Applications averaged about R180 million a month, with a billion rand worth of loans already approved.

This would push up FNB's home loan mortgage book to about R6 billion, he said.

Mr Volsoo said that although the local property market was static, the competition for business was tough.

"Different financial institutions have different approaches to gaining market share, which makes it a very competitive business."

"But there is no doubt that the banks have been gaining market share at the expense of the former building societies," he said.
Syfrets buys stake in company

FINANCIAL services group Syfrets had acquired a 50% stake in an Isle of Man registered company — Associated Trust Company (ATC) — from sister-company UAL, Syfrets international manager Ian Hamilton announced yesterday.

Hamilton said the deal was settled by the injection of Syfrets' offshore interests into ATC. UAL holds the remaining 50% of ATC. As a result, Syfrets' existing offshore operations, such as its SG International and Disent (trust) funds, have been consolidated under ATC for administrative purposes, he noted.

The move made a lot of sense as we have rationalised our administrative costs and consolidated our interests under one umbrella."

The deal also resulted in a balanced mix of corporate and individual business for the enlarged international arm, he added. Hamilton said UAL was particularly strong in the corporate sector while Syfrets would be able to introduce new private clients to ATC.

Hamilton noted the offshore company's primary business would be to administer the investments of offshore clients and SA residents with offshore funds.
Santam ‘set to produce dividend growth of 15c’

CAPE TOWN — Santam was on track to produce a dividend growth of at least 15c, or 45.5%, to 48c (33c) in the current financial year to end-September, outgoing MD Oosie Oosthuizen said in an interview after the short-term insurer’s AGM yesterday.

If last year’s 2.16 times cover is maintained, this means earnings will grow by at least 45% to 103.7c (71.3c) a share.

In the annual report, Oosthuizen said Santam aimed to achieve a growth in gross premium income of about 20% this year, which after inflation would represent a real rate of growth of about 4.5%. In the last financial year, gross premium income rose 22% to R1.04bn.

Oosthuizen, who retires at the end of March, said that up to end-December it appeared as if there had been an improvement in the loss ratios (claims to premiums) and if this trend continued there would be no further need for a premium increase before October or November.

The improvement, he added, had been brought about by the 1991 premium increases, on average between 20-25% including VAT. Oosthuizen believed the industry generally had benefited from premium increases last year and apart from adjusting for inflation, did not anticipate high increases this year.

He said it seemed car thefts were levelling off, although at a very high level. However, the incidence of burglaries and theft was still very worrying. There had been a marked increase in the value of claims.

Santam’s telephone sales operation Teleplex, which had cost about R4.5m to get off the ground, was in a growth phase and was arriving at the point where it was generating a return on the investment.

Oosthuizen expressed dissatisfaction with the low level of the Santam share price which at yesterday’s close was well below the net asset value of 564.5c at the last year end.

He said short term insurance companies had historically been given a low rating by the market because of their short term nature, but pointed out that the share price only paid for the equity portion of Santam’s investment portfolio, quite apart from its other assets and the growth it generated itself. The investment income could be relied on to provide dividend and asset growth, he said.

At end-September Santam had investment assets of R817m which during the year had generated a pre-tax investment income of R76.9m — a 13.7% rise over the previous year. Cash assets represented 29.1% of the portfolio, fixed interest bearing assets 16.1%, listed shares 33.1%, unlisted shares 1.1% and redeemable preference shares 27%.

Many analysts do not believe the stock market has the potential this year to match last year’s performance, but Oosthuizen said while asset value growth might be affected by the slowdown, he did not expect it to affect the income growth of the portfolio. He was confident that growth in investment income would be maintained and that the ratio of premium to investment income would remain about the same.

Santam actively manages its own investment portfolio concentrating on blue chips and quality second liners. Its strategy is to build up the equity part of its portfolio from its current 35% to over 40%. Insurance companies are legally prohibited from investing more than 50% of their total liabilities in ordinary shares.

After his retirement Oosthuizen will remain a member of the board of directors. Senior marketing GM Jurie Geldenhuyys will take over after his departure.
Local banks urged to expand into Europe

JONO WATERS

SA BANKS should become more international and open branches or subsidiaries in Europe, Reserve Bank Governor Chris Stals said at a Chubb Group function for a delegation of Polish bankers yesterday.

Stals said the changes SA was facing were as formidable as Poland's.

Local banks had been presented with great challenges since they had to re-integrate internationally and in southern Africa, he said. 8/17 22/1/92

Existing banking infrastructure provided the country with an excellent opportunity to extend into Africa.

Stals said the Reserve Bank was interested in the banking structures of Eastern European countries, which had provided for the needs of developing countries.

He welcomed contact with central banks throughout the world.

Poland has about 100 banks, 80 of them private and the other 20 state-owned or partly state-owned.

Stals said he believed trade with Poland would improve, but said businessmen should be modest in their expectations and joked that the bankers were visiting the right people — exporters rather than importers.

In reply, Maciej Dobrzyniecki, the commercial director of manufacturing company Lokata, which builds banks, said the visit would bring about other business opportunities.
Property syndications thrive

PROPERTY syndications are flourishing despite mixed reactions to their financial viability and warnings about the syndicators’ profit claims.

The Metboard property trust group recently announced one of its largest property syndications, an R8.15m development in the eastern Transvaal town of Ermelo.

A total of 815 share blocks are available at the centre at R10 000 a unit. Major tenants are Santam Bank, Spar, Clicks, Lubners and Geen and Richards.

The five tenants account for about 95% of the total income. “With such a large proportion of the property occupied by such reliable and stable tenants, this is a secure investment that is a hedge against inflation,” says investment marketing manager Greg Nowitz.

Metboard investment experts are predicting a 138% cumulative return to investors over the next five years, made up of 68.5% return on income growth and a 67.5% return on capital growth.

Metboard, a wholly-owned subsidiary of Investec, has 21 syndicated properties worth R180m.

In another development, Investdev is to develop 31 townhouses at Naturena, south of Johannesburg. The units will range from R115 000 to R130 000 and, to make the investment more appealing, Investdev has devised a short-term syndication.

Investors, it is claimed, will receive a return of 51% in 15 months.

The syndication calls for a maximum of 50 investors who will invest a minimum of R25 891, with R12 941m required in total from the syndicate. “The development will be owned by a company that will have the individual investors as shareholders,” says Investdev’s Sean Waters.

Once subscribed, the townhouse units will be sold off-plan and on completion the company will be dissolved and investors paid out.

However, profit is based on the units selling at the determined price and within the required time.

Town councillor Theuns Oosthuizen says: “I am in full support of the project, which fills a niche in the market. Firstly, it provides affordable housing and, secondly, townhouse complexes usually provide more security.”

In addition, he believes the influx of people attracted by the development will make it easier to persuade the city council to spend more on upgrading community facilities.

Garvie appointed deputy chairman at Stach Vorster

DERRIK Garvie has been appointed to the new post of deputy chairman at Stach Vorster.

Garvie has worked for the firm of architects for 27 years and recently moved to Johannesburg from the Durban office.

“My main focus is to improve our team architecture approach,” he said.

“This means involving the client in brainstorming sessions where he is involved and identifies with the process, and the solution," he added.

Management would also be more involved in the projects — from the conceptual to the final stage.

Projects where this approach had worked were the Development Bank building in Midrand, the Rand Water Board building, Norwhich Life in Cape Town and the President Hotel in Sea Point, he said.

Garvie has been involved in the design of a number of buildings that have helped develop Stach Vorster’s reputation.

“The Johannesburg office has grown steadily since it was established in 1968 and the need for additional leadership skills was identified,” said chairman Robin Vorster.

“Garvie’s particular design skills, diverse experience and clear understanding of the needs of property investors and institutions will be used to full in the Johannesburg business environment, and will complement those of the existing team,” Garvie said.

Johnannesburg was vibrant and exciting from an architectural point of view, and offered opportunities not available in Durban.
The African Bank has decided to enter the property market in a bid to alleviate the housing crisis in the black community.

**African Bank's new homes plan**

THE African Bank has decided to enter the property market to help alleviate the housing crisis.

Chief executive officer Mr Jack Theron said the bank was concerned about the housing shortage and it wanted to help poor communities to acquire houses.

The bank, through its Homemakers' Plan, would grant loans to applicants in the normal way in which financial institutions lend money to those needing it.

He said: "We will look at every case and consider its merits and demerits. It is our aim to help poor families find a roof over their heads."

"Most financial institutions have burnt their fingers in the property market by lending money to people who at a later stage failed to pay their bonds. We are prepared to take the risk."

The bank would also look at violence, unrest and other problems that might hamstring the building of houses for blacks.

Theron said the past year had witnessed the establishment of a rising number of squatter settlements throughout the country.

Research has shown that blacks who are unable to find a formal house live in the backyards of friends' and relatives' houses or in the servants' quarters of white homes, or in hostels, compounds, or shacks.

It has also been shown that formal black houses have an average of 13 people living in them. The majority of formal houses are rented.

Shacks are more typically a home to black people than formal houses, according to research.

In the PWV region for example, there are 412 000 formal houses, 422 000 backyard shacks, and 635 000 shacks on vacant land.

Theron said: "This clearly depicts the worsening problems of poverty and homelessness in the black community."

"Although important efforts were made by both the Government and the private sector, it appears as if these efforts up to now merely represent a drop in the ocean."

"The ultimate solution to this problem lies not so much in charity but more in the provision of employment with adequate remuneration, to enable families and individuals to build or otherwise provide their own accommodation," he said.

Theron said the bank was committed to the economic empowerment of black people and to "mobilising and recycling the black community's savings by making them available for improving their economic potential."
Blacks take giant step in insurance

By JOSHUA RABOROKO

First major black insurance company in South Africa.

Backed by Fuburasci and two insurance companies, Aegis and Eagle Insurance, the move has been described as a giant step towards black economic empowerment.

Fabcos public affairs manager Mr Mike Nklatlyi confirmed this week that moves were about for the company’s creation.

He would not elaborate because “we are still negotiating with the parties concerned. It will be premature to give details at this stage”.

It was expected that the company would become a reality during this year, he said.

AfriNIC’s managing director Mr Kehla Mthembu also confirmed the move and said: “AfriNIC and Fabcos have acquired the shares with Business and Personnel Insurance to establish a major insurance company.

“At this stage we are still talking to interested parties on how the company will be restructured. The company has to be approved by the Financial Services Board, which has been kept informed of developments.”

Eagles deputy managing director Mr Peter Moss said his company and Aegis were holding talks with Fabcos and Fuburbank to form the first black-controlled insurance company.

Both Eagle and Aegis would have 24 percent control while the rest of the shares would be controlled by Fabcos and Fuburbank.

They have been included because of their experience.

Both insurances have strong black market connections and between them handle most of the black taxi insurance business, Moss said.

He said the vehicle for the establishment of the company will be BPI, which would be the base to train and educate staff on the insurance market.

He regarded the move as one of the first steps towards black economic empowerment and added: “It will be exciting at this time in the history of South Africa to have a black-controlled insurance company.”

He estimated that the whole project would involve a capital of R4 million, but no finality had been reached as “we are still talking. The company would be launched this year.”

BPI said arrangements had not been finalised. The issue was at this stage “sensitive.”

It is understood that BCC’s contribution will be mainly in the specialised areas of construction and electronic underwriting.
Republic gives Absa Bank top rating

ABSA Bank has been given the thumbs-up by Republic Ratings—scoring a top risk rating for its unsecured short-term debt commitments.

Republic Ratings, an independent private sector body which assesses risk ratings of both corporates and banks, yesterday announced that the A1+ rating achieved by Absa Bank was the highest possible rating that could be accorded to short-term debt instruments.

It implied Absa had an extremely strong capacity for timely repayment of principal and interest on its short-term debt.

Profitability of Absa compared favourably with other major banks and this would improve over the medium-term when the cost savings from the current rationalisation programme materialised.

Republic Ratings considered the quality of the bank’s assets as good because the majority of its advances were in residential mortgages—traditionally low risk assets.

Republic Ratings director Leon Claassen said: “This may change in the near future. Maintaining the quality of its assets is a key factor in maintaining and improving profitability in the short-term.”

Absa’s relatively stable funding base with a large retail component had also contributed to the rating.

Its funding book is fairly long with approximately 20% of deposits maturing over the long term.

“This policy may impede profitability with a lowering of interest rates but adds to the stability of the funding base,” Claassen said.

Debt ratings of banks were an important step in the development of a more sophisticated financial system, he added.

“The integration of world financial markets caused formal debt ratings to gain prominence internationally and ratings are regarded as essential to debt issuers: contemplating borrowing or establishing dealing lines in the international financial markets,” Claassen said.
Changes sought for banks Act

CAPE TOWN – Finance Minister Barend du Plessis has asked Parliament to raise the thresholds for the official approval of increased shareholdings in deposit-taking institutions.

Du Plessis said in a Bill to amend the Deposit-Taking Institutions Act of 1990 that the original thresholds were “unrealistically low”.

He proposed that the initial level at which approval of the registrar of deposit-taking institutions was required should be raised from 10% of an institution’s shares to 15% and the second threshold from 17.5% to 24%.

The threshold for approval by the Finance Minister would go up from 30% to 40% and buyers should obtain the Minister’s approval again to raise holdings above 74%.

The Bill also proposes changing the provision requiring the full board of directors to approve every large exposure by a deposit-taking institution. It provides for a credit committee appointed by the full board specifically to vet large exposures.

Du Plessis proposed that the definition of deposits should be amended to clearly exclude contributions to “registered friendly societies, registered medical schemes and bona fide sickness, accident or unemployment benefit funds”.

The Bill also clarifies the role of money brokers by including them in the definition of the business of deposit-taking institutions on condition that such an institution is always the borrower in the relevant money-lending transaction. — Reuter.
**COMPANIES**

**Kanhyms, Fedfood set to merge**

THE merger of food groups Kanhyms and Fedfood would be implemented in May, Kanhyms executive chairman and CE, D. Jacobs said yesterday.

The merged group would have turnover of more than R2.2bn and total assets exceeding R1.1bn. B 1992-23/11/92

Jacobs said a merchant bank would be commissioned to evaluate the two groups after the publication of Fedfood's results for the year to March and Kanhyms' results for the six months to February.

He added that the merger of the two groups would be done on the basis that there was no dilution of earnings for either party. Analysts say the merger will involve a share swap and a cash alternative.

After approval by shareholders of both companies, the merger would be implemented by May, Jacobs said.

He said that after the rationalisation of the head-office structures of the two groups, which would save about R6m in overheads a year, there were no immediate plans to rationalise operations within the merged entity.

However, market sources said packaging group Hoidans, which is controlled by Malibak, was interested in Fedfood's packaging operation, Quix Packaging.

Quix Packaging is a producer of packaging material, mainly for Fedfood's snack division Simba, which sells over 640-million packets of snacks a year.

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**Govt pension funds may buy IDC's Sasol rights**

ANALYSTS expect the Industrial Development Corporation (IDC) to sell its rights from Sasol's Riba rights offer to state pension funds.

The IDC, which sold 10% of Sasol shares to state pension funds for about R250m last year, holds 20% of Sasol's equity. Selling its rights in the planned Sasol rights issue would net the IDC about R260m.

Sasol announced last week that it will proceed with a rights offer of convertible debentures to raise funds to meet its cashflow requirements and be in a position to promote future business opportunities of subsidiaries.

An analyst said yesterday that the IDC was most likely to sell its rights to the government pension funds.

He added that since pension funds do not pay tax, the debenture issue would be very attractive for the pension funds since it offered a "tax-free investment".

"Government pension funds will get good income from the debentures. Also the debentures are attractive since they convert into ordinary shares at some stage," IDC senior GM Malcolm Macdonald said that no decision had been made on the Sasol rights issue, adding that the matter would be tabled at the next board meeting.

Regarding the sale of other IDC shares investments, including the remaining 20% of Sasol, a 16% stake in Iscor and smaller ones in Sappi and Sentrachem, Macdonald said that at present the IDC had generated substantial amounts of capital and these would take some time to invest.

Depending on the IDC's funding requirements it would consider the best way to sell these share investments. Last year's deal with government pension funds had been done without disturbing the market for Sasol shares, Macdonald said.

On the remaining Sasol stake, Macdonald said that it was unlikely that any one institution, including the state pension funds, would increase their exposure to Sasol significantly.

Macdonald would not discount a possibility of foreign investors buying some of the IDC's share investments.

Most of the IDC's funding requirements will arise from its R1bn investment programme in projects worth about R3bn over the next five years.

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**Life assurance market "to stay difficult"**

CAPE TOWN — The market for new life assurance business would remain difficult in 1992 as it would take time for consumers to benefit from the economic upswing, said Metropolitan Life chairman Willem Pretorius in the company's annual report.

However, he expected premium income and dividends to continue to grow.

The unfavourable economic climate last year was apparent in the high number of policy surrenders which rose to 12.1% from 11.2% of premium income.

Metropolitan's Dynamic Life range of products accounted for more than 90% of premiums for new individual business sold during the year to end-September. The products are aimed at professionals, civil servants and people in protective services.

About 21% of total premium income came from group life, provident and pension fund business. Recurring premium income rose 25.3% to R656m and investment income by 16% to R377m.

Highlights of the year were the rights issue of 22.4-million shares at 90c a share which raised about R186m and the purchase of a 17% stake in African Bank.
new deal for storks
Reserve Bank sets out $50 billion plans to

[Paragraph text not legible due to image quality]
Natrust's investments soar 52% (58) 24/11\textsuperscript{th} 12

Natrust, the Senbank-managed investment trust which was listed last year, increased the market value of its investments by 52 percent to R106.54 million from R70.46 million in the year ended December 1991.

Net asset value per share calculated on the market value of investments was 394c (250c) at the year-end.

The dividend has been increased by 19.5 percent to 6.7c (5.6c), compared with the compound growth of 19 percent over the past five years.

Net profit rose 9 percent to R2.47 million (R2.27 million) but tax and a one-off extraordinary item (the cost of listing) reduced this to R2.05 million (R2.15 million).

Earnings per share rose by 7.5 percent to 8.4c (7.8c), a shade better than the pre-listing statement projection. — Sapa.
SOUTHERN Life's pension and provident fund investment vehicle — Southern High Opportunity Portfolio — grew by 37% to R40m for the year ended December, GM Investments' Shams Pather said yesterday.

Pather noted the fund's performance far outstripped the average inflation rate for the year and the gains achieved by the all-share and all-bond indices. He added the fund, which is available to pension and provident funds, was 85% invested in equities, 15% in money market instruments and 9% in fixed interest investments.

**Investments up**

NATRUST, the Standard Bank-managed investment trust listed on the JSE last year, increased the market value of its investments by 32% to R106,842m from R79,454m in the year ended December 1991.

This compares with the 31% compound growth rate over the previous five years.

Net asset value per share was 334c (265c) at year end. The dividend was raised to 6,7c from 5,6c.

A statement from the group said net profit rose to R2,472m from R2,266m, but tax and an extraordinary item reduced this to R2,052m.

Earnings a share rose 7,5% to 8,4c.
Sage Life MD makes a surprise move to Fedlife

SEAN VAN ZYL

IN A surprise move, Sage Life MD Morris Bernstein has been appointed MD of Fedsure's life company Fedlife, a statement released yesterday by the assurer said.

Bernstein said his new appointment would be effective from early February. He said the move was not a reflection of any discontent with the Sage group, but that he had been made "a very attractive offer by Fedsure which I would have been crazy to turn down".

Sage chairman Louis Shill said he would resume responsibility for the day-to-day running of the group's life office.

Bernstein was appointed MD of Sage Life in September 1992 after a brief spell in Australia. Previously, he held the position of deputy CE of Southern Life.

Fedsure CE Arnold Basson said recent developments had made it necessary to separate the responsibilities of group CE and Fedlife MD. Bernstein previously handled both positions.

Fedsure recently announced an equity swap deal with the Investec group which essentially resulted in the two groups becoming cross shareholders, with significant stakes in each other. Fedsure also acquired about 30% of the issued share capital of Saambou last year.

As a result of these and other steps taken in financial services, Basson said Fedsure had become a diversified financial services group with Fedlife forming its core business. He said Bernstein's appointment would allow him to concentrate on recent developments with Investec and Saambou and look at maximising the synergies between the different groups.

"His appointment will significantly strengthen our executive management team. It will also enable me to concentrate on the strategic positioning of the group and to optimise the benefits arising from our recent strategic alliances," he said. Fedsure also intended to expand its interests abroad, although there were no developments currently in the pipeline.
Money supply growth rate still shrinking

The growth rate of money supply is still shrinking.

Figures released by the Reserve Bank yesterday show the preliminary annualised estimate of the increase for the broadly defined M3 in December was 12.42 percent, well down on November's 14.48 percent and the year's peak in October of 15.75 percent.

The sharp drop brings the growth rate well within the targeted range set by the Reserve Bank of 11 to 15 percent.

Unadjusted M3 was R138.4 billion in December (R183 billion in November).

In November, the narrowly defined M1A rise was 21.58 percent, M1 was 24.17 percent and M2 21.21 percent. — Sapa.
Simón Blandón: economicist of genius

1996 was an important year for the Colombian economy. The country was emerging from years of political instability and economic depression. Simón Blandón, an economist, played a crucial role in the government's efforts to stabilize the economy and prepare for the future.

Blandón's economic policies were designed to attract foreign investment and promote economic growth. His strategies included implementing structural reforms, reducing inflation, and implementing a series of financial and fiscal measures. These efforts paid off, and by the end of his term, the country had achieved significant economic progress.

Blandón's work with the economic reform known as the "Plan Blandón" was widely praised. The plan involved measures to reduce government spending, liberalize the economy, and open it up to foreign investment. This helped to attract foreign investment and promote economic growth.

Blandón's economic insights and policies have had a lasting impact on Colombia. His work has inspired successive generations of economists and policymakers, and his legacy continues to influence Colombia's economic development today.
Foreign control of banks may get nod

THE way will be cleared for foreign banks to control SA financial institutions if proposed legislative changes are approved by Parliament this year.

Two separate proposals in the Deposit-Taking Institutions Amendment Bill would make it easier for foreign financial institutions to buy significant, even controlling, shareholdings in local institutions, a Reserve Bank spokesman said yesterday.

If approved, the one proposed amendment would place foreign banks on an equal footing with SA banks by allowing them to buy controlling interests in local banks if the registrar of deposit-taking institutions approves. Under existing legislation they have to establish a public company through which to buy control.

The Reserve Bank was considering an application by a foreign parent to increase its stake in a local subsidiary, the Reserve Bank official said. He would not disclose the identity of either party.

The other amendment will relax the levels at which all investors need official approval to increase their stakes in deposit-taking institutions. At present investors have to get the registrar’s approval to increase investments in financial institutions to more than 10%. His approval has to be sought again when additional purchases push investments above 17.5%.

LESLEY LAMBERT

If investors plan to exceed 30%, or 49% in the case of financial institutions, they have to get ministerial approval. Exceptions were made when Sanlam increased its holding in Bankorp to 50% and Old Mutual increased its stake in Neder to 53% when the banking groups needed financial support.

To bring the limitations in line with international banking regulations, the Finance Department proposes an increase in the levels to 15%, 24%, 49% and 74%, respectively. If implemented, any pressure on Sanlam and Old Mutual to reduce their stakes in the banking groups might fall away, a banking analyst said.

These amendments could give investors greater flexibility in their investment strategies. They could, for example, enable Absa to complete its rationalisation without falling foul of Act’s requirements. An Absa official said yesterday it would be premature to comment.

The Reserve Bank reported recently that foreign banks were showing increased interest in establishing representative offices in SA. The Bank of Taiwan will be one of the first foreign deposit-taking institutions to establish a bank in SA when it starts operations this quarter.
M3 growth drops for third month

GROWTH in M3, the broad measure of money supply, showed a year-on-year drop for the third consecutive month, easing to 12.4% in the 12 months to December from a revised 14.5% in the year to November.

Figures released last night by the Reserve Bank showed the annual rate of growth in the M3 aggregate, which consists of cash in circulation and all deposits with banks, had slowed to its lowest rate in 12 months.

The M3 growth rate from the base of the guideline year also slowed, to 13% in December from November's 15.7%. It is at its lowest since the Reserve Bank set its guideline range for base year growth of 8%-12% early last year.

Distortions caused by the provisions of the Deposit-Taking Institutions Act swelled monetary aggregates in the first quarter of this year and are primarily responsible for the base year growth rate overshooting its guideline range.

Nedbank chief economist Edward Osborn said neither the year-on-year nor the base year growth rate for M3 was strictly accurate in view of the Act's distortions. The Act's provisions boosted M3 by R3bn-R3bn as from February 1991.

Osborn said a truer impression of monetary expansion was established by annualising the M3 growth rate from February. By this measure, M3 was growing by 8.3% excluding the Act's distortions.
Investors to get Masterbond payouts

SHARON WOOD

MASTERBOND investors would soon receive payouts for their participation bond and money market investments, Japie Jacobs, special economic adviser to the Finance Minister, said in a statement yesterday.

The decision followed discussions yesterday between the special task force appointed by the Finance Minister and the Masterbond curators.

"From these discussions it appeared that the curators are now, in terms of the court order under which they are acting, able to take certain steps," Jacobs said.

The curators will pay investors with participation bond schemes their interest payments for November and December 1991. Investors in money market schemes will receive capital and interest payments. These payments will be posted to investors shortly.

Jacobs said it was unfortunate that some investors in the participation bond schemes would not receive interest because the projects in which their money was invested did not yield interest.

"The curators are doing their utmost to serve the interests of investors in the debenture bond schemes. For various reasons capital and interest will not be paid to investors for the present," the statement said.

The curators will submit a full report on the Masterbond group to the Cape Supreme Court on February 12.
Seeff's futures market plans 'well under way'

SEEFF Trust planned to move into the futures and options market and preparations for this were already under way. Seeff Organisation Holdings chairman Lawrence Seeff said: "The operation will be dealing with broking, futures and options and should be operational by June, he said in an interview yesterday. "In addition, we will be setting up a portfolio planning and financial management division." However, this would take time. "Our goal is to become a merchant banker in the next five years."

The primary motive for his move from Cape Town to Johannesburg was to become involved in the financial services division, which falls under Seeff Trust, and to look at the development of Transvaal syndications. Syndications were already a billion-rand business and were set to grow to between R3bn and R4bn in the next few years. The Seeff Trust scheme, whereby assets were used as security for finance in syndications, would be used here. "This scheme never got off the ground in Cape Town as we could not find the correct property. We have appointed two CAs as Transvaal syndication managers," Seeff said.

On criticism that syndications were seen as overvalued and bought for more than their worth, Seeff said this was true, but market determined. "Demand for these prime properties has increased and this has resulted in the properties being sold at a lower yield, but this is only in response to market demand."

There was a possibility that the group would list in the future to allow directors and staff to hold shares in the company. The group had no debt and therefore did not need to list for this reason, Seeff said. In addition, before possible listing, the group was looking at full financial disclosure, probably as early as the year to end-February 1992, he said.
Pensioner to challenge SA Perm

BRENDAN TEMPLETON

A PENSIONER believes he may be able to hold a major building society responsible for the losses he incurred by being advised to invest in the failed company, Masterbond, because of the batch of documents mysteriously sent to him through the post.

The pensioner is Ray Netto (62). His R120 000 in savings and his dream home are at risk because he bought short-term bonds via the SA Perm Building Society. He believes that the documents, posted anonymously to him a day after his tale of woe appeared in a Johannesburg-based finance magazine, provide the evidence he needs to prove that the building society is liable for his losses.

A clause in the Deposit Taking Institution (DTI) Act states: “A DTI shall not, for the purpose of effecting a money-lending transaction directly between a lender and a borrower, perform any act in the capacity of an agent.”

The documents show that the Perm actively sought out Masterbond, applying for appointment as agent to the company.

Mr Netto, of Isando, was surprised to see himself referred to in the documents as “obscene, obnoxious, persistent, very religious and a wheeler dealer”.

They also show that the SA Association of Retired Persons and the Post Office recommended that their members and clients invest in Masterbond.

Mr Netto’s claim is untested, but, if it holds water.

TO PAGE 2
Investments can attract varying tax liabilities.
230,000 ignore the risk of bad debts

ONLY 5% of South African companies are insured against debtor losses — in spite of the dismal state of the economy and the rising number of liquidations.

About 11,150 companies have taken out credit insurance or credit-risk protection. But about 230,000 businesses probably need this cover.

Company liquidations increased by 45% in the three months to last October and insolencies rose by 34%, according to Central Statistical Services.

In recent months, however, businesses have become more aware of this type of cover. Only a few years ago, it was virtually unknown in SA.

Credit Guarantee Insurance Corporation (CGIC) offers domestic and export cover and Credit Underwriting Agency (CUAL), a member of Commercial Union, covers the domestic market.

Johan Engelbrecht of Profitguard Insurance Brokers says there has been a sharp increase in the number of businesses inquiring about this form of insurance. It effectively protects companies against bad debts, can be used as an additional method of raising funds and can be considered an asset in the case of a company that changes hands.

BY DON ROBERTSON

In a typical instance, CGIC or CUAL will underwrite up to 80% of a company's debtor book at a fixed premium, renewable annually and zero rated for VAT.

The premium will depend on the "age" of the book and the creditworthiness of the debtors, all of which will be established by the insurance companies and treated confidentially.

Depending on any increase or decrease in the size of the book, the premium, perhaps 0.25% of the total value, will be charged.

Accounts are monitored monthly and advice can be offered on debt collection.

In the event of a debtor company facing collapse, both CGIC and CUAL will pay out on provisional liquidation.

A company wishing to raise capital on the strength of its debtor book is traditionally restricted to 50% of the total value. But with credit insurance, it can be increased to as much as 90% of the debtor book's value.

In most instances, the premium for credit insurance is less than a possible debt write-off.

Shareholders in CUAL are Commercial Union and CreditInform. CGIC is backed by most commercial banks and insurance companies. Political risks are covered by the Department of Trade and Industry.

In the year to June 1998, CGIC collected premiums of R18.5-billion compared with R2.5-billion in 1991 and paid R62.8-million in claims compared with R2.8-million.
FOREIGNERS who believe they need not pay tax on interest earned from deposits in South African banks are in for a shock. The Receiver of Revenue says their interest is taxable.

Sources in three of the biggest banks expressed disbelief this week that the law allowed foreigners' interest to be taxed. They say it has not been taxed since the abolition of the 10% withholding tax on non-residents' interest earnings in March 1988.

The tax authority has not tried to collect tax on non-residents' interest since then.

But Commissioner for Inland Revenue, Hannes Hattingh, confirms that his department is tapping this new source of revenue.

We are only applying the law which states that if the capital on which the interest is earned was made available in SA it is subject to tax no matter where the investor lives," he says.

Depositors in countries with double tax agreements with SA — they include the US, the Netherlands and Switzerland — are subject to a tax of only 10% on interest earnings.

But foreigners from countries with which SA has no double tax agreement — they include the US, Greece, Portugal, France, Italy, Japan and Australia — are taxed at the full marginal rate of 45%.

Biggest

Inland Revenue law application director John Hansen says: "People do not seem to realize that the 10% withholding tax was merely an advance which could be set off against normal income tax, which is also payable on interest paid.

A tax expert says Mr. Hansen's statement is in line with the judgment in the Lever Brothers case where it was held that the source of interest is deemed to be where the capital was made available.

Business Times knows of 12 cases where the Johannesburg Receiver of Revenue has demanded tax on interest earned by foreigners. One is a diplomat who was once stationed here.

Another foreign depositor has been billed for more than R130,000 tax on his interest earnings of about R320,000 in the 1991 tax year. This reduces the interest on his deposit from a pre-tax 17% to under 10%.

All 12 depositors have accounts at a Johannesburg branch of a small bank which has links abroad. The branch manager says the Receiver instructed him this month to withhold whatever sums are necessary from the accounts of the depositors to pay tax.

"They picked our biggest
New currency to be released

A NEW set of currency notes will be introduced soon. General manager of administration at the Reserve Bank, Daan Naude, says the first new R50 notes will enter circulation in October and the new R20 and R10 notes will follow at six-monthly intervals. New R100 and R200 notes will not be circulated until April and October 1994. The R5 note will be replaced by a coin in 1994.
BLACK banking in South Africa takes a giant leap forward this year when the African Bank changes its status from being a general to a commercial bank.

Addressing a press briefing in Johannesburg this week African Bank chief executive officer JCD Theron said the decision was a result of clients’ growing need for commercial facilities.

He said: “The demand for both cheque account facilities and commercial facilities in the black community is enormous.”

However, Theron said because of the high cost and risk involved in operating both commercial and cheque-account facilities, the bank would be selective in the initial stages.

Wouldn’t the bank face a capital shortage problem during change-over?

Theron said such shortages in the banking world were always a problem but his bank was supported by numerous financial institutions.

“However, we would like to keep black people as majority shareholders for as long as possible,” he said.

Despite a continued economic decline in the country, Theron said the African Bank did fairly well during the past year and that for the third consecutive year growth was reported in critical areas.
INSURING high-risk riot and political damage has proved rewarding for SA Special Risk Insurance Association (Sasria).

Sasria earned R400 million in premiums in 1991, but met claims of only R100 million.

Many short-term insurance companies suffered underwriting losses last year.

Since inception in 1979, Sasria has received about R2.4 billion in premiums and spent only about R650 million to cover claims and expenses.

It has another R100 million in reserve to cover claims incurred but not yet reported.

Sasria managing director Willem Swanepoel says it has never suffered an underwriting loss.

Enormous

Sasria provides cover for damage arising out of political unrest and riots.

Mr Swanepoel says it would be impossible for other short-term insurers to provide such cover because the risk is too high and cannot be actuarily analysed.

Enormous reserves are required for high-risk insurance.

Mr Swanepoel says it is necessary to have 30 years' premiums in reserve. No insurance company could afford that much money.

The difference between Sasria and other insurers is that it has the backing of the Government, the insurer of last resort.

Mr Swanepoel says that if Sasria were to incur an underwriting loss, the Government would provide the balance. Sasria has not had to ask for State money.

The Government guarantee is the only reason Sasria can operate. It is dangerously underfunded with reserves of only R3 billion - seven years' premiums, says Mr Swanepoel.

The maximum a person may insure for is R250 million - 15 such claims would wipe out the reserves.

Sasria started with nothing and has acquired its reserves from premiums and income from investments.

Sasria invests in equities, gilts and semi-gilts, all of which are fairly liquid. Its investments are governed by the same rules and regulations as the rest of the short-term insurance business.

Government guarantees keep premiums at affordable levels. Mr Swanepoel says it costs R15 a year to buy riot cover for a motor vehicle, irrespective of its value.

The cost of annual cover for commercial property is 0.075% of its value. Premi- ums on private property are 0.015% of value. It would cost R15 a year to insure a R100 000 house.

Sasria is obliged to insure all political risks and is not allowed to withdraw the cover.

Lloyd's of London, another insurer carrying high risks on a large scale, is not obliged to provide cover. It can withdraw cover at short notice.

Lloyd's withdrew cover for ships in the Persian Gulf during the war last year.

Sasria is run by a board of 10. Two are government representatives and the others members of the short-term insurance business. None of the members has a proprietary interest in Sasria.

Because there are no shareholders Sasria does not have to pay dividends and can plough all money back.
Liberty's R1bn milestone

The Liberty Life group continues to show impressive new-business figures. At R1.1 billion, they exceeded R1 billion for the first time in the year to December 1991. This was an improvement of 18.5% on 1990.

New individual recurring premium business increased by 24.3%. This is the most important indicator of the marketing success of any life insurer and is particularly good in the light of the recession. Within the group, Charter improved by an incredible 54%.

A major contributory factor was the success of Liberty's Medical Lifestyle policy, launched last August. It produced more than R60 million. This package is unique and one of Liberty's most successful innovations.

Another high-growth area was single-premium group pensions business, up by nearly 50%. This contrasted with static new business from group pensions which suffered from the recession.

The figures exclude the investment business of pension funds done through Liberty Asset Management. That exceeded R600 million for 1991.

The group figures include Charter Life, which has been refocused. It is concentrating on special lines of credit life assurance, direct marketing and packaged products sold through brokers.

Although 1992 has only started, indications are that Liberty group will continue the encouraging trend.

Liberty's profit figures will be published in a few weeks.
New premium income up at Liberty

Finance Staff 27/11/92

Liberty Life has reported a 24.3 percent increase in single new premium income in 1991.

Joint Liberty managing director Dorian Wharton-Hood said at the weekend the major contributing factor to the increase was the medical lifestyle product, which was launched last August.

Total recurring premium income came to R254.4 million. In 1990, recurring premiums totalled R408.8 million.

For single-premium business, group business income surged by 56.7 percent from R155.2 million to R247.8 million.

However, annuity premiums were slightly lower at R265.2 million, compared with R72 million in 1990.

Total new business came to R1.67 billion -- an 8.5 percent rise on the 1990 figure of R931.6 million.
Post Office bank exempt from deposits Act

CAPE TOWN — The Post Office Savings Bank has been exempted from the provisions of the Deposit-Taking Institutions Act in terms of a notice in Friday's Government Gazette and will not have to comply with the DTT's prudential requirements.

The notice also extended the exemption of funding by repurchase agreements by stock brokers and financial instrument traders and principals for a further year.

A Reserve Bank spokesman said the exemption of such funding was originally intended to last only until proposals for levelling the playing fields between financial institutions had been formulated by Finance Minister Barend du Plessis's special economic adviser, Japie Jacobs. As Jacobs' report was still pending, an extension of the exemption was necessary, he said.

The spokesman said the Post Office Savings Bank had been exempt from the provisions of the DTT in view of the fact that its funds were used to meet the Post Office's capital requirements.

The state was the sole shareholder of the bank which was regarded as a safe institution with a wide spread of small investors.
THE MONEY MARKETS

Inflation dashes hopes of lower rates

By Sheridan Conway

A lower year-on-year deficit -

The government's attempt to

reduce the budget deficit by

raising taxes and cutting

spending is receiving a

mixed reaction from the

market. Some economists

predict that the measures

will succeed in bringing

down the deficit, while

others warn that they

could lead to a slowdown

in the economy.

On the positive side, the

government's efforts to

raise taxes will help to

reduce the budget deficit,

but they will also put

up pressure on consumer

spending. On the negative

side, the government's

cuts to public spending will

reduction in government

spending, which could

lead to lower growth in the

economy.

The market's reaction to

these measures will be

important in determining

the future course of rates.

If the market believes that

the government's efforts

will succeed in reducing

the deficit, then rates may

fall as investors become

more confident about the

economy's prospects.

However, if the market

believes that the measures

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In the end, the

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More improvement in Genbel earnings

By Sven Lünscher

Genbel, Gencor's investment arm, which was one of the major contributors to Gencor's bottom line last year, continued to show an improvement in earnings and dividends in the six months to end-December.

Announcing the results yesterday, Genbel MD Anton Botha said the group would be going to the market soon for additional funds to participate in various projects planned by Gencor subsidiaries.

In the interim period, Genbel's distributable income rose from R74 million to R82 million, equivalent to a rise in earnings per share from 17.1c to 19c — an increase of 11 percent.

The interim dividend was raised by the same level from 13.5c to 15c.

The increases were achieved despite the declining earnings from Genbel's mining and resources companies, which accounted for about 44 percent of the group's assets at year-end.

The lower earnings from mining-related companies, however, reduced the value of Genbel's portfolio to just under R8 billion at the half-year, compared with R3.2 billion at the end of June 1991.

Mr Botha said that Genbel had been actively realigning its assets in recent years from low-growth gold shares into other resource-based equities with better prospects.

As a result, it had acquired significant interests in platinum counters Impala and Rustenburg and paper group Sappi during the interim period.

The value of Genbel's assets at the end of December was equivalent to 69c a share, which compares with the market price of 70c at the same time.

Looking ahead to the full financial year, Mr Botha expected Genbel's earnings and dividends to exceed those of the 1990/1 fiscal year.

He said the group's short-term trading subsidiary, Union Investments, had declared a dividend of R15 million — up from R12.5 million in 1990 — and should declare R25 million for the full year, compared with 1990's R20 million.
Anglovaal companies going to market for R135 million

Finance Staff

Anglovaal has announced the terms of the rights offers by its financial and insurance companies.

The four companies will raise a combined R135 million, although the two pyramid companies, AVF Group and Avins, will use their funds to follow their rights in the Crusader Life and AA Life offers and the share issue of UK-based associate group Pegasus.

The AVF Group will raise R43 million by offering 31 new shares for every 100 ordinary shares held at 140c a share.

The two major shareholders — Anglovaal and Absa Merchant Bank — have undertaken to follow their rights, while Anglovaal will also underwrite the issues.

Avins, the immediate holding company of Crusader and AA Life, is offering 63 shares for every 100 shares held at 58c each.

This will raise R37 million and will allow Avins to take up its rights, as well as invest R8 million in the Pegasus share issue.

AA Life, which is not listed on the JSE, plans to raise R26 million, while Crusader Life is issuing 47 new shares for every 100 held at 210c for its R20 million issue.

The issue prices are on average about 10% below the ruling share price of AVF, Avins and Crusader on the JSE.
Anglovaal spells out terms of offer

THE Anglovaal Group has announced the terms of the rights offers to be undertaken by its financial and insurance companies.

In terms of these offers the AVF Group will raise R43m, Avins R46m, Crusader Life Assurance Corporation R20m and AA Life Assurance Association R26m.

However, AVF will use R40m to follow its rights in Avins which, in turn, will use R37m to follow its rights in the Crusader Life and AA Life offers.

In order for AVF's two indirectly held operating subsidiaries, Crusader Life and AA Life, and its overseas-based associate, Pegasus Assurance, to continue with their projected growth paths, additional capital was required, Anglovaal said in a statement on Friday.

The new capital would reduce the necessity for reinsurance financing, thus increasing the embedded value of the business written with ultimate additional long-term benefits to shareholders.

Avins, the immediate holding company of Crusader and AA Life, intends to follow its rights in respect of the rights offers by Crusader Life and AA Life and to participate in a Pegasus share issue, the Avins portion of the latter with a total of R8m. AVF will, in turn, follow its rights in respect of the Avins offer and the funds raised will be used to provide for its own needs.

AVF Group ordinary shareholders will be offered 31 new ordinary shares for every 100 ordinary shares held at a price of 140 cents a share, 55 cents below Friday's ruling price. The two major shareholders - Anglovaal and Absa Merchant Bank - have undertaken to follow their rights to the 21 274 943 new shares which will accrue to them, with Anglovaal underwriting the balance of the offer.

Avins' ordinary shareholders are to be offered 63 new ordinary shares, for every 100 shares held at a price of 50c each. This compares with Friday's market price of 65c a share.

AVF Group has undertaken to take up its entitlement of the new shares, the balance being underwritten by Anglovaal.

Crusader Life ordinary shareholders will be offered 47 new ordinary shares for every 100 held at a price of 210c each. Cruslife closed at 340c on Friday.

Holding company, Avins, has undertaken to follow its rights with Anglovaal underwriting the balance.

All three rights offers will be made to shareholders registered on January 31 and the companies' share registers will be closed from Monday, February 3 until Friday, February 7 1992, inclusive.
Liberty’s income up sharply

THE Liberty Life group’s total new business for the year to end-December climbed by 18.5%, pushing new premium income through the R1bn mark to R1,1bn.

Liberty Life group joint MD Mark Winterton said yesterday the group was “extremely happy” with the growth in new business, particularly in light of the poor economic conditions which prevailed during the year.

The life office’s new recurring premiums for the year rose by 18,1% to R482,4m (R408,6m), boosted largely by its individual recurring business, which came in at R391,3m (R315,3m). However, group recurring premiums dropped by 3% to R90,5m (R93,3m).

The assuree’s total single premium business for the year climbed to R521,2m (R523m) with group-business showing the highest growth of 59.7% to R247,4m (R158,2m). Single individual premiums climbed by 13% to R199,2m (R176,5m) while annuity purchases dropped marginally to 185.2m (R175m).

Winterton noted Liberty’s strong growth in new business had been boosted by the launch of its Medical Lifestyle product in August last year. In the five months since its introduction, the medical product has generated about R60m in premiums for the group.
UK fund managers shun SA investment

SHERIDAN CONNOLLY

ONLY one in 20 UK fund managers are in favour of investing in SA despite improving commercial opportunities and a widespread recognition that SA companies have some of the best management in the world. [2-11-92]

These were the findings of a survey published today by Financial Dynamics, a leading UK financial communications consultancy, which showed that uncertainty and acute lack of confidence continue to hold back UK investments in SA.

The survey found that given the size, importance and growing potential of the SA market, UK fund managers were far more reluctant to invest in SA than were stockbroking and corporate finance communities.

Commenting on the survey, Financial Dynamics' CE Nick Miles said he viewed the expanding SA economy as the gateway to investment opportunities in Africa.

"London's corporate finance and brokering communities are already alert to the potential of this emerging market... Our real worry should be whether Britain's institutions are moving quickly enough to grasp their share of the opportunities that are available" Miles said.

In the longer term, however, fund managers are more optimistic with three in four expecting a higher level of institutional investment over the next three years.

The survey showed earnings to be the most important investment criterion, with exposure to black consumers, political stability and an improvement in the world economy identified as important factors in stimulating investment in SA.

The survey attributed the positive stance being adopted by analysts and corporate finance departments to the growing number of South Africans employed in leading UK banks and broking firms. By contrast, the survey did not identify a single SA fund manager.

With no SA ties, almost half the fund managers surveyed rated their knowledge of SA as either non-existent or basic at best.
Sechold continues solid growth

THE Sechold banking group, formerly Securities Discount House, continued its solid growth performance in the six months ended December and is looking forward to an even better year in 1992.

The group lifted earnings by 17% to 34.4c a share in the six months from 29.4c a share in the previous year.

Net income after taxation and internal reserve transfers rose to R8.1m during the period under review, from R6.9m in the previous year. 13/Dec 28/1/92

The group announced a dividend of 19.5c a share, up 21% from 15c.

"The group had a good year despite high interest rates which hindered trading conditions. But the continued restrictive monetary policy forced us to concentrate on investing in ongoing quality earners," Sechold MD Pat Abrahams said yesterday.

In addition, the group had digested its change from a discount house to a deposit-taking institution in February last year, which had taken a lot of time and effort.

Abrahams was confident that the group would experience better times this year as the business scenario improved because it had adapted to its new function as a deposit-taking institution and interest rates would probably fall a couple of percent, improving trading activities.

Commenting on Sechold's limited disclosure of results, Abrahams said the group would continue this practice until legislation required a full disclosure of results.

"Sechold concentrates on showing a consistent growth in earnings and will continue to be conservative," he added.
GOVERNMENT watchdog the Financial Services Board has announced planned steps to stamp out white-collar crime in the financial services industry.

The board was reviewing the Stock Exchange and Financial Market Control Acts to increase surveillance of investment transactions between stockbrokers and financial institutions, board executive officer Piet Badenhorst said yesterday.

The recommended changes, still to be presented to stockbrokers and financial institutions, include the registration of institutional dealers, regular audits of transactions and the appointment of surveillance officers at institutions.

Badenhorst said the proposed changes - resulting from an investigation by former London Stock Exchange enforcement director Bob Wilkinson at the board's request - followed alleged irregular share activities disclosed last year by Attorney-General Frank Kahn.

The proposed rulings applying to life assurers, banks and unit trusts were expected to come into effect by the end of the year under the new Financial Services Act, Badenhorst said.

Amendments to the existing Stock Exchange and Financial Market Control Acts might also be necessary. This would give the board full supervisory jurisdiction over the fund management industry and widen its control over stockbrokers. This would also introduce a "stock-watch" system to monitor share price movements to detect possible insider trading deals.

With regard to stockbrokers, Badenhorst said the board would push for accountability by senior members for the activities of their firms and also greater disclosure of the identity of clients and their use of nominee trading companies.

"Discussions with the relevant authorities are being held to implement the above recommendations."

The board planned to develop a closer relationship with the Office for Serious Economic Offences, the JSE and international securities commissions.

The increased surveillance proposals still had to be thrashed out with the affect-
SHARON SOROUR  
Labour Reporter

AN insurance policy to provide domestic and other workers with death, disability and retirement benefits has been launched in Cape Town.

The Domestic Retirement Plan was the brainchild of Domestic Workers' Association chairman Mrs Maggie Oewies and was developed with Seef Trust.

Mrs Oewies, who was a domestic worker for 22 years, described the plan as a milestone for domestic workers in South Africa.

"There is a great tradition of long-term service and loyalty among domestic workers, but at the end of a long career most of them have nothing to show for their loyalty but tears and a ticket home," said Mrs Oewies.

The plan was being implemented at the right time because the attitude of domestic workers had changed and the days of workers being satisfied with "an overall as a Christmas bonus" were over, she said.

The job needed to be restructured as employers expected first world values from domestic workers who came from third world backgrounds, she said.

Underwritten by Charter Life, employers could choose to contribute monthly premiums of R35, R45, R55 or R65.

On premiums of R65 a month, R5 407 would be payable on death, R10 814 on accidental death and R5 407 on accidental injury.

After 20 years, an employee aged between 20 and 35 could get R129 213 on monthly premiums of R65 if the investment grew at 15 percent annually or R96 997 if it grew at 12 percent.

Employees aged between 36 and 45 could get R51 713 at growth of 15 percent and R41 878 at 12 percent after 15 years.

The plan took a year to develop because it was "a technically daunting task to tackle with legal problems and the advent of Value Added Tax and it had to have short and long-term benefits," said Mr Riaan Heyns of Seef Trust.
Plan makes home ownership easier

PROSPECTIVE home owners are being offered innovative schemes to encourage them to take the plunge and enter the market as economic conditions remain tough, and interest rates high.

Investec Property Group (IPG) has announced mortgage bond financing at a subsidised rate of 9% below prevailing levels until 1994 at its Bedford Garden Estates.

"The programme, known as Home Ownership Made Easy (HOME) will facilitate a monthly repayment of less than R1 000 a month for an apartment worth R120 000, and will allow the prospective purchaser, who would otherwise not be able to enter the market, to own a home now," says IPG Marketing consultant Lawrence Kreeve.

"But there is a catch. The difference between the subsidised monthly payment and the full amount added to the purchase price.

"For example, if the buyer can afford the present repayment on R100 000, he pays close to this amount. If not, the buyer pays about R120 000 for the unit under the subsidised scheme," says Kreeve.

"The repayments are subsidised for two years, after which repayments revert to current rates.

Bedford Gardens units range from R65 000 for a studio apartment to R275 000 for a three-bedroom, two-bathroom duplex unit.

The estate consists of 11 buildings set in 10 hectares with recreational facilities, pools and tennis courts.

Four hundred of the 985 units have been sold since June, at prices well below replacement value, Kreeve says.

Five sales were being negotiated under the HOME scheme, and bond financing would be "no problem" as the units were priced below the Standard Bank's valuation of the properties.

Meanwhile, although times are difficult in the Transvaal, estate agents report local and coastal sales continue almost unabated.

On the coastal front, the decline in the value of the rand is shown by the continued strong sale of coastal property to foreign investors.

One of the most expensive sites at the Langebaan Country Club was recently sold to an air hostess with Cathay Pacific.

"This sale and sales to other offshore investors from all walks of life are telling proof of the decline in the value of the rand," says Owen Wiggins Trust Transvaal manager Dik Gilbee.

While overseas interest is clearly growing, local sales still remain strong, with 1590 Transvaal sales alone topping the R20m mark, he adds.

European buyers have also expressed interest in properties in Sea Point, with four homes recently sold to German and Swiss buyers, says Milton Kelman of Aida's Atlantic seaboard franchise.

Sales in the Sea Point area to upcountry buyers are buoyant, with property worth R10m sold in the four months to December.

About 60% of them were to Transvaal buyers wanting holiday homes in the Cape, Kelman says.

In contrast, Southern Cape coastal property sales were depressed over the holiday season, but are picking up now, says Pam Golding Properties Garden Route branch manager Alastair Wallis.

"This lull is due to the recession, high prices on the Garden Route and the fact that December is not traditionally a buying period. The market is cautious, and affordability is a limiting factor."
Finrand to remain 'for how long' - Sharon Wood

THE Reserve Bank could not abolish the financial rand until the debt standstill was finally resolved, Reserve Bank Exchange Control GM John Postmus said yesterday.

Speaking at an International Tax Institute exchange control seminar in Johannesburg, Postmus said exchange controls could not be lifted until the Reserve Bank was confident that it would not result in a huge outflow of capital, which the country could not afford.

"Under the present uncertain political and economic scenario it will not be easy to abandon exchange controls in SA," he said.

If a final agreement was reached with international creditors it would hopefully lift foreign banks' risk exposure limits to SA and the country would not be perceived to be in the category of bad debtor anymore, he added.

SA had serviced its debt consistently but had only repaid capital in tranches as agreed with the foreign creditor banks since the debt standstill in 1985.
Financial giant Absa takes over Bankorp

Absa, the financial giant formed last year by the amalgamation of United Building Society, Volkskas Bank, financial services group Sage and the Allied, yesterday announced it was absorbing the Sanlam-controlled banking giant Bankorp.

This will make Absa the country's biggest banking group, with assets of about R57 billion, ahead of Standard Bank (R56 billion) and First National (R44 billion).

The deal will be effected through a share swap with 3.4 Bankorp shares possibly being exchanged for one Absa share, valuing Bankorp at around 300c a share.

The merger will see Bankorp's 86 percent stake in Bankorp converted into a 21 percent stake.

*Full report - Page 22*
Piet Liebenberg lands top post

Absa seals R1,3bn deal for Bankorp

ABS A is to acquire Bankorp from San-
lam in a R1,3bn transaction which will
boost its asset base to more than
R80bn, almost double the size of its
nearest rival Stanbic.

In a scheme of arrangement, Absa will
buy Bankorp's total share capital at a
price of 312.5c a share, which represents a
premium over yesterday's market price of
295c a share. The R1,3bn purchase will be
financed through the issue of an additional
116 514 364 shares in Absa at 1 125c a share.
Bankorp shareholders will receive 100
Absa shares for every 360 Bankorp shares.

The transaction will reduce Sankorp's
86% interest in Bankorp to 21% in an
enlarged Absa. In an announcement late
yesterday, the parties said that in due
course, Sankorp and Universe, a company
owned 40% by Financial Securities (which
is part of the Rembrandt Group), 40% by
the Mines Pension Funds and 20% by Sage
Financial Services, will both have equal
interests of 25% in Absa.

In a related transaction, Sankorp will
acquire the interests of Absa (30%) and the
Rembrandt Group (26.75%) in Momentum
Life for about R150m. Momentum will
trade under its present management.

The board of the enlarged Absa will be
reconstituted and Sankorp's representa-
tion on the Absa board will be equal to that
of Universe. Bankorp CE Piet Liebenberg,
who has been at the helm of the banking
group's dramatic rationalisation, will join
the Absa board as a vice-chairman and will
become joint deputy CE of Absa with
Danie Cronjé.

The merger of Absa's R53bn assets with
Bankorp's R23bn assets will result in a
financial services group with an asset base
of more than R80bn, enhancing Absa's po-

tion as SA's largest banking group and
widening the gap considerably between
Absa and Stanbic, which has assets of
about R49bn.

Bankorp's main trading divisions —
TrustBank, Sefbank and Bankfin — would
continue to trade under their existing
names to their existing client bases, the
parties said yesterday. Rationalisation
would be focused on support functions, in
line with Absa's practice, they added.

The formation of the proposed group
would be in the interests of the clients,
shareholders, the public and SA, as a bank-
ing group with a more balanced asset mix,
a stronger management component and
better delivery systems and product
ranges would emerge, the parties said.

The institutions' asset mixes would be
complementary. Absa was strong in home
loans, while Bankorp offered opportunities
in instalment sales and corporate markets.

Better use could be made of the manage-
ment skills available in both groups and
there were substantial potential econo-
 mies of scale which would emerge.

Significantly, the parties said the en-
larged Absa would be better equipped to
compete against foreign banks which es-

tablished a presence in SA.

Absa CE Piet Badenhorst, Liebenberg
and Cronjé expressed excitement about
the prospects of the merged group yester-
day, saying Absa would be well positioned
to "participate actively in financing the
future development of the SA economy".
AVF, Avins and Cruife granted listings

THE Johannesburg Stock Exchange has granted listings for the AVF Group, Anglovaaal Insurance Holdings (Avins) and Crusader Life renounceable (nil paid) letters of allocation and their respective new ordinary shares to be issued following their rights offers.

The nil-paid letters of all three companies will be traded from February 3 to February 26 and their respective new ordinary shares from February 27.

AVF Group's letters of allocation and new ordinaries total 30 556 194 each, Avins' totals are for 93 146 025 letters and shares, and Cruife's amounts to 9 655 625 each.

The last day to register to determine those shareholders entitled to participate in the rights offers is January 31. The listing of the nil paid letters commences on the JSE on February 3, and the last day for dealing in them is February 26.
NEW RBS-1ln Banking Giant

Business Week

NEW RBS-1ln Banking Giant

1992, le 21/02/1992

Field and chic of the trading floor is the 

the latest entry in the world of

banking giants. A new player is emerging on the 

international stage: RBS-1ln (Royal Bank of Scotland - 

International). This financial powerhouse will challenge 

established players in the global financial market. 

RBS-1ln's acquisitions and strategic partnerships 

have positioned it as a major force in international 

banking and finance.

The bank's vast network includes operations in 

130 countries with a presence in key financial 

centers such as London, New York, and Singapore. 

With assets exceeding 2 trillion dollars, RBS-1ln is 

one of the largest banks in the world.

RBS-1ln's commitment to innovation and 

customer service is a cornerstone of its 

business strategy. The bank's agile 

approach to technology enables it to 

provide cutting-edge financial solutions 

to its diverse clientele.

The entry of RBS-1ln into the global 

financial market is set to reshape 

the industry, with implications for 

regulators, competitors, and clients 

alike. As the bank continues to 

expand its reach, it will be 

important to monitor its 

progress and how it 

interacts with other 

actors in the financial 

landscape.
Two whites were to benefit

Linde also confirmed that Kruger was to be a beneficiary in four of the five insurance policies of the dead men.

Their names are Jacob Mlombo, John Ngubeni, who were both buried in Witbank at the weekend, and Ariie Mahlangu, Tajashi Masheguane and Galeleklele Gavu, whose relatives have not been traced.

Kruger and Loubsor are also Sanlam employees in Witbank. They allegedly met the eight men at the Department of Manpower offices in Witbank late last year.

They allegedly told the eight men they were looking for young single men to sell clothes for them in Pietersburg.

At a Press conference in Johannesburg yesterday, Mnadi repeated allegations that he and his colleagues were drugged, bundled into a kombi with blacked-out windows that they could not open.

The door handle on the inside of the kombi was removed.

Gas cylinders

He also alleged that the driver's area of the kombi was separated from the passenger section by a wooden partition.

Inside the kombi were two gas cylinders and two 25-litre containers filled with petrol.

They were driven for some distance.

At some point the driver, followed by his colleague in another vehicle, stopped the kombi, but left the engine running and went to the back of the car where he fiddled with the engine.

The kombi then began rolling over a bumpy area. Mnadi said he was flung out while his colleagues started screaming that there was a fire in the kombi.

"The next thing I knew I was running with Koos from the fire. We could see Loubsor and Kruger up on the road. We decided not to go to them," he said.

Legacy of apartheid

Yesterday the ANC in Johannesburg said the incident reflected a "cold-bloodedness that is the legacy of apartheid racism and the contempt for black life".

The latest of the mysteries to emerge was that the kombi, which exploded into flames killing the five men, was registered in the name of an 11-year-old child with a nonexistent address.

At the end of the conference, ANC spokesman Dr Pallo Jordan said questions arose from the incident that needed to be answered.
Economists today welcomed marginal cuts in home-bond rates but warned consumers the overall consumer cash squeeze caused by high interest rates was unlikely to be relaxed until inflation cooled down.

They took their cue from the South African Reserve Bank, which stressed that the general pattern of interest could be reduced only when there was evidence of a sustained slide in the inflation rate.

Deputy governor Dr D J Meijer told a press conference in Cape Town last night there was "little room for manoeuvre at the moment".

He kindled optimism of cuts later in the year as a result of encouraging signs that the underlying causes of inflation were being dealt with, including the significant drop in the Producer Price Index (PPI) in November last year.

However, the continued high consumer price index was "extremely disappointing".

Speculation over the chances of a widescale drop in interest rates followed action by the First National Bank to cut its mortgage rate from 20 percent to 19.5 percent and by Standard Bank to make a bigger one percent cut in its rate from 20 percent to 19 percent.

The United and Perm building societies were reviewing their own rates at meetings this morning.

Econometrix director Dr Jammine Azar said homeowners would welcome even a marginal easing in the cash squeeze.

But a more general reduction in interest rates was unlikely until later in the year — if inflation started to fall.
A house is an investment of a lifetime - Perm

By JOE MDHLELA

OWNING a home is one of the best ways of taking care of one's hard-earned money and making it grow, according to the marketing manager of the Perm, Mr Richard Ford.

Because housing was in short supply, the demand for it raised the value of the property year by year, making it the most valuable investment.

It was also important that the house be kept in good shape for it to remain a good investment.

"In this way home-ownership makes you a shareholder in the prosperity of the country," Ford said.

Raise money

As the value of the house increased, the owner would be able to raise money from the financial institution using the house as security.

"This could be money for your children's education; extension to the house; or even funds to start a business." To a very large extent, home-ownership gives security and peace of mind, said Ford, adding that "because it is yours, you know you cannot be moved".

Even after the death of the owner the house would remain the property of the family.

Married and unmarried people may own property and may borrow money to do so.

"This includes single women; women married by antenuptial contract or by customary union; "They may do so without the assistance of their husbands. But when married in community of property, both partners own the home together equally."

RICHARD FORD
DEPUTY chief registrar of the Financial Services Board (FSB), Gad Ariovich, who took control of the unit trust industry in September last year is a firm believer in the free market system.

He would like to see more unit trusts on the market to widen the choice available to the public and to increase competition.

Ariovich is opposed to interfering with market forces and apart from creating an efficient infrastructure for investment organisations, says the industry should be left to develop on its own.

"However, we would not allow the industry to make excessive profits at the expense of the man in the street.

"We have found the industry to be a responsible and efficient one and it has therefore not been necessary to be overly zealous in our watchdog role."

The legislative framework of the unit trust industry underwent fundamental revision in the 1980 parliamentary session to give more flexibility and self-control to the regulation of its affairs.

Whereas previously the Unit Trusts Control Act contained rigid prescriptions over matters such as service charges, the maximum percentage of a portfolio which could be invested in any one share, advertisements, derivatives etc, the amendments removed these rulings from the Act and gave the registrar of the FSB the discretionary power to decide on these matters.

Advise

The Act also made provision for the establishment of a Unit Trust Advisory Committee to advise the registrar in the exercise of his discretionary powers.

Representatives of the board, the industry and the JSE sit on the committee.

FSB unit trust and participation bond manager, Gerry Anderson says it was an unnecessarily time-consuming process to have to pass amendments through Parliament in order to change the way the industry was regulated.

He says the industry now has a healthy regulatory environment and he does not foresee any further legislative changes for a number of years.

"The performance of the industry and the number of new funds registered has shown the demand by the public for the funds and that the unit trust industry is growing from strength to strength.

"We expect there will be more unit trusts coming onto the market this year."

Anderson says there is sometimes a lag between the registration of new funds and their public launch as management companies await propitious conditions in the market.

At present the authorities do not see the need to restrict the number of new funds being registered.

"One of the criteria we apply to an applicant is that he must be able to indicate why an existing unit trust cannot act as the vehicle for the idea he is proposing."

"Contrary to the view of the authorities in the early 80s, when a brake was imposed on the number of new trusts, the FSB is happy to approve any new fund if the applicant can prove there is a need for it and there is a reasonable probability of its being successful."

Refused

Some applications for new funds have been refused on the grounds of public interest and the presence of existing funds which could cater for the proposal.

To monitor the financial soundness of the industry the board requires the submission on a quarterly basis of returns by the different funds.

"There is a good relationship between the authorities and the industry and we would only introduce changes after intensive discussions," Anderson says.
Commercial Union buys into blue chips

COMPOSITE insurer Commercial Union entered the unit trust industry last year with the takeover of the management of AA Life's Allegro unit trust, renamed the CU Growth Fund.

Assets in the fund have grown from R10m at the time of the takeover to about R25m, and senior GM investments Roger Wanlass says the aim is to bring in assets to R100m over the next few years.

Restructuring

Radical restructuring of the fund's portfolio was necessary after the takeover to rid it of the second and third line stocks which were its dominant features.

The weighting of the portfolio was also changed to more closely reflect the JSE's all share index. Presently, the fund is concentrated on blue chips with the top 10 counters as follows: Richemont, SA Breweries, Premier, De Beers, Barlow Rand, Anglo American, Anamint, Mid Wits, Rustenburg Platinum and Liberty Life.

Liquidity at end-December stood at 17%.

The fund lagged the industry in terms of performance in 1991, generating a sale to repurchase return of 16.58% compared to the All Share Index's growth of 21.02%.

Wanlass says the fund's performance record for the next year will be dragged down by its past history as it has inherited a poor performance but thereafter performance will equal that of Commercial Union's managed funds.

"If we can emulate the performance of Commercial Union's managed funds we will be in the top quartile of the industry," Wanlass says.

Despite the drawbacks of taking over a poorly performing fund, Wanlass says this route was considered preferable to starting up a new fund from scratch.

While Commercial Union had wanted for some time to expand its financial services to include a unit trust, it had put off the decision to do so as it did not have the established distribution channels and systems.

It had therefore opted to take over an existing fund when management of Allegro was put onto the market.

The trust will be marketed among others to Commercial Union's extensive client base in the short term insurance market.

Instability

Regarding the coming year, Wanlass says stock market instability is expected and it will be difficult to find real value.

The CU Growth Fund will stick to its policy of investing in blue chip shares.

Wanlass is reasonably positive about the prospects for gold in the medium term, and says the fund has invested in gold shares.
An avenue to spread the investment risk

INVESTMENT in property is an essential component in any investment portfolio, and property unit trusts provide an ideal way to invest in property and at the same time achieve a diversification of risk, says Association of Property Unit Trust Management Companies' Les Weil.

"In contrast with investing in a single property, property unit trusts provide an avenue for spreading the investment risk.

"This is achieved through holding a multitude of properties in different geographical locations and tenanted by a large number of sound tenants.

"There is also an advantage that the units are readily marketable through the JSE and an investor will experience no problem in realising all or portion of his units."

Well says property unit trusts are not taxable as a result of a special clause in the Income Tax Act and since they distribute their entire rental and other income at least twice a year, investors receive their income in the same way as if they were directly invested "in the properties.

Benefit

"Investors will pay tax at their usual marginal rates on such income, but will receive the benefit of the interest income deduction of R2 080."

"This is in contrast to receipt of a dividend from an equity trust where the companies in which the trust has invested will have borne a tax charge."

Well says it is important to note that property unit trusts are not permitted to mortgage or encumber properties in a unit trust portfolio in any way, there-by substantially reducing investment risk.

"There is nothing, however, to stop an individual investor using his units to secure borrowing at his bank and being listed.

"They are a most acceptable collateral."

The 16 property unit trusts listed on the JSE have a combined market capitalisation of about R1bn and their portfolios cover all categories of real estate, namely offices, industrial, retail and residential.

The prices of each of the property unit trusts are quoted daily and units can be traded on the JSE.

All 12 management companies which manage the property unit trusts are members of the association. Both property unit trusts and equity trusts are regulated by the Unit Trust Control Act.

"The main difference between a property unit trust and an equity trust is that a property unit trust is closed end, which means the management company does not repurchase units from investors."

Well says property trusts have in the past expanded through rights issues and have been able in this way to offer unitholders an ongoing opportunity to participate in portfolio growth.

"In order to achieve the same comparative investment advantages as other categories of investors, the association believes that in addition to expansion through rights issues, properties should also be acquired for scrip and discussions with the Unit Trusts Advisory Committee of the Financial Services Board," Weil says.

As is the case with equity trusts, the Financial Services Board will not register a management company unless satisfied with its financial standing and ability.

Experienced

Well says leading banks and financial institutions with longstanding track records are among the major investors in property trust management companies.

The property portfolios are managed by experienced and professional property management organisations.

"In addition, the trustee is the custodian of each trust's assets and acts as the holder of funds awaiting capital investment and of title deeds and is responsible for the issuance of unit certificates and for ensuring such trust's assets are properly insured."

Well says property is a long-term investment and considering the fact that there is a limitation of space in existing buildings and development of new accommodation can only be achieved if rentals escalate, the overall trend in income and capital appreciation is promising.

The average yield for the sector is 10,9% and there are sound prospects for capital appreciation, especially if interest rates decline, he says.
New rules give managers greater flexibility

THE change in the investment rules of unit trusts to allow them to invest up to 10% of their portfolio in shares with a market capitalisation of R2bn or more has provided greater flexibility to portfolio managers, but has not resulted in restructurings of shareholdings.

Previously, unit trusts were only allowed to hold up to 5% in any one share and not more than 5% of any share's market capitalisation.

Old Mutual portfolio manager Adrian Allardice says the ruling has made things easier as bigger companies can be given a bigger weighting.

"It has changed the structure of portfolios a bit but not radically as we are using the inflow of new funds to effect the restructuring," Allardice says.

Although there is no consensus on the issue, some portfolio managers say compliance with the 5% ruling which was introduced in 1965 could have downgraded the quality of portfolios and it was out of tune with developments on the stock market.

Syfrets unit trust marketing manager Kevin Hinton says there are 60 counters on the JSE with a market capitalisation of over R2bn and they represented 73.9% of total market capitalisation.

The limitation to 5% meant proper weightings could not be given to shares which dominated the stock market.

Soniam unit trusts chief investment manager Stafford Thomas says many of the shares falling into the R2bn category form part of corporate pyramids.

There are only about 40 shares not involved in pyramids, six or seven of which are gold shares, so few shares are affected by the rules.

But he says the change will benefit portfolio management.

In the old days the inflow of cash would water down one's holdings in blue chip shares which might have risen above 5% because of the increase in market values. But you could not top up until you fell below 5%.

"The change means we can exercise greater control over the effects of liquidities on the portfolios," Thomas says the change gives the portfolio management playing fields as in the past newly established funds could not have the same weightings as older funds which had exceeded the 5% limit through increases in share prices."
Bank to launch Eurobond

The Development Bank of Southern Africa is to launch its first international bond in February. The bond will be lead-managed by Germany's Bayerische Landesbank Girozentrale.

Reuter reported yesterday that the Eurobond would be denominated in Deutschmarks and raise about DM100m with a six- or seven-year maturity.

It would be guaranteed by the SA government and could emerge as early as the first week of February.

A bank spokesman yesterday confirmed "most" of the substance of reports in international markets, which said the Development Bank was due to make presentations in Frankfurt and Zurich early next month.

"All interested parties", including the ANC, had, over the past two years, been informed of the bank's intentions to enter the international capital market, he added.

The spokesman said money raised by the issue had been earmarked for development projects in underprivileged communities. The bank planned to spend R1bn a year over the next few years to finance development projects in SA, the homelands and some neighbouring countries.

The Development Bank first entered the local capital market in 1990 with a R700m issue.
Black community is slowly moving into the field

The unit trust industry's penetration into the black community has a long way to go, but recent adaptations of the concept to the saving patterns of the community should stimulate the growth of this market.

Most unit trust management companies report a healthy growth in the number of unit holders in the black community.

Old Mutual, for instance, estimates about 25% of its new unit holders are black.

However, market research commissioned by Southern Life shows that as a percentage of the total population the number of unit holders generally and black unit holders in particular is low.

Association of Unit Trusts chairman Clive Turner says there is a need to ensure educational material has as broad a penetration into the potential black investment market as possible.

"It is important that the implications behind the stock market are made clear before commitments are made to this form of investment.

"It is not something which can be done in a hurry because of the expense and there is a danger of pushing too hard," Turner says.

Recently, National Stokvels Association (Nassasa) president Andrew Lukhele announced a plan to divert millions of rands saved by informal savings groups into unit trusts, which could be used as collateral for home loans.

First National Bank has backed the scheme, saying it would accept unit trust certificates as collateral, while Syfrets Managed Assets unit trust marketing manager Kevin Hinton says the agreement opens up a new market for the company's unit trusts and positions it as a company proactively involved in developing new products to cater for the needs of that market.

Lukhele says the arrangement will allow black savings to be ploughed back into the black community.

There are an estimated 800,000 stokvels countrywide with 10-million members who are believed to generate an income of over R200m monthly. Lukhele says about 10% of these are members of Nassasa.

He says a key feature of the unit trust concept is that the financial risk of a loan will be taken away from the bank and assumed by the stokvel which — as in other group credit schemes — will exert peer pressure on the beneficiaries of the loan to ensure loan repayment.

"In the past there have been complaints that the financial institutions were a one-way street and did not plough anything back into the community.

Financial institutions in the past have been reluctant to lend money for homes to township residents because of the political risk.

An educational programme is planned to educate members by means of newspapers, pamphlets and workshops about how the proposal will work.

Lukhele says building materials depots will be established on the Reef to supply cheap materials to members.
ABS A's acquisition of Bankorp will lead to major rationalisation of the new group's computer systems.

Most sources say it is too early to speculate on exact changes, but it will probably no longer be necessary for the group to have two large backbone network systems, two computer and network management centres, backup centres, and other dual facilities.

Absa group executive of management services and technology Alwyn Burger says strategies will be formulated by Absa and Bankorpdata during the next few weeks to determine changes which may be necessary.

"Fortunately," Bankorp-

data and Absa mainframe technologies are predominantly IBM or IBM compatible, and we're using the same vendors, so there shouldn't be major program rewrites or other work necessary. Overall, our technology philosophies are much the same."

However, he says there will be savings in terms of not having to double up on certain services and products.

During its own restructuring, Absa did reduce staff, but Burger points out that at least two-thirds of the staff left through "natural" means — either because of normal "turnover" or by retiring.

"We don't expect major staff reductions now, because the workload will remain the same."

Essentially, we must do our homework. IT staff are highly skilled, and not a re-source to meddle with. Major costs would be incurred if we retrenched and were then forced to re-employ, so we'll avoid reductions as much as possible in the short term," he adds.

Another source in Bankorp points out that Absa has become a master of rationalisation due to its own restructurings over recent months, so the process should be well-handled.

He points out that Absa and Bankorp have already been co-operating on each other's disaster recovery systems.

"The big changes will come if it's decided to cut dual facilities such as networks, management infrastructures, mainframe sites and other computer-related systems," he adds.

Bankorpdata has about 650 staff, but there are also several DP staff working in TrustBank, Senbank and Bankfin.
Recession hits the consumer sector

THE consumer sector will be avoided by portfolio managers this year as the effect of the recession on disposable incomes sees a contraction in private consumption expenditure.

On the other hand, fixed investment stock and companies involved in "new South Africa" activities such as housing construction will be sought after.

Quiet

Old Mutual portfolio manager Adrian Allardice says the consumer sector will be quiet for most of 1992, taking off thereafter as increased urbanisation and an economic revival puts more money in people’s pockets.

Most of the funds in the Old Mutual fold have been restructured to reduce exposure to consumer shares.

"The Industrial Fund has sold its Pick n Pay holding and all its Poschini and SA Brewery shares and some other funds have not invested at all in the consumer sector because it is expected to be weak.

"Some of the smaller funds have been even more aggressive in their repositioning."

Syfrets unit trust has moved out of consumer stocks on the view that the SA recovery would not be consumer but export based.

Sanlam unit trusts, on the other hand, have been moving selectively into consumer shares such as CNA, Gallo and Pick n Pay because prices have dropped by about 30% and they are offering good value.

Sanlam unit trusts’ investment manager Stafford Thomas says: "We are not pessimistic about the retail sector, though we believe that it will experience hard times and the results will reflect this."

Fixed investment stock such as Murray & Roberts, which is set to benefit from the opening up of Africa and the involvement of SA construction companies in infrastructural development on the continent, are also being given support by financial institutions.

Another sector finding favour is that of export manufacture, which has received substantial government incentives and is expected to perform well this year.

Allardice says there is disagreement over the future course of the stock market, with views being held across the full spectrum, from bullish to bearish.

"One is seeing a drift in share prices and a drifting market is a sign of uncertainty and tends downwards on low volume.

"I don’t think we are in a bear market but in a corrective phase which could last anything up to six months."

"I foresee a gold price drifting upwards and improved company results, but politics will provide the kickstart. Hopefully, when the market turns we will be fully invested," Allardice says.

Syfrets investment manager Matt Brenzel says there is an element of danger in the stock market.

World bourses such as the Nikkei, DAX, FT Index and the Dow Jones are "wildly overpriced" and a correction is likely.

Dislocation

"We anticipate the biggest dislocation will be in the US index because of the nature of the US growth cycle and foresee a correction, perhaps in the next quarter, of between 10-15% in the Dow Jones."

"As markets tend to follow each other this will have a negative impact on the JSE, although perhaps not to the same extent."

Southern Life investments manager Carol de Ridder also says there could be a correction because the market is overpriced."
Sanlam investigates life policies after five killed in minibus crash
Absa’s takeover price looks to be a fair one

Given that the overwhelming response to the announcement of the Absa acquisition of Bankorp has been strongly positive, the reaction of the Absa share price yesterday looks quite puzzling.

It dropped from R11.50 on Tuesday to a close yesterday of R10.65. Volume trading was exceptionally heavy — 276,000 Absa shares changed hands. This compares with the 828,000 that traded during all of last week.

The drop in the Absa share price has more to do with the sharpness of the hike in that share since last November, than market disappointment with the merger news. This in part reflects the market’s bullish attitude towards the large financial groups. This sentiment wasn’t enjoyed quite so much by Bankorp.

It may also be significant that Absa and Bankorp were reported to have started merger talks last November.

In general analysts have greeted the announcement enthusiastically although its timing has taken many by surprise.

Feeling is that both of these financial giants are currently going through fairly traumatic reorganisation processes and that perhaps a delay of 12 months would have been in order.

This would have given Absa’s Piet Badenhorst more time to bed down last year’s merger between United, Allied, Volkskas and Sage.

Similarly, Bankorp is currently undergoing a rationalisation that is affecting employees from the very top to the lowest levels. The major rationalisation that Piet Liebenberg instigated back in 1990, includes changes to personnel, systems and culture.

While it is accepted that Mr Liebenberg was making good progress at Bankorp, another year could have shown even greater progress.

One suggestion is that the pace of Bankorp’s progress was being threatened by the weakness of the economy which is aggravating the group’s serious bad debt situation.

Putting Bankorp into Absa, which is thought to have much stronger management at retail level, would help to ensure that adverse economic conditions do not do too much damage.

Against this notion that the merger represents some sort of rescue package for Bankorp is the fact that the price Absa is paying for Bankorp is certainly not a “rescue price”. At R2.5c a share, the offer is close to Bankorp’s net asset value (NAV).

Even if allowance is made for Bankorp’s attractive tax losses (which will be very useful for the enlarged Absa), the pricing of the deal does not represent a bargain for either party.

On reflection, it could be the best time to put the two giants together for all the above reasons.

Instead of waiting for Bankorp and Absa separately to bed down their rationalisation programmes and then present each group with a whole new deal with which they have to come to terms, it is probably better to resolve the much larger rationalisation issues in one go.

To this end, Absa’s stronger management showing in the retail end of the market will help to bring the Bankorp.

If their previous actions are anything to go by, then the rationalisation strategy for the enlarged Absa is likely to start with head office/support type operations. Branch closures will be much further down the line with decisions dependent on profitability and/or strategic necessity.

In this regard, Bankorp’s very small property portfolio (it relies mainly on rented properties) will be significant.

- Included in the Absa (and Universa) portfolio of interests are Volkskas Bank, Volkskas Motorbank, Volkskas Merchant Bank, Price Forbes Group, Allied Bank, Allied Building Society, United Bank, UBS Insurance, UBS Trust and, Sage Life.

In Bankorp there’s Senbank, Bankfin and TrustBank.
Upturn will be a boost for property

THE next economic upturn will increase demand for industrial, retail and office space and ensure growth for property unit trusts, says J H Isaacs Group Property Management director Markham Becker.

"The expected downward trend in interest rates which usually precedes an upturn should result in higher prices for property units," Becker says.

The three closed-end property unit trusts in the JH Isaacs stable — Centrecity Property Fund (Cenprop), Grove Property Fund and Capital Property Fund — have a combined market capitalisation of about R1bn.

"Historically, Cenprop has been a top performer in the sector and in recent years, as ongoing upgrading and rationalising of the portfolio has produced results, earnings growth of over 50% from 1989 to 1990 has been achieved," says Becker.

Cenprop has generated a 10-year return of 20.38% (including capital growth and dividend income) compared with the All Index return of 23.23%, but Becker says it must be borne in mind that it is an investment with a much lower risk.

Cenprop’s portfolio focuses on prime retail and office space and includes Johannesburg properties such as The Mall in Rosebank, JHI House, Innes Chambers and NBS Building.

In Cape Town it has 2 Long Street, in Sandton, Bute House and others elsewhere.

Capital Property Fund’s main focus is on industrial and commercial properties with the buildings in the portfolio being general-use flexible ones to ensure rental appeal.

The fund does not purchase specialised industrial buildings.

"It is a secure portfolio with many single-tenant, long-term fully repairing and insuring leases with escalation clauses and regular reviews to market rates."

Grove Property Fund, with stock valued at about R106m, offers industrial and retail properties in both Johannesburg and Durban.

Its fund managers expect it to continue producing consistent returns and further earnings increases are forecast.
Badenhorst's vision for banking empire

ABSA CE Piet Badenhorst hopes to see the financial services group grow internally into a R10bn banking empire over the next two or three years.

Badenhorst, pleased with the conclusion this week of Absa's agreement to buy Bankorp, said in an interview yesterday the various divisions of the two groups would continue to operate under their own brand names and could, through modest organic growth, reach the R10bn mark in 1994.

The rationalisation of an enlarged Absa would focus on support functions such as technology, marketing, human resources and accounting, Badenhorst said. But the process would be "evolutionary" and there would be no mass dismissals, he stressed.

Badenhorst dismissed concern in the market about Bankorp's financial state and said he was confident the benefits of the rationalisation would begin to flow through after the first year of the merger.

"There is no absolute certainty about Bankorp's bad debt situation. But we investigated it as intensely as possible and feel comfortable with the level of risk and the provision made for bad debt.

"We also have an agreement whereby the price can be renegotiated depending on the outcome of the 'due diligence' study which still has to be completed. But we believe Bankorp will make a positive contribution to the group.

"Apart from improving our asset mix, Bankorp is very strong in areas such as marketing and technology."

Both Badenhorst and Bankorp CE Marimus Daling cited Bankorp's technological advances as being one of the major benefits of the deal.

Daling said Bankorp's computer facilities and banking systems would reduce Absa's technology expenses and keep it abreast of developments.

The merger would place Absa in a better position to compete against foreign banks, which would soon be able to buy major interests in local financial institutions.

Badenhorst dismissed speculation that Absa was involved in discussions with a potential foreign partner. But this did not mean it would not do so in the future.

He said the sale of Rembrandt's and Absa's combined 58.7% stake in Metropolitan Life to Bankorp was aimed partially at preventing an internal company from compet-

Lesley Lambert

Badenhorst, from Page 1

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Absa's other insurance interests, including Sage Life, the 30% of Commercial Union and inherited from United Holdings and the separate United and Alfred insurance divisions would remain part of the group, Badenhorst said.

Absa would work on developing its corporate finance market share this year through Absa Corporate Bank.

See Pages 10 and 11
Board resists the call to raise charges to 1%

THE Financial Services Board has resisted lobbying by the unit trust industry for a 1% increase in the service charge on the grounds that the industry should not be allowed to make profits from unit holders' assets.

The service charge was increased recently from 0.5% to 0.75%.

Deputy registrar Gad Arlovich says: “We have to achieve a balance between a healthy profit for the industry and the interest of unit trust holders to minimise costs.

“We would not be in favour of allowing the creation of superprofits.

“We will consider the application for a further increase, but one should not forget the assets of unit trusts belong to the unit holders and the public interest comes first.”

Arlovich says overseas a 1% charge is common.

The board favours a maximum fee, as is the case at present, to allow for competition on price between the players in the industry.

In addition to the annual service charge, a percentage of which is levied at each month end, an initial charge of 5% of the total amount invested is imposed to cover distribution and marketing costs, brokers fees, etc.

Justified

But industry leaders say an increase to 1% is justified as unit trust management companies are battling to remain profitable on the slim service charges allowed them.

Association of Unit Trusts chairman Clive Turner says the service charge of 0.5% placed great pressure on the ability of the industry to perform its functions and maintain its financial soundness.

Old Mutual Unit Trusts GM Peter de Beyer said even at 0.75% the service charge was out of line with the rest of the world, where there was no regulation governing the fee and where the market found its own “comfortable” level.

He says the 0.5% initial charge is adequate.

“One of the reasons why the unit trust industry was so stagnant between 1970 and 1986 was because there was not sufficient revenue generating ability to cover the service expenses.”

Another argument for fee increases is that competition in the industry is getting fierce and more and more has to be spent on marketing, advertising and educating the public, says Southern Life unit trust GM Francois Gossen.

Syfrets’ unit trust marketing manager Kevin Hinton also says an additional increase in the service charge over an above the 0.75% is needed if the unit trust industry is to continue growing.

Sound

“It is important that there is an increase to ensure the industry operates on sound a financial basis.”

Hinton says the need is especially great for new management companies, which are unable to draw in large amounts of funds quickly.

The low service charge means they operate unprofitably for a long time.

“We estimate that for a management company to operate profitably it has to have at least R10bn in assets under administration.”

But Arlovich says the board is not short of applications for new unit trusts, which indicates they must have some advantage for management companies.
Shares fall as Absa feel pressure

ABSA was under pressure on the JSE bank sector yesterday on concern that the sharp increase in share capital to pay for the R1.3bn acquisition of Bankorp would dilute earnings a share.

The shares fell 6.5% or 75c to close at R10.65 as they topped the most active trading lists with 699 000 shares worth more than R9.5m changing hands in 191 deals.

"People who bought the shares ahead of the deal must be nursing burst fingers," a dealer said.

Analysts said Absa had taken on some "activity baggage" but had the ability to maintain such a lead until things were smoothed out in Bankorp. They noted that Bankorp had major turnaround potential.

The deal would strengthen an already powerful Absa merchant banking sector by the inclusion of Bankorp's Sebank in a sector that already had such influential players as Volkskas Merchant Bank.

Bankorp was valued at 312.5c a share in terms of the deal and the shares touched a high of 315c before profit-taking pared the gains to 5c for the shares to close at 300c in heavy trade.

The activity spilled over to other bank shares with Nedcor the second most actively traded share on the market after Absa. The price rose 20c to R17 while Firstbank rose 50c to a new high of R37.
Absa joins ranks of world's top 200 banks after merger

SHARON WOOD

ABSA would catapult into the ranks of the world's top 200 banks after the merger with Bankorp, which would enable it to secure more international business from SA's major corporates, Republic Ratings chairman Dave King said yesterday.

Absa's improved access to international financial markets would filter down and ultimately benefit the other three SA major banking groups' access to these markets, he added.

Absa's short-term debt rating would remain an A1+ after the merger and long-term credit quality could be enhanced by the benefits which would flow from the merger, he said. These would include a better balanced asset portfolio, diversification of the funding base, substantial parentage and an improved ability to compete in international financial markets.

Rationalisation and cost savings could be achieved by improving the economies in infrastructure, administration, information technology and staff.

The merger would also eliminate Bankorp's projected need for additional capital by 1994, which would have resulted in a further call on Sunlam to comply with the required capital adequacy ratio of 8% by 1995.

Possible short-term disadvantages of the merger included a setback to staff morale which was only starting to recover after recent rationalisation at both Bankorp and Absa and problems with the integration of different corporate cultures.

King expected further rationalisations in the banking sector.

"The decline in credit quality within the country has had negative effects on the total banking sector, and the smaller banks in particular are coming under extreme pressure from major investors to enhance their credit quality," he said.

Credit ratings were proving to be a significant feature in assisting large investors in directing their flow of funds to the local banking community.
Move may presage Bank action

Bond war as Standard and FNB cut rates

SHERIDAN CONNOLLY

FIRST National Bank (FNB) and Standard Bank fired the first shots in a new bond war yesterday with the announcement of across-the-board reductions in home loan rates effective from March 1, pre-empting a cut in the official discount rate.

FNB acted first with a half percentage point cut in its home loan rate to 19.5% from 20%. Standard responded within hours but outshone its rival with a full percentage point cut in its bond rate to 18% from 20%.

Both banks said yesterday the rate cuts had come on the back of growing expectations of an imminent cut in official rates.

Divisional GM of Standard's home loans division Eric Tomlinson, said a liquidity build-up in the money market over the past few months had put downward pressure on deposit rates. This had allowed the bank to pass on benefits to home loan borrowers.

Tomlinson said the home loan market was perhaps the most competitive sector in the services industry and lower rates would benefit and attract borrowers.

FNB MD Barry Swart said the bank had been considering a cut in home loan rates over the past few weeks but had decided to move to protect market share following Absa's acquisition of Bankorp.

Some money market analysts agreed the rate cuts by Standard and FNB were designed to erode the margins of Absa's substantial home loans book. Others believed the lower rates were at least partly intended to anticipate an official move to reduce discount from its current level of 17% before the end of the quarter.

Capital market rates dropped sharply in volatile trading following the announcements of the rate cuts. Towards the close of trade, the benchmark Escom E100 had eased back to 16.28% yield from 16.40% earlier. The government RSA 2004 dipped to 16.78% from 16.85%.

FNB's pre-emptive cut in its bond rate matches its aggressive rate-cutting in the first quarter of last year when it shocked its competitors with a one percentage point cut in its prevailing home loan rate of 20.75%. The day after FNB's March 1991 bond rate cut, the Reserve Bank announced a one percentage point cut in its 18% discount rate, which triggered the last easing in prime overdraft rates.

To Page 2

Bond rates

Money market rates have been discounting a drop in official discount rates for the past few weeks, and the Reserve Bank has had to resort to open market operations to drain liquidity from the market to prevent rates from falling further.

LINDA ENSON reports that Deputy Reserve Bank Governor Jaap Meijer said the inflation rate was likely to drop this year and this would allow for a relaxation of monetary policy. The condition for a drop in interest rates would be a visible improvement in the rate of inflation.

Meijer told a briefing in Cape Town it would be psychologically inadvisable to drop interest rates if there was no success in the fight against inflation, even if this was justified by underlying conditions.

"The room for manoeuvre is fairly limited as Bank rate is only 17% and if you deduct the most recently measured CPI inflation rate, the real Bank rate is about 0.8%. There is no room whatsoever for reducing Bank rate more than by perhaps half a percent," Meijer said.
Regular buying is a healthy trend and regular investments are a way to build wealth over time. The market is cyclical, with periods of growth and correction. It's important to diversify your investments to minimize risk. Regular contributions to a retirement account, such as a 401(k) or IRA, can help you save for the future. Additionally, consider investing in real estate or stocks. Consulting with a financial advisor can help you make informed decisions about your investments.
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The profile of the Trusts' investment income and expenses is shown below:

- **Income Sources:**
  - Portfolio of investments
  - Rental income from properties

- **Expenses:**
  - Management fees
  - Administrative costs

The Trusts aim to distribute a proportion of the net income to unit holders on a regular basis.

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**Note:** The information provided is for illustrative purposes only and should not be relied upon for investment decisions.
Managers are now turning to mining shares

PORTFOLIO managers say the run on industrials last year has left little room for further growth in 1992 and they are turning to mining shares.

Their view is based on the expectation that together with an upturn in world economies there will be renewed demand for commodities such as steel, copper, aluminium, platinum and manganese.

Old Mutual unit trust portfolio managers have already started moving into mining shares.

Sanlam unit trust investment chief Stafford Thomas says: "The mining sector has underperformed over the last few years and there is potential for good growth, especially as it will be coming off a low base."

"One of the changes which has taken place in our portfolio has been to increase their exposure to mining shares."

There is some disagreement, however, on the timing of the renewal of US, UK, Japanese and German economies.

Syfrets portfolio manager Matt Brenzel says: "We believe the American economy has bottomed out and will start to pick up, while the UK economy is close to a trough and will start bottoming out in the first quarter."

"The emphasis in our portfolios will be towards selected commodity type shares."

Brenzel says, however, that it is too early to expect a recovery in the commodity cycle at this point.

"Commodities will remain under quite a bit of pressure for some time as the final death throes of the world economic recession are played out."

He says not much growth is expected from industrials, which showed strong growth last year, especially as the economic recovery locally and internationally is expected to be a lacklustre one.

Southern Life investment manager Carl de Heldt, however, says while commodities will benefit from freer trade he does not expect a broad recovery and pins his hopes on GDP1 and export manufacturing stock.

Thomas says there will be an upturn in Western economies throughout 1992 and 1993, though much depends on a revival of the American economy.

On the other hand, Old Mutual portfolio manager Adrian Allardice says he does not foresee any significant upturn in mining shares in 1992 but they do offer reasonable value.

The mining funds, which had a poor showing last year, should perform reasonably well in 1992. "There was a lot of nervousness in metal prices in 1991 because of fears about the world economy."

"I do not think the fundamentals are going to get any better but the fears are going to fall away. A bit of Russia sold a lot of its stockpiled commodities last year and it is unlikely it will do it to the same extent this year."

"So we should see some recovery in metal share prices this year," Allardice says.
Mutual looks to new funds

OLM Mutual, which has six unit trusts in its stable with assets totalling R3.5bn, plans to bring a number of new funds onto the market in the next few years.

The life assurer introduced a new trust, the Top Companies Fund, onto the market last year.

Old Mutual Unit Trust manager Peter de Beyer says there is considerable room for new funds on the SA market, which is nowhere near being overtraded, though there are too many management companies and their number is likely to contract through mergers.

Commitment

However, the introduction of new trusts will be a slow process as the formation of a new fund is a big marketing exercise and requires the commitment of a large amount of capital.

The Top Companies Fund excludes direct gold and property shares from its portfolio.

De Beyer says investors have differing opinions about the gold sector, which is driven by the price of gold, over which a portfolio manager has no control.

Excluding direct gold shares from the fund allowed an investor to invest specifically in a gold or mining fund to gain this exposure.

"Another reason for establishing the fund was that the Investors Fund had grown large and some people preferred to be invested in a small fund in the belief that this gave greater flexibility."

"We have found a lot of investors in the Investors Fund who are hesitant about going into a specialist fund as their second or third investment but are quite comfortable about investing in both the Investors' Fund and the Top Companies Fund," he says.

De Beyer says the fund will grow quite quickly and will become Old Mutual's second largest fund with assets of over R130m by the end of 1992.

In the first six weeks of its existence cash flows totalled about R85m.

Cautious

Top Companies Fund portfolio manager Adrian Allardice says a cautious approach has been adopted to investing in the market because of the high ratings of some gold.

As a result, liquidity has been about 30% — much higher than the long-term aim.
Investors seek refuge from inflation erosion

THE phenomenal growth of the unit trust industry is likely to continue this year as investors seek refuge from the eroding effects of inflation on their finances, say industry leaders.

Since 1986, when the industry's growth took off, the market value of assets has soared to R11,4bn from R2,7bn.

The number of trusts has also burgeoned to 42, while the number of management companies has increased to 20.

The number of accounts has increased in tandem with this growth, reaching 939 254 at end December 1992.

High level

Gross sales last year amounted to R2,9bn, with net sales topping R1,6bn after deducting R162,7m repurchases.

Association of Unit Trusts chairman Clive Turner says there is every reason to think there will be a continuing high level of interest in unit trusts this year.

Unit trusts have established themselves as a savings and investment vehicle which cannot be ignored in today's inflationary environment and will attract interest whatever the immediate outlook for equities might be."

Old Mutual unit trust manager Peter de Beyer says he does not foresee any halt to the industry's growth.

"The market is under-penetrated in international terms. In the USA and the UK, where unit trusts form part of all portfolios, about 25% of households have unit trusts, whereas in SA the percentage is only about 5-6%.

"We could easily double the size of our market in terms of the number of investors over the next few years without doing anything particularly dramatic."

"More and more people are being brought into the industry and we are realizing the benefits of intensive marketing that has been undertaken," De Beyer says.

Sanlam unit trust GM Otto Jaelke says far too many people are investing in unit trusts.

In the year to end-September 1991 the number of Sanlam unit trust investors almost doubled from 109 000 to about 200 000 and Jaelke says this growth could be duplicated in 1992.

"Everybody has a medium term investment need and the best way to satisfy this is by way of unit trusts.

"The returns may not be as spectacular as in the past, but compared with other kinds of medium term investments unit trusts will still give an above average return." But with the economy's emergence from the recession likely to be a long, slow process, there are no illusions that the year ahead will be an easy one for the unit trust industry.

"People's incomes are under severe strain," De Beyer says.

"I don't think there will be much growth in disposable incomes as salary increases are not expected to be big."

"However, there are a large number of people who can save who are not saving into unit trusts and it is this untapped market that will ensure the same growth in terms of new entrants into the market that we have had over the last two years. I don't see that process coming to a halt.

Returns

The reason why investors have turned towards unit trusts is the real returns they have historically achieved in the medium to long term.

In the absence of positive real interest rates in an inflationary environment, there have not been any viable alternative forms of medium term investment.

Another reason behind the dramatic growth from 1986 onwards, De Beyer says, is that instead of focusing on lump sum investments the industry went after the man-in-the-street who could invest a small amount on a regular monthly basis.

Full spectrum of saving needs catered for

UNIT trusts have become the backbone of numerous products launched by the life assurance industry to cater for targeted saving.

The saving need is identified, for example, as education, retirement or a mortgage and products based on unit trusts designed to cater for it.

Syfrets recently launched a unit trust to cater for the savings needs of trust managers, while Old Mutual launched a new group trust in the new year.

Old Mutual Unit Trust manager Peter de Beyer says the group trust is aimed at catering for groups of investors such as investor clubs or stokvels which previously invested in one account on an unstructured basis.

The savings are usually long term but are invested in short term and attract low rates of interest.

Over and above the targeted products, unit trusts are also considered essential to a financial package of products catering for the full spectrum of needs of a client and providing him with a balanced portfolio.

Southern Life unit trust GM Francois Gosen says the package approach to marketing unit trusts is more viable as the commission paid brokers and intermediaries for their unit trust sales is lower than on other life products.

CLIVE TURNER

Any environment and will attract interest wherever the immediate outlook for equities might be."
Lesley Lamberti

**Than It Can Chew**

**It Absorbs Bit Off More**

**Only Time Will Tell**
Banks ease agony for homeowners

By Derek Tommey

The three-to-four percent drop in interest rates in the money market in the past few months has finally worked through to mortgage rates.

First National Bank has cut the rate of interest on its bonds by half a percentage point to 19.5 percent and Standard Bank by one point to 19 percent from March 1. Other banks are expected to follow suit.

Johan Westraat, deputy MD of Nedbank, said yesterday his group would cut its rate, but no decision on the size of the cut had yet been taken.

Mike de Blanche, MD of United, which has the biggest mortgage book of all banks, said his group would discuss the matter today.

The lower mortgage rates are not expected to lead to any reduction in commercial banks' prime lending rates.

The prime rate is linked to the Reserve Bank's discount rate. Inflation is still high and likely to be exacerbated.

The Governor of the Reserve Bank, Dr Chris Stals, is believed to be reluctant to lower the discount rate right now, should money supply increase.

However, there is considerable speculation that the Reserve Bank might announce a discount rate cut immediately prior to the Budget on March 15 to increase the stimulatory impact on the economy of any tax cuts that may be announced.

Eric Tomlinson, general manager of Standard's home loan division, said the build-up of liquidity in the money market in the past few months had put downward pressure on deposit rates, allowing the bank to pass on benefits to its customers.

FNB MD, Barry Swart, said bondholders could take advantage of the reduction by either reducing their monthly instalments or by maintaining their payments at existing levels, which would enable the bond repayment period to be reduced.

The cut in rates will come like a breath of fresh air to hard-pressed housebuyers.

The steady increase in mortgage bond rates from 12.5 percent in 1987 to a peak of 20.75 percent in 1989 imposed a heavy burden on individuals.

Although the rate dropped one percentage point to 19.75 percent just under a year ago, the introduction of VAT saw the rate again rise to 20 percent.

The one-point cut by Standard will reduce the monthly repayments on a R50 000 bond by about R40 a month and on a R100 000 bond by about R80 a month.

Standard has a mortgage book of R70 billion, with another R1 billion in the pipeline, so its cut will reduce its revenue by about R80 million a year.

FNB's cut of half a point on its book of R5.5 billion will cost it about R27.5 million a year.

The Reserve Bank says financial institutions have about R60 billion out on mortgage. A full one percentage point reduction in mortgage rates would cost them together R600 million a year.
Bank is positive about growth

By JOE MDHLELA

INVEStEC Bank Limited has expressed optimism about the long-term growth prospects of the economy.

The bank's latest Focus on the Economy, released last week, suggests that the economy is “bottoming out”.

"Although the anticipated upturn will initially be weak, there is scope for the economy to gain momentum and enter a strong, sustainable long growth phase," the report says.

The report, which was compiled by the bank's team of economists, suggests that the reduction of the bank rate was on the cards following improved inflation figures and weak aggregate demand.

"The low rate of money growth and weak demand, combined with a mix of lower wage growth and increased labour productivity, suggests there is scope for a significant decline in inflation during the year."

The report predicts that an inflation rate of 12 per cent by the end of the year seems reasonable at this stage.
R50-bn at stake as bond rate war hots up

By Magnus Heystek
Finance Editor

Absa’s planned amalgamation with Bankorp is the spark that has ignited an outright bond war between the major players.

First National Bank, which only a week ago denied there was any rate cut in the offering, stole a march on the market on Wednesday by announcing a 0.5 percentage point drop in its mortgage rate.

Standard Bank, which had also dismissed the possibility of a cut by saying it would take its lead from the Reserve Bank, was stung into action and cut its rate by a full one percent hours later.

FNB had no option but to match Standard’s rate and the rest of the financial institutions, including Absa, followed suit yesterday.

A spokesman for FNB tried yesterday to downplay the rate-cutting, saying it was not a bond war.

But make no mistake, war is declared, which should delight all homeowners.

In addition to a fierce interest-rate competition among financial institutions for a slice of the R50 billion-plus mortgage market, institutions are aggressively wooing clients away from one another, offering to pay half, and in some cases all, legal and transfer costs involved.

In most cases this would be linked to the transfer of all other kinds of banking accounts and, in the cases of small businesses, even their business accounts. This has great long-term advantages.

While the base rate is now down to 19 percent, most high net-worth clients are in a favourable position to negotiate even better interest rates.

The potential in the market has been quickly recognised by Cape-based Board of Executors (BOE) which yesterday announced it would be entering the home loan market, pitching rates at 17.5 percent to 18.5 percent - comfortably below the reduced rates announced by other financial institutions.

What the one percent drop in mortgage rates will mean.

<table>
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<tr>
<th>Bond Amount</th>
<th>Term (yrs)</th>
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‘Cuts only a competitive exercise’

CAPE TOWN — The cut in bond interest rates was “only a competitive exercise” and totally insignificant, the managing director of a large real estate agent said in Cape Town yesterday.

The difference in repayments of one percent on each R10 000 worth of bond amounted to only R7 a month, said Samuel Seeff of Seeff Residential Properties.

“The fact of the matter is that these two banks have thousands of bond clients who are already receiving preferential interest rates for selected borrowers like doctors and professionals, most of whom are already paying only 19 to 19.25 percent interest,” Mr Seeff said.

Although it appeared that the interest cuts were the start of a rate war, it would only become top end (R500 000-plus), is still suffering from the combined effect of high interest rates, reduced company profits and an overhang of properties.

“The interest rate variance is large enough that only a premium will get to the top end,” said Neville Berkowitz, head of property economist and a speaker at the forthcoming Allied Bank/Saturday Star personal finance seminar, said yesterday.

“This has led to a situation where there are more sellers than buyers”

But a factor sustaining the market at the lower-to-middle end (anything up to R250 000) is the shortage of affordable housing in certain areas, combined with pressure from non-whites who can now afford to buy in areas previously denied to them.

This is serving to underpin the market.

It is also the area of the property market where the relief brought by lower interest rates will be greatest.

“The banks are still paying off old bonds and have to maintain their book values,” said Seeff. He emphasised how psychologically the cut may have a positive effect on buyers confidence, but he felt this was unlikely to be “very stimulatory”.

— Sapa.
Shareholders’ need to know

IN MY OPINION

The Aviva rights offer refers to "emitted

depot value", which is actuarial jargon for the
true financial position of the company. It is
true that Aviva, a company whose financial position
has been described as "well capitalised" by the Financial
Times, is considered to be in a healthy condition. But
the share price of Aviva is not necessarily reflective of the
corporate governance practices or the management of
the company.

AIA Life, a company that has been criticised
for poor corporate governance, has a higher share price
than Aviva, despite the latter having better financial
standing. This suggests that shareholders are not
necessarily pricing companies on an objective basis,
but rather on sentiment or market perception.

The Aviva rights offer was marketed as
a way for shareholders to participate in the
growth potential of the company. However, some
shareholders have criticised the offer as
uneconomic, with the dividend yield being
significantly lower than other options available.

In my view, shareholders should carefully
consider the terms of the rights offer and weigh
the potential benefits against the risks. It is
important to have a clear understanding of
the company's financial position and prospects
before making any investment decisions.

Yours sincerely,

[Signature]
1 pc cut now, more to follow

The mortgage bond war intensified last night when most leading banks and building societies fell into step with the one percent cut in bond rates led by First National and Standard Banks.

Amalgamated Banks of South Africa announced that its United, Allied and Volkskas divisions would all trim interest rates to 19 percent from March 1. Nedbank and NBS also confirmed they were following suit.

A newcomer to the housing finance market, Board of Executors, is offering bonds to blue-chip clients as low as 17.25 percent.

The Perm and Trust Bank were expected to announce cuts today.

Homeowners can look forward to further drops in bond rates this year.

Yesterday, there was speculation that the Reserve Bank would cut the prime overdraft rate, which would mean lower interest charges for overdraft rates, hire purchase agreements and most other interest rate-linked financial arrangements.

The bank refused to comment.

Neville Berkowitz, a leading property economist, forecast that mortgage rates could be between 16 and 17 percent by the end of the year.

"On its own, the one percentage drop in mortgage rates is not significant, but it does have a major psychological impact on many cash-strapped homeowners. "At least they can look forward to some more good news and further relief."

A bond of R75,000 will mean a reduction from R1,288 to R1,218 a month (saving R70). This increases to R40 a month for a bond of R150,000 (see graphic).

Some commentators said bond rates would have to drop by another two to three percentage points before the stagnant residential market showed a marked improvement.

- R50 bn at stake — Page 17
Horror crash 'scam': Suspects still free

By SONTI MASEKO

THE two men accused of trying to make the deaths of their five victims appear as an accident are still free.

According to survivors the two men, Mr Lucas Louw and Mr Isak "Kobus" Kruger, who have been suspended by Sanlam, first insured their eight victims for more than R1 million.

They then allegedly "caused" an accident near Witbank.

The minibus, into which the men had been loaded, plunged down a 30m ravine, killing five of the eight men.

Eastern Transvaal police spokesman Warrant Officer Andre van der Westhuizen confirmed that the police had not yet arrested the two men.

He said police had launched an intensive investigation into the case.

Sanlam yesterday confirmed it had suspended Louw and Kruger.

It also offered to pay a total of R40,000 to the families of the eight crash victims "as a gesture of goodwill and to assist in defraying the funeral and medical expenses involved".

The insurance company's Mr Emil Linde said it would be "grossly unfair and totally wrong to link Sanlam, as employer, to the alleged private activities of their employees".

The news of the suspension came as Mr Jackson Mthembu of the ANC's Witbank office called on the insurance company to honour fully the insurance policies taken out on the lives of the dead men for the benefit of their families and compensate the others who were injured.

The suspension followed persistent newspaper reports on the allegations made by the survivors, Mr Lazarus Mmadi, Mr Samuel Matsimela and Mr Koos Skosana that the crash on Sunday July 19, was not an accident.

Mthembu has reacted strongly to the news that the two alleged murder suspects were still on the loose and added that the "only logical conclusion" to infer was that the suspects had not been arrested because they were white.

He said the initial charge of culpable homicide in an accident where five people were killed was itself a gross irregularity, viewed in the light of what happened in the past in the Westdene bus disaster.

See page 4
Bond war hots up as more rates fall

THE bond war hotted up yesterday with SA's major banking institutions following First National Bank (FNB) and Standard Bank in cutting mortgage bond rates.

Absa said its Allied, United and Volkskas divisions would lower mortgage rates by one percentage point. The standard bond rate of 19% would apply to existing and new mortgages from March 1.

Nedbank's deputy MD Johan Westraat said across-the-board bond rates would be reduced by one percentage point to 19% from March 1. The SA Perm said it too would reduce its mortgage bond rates and would give details soon.

Natal Building Society assistant GM Trevor Oliphant said rates would be reduced in line with those of competitors.

FNB, the first institution to lower rates, announced a further half percentage point rate-cut, bringing its home loan rate in line with Standard's 19%. The second cut would be effective from March 2.

A spokesman for TrustBank, part of the Bankorp group, said a statement on the bond issue would be released today.

Capital market rates were steady yesterday following their sharp drop after FNB and Standard announced the first bond rate cuts. The Eskom 158 held out at 16.27% from its recent 16.37%. The RSA 2004/6 was steady at 16.78% against its 16.85% high on Tuesday. Volume soared to 2.3-billion from 866-million on Tuesday.
'No links with scam

TWO men, EJ Kruger and Lucas Loubser, linked to the minibus death scam near Witbank have been suspended by Sanlam.

Five men died when the minibus plunged down a cliff and burst into flames. There were three survivors. The lives of the seven men had recently been insured and Kruger and Loubser were named as the beneficiaries. They stood to gain R1-million.

Survivors said Loubser had been driving the vehicle but was not in it when it crashed. Kruger was allegedly in another vehicle following the minibus.

Sanlam has denied any links with the alleged "private activities" of its employees. The company regretted the loss of life of the five young men and the injuries of the survivors and has contributed R40 000 to assist with funeral and medical costs.

According to the police, no action has been taken against the two Sanlam agents.
The news conference that they met
and suspended the two employees. The fact
that the employees had been suspended

Two Sanlam men benefitaries of Crash Victims' Policies

Andrew Khumalo

January 16

Three days elapsed between the accident and the

Two Sanlam men benefitaries of Crash Victims' Policies
Probe into interest on deposits

By John Miller
Star Line

A move is afoot to force letting and estate agents to pay interest on the deposits taken from tenants.

According to the Estate Agents Board, estate agents were not obliged "to tell tenants that they can earn interest on a deposit".

Tenants must inform estate agents in writing that they wanted the deposit placed in a trust account, the board said.

This issue will be raised in Parliament shortly by Democratic Party spokesman for trade and industries, Brian Goodall, after he was contacted by Star Line.

Money collected on deposits runs into millions each year, with thousands being made in interest.

Retired bookkeeper Bernard Rosengarten began a campaign six years ago when he realised how much money agents were making "for nothing".

Mr Goodall said he would ask Parliament for legal clarity on this matter next week, and whether the Government intended amending the act.

"People are losing large deposits down and foregoing the loss of interest and this works out to a considerable sum over a number of years."
BoE offers loans to the rich

CAPE TOWN — Board of Executors Merchant Bank has entered the home loans market for the first time but will only be serving the rich who will be offered below market rates.

The ultimate aim is to offer rates at 90-95% of the prime overdraft rate, but until prime rates fall to more realistic levels, BoE will use the First National Bank (FNB) mortgage bond rate as a yardstick. It will offer a lower rate of between 17.5% to 18.5% compared with FNB's latest rate of 19.0%.

The merchant bank's assistant GM Richard Harman said yesterday that bonds would only be granted on a property with a minimum market value of R500 000 which was situated in a prestige residential suburb.

Clients would have to have a net worth of about R500 000 and a net after tax income of at least two times the interest cost of the bond. Only bonds of over R250 000 and up to 75% of the market value of the property would be granted.

Harmaj said only the top 10% of the entire home loan market, worth about R3.4bn annually, would fall within the bank's criteria.

He added that the facility would be ideal for property speculators.

"Our's is a niche market where we have identified a specific mortgage bond finance requirement — that is, as a simple loan against the tangible security of their property, with the proceeds of the loan being used in any way that the borrower may require."

Clients would have the option of suspending repayment of the capital for the first five years of the loan, thereby freeing for investment the funds which would normally have been used for capital repayment.

"If a client does elect to repay capital, we are prepared to readvance the funds at any time," Harman said.

He noted that the lower rate offered would result in significant savings. For example, a 1.5% drop in the interest rate payable on a 20-year, R500 000 bond would result in a total saving of R94 386, or R351.61 per month.

If these funds were used to reduce the bond, then the term of the bond would be slashed considerably from 20 years to 12 years and 11 months.

Alternatively, if the funds were invested at an after-tax return of 15% compounded monthly, the borrower would accumulate a lump sum equal to R524 444 at the end of the life of the bond.

"BoE Merchant Bank, established last year, has capital reserves of about R55m. It is involved in the money market, asset trading, corporate loans, corporate finance and new home loans."
The (largely black) customer profile makes Metlife potentially particularly vulnerable to AIDS. MD Marius Smith says it has focused on developing products and implementing financial strategies that will allow it to maintain profit growth.

It was among the first insurers to begin planning, in 1987, for AIDS. Products have been changed to protect policyholders and shareholders from financial loss. The position is based on data from much of the rest of Africa.

Moreover, policyholders are drawn from the more stable classes, such as teachers, nurses, civil servants and policemen. Just 5% of its policies are paid in cash and 85% by stop orders from employers.

The year saw a drive to sign up women policyholders, that included a seven-year discount on women's ages against the five years more common. New products this year will include a Hospital Cash Plan and Major Medical and Dread Disease benefits.

Metlife is sensitive to criticism that life insurers do not invest enough in the communities they serve. It has completed shopping centres at Cheshville, Katlehong, Emmerdale and Mafeteng and office blocks in Umntu, Athlone and Butterworth. It is developing a shopping centre in Mamelodi and an office block in Windhoek. After year-end it took a 17% stake in African Bank and that gives it board representation. Smith says the two will co-operate in future.

Nevertheless, chairman Willem Pretorius criticises any move to force life insurers and pension funds to invest in socially desirable projects. He argues that it is unfair to single out the industry, which would amount to an indirect and inequitable extra tax burden.

Any subsidies should be provided from general taxes, he says. As it is, Pretorius considers there are already inequities in the system.

Pretorius says there is evidence of a slowdown in policy writing and an increase in surrenders that swallowed up 12.1% of premium income (1990: 11.2%).

Metlife sits on a p/e of 20 and dividend yield of 3.2%, similar to those offered by Southern Life and Fedsure, though more demanding than Momentum and African Life. Though African Life also specialises in the black market it has a more blue-collar profile and most collections are still in cash.

Metlife cannot isolate itself from the AIDS threat but will be more than compensated by the increase in black teachers, nurses and civil servants. Metlife looks fully priced in the short term but is a buy on a medium-to-long-term view.
Technological advancement has its price, in the short term, at least.

Insurance company SA Eagle's decision to install an integrated computer network throughout its branches over the next 12 to 18 months will mean that about 20% of its workforce — 300 to 360 people — will be laid off over that period.

"While we are deeply sorry to have to take these steps," says MD Peter Martin, "the company has a responsibility to remain a productive, profitable organisation and it has an obligation to offer a secure, exciting future."

Certain insurers have installed computer systems that give them a slight competitive edge. This encouraged companies such as SA Eagle to appraise technology and implement long-term restructuring programmes.

To assist personnel no longer required, the company has provided a "very fair redundancy package."

Re-employment has been offered if the need for more staff arises but this seems to present few opportunities.

The new system will manage the issuing of policies, process reinsurance, administer agents' ledgers, commission and general information together with claim payments and reinsurance recoveries. This will cut document handling, ledger entries and other labour-intensive tasks.

The short-term insurer says it will help the laid-off workers to handle tax and lodging claims with the UIF. It will also be flexible and tolerant over housing loans, give people time off to look for new jobs and provide counselling.

SA Eagle has held recognition talks with the Cosatu-affiliated Saccawu union but no agreement has been signed.
Another mighty swallow for Absa

In less than a year, a former building society has not only become SA’s largest banking group but now dwarfs competitors. Acquiring Bankorp in a R1.3bn share swap will lift Amalgamated Banks of SA’s capital and disclosed reserves from R2.8bn to R4.1bn, and assets from R51.8bn to R80bn.

Nearest rival Standard Bank Investment Corp has capital and reserves of R2.2bn and total assets of R45.5bn. Nedcor has R41.6bn assets and First National R36.6bn. For the latest year-ends, which differ by up to nine months, so are not exactly comparable, but indicate orders of magnitude.

There is no doubt the deal will benefit the struggling Bankorp group, still some way from overcoming its many difficulties. It has performed poorly for a number of years and is burdened with nonperforming assets and doubtful debts inherited from TrustBank, now a division but formerly a subsidiary.

MD Piet Liebenberg, brought in in 1990 to rescue the floundering company, has applied discipline, restored a measure of order to the balance sheet and engineered a return to profitability.

In 1990, Bankorp wrote R386.5m off assets. Losses of R375.5m in 1990 were transformed into a 1991 attributable profit of R48.8m. But much remains to be done.

What advantages will there be for Absa are not clear, apart from Senbank’s corporate business. Because of its United Building Society origins, Absa is strongest in the retail market, especially home loans.

The announcement refers to:
- Better management skills;
- Balanced market representation;
- More representative outlet structure;
- Compatibility of technology;
- Economies of scale; and
- Better positioning against foreign competitors.

Absa was already consolidating after last March’s merger of UBS Holdings (holding company of United Building Society), Volkskas and Allied Group (also previously a building society). There could be synergies in automation and branch networks but the group now has a surfeit of brand names — which Absa says will all be retained — and costly outlets. Absa describes Volkskas and Bankorp branches as geographically supplementary, but the fact remains that at most major shopping centres Absa will have four outlets.

There must be a stage at which bigger size as such brings no further economies of scale.

It may take some time to clarify all the insurance interests involved.

Sankorp will acquire the interests of Absa and Rembrandt: Group in Momentum Life, respectively 30% and 28.7%, for about R150m, and make an offer to Momentum minorities in due course. On the other hand, Sankorp’s 86% of Bankorp will be diluted to 21% of the enlarged Absa in the short term.

Ultimately Sankorp and Universa (the latter owned 40% by Rembrandt, 40% by the Mines Pension Funds and 20% by Sage Financial Services) intend to have equal interests of 25% in Absa.

Sanlam already controls Metropolitan Life, geared largely to the black market. It will now add Momentum, which originally entered the Absa stable alongside Volkskas. As Momentum, which is to continue under present management, has a largely Afrikaans culture, it would be possible for all three insurers to cohabit in the same group.

That leaves Sage. There is no mention of Sage Life in the statement and Sage sources say it is too early to speculate about any changes involving that group’s life interests. These are now held by AIH, in which Sage Holdings owns 51% and Absa the balance.

It’s an arrangement that could be preserved.

Clearly Sage chairman Lois Shill has done well for his group: when the dust settles, Sage Financial Services will have an effective 6.25% interest in the enlarged Absa.

Absa has other insurance interests. Both United and Allied have subsidiaries handling mortgage-related business, and Absa inherited 30% of Commercial Union from United Bankorp shareholders are to receive 100 Absa shares for every 360 Bankorp, and the announcement says this values Bankorp at 312.5c, with Absa at R11.25. In practice, with Absa’s Tuesday’s closing price of R11.40, Bankorp is valued at 316.7c, a 3.2% premium on its own Tuesday close of 295c — hardly a bonanza for Bankorp shareholders, though the quality of their holding will obviously improve enormously.

Liebenberg will join the Absa board as vice-chairman and join (former Volkskas MD) Danie Cronje as Absa deputy CE. This will nominally leave him reporting to Absa eminence prince and CE Piet Badenhorst. Not the least interesting point to watch will be how these two strong (and capable) executives survive in one boardroom.

But of more strategic importance is how others react to Badenhorst’s swoop. To catch up with Absa will now require a merger of major players; swallowing a minnow (of which few are left) will not suffice.
SA Eagle flies in the face of adversity

SA Eagle, the short-term insurer, has reported a 46% rise in attributable earnings to R34.9m for the year to December, one of the most difficult in underwriting.

Earnings came in at 287c (1991: 199.5c) a share of which a total dividend of 165c (156c) a share has been declared. The dividend cover has been lifted to 1.7 times from 1.3 times the previous year.

MD Peter Martin said the insurer’s strong performance was due to a lack of major catastrophe claims and the improved monitoring of claims incidence relative to premium inflows. Although the rate adjustments introduced during the year resulted in some loss of business, SA Eagle’s net premium income climbed by 23% to R724.5m (R592.2m). Gross premiums came in at R881.4m from the previous year’s R782.5m.

Higher rates and lower claim incidence brought the insurer’s underwriting loss for the year down to R63 000 from 1991’s alarming R36.8m. As a result, SA Eagle’s solvency margin has increased to 91.5% from 82.6%.

While rates appeared satisfactory in most classes of risk, Martin warned that commercial rates, particularly on fire and weather risks, were still too low and “rates in this area will need to firm before we can feel comfortable”.

Martin said that SA Eagle’s motor account was the only class of risk to show a loss. He felt domestic motor rates were adequate at present although insurers might be forced to adjust fleet business rates in future. He said that with increases in motor repair/maintenance and prices of vehicles running at about 20% a year, motorists could face an inflationary adjustment in rates in the second quarter.

Martin said household rates seemed adequate to cope with the level of crime while its industrial account reflected a modest surplus. The close of the 1980 marine and aviation account also showed a profit for the year.

The insurer reported a modest increase in investment income, derived from dividends and interest earned, to R54.7m (R52.4m).

Total assets also exceeded the R1bn mark for the year, largely boosted by the appreciation of its investment portfolio which rose to about R960m. The investment portfolio, based on market value, climbed by R439.4m above book value for the year. As a result, the insurer’s net asset value rose by 35% to R64 (R46) a share.

Martin said the implementation of the company’s on-line computer system during the coming year would result in cost benefits and improved productivity.

SA Eagle would rationalize its number of employees once the system became operational throughout its branch network.

“Unfortunately, a number of job categories fall away and this will result in some staff becoming redundant over the next 18 months as the system goes live at branches,” Martin said.
SA Eagle's share price 'foresaw' good results

By Magnus Heystek

If the JSE is looking for another indication of possible insider trading, they should look no further than the share price of SA Eagle which today reports vastly improved results.

On Wednesday its share price suddenly jumped R2 to R3.7 a share, joining the list of the top 10 gainers of the day.

And, surprise surprise, the company today reports a set of sparkling results.

There have been a number of cases where share prices have shown sudden movements, up or down, before a company announcement. These clearly illustrate that, despite all the effort put into stamping out insider trading, this practice is still rife.

SA Eagle Insurance put in a credible performance for the year to December, reducing its underwriting loss from a staggering R36.84 million to R31.000.

The company says the reduction in the underwriting loss can be ascribed to two factors — the adjustment of rates charged for risks and close monitoring of costs and incidence of claims.

Investment income benefited from emphasis on income growth.

Although interest rates prevailing during the year were lower than in 1990, there was a 4.4 percent increase in income.

Net attributable income rose 45.7 percent to R34.94 million while the dividend increased to 185c a share, compared with 150c in the previous year.

The solvency margin increased substantially to 61.5 percent from 82.6 percent in 1990.
COMPANIES

Increase in Stanprop income

STANDARD Bank Property Fund (Stanprop) has posted a 21.2% increase in net distributable income to R53,933m from R44,5m in the year to end-December. A 19,25c dividend a unit was declared, 12% higher than the 17,19c a unit declared in 2019. (10-9 3/1/19)

Stanprop increased its holdings in retail space and offices by 9% to R150m (41% of its holdings) and in industrial space by 3% to R72m or 19% of its holdings.

In line with its policy of moving out of the residential market, its holdings there decreased by 13% to R43m or 12% of its holdings, with specialised property accounting for 9% or R33m of the portfolio. Cash funds rose 2% to R71m or 19% of the portfolio. Acquisitions totalled R45,2m, with new developments started in 1991 totalling R12,9m. Disposals amounted to R90,676m, with cost being R37,2m, yielding a surplus of R53,476m.

Recessionary conditions adversely affected occupancy levels. But apart from one vacant office block comprising 1.7% of the portfolio, vacancies were contained. Management expected difficult economic conditions to continue in 1992 but expects earnings to continue to show growth. "The extent of growth will be affected by the continued rationalisation of the portfolio, prevailing interest rates and the timing of cash fund investments into initially lower yielding properties."
Exempt stokvels from banking regulations

SHARON WOOD and WILSON ZWANE

THERE was no doubt stokvels deserved exemption from the Deposit-Taking Institutions Act, National Stokvel Association of SA president Andrew Lukhele said earlier this week.

Speaking at an Informal Sector conference, Lukhele said: “Nasasa is keen on further discussions with the Reserve Bank on the condition that our members’ interests are given a priority.”

A Reserve Bank spokesman said Nasasa’s stated willingness to attend the Reserve Bank stokvel workshop in mid-February was a positive development.

The workshop will seek a new approach to the regulation of informal financial institutions. Organisations involved in informal financing will present their views on whether co-operative banks and stokvels should be incorporated into, or exempted from, the Reserve Bank’s regulatory structure.

Nasasa’s approach to the regulation of stokvels was very similar to the approach suggested by the Bank, the spokesman said. The Bank suggested stokvels remain exempt from legislation and should be self-regulatory. Co-operative banks, however, should be exposed to a more formalised structure, similar to the legislation imposed on mutual building societies.

The Reserve Bank would act as a facilitator at the conference, giving suggestions but not directives and the final regulatory structure would be decided by the representative stokvel bodies.

“The convening of such a workshop is in keeping with the government’s undertaking that input will be required from the stokvels before the new Deposit-Taking Institutions Act is finalised,” Lukhele said.
MONEY SUPPLY
Down to basics

The growth rate of the broad monetary aggregate M3 is decelerating — despite technical distortions still in the pipeline. Preliminary estimates of the two official measures of M3 for December show a rise of:
- 12.42% over 12 months (to R182.2bn), down from 14.48% in November and 15.75% in October; and
- 13.03% annualised, from the base of the current target year in mid-November 1990 (to a seasonally adjusted R180.5bn), down from 15.72% and 14.22%.

In February last year money supply figures were inflated following changes in banks’ regulatory legislation. The effect will be eliminated only in this February. Meanwhile the fundamental trend in money supply can be measured by the seasonally adjusted annualised rate of growth between February and December. The Reserve Bank calculates this at 7.1%. This is also down on preceding months (see graph).

The guideline range for growth in the 1991 target year is 8%-12%. This range is under review by the Reserve Bank. A decision will be announced over the next few weeks and a new guideline will be established dating back to November. At that point figures for the current target year will be re-based (on the average level in the final quarter) and revisions published.

December figures for the other monetary aggregates will not be available until next month. In the 12 months to November:
- M2 grew 21.21%;
- M1 24.17%; and
- M1A 21.38%.

Figures available on credit creation show that in the 12 months to November credit extended to the private sector rose 17.78% and total credit extended rose 17.84%. These figures too were influenced by technical factors last February. Using that month as a base, credit extended to the private sector rose 13.3%, seasonally adjusted and annualised, up from 12.7% in October.
FINANCE - GENERAL

1992

FEBRUARY - MARCH
Sun could soon shine on savers

DEREK TOMMEY

THE one percent reduction in house mortgage rates announced this week is good news for house buyers but bad news for savers.

Bankers forecast this week that the lower mortgage bond will undoubtedly be followed by a drop in retail deposit rates.

Mr Bob Aldworth, executive director, corporate finance at ABSA, said that it was normal practice for banks to try to match the drop in income from a cut in their lending rates by a reduction in deposit rates.

But although he was not directly concerned with ABSA’s mortgage division, he doubted whether there would be any further reductions in mortgage rates for some time.

Mr Gregg Nowitz, manager of trust company Metboard, voiced a similar view, adding: “We firmly believe that deposit rates will continue to fall.”

All this is bad news for savers, particularly with inflation still running at above 15 percent.

Inflation rate

Currently interest rates on 12 month retail deposits range between 15.5 percent and 16.25 percent. This is on a par with the inflation rate.

But should deposit rates drop by another one percentage point as now seems likely, the interest paid to savers will be less than the inflation rate. This means that even if you exclude tax, the returns will not be enough to offset the money-eroding effect of inflation. This means the saver will get poorer.

But most savers have to pay tax on their interest at rates rising to 45 percent, which means they will be poorer still.

However, savers should not give up hope of getting a substantial real return from their investments — and possibly even within the next 12 months.

They now have an important ally in the Governor of the Reserve Bank, Dr Chris Stals. He has made it clear on a number of occasions that he is determined to keep money market interest rates above the rate of inflation — and is doing so in spite of bleats from many people that this is harming their businesses.

One reason is that Dr Stals, as far as he is able, is keeping interest rates “real” in order to help reduce the inflation rate.

For example, when interest rates are above the inflation rate it no longer pays to borrow money to speculate on inflationary price increases. This immediately reduces the money supply and also inflationary pressures.

Real rates of interest are also an encouragement to people to save — though with deposit rates now likely to drop below the inflation rate this incentive is absent at the moment. But should the inflation rate fall sharply in the coming months, which some people think highly likely, then the fortunes of savers could change dramatically.

This would be especially so if the drop in inflation is accompanied by an upswing in the economy which increased the demand for money and put upward pressure on all interest rates.

This could result in deposit rates moving to some 5 percent or 6 percent above the inflation rate. This is normal in many important overseas economies and from indications given by Dr Stals in the past, could well be his ultimate target.

This would obviously give a new impetus to savings — especially if this year’s budget is also kind to savers.

Although plans to ease the tax rates on interest from savings did not see light in last year’s Budget, apparently Treasury officials are still looking at this matter.

Whether they succeed in finding a suitable scheme remains to be seen; but there does seem a chance that for the first time for decades “money in the bank” might be more profitable than having that “money in property” or “money in shares”.

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STL 11/92
Absa shakes up banking sector

NOT a bad week in terms of action — that's of course if you ignore the traded options market which is apparently what the investment community did this week.

The Kahn investigation came before court, briefly. And revealed all sorts of interesting information. More to come on February 14 when Kenzy Fouché makes his next appearance in a J'burg court.

Then a really big financial group gets taken over by a really bigger financial group.

The Absa acquisition of Bankorp seems to have taken most people by surprise, including most of the people at Absa and Bankorp ... and Myles, who hadn't heard a murmur about it.

It was quite unlike last year's creation of Absa which seemed to drag on interminably with all sorts of fighting.

Myles reckons he's glad he did the work for Allied, United, Sage, Volkskas or Bankorp right now. He finds it's difficult enough to cope with all the change that comes with living in the "new South Africa".

The Bankorp team must have been aback a bit. At the release of the June '91 results Mr Liebenberg did say that the

This is the last of the Inside Out series as Myles and Ann Crotty head for greener pastures.

were not looking at a change in ownership for at least three years. But when a good deal comes along, it would be a bit silly to ignore it just to be consistent.

Myles thought it was quite significant that it was only a few years ago, shortly before Mr Liebenberg left Nedcor, that rumours surfaced that he wanted to put United and Nedcor together.

And now, already there's talk that Absa is tying up with a major international bank.

The Rusthoven share price is coming under some pressure. The problem with consolidating a weak share is that you tend to give it more fall-down scope.

The joint cautionary from the Elecnentre and Benzaack teams immediately sparked speculation that the Mowszowsk family (of Elecnentre) were selling out.

Myles hadn't heard that speculation for about 18 months. But up 'til about 18 months ago, hardly a week went by that there wasn't someone talking about the Mowszowsk's leaving SA — the most favoured destination was Australia.

According to this week's speculation it seems that the Benzaack guys were going to issue shares to buy out the Elecnentre guys. But it seems that by the end of the week, there was talk that the deal had fallen through.

The Digoco share price has been quite volatile recently. Myles is looking forward to the release of the interim results (to end-August '91). Chairman Mr Nel did indicate at the last agm that if the press and disgruntled shareholders would leave him alone for a while, he could produce some good results. With all the peace-and-quite he's had over the past several months, the results should be very good.

The strength of the TML share price has Myles severely tormented. All this talk of someone buying up Argus' 37 percent stake ... but he can't pinpoint the identity of the phantom purchaser.

The list of possibles, which gets longer with every R1 increase in the share price, includes Rupert Murdoch, Kerry Packer, the Pearson group (they're behind the FT), Conrad Black from Canada, Tony O'Reilly and the ANC. A few dullards included one R Maxwell in their list.

And of course it could be someone who doesn't even feature on this list. Myles wonders if there is any significance in the fact that the Argus CE was just this week spotted in Egypt.

But what's really irritating, as Myles enjoys pointing out, is the fact that a lot of people in town seem to know about this deal — except the Star's finance section. It's a bit like being an employee at Absa, Bankorp or Momentum.

Latest on Bucor is that an announcement will be out any day now.
Overdraft rates may also be cut — bankers

TOM HOOD
Business Editor

BANK overdrafts could become cheaper soon, bringing some relief to individual borrowers and saving millions in interest paid by companies.

Some bankers see this as an inevitable result of this week's open declaration of war between commercial banks which brought a cut in home loan rates.

One believer is Mr Piet Badenhorst, chief executive of Amalgamated Banks of South Africa (Absa), who became the head of the country's largest banking empire on Wednesday after Absa's R1.3 billion takeover of the Sanlam-controlled Bankorp group.

He sees the possibility of the prime overdraft rate (21 percent) coming down soon — even before the Reserve Bank lowers the rate it charges banks. Until now the Reserve Bank's refusal to cut its rate has stymied pleas for lower interest rates.

However, Mr Badenhorst, speaking on the TV programme Diagonal Street, commented: "We don't have to wait for the Reserve Bank."

An analyst pointed out last night that the money market was awash with funds because of a fall-off in borrowing and only intervention by the Reserve Bank prevented a natural drop in rates.

Possibly sensing the intensified banking competition since Absa's sensational takeover of Bankorp, Reserve Bank governor Dr Chris Stals warned last night he had no intention of reducing the prime rate until inflation was under control and declining.

He said after the central bank's board meeting he had no problem with commercial financial institutions reducing home loan rates as these were not linked to Reserve Bank rates.

Dr Stals said all rates were driven by market forces and only became a problem when banks had to borrow from the Reserve Bank at its official rates.

The market shortage was minimal and borrowings by banks were small with central bank intervention limited.

However, rates applicable to overdraft facilities, despite not being directly linked, were difficult to remove from the Reserve Bank rate.

Dr Stals believed that reducing the bank rate now would have a negative psychological effect, particularly with inflation still at 15 percent.

● When NBS last night became the latest building society to reduce its home loan rate by one percent to 19 from March 2, assistant general manager Mr Trevor Olivier said he was surprised major banks reduced their rates before the prime rate was reduced.

"This means that banking clients with credit cards, overdrafts or loans, who have interest rates at about 26 percent, may be tempted to use their home loans to consolidate their debts."
Ball to return to SA?

By EDYTH BULBRING
Political Reporter

FORMER First National Bank MD Chris Ball could be returning from London to take up a position in a development bank initiated by the Rockefeller Foundation.

Mr Ball yesterday responded cagily to inquiries, saying that while he was involved on the committee which was set up to raise funds for a development bank, the project was still at an early stage.

"There are a number of hurdles to overcome before the proposed bank's success was ensured," he said.

Asked if he had any plans to return to SA permanently, Mr Ball responded "no comment".

Mr Ball became CEO of Private Bank Trusts Company after leaving South Africa in March 1989.

He was dragged into the spotlight over the funding of an ANC advertisement in 1987.
Only 2% real growth likely this year, says Southern Life

CAPE TOWN — There is little evidence of any growth catalyst for the local economy this year, Southern Life chief economist Mike Daly says in the latest Economic Comment.

"Domestic final demand growth will be muted for the first half of the year, after which somewhat lower inflation and interest rates will help improve the growth momentum. At most, 2% real economic growth for the year is likely after a small decline in 1991."

Rising unemployment and lower salary and wage increases will result in a further weakening in personal disposable income, Daly says. With the level of personal savings still low and the cost of borrowing money still high, he does not expect personal consumption expenditure to rise by more than 1.5% this year.

Daly expects a two percentage point drop in interest rates this year and a fall in the inflation rate to 12.5% by year-end to give an average rate for the year of 14%.

While export volume growth in 1992 should grow by about the same 4% achieved in 1991, he says, it will be constrained in the first half by the delayed improvement in international economic growth.

"The international slowdown is expected to be somewhat deeper and longer than initially thought and economic growth in the industrially developed countries during 1992 will only modestly exceed levels recorded during 1991."

The US economy in particular is struggling to emerge from recession, Daly says, and its continued low inflation does not hold out much promise for the gold price. He expects the profitability of the gold mines to remain under pressure and forecasts further retrenchments.
Pact workers won't give an inch

Employees of the Performing Arts Council of the Transvaal (Pact), unfairly dismissed in 1990, this week refused to be 'evicted' from the houses which have been repossessed because they cannot pay their bonds.

Thirty-five of the 300 unfairly dismissed workers have had their Mamelodi houses repossessed by Saambou and other financial institutions.

The banks agreed not to repossess the houses, or transfer them out of the names of the owners, pending the outcome of the workers' Industrial Court case against Pact.

In September last year the Industrial Court found the workers had been unfairly dismissed and ordered Pact to reinstate them and give them six months back-pay.

The workers, members of the Paper, Printing, Wood and Allied Workers Union, thought the threat to their houses was over. They intended to start repaying their bonds and negotiate with the banks about the arrears.

Their hopes were dashed when Pact decided to take the Industrial Court decision on appeal.

Meanwhile, most of the houses have been repossessed by the banks and in some cases, the houses have been resold and eviction notices served.

PPWAWU General Secretary Sipho Kubheka this week criticised Pact for trying to intimidate its employees.

"Even after winning the Industrial Court case, our members have had no relief. It is scandalous that a state-linked employer like Pact should treat its employees like this," Kubheka said.

The workers now refuse to leave their homes.

The Mamelodi Civic Association also supports their stand.

MCA media officer Pasty Molefe says the civic will take action to prevent people from being forcefully evicted.

Pact director Louis Bezuindenhout told City Press there was nothing Pact could do because they also faced financial difficulties.

"Lawyers for the union suggested that Pact pay the bonds until the outcome of the appeal, but this is impossible as we do not have the money," said Bezuindenhout.

"There is nothing we can do until the outcome of the appeal. We keep approaching the Industrial Court for a date, but we haven't heard anything yet," he said.

For one homeowner there was a sigh of relief on Friday when the Perm agreed not to auction his home.

After City Press explained the situation to the owner on Thursday, they agreed to postpone the sale in execution of Silas Mathebula's home until the outcome of the appeal in the Industrial Court.

City Press put a series of questions to Saambou, but had not received a reply at the time of going to press.
It's a hair-raising wait for wigmaker

THEATRICAL wigmaker Joyce Motaung has worked for Pact for the past 25 years. This week Joyce, 50, sat anxiously at home, dreading being evicted from the house she has lived in for the past five years.

She knows her house has been sold on auction by Saambou building society, but refuses to move.

"We are all in the same position. We have nowhere else to go. It is not our fault we are in arrears. We won our court case, but we are still not back at work," said Joyce.

"I have worked hard all my life to make a good home for my children and grandchildren. It would be very unjust for us to lose our home now," she said.

All the workers whose houses have been repossessed by Saambou and other building societies share Joyce's view. They refuse to vacate their repossessed houses and say they want to pay their bonds again as soon they go back to work.

I WON'T BUDGE ...
Joyce Motaung.
SAM Neth, 55, has voted his life to football. After a long career as a cleaner, he bought his first house, a modest one-bedroom flat in the heart of the city. He built on it a lounge and dining room and put a new roof on it. When he was hired by a local newspaper, he could buy his first car. Now he has lost his job, but he is content. He says: "I will never leave here."
VALUE FOR YOUR MONEY

The road to R4m

By HENRIQUE ODENDAAL, a Fellow of the Institute of Life and Pension Fund Advisors, and senior manager, sales development, at Sage Life

CLIENTS often ask if they can gain greater personal benefit from business profits and reduce the tax burden on their companies or close corporations.

Tax deductibility can be maximised in several ways on contributions to deferred compensation and pension, provident and retirement annuity (RA) funds.

The best combination depends on the situation and objectives of the client. But the ultimate personal benefit to the business owners and the increased tax deduction can be dramatic.

Example

To illustrate the advantages of using these life assurance retirement plans (the benefits are payable any time after age 55), I give the example of two directors of a small manufacturing company. They live comfortably and each has an annual taxable income of R20 000. The company has a sustainable annual profit of about R100 000.

They do not like their “annual donation” (their words) of R48 000 company tax. They want suggestions about how to reduce their company tax but leave their taxable incomes at the present R20 000. They have no retirement funds.

The first thing they can do is use RAs.

But we want to remain on R0 000 taxable income — it’s the company tax we want to reduce,” they say.

They can reduce the company’s taxable profit by increasing their individual taxable incomes by the amount of the RA contributions. This leaves the R0 000 intact (in fact, none of the proposal reduces their take-home pay by a cent — see table). But they want more.

Next, the company can contribute up to 10% of their increased remuneration to a deferred compensation plan for them and deduct the contribution for tax purposes.

They can also take advantage of a non-contributory provident fund, the company contributing 20% of their salaries.

Steps

The clients look contented. But one asks: “I don’t suppose there is any chance of getting more?”

Of course there is — that is why FILPA can also stand for Fellow who Institutes Life and Pension Funds Admirably. Many little steps may be taken to achieve the big objective (totally misquoting Neil Armstrong).

They can introduce a contributory pension fund with no company contributions and add a further annual personal payment of R1 800 for past service. Their salaries will be increased by the amount of these contributions, as was done with the RA.

The clients look bewildered — each step has to be explained carefully. Eventually they smile, knowing that a tax-deductible total of R74 842 (R67 421) each is being invested for them.

With 20 years to go to retirement, the clients ask what they will receive then. Their smiles grow broader when told that even without increasing contributions and assuming 15% growth a year, they would each have a fund of about R4-million.

SMI offers suitable candidates the opportunity to market the world’s foremost personal and professional development programmes.

As an SMI distributor you can control your future, get complete training and have the benefit of 32 years of experience together with continuing back up and support. Applicants should be able to communicate effectively at all levels.
Not much bond relief

DO not expect too much relief from your bank or building society as a result of the cut in mortgage bond rates announced last week.

The time is simply not ripe yet for substantial declines of interest rates in South Africa. Our inflation rate is too high and our reserves too vulnerable.

The cuts, initiated by Standard Bank and First National Bank, are regarded in informed circles as part of a strategy to put the profit margins of their biggest competitor, Absa, under pressure. The United and Allied are part of Absa, which means that a large part of its assets consist of home mortgage bonds. So if Absa reduces its bond rate it could have a substantial negative effect on its profits.

In the case of Standard and First National mortgage bonds constitute a relatively small proportion of their business, which means the cuts will have little affect on their profits.

In any event, be grateful for small mercies if your bondholder is one of the rate cutters as it will save you a few rand a month in interest. If at all possible, resist the temptation to reduce your monthly instalment as earlier repayment of your bond is an excellent way of saving money.

MONEY TALK

Do not be tempted by the attractive offers to switch your bond to one of the rate cutters. Even if they are prepared to pay your costs it may well not be worth your while going through all the Hassles to transfer your bond, insurance and other business to a new bondholder. In any case you will probably find that after a few months the rate will start to creep up again as the “rate war” subsides.

This brings me to another important point. If you have an overdraft, check regularly whether or not your bank is still charging the original rate agreed upon. They have a habit of quietly pushing up rates.

Most banks are prepared to supply you with your latest overdraft rate. If it is above the rate originally agreed upon react immediately. It is most likely that your bank manager will reduce the rate as he knows his competitors are only too keen to get your business – provided, of course, you conduct your account in a responsible manner.
Rivals hit Absa where it hurts

THE one-percentage point cut in mortgage interest rates could cost banking giant Absa about R240-million in lost revenue this year - directly off its profits.

Its closest rivals will get off more lightly. Standard "losing" about R40-million and FNB about R14-million.

These figures emerge from calculations based on the size of each institution's home-loan book and the assumption that each pays depositors an average of 18% interest.

The institutions are now borrowing at an average of about 18% and lending at 20% to home-buyers. That gives them a gross margin of four percentage points. But when bond rates drop to 19% on March 1 gross margins will fall to three percentage points.

This means that their gross margins in rand terms will drop 25%.

Hardest hit will be Absa - Standard and FNB have a relatively low exposure to home loans.

FNB's home-loan book of about R5-billion accounts for only about 14% of its total advances. Standard's book of about R8-billion is about 18% of advances.

But home loans from the Absa group, including newly acquired Bankorp, amounted to about R25-billion - 40% of its total advances.

A far larger proportion of its business will have to bear the 25% reduction in margins.

United

Institutions, such as NBS and the Perm which previously operated as building societies, are even more vulnerable than Absa to a rate cut. Home loans account for about 80% of NBS's advances and 80% of the Perm's.

Analysts say one of the reasons Absa bought Bankorp was that it would to some extent offset its heavy exposure to home loans through United. Bankorp has only a small home-loan book.

Analysts say revenue lost through the lower bond rate will be regained if the Reserve Bank reduces bank rate.

Some bankers expect an announcement about bank rate in the next few months. One says it could come after the inflation figure for January - provided the rate is at least a percentage point below December's 16.3%.

The Reserve Bank reports that deposit rates have been falling since February 1990. As usually happens in such circumstances, banks have not reduced their lending rates at the same tempo. As a result their margins have been widening.

Analysts say the bond-rate cut is justified by fundamentals in the money market. But they acknowledge that the situation gave Standard and FNB an opportunity to hit Absa where it hurts most in exchange for receiving a less painful blow themselves.

The timing of their announcement shortly after Absa's takeover of Bankorp was probably not entirely fortuitous.

Absa officials were unavailable for comment.
Danie Cronje back with old boss Piet

By JULIE WALKER

Badenhorst realised how vulnerable the United Building Society was to the moves by banks to enter the home-loan market. That is why he took steps to broaden the United's base," says Mr Cronje, who came to Absa through Volkskas' inclusion after being chief executive there since 1988.

Mr Badenhorst steered United to its current position as part of an R10-billion banking giant. He retains the top slot at Absa.

The Bankorp takeover brings to Absa several key divisions complementary to Absa's strengths.

The JSE seemed nervous about the deal, initially selling Absa.

The concern is about the quality of Bankorp's debtors. Absa has bought Bankorp at 312c a share, a small discount to stated net asset value of 317c.

Barclays

Bankorp's major shareholder Sankorp had 86% of the scrip. Bankorp's stock-market price was not relevant in the negotiations.

Sankorp and Rembrandt-backed Financial Securities will eventually each have about equal stakes of 25% of the enlarged Absa.

Mr Cronje says Mr Badenhorst approached Sankorp's Marinus Daling in November about the possibility of a deal. The parties thought about it over Christmas and talks resumed two weeks ago.

Also at Absa is former Barclays SA chief Bob Aldworth, now deputy chairman of Allied.

Tony Norton, outgoing president of the JSE and with a long career in merchant banking, is due to take over at Senbank.

Mr Cronje says: "It is an exciting challenge for all of us."

Time is on his side — 13 years junior to his co-deputy. Mr Cronje will be all fired up to be worthy of succeeding to the top spot of the nation's biggest group.

SOME of the biggest personalities in banking came under one umbrella this week when Absa (Amalgamated Banks of SA) bought Bankorp.

More than ever before, it does not pay to burn one's bridges behind one in SA's small banking community.

Good terms have been maintained over the years since Absa deputy chief executive Danie Cronje left the employ of Trustasbebank and his boss Piet Liebenberg.

This week the two were nominated joint deputy chief executives of the banking group that becomes SA's No 1. Mr Liebenberg became chief executive of Bankorp two years ago after a spell at Nedcor. Nedcor bought Finansbank in 1986 to secure Mr Liebenberg as its chief.

Names

Absa was formed from the merger between United, Allied, Volkskas and Sage Financial Services a year ago. Bankorp houses Trust Bank, Seabank and Bankfin. Both groups have undergone rationalisation and uncertainty, particularly in staffing.

Even Mr Liebenberg has had to accept a demotion. He told Bankorp staff members this at a conference announcing the deal.

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CONTRARY to market talk, Absa’s direct and indirect stakes in Rand Merchant Bank have not been sold in the wake of this week’s banking shake-out.

Absa houses two merchant banks now that it has taken over Bankorp, owner of Senbank. It already had Absa Merchant Bank.

Absa has a direct 13% in RMB which was held by the Allied Group. Allied became part of Absa last year. Absa also has a major slice of Sage, which owns another 20% of RMB.

Absa management declines to comment on whether the 13% stake has been sold or offered for sale. An RMB spokesman says he is unable to comment on the actions of shareholders.

But market talk is that the 15% is for sale — at a price. RMB is not listed, so a market rating is not visible.

One banking analyst suggests that in terms of the informal, over-the-counter market in RMB shares, Absa’s 13% stake is worth between R132-million and R136-million.

It can be expected that Absa will require a premium on this value for its strategic stake. The analyst says RMB shares are always in demand because of the bank’s excellent record.
MAN AT THE TOP

Morris Bernstein, time for laughter

By JULIE WALKER

AMID full boxes and empty bookcases Morris Bernstein finds time to laugh as he moves into the managing director's office at Fedlife.

"I've just been to a conference with the life-office staff," he says.

"I said good-bye to old friends I met only a day and a half ago. It was wonderful." It is hard to imagine Dr Bernstein not getting on with anybody.

Fresh from Sage Life, Dr Bernstein accepted an offer from life-long friend Arnold Basserieb to run the life office of the expanding Fedscope group.

Drive

"Sure we talked long about whether there was room for the two of us, both being fairly high profiles." Until recently Fedlife was the major part of Fedscope. Now that the group has made alliances with Sasolbon, Investec and elsewhere there is a definite need for a group executive free of the day-to-day operational duties of the life arm.

It surprises that the R4.5-billion Fedlife is actually twice as big as Sage Life in terms of assets -- perhaps an indication of the success of the image-promotional drive undertaken by Dr Bernstein in his two years at Sage.

He joined that group on returning from a brief emigration to Australia after many years at Southern Life.

"When I came back in 1989 I sometimes asked myself why I had returned. SA was on the road to nowhere -- every news item was a divestment or an airline stopping flights here or yet another sporting links ban.

"That was before President De Klerk's day. Now, we're on the right road even if it is a bit rocky. There's bound to be a lot of jockeying for positions, but I'm really positive about some kind of settlement being reached."

He says he and Mr Basserieb will work closely together.

"We are more likely to err on the side of overcommunication. I won't go into this job like a bull in a china shop. A life office's real assets are its people and I see it as a challenge to co-ordinate their roles."

China

Does he fear that life offices might be politically vulnerable in the new South Africa?

"The whole industry is aware of acting responsibly and doing what it can for the community. We do have the financial muscle and all the players are willing to provide funds -- on a commercial basis.

"Our business is the creation of wealth and for many millions of South African policyholders it is the only avenue available.

"We recognise the need to be active on social issues and the industry is far more focused than it was five years ago.

"Corporate social responsibility is no longer a long-term nice-to-do issue, but one of short-term must-be-done."

Forces

Dr Bernstein ponders on what is needed to bridge the gap between the funds and their responsible social investment.

"When it becomes a commercial and not a political issue and the security forces can represent a representative government, then we will see some progress."

Dr Bernstein did not finish unpacking as I left -- "Another meeting. Everybody here is so friendly.

"No I don't know the fax number -- I haven't even found the fax machine yet."
BoE cuts into rates war

By FRED ROFFEY

The Board of Executors has joined the bond war and, in a surprise move, is offering selected borrowers lower rates than are generally available.

The Cape Town-based banking group hopes to secure a niche in the market with loans of R250 000 and more for homes worth at least R500 000 in prime residential suburbs.

The rates are pitched at between 17.5 and 18.5 percent, according to clients' credit ratings.

According to BOE Merchant Bank's assistant general manager, Mr. Richard Harman, other financial institutions offer rates of between 19 and 20 percent to most borrowers.

"A reduction of 1.5 percent in the interest rate payable on a 20-year, R200 000 bond saves R34 386 overall or R351.61 a month," he said.

Lower

The Board of Executors in Cape Town has had a number of applications. It is expected the scheme will be in force at BOE branches in other major centres by the end of the year.

The announcement comes as major banking institutions follow moves by First National Bank (FNB) and Standard Bank to cut mortgage rates.

Amalgamated Banks of South Africa (Absa) said its Allied, United and Volkskas divisions would lower home loan rates by one percentage point.

The new standard bond rate of 19 percent will apply to existing and new mortgages from March 1.

Nedbank is to reduce its bond rate to 19 percent from March 1. The SA Perm, Natal Building Society and EP Building Society are to announce their new rates soon.

Boost

Some banking experts say the speed with which cuts are being introduced suggests concern about competition from Absa, which announced its R1.3 billion takeover of Sanlam-controlled Bankorp earlier this week.

The new financial services group is expected to grow into a R100-billion banking empire over the next few years.

It includes United, Allied, Volkskas, Trust Bank and Sanlam. The injection of financial muscle will give the group a competitive edge, particularly those sectors that are active in the home loan field.

The acquisition of Bankorp has boosted Absa's assets base to R87 billion, compared with Standard Bank's R55 billion, First National Bank's R64 billion and Nedcor's R42 billion.

Banks and building societies are to hold more head office meetings next week to discuss the developments.
Persistent signs of a weak US economy and disappointment surrounding US President George Bush's State of the Union address last week pulled the dollar down and saw the rand strengthen 6c mid-week. It closed slightly weaker on Friday at R2.8048 from Thursday's close of R2.7948 and up on the previous week's Friday close of R2.8113.

**Bond cuts 'will not affect Bank rate'**

**TIM MARSLAND**

RESERVE Bank Governor Chris Stals says he welcomes bank moves to drop bond rates, but this will not affect any decision to cut the Bank rate.

In an interview on Friday, he said economic indicators would have to "fall in line" before the Bank lowered its rate, currently 17%.

Indicators such as money supply and gold and foreign exchange reserves were moving in the right direction, but high inflation remained an obstacle.

However, the Bank would not necessarily be watching the consumer price index, due around February 16, to decide when to cut rates. "Things could change next week. I do not know myself when the time will be right."

The Bank was reluctant to cut the rate too soon, as this could have the psychological effect of having people believe it had given up the fight against inflation.

Stals was pleased most banks had dropped their bond rates, which reflected the relative liquidity in the market. It promoted healthy competition, and if banks could afford to cut their rates, they should.

□ The Fern has joined other major financial institutions, and has reduced its home loan rate to 19% from March 1. -- BDNS.
Public Deposits income falls to R31.7m

CAPE TOWN — The Corporation for Public Deposits, which accepts short-term deposits from public sector institutions and is wholly held by the Reserve Bank, generated a net income of R31.7m (R35.6m) in the year to end March 1991.

The corporation had call deposit liabilities of R5.27bn (R5.52bn) at the end of its financial year.

Of the net income of R31.7m, R2.8m (R12m) was transferred to reserves and R28.5m (R23.4m) paid into the State Revenue Fund. (58)

The corporation's report was tabled in parliament on Friday. Depositors include the National Supplies Procurement Fund, the Department of Posts and Telecommunications, the Central Energy Fund and Equalisation Fund. Most of the corporation's investments were in assets with maturity of less than a month.
Investors seeking say over curators

CAPE TOWN — A group of about 350 dissatisfied Masterbond investors will demand the right to sanction or veto the actions and recommendations of the group's curators when they submit their report to the Cape Town Supreme Court on Wednesday next week.

A postponement of the hearing may be requested to give their legal representatives an opportunity to study the report.

The creditors — mostly elderly with investments totalling about R10m — voted unanimously at a meeting on Friday in favour of legal representation at the court hearing. They also decided to request a full investigation of the financial affairs of former Masterbond chairman Koos Jonker and of the Jonker Family Trust.

Johannesburg attorney Allan Levin told the meeting he doubted whether the curators' report would satisfy creditors.

The general opinion was that nothing of consequence had been done since the take-over of the group by curators, he said.

He said creditors were dissatisfied because the curators had told them very little about what was happening to the group, and called for a commission of inquiry into the affairs of Masterbond.

Levin questioned whether the authorities had taken necessary steps to protect investors from Masterbond's activities.
Allegation of ‘silent apartheid’ as white landlords refuse black tenants

BLACK people seeking rented accommodation in elite suburbs near the city are being blocked by “silent apartheid” imposed by apartment owners.

Estate agents said some flat owners believed renting their properties to blacks could lead to overcrowding and rent boycotts and insisted white tenants be found.

Sowetan Correspondent

A spokesman for Comp-U-Rent said most estate agents did not state that properties were exclusively for whites, but in fact some privately owned dwellings were so reserved.

"The majority of our clients are black and if agents or individuals insist on whites only, we refuse to include them on our lists of properties," he said.

Steer and Company director Mr John van der Spuy said his agency had not encountered a reluctance by apartment owners to rent flats to people who are not white.

"The only thing that owners have insisted we check on is that the person who is renting an apartment can afford it. We also make sure the flat is not overcrowded," he said.

However, a 40-year-old receptionist who has been looking for a flat to rent for six months felt she was being discriminated against because she was black.

A computer letting agent had advised her that a particular agent was looking for a tenant for a bachelor flat in a block in Regent Road, Sea Point.

A white man who was moving out of the flat was told that she could not rent it because she is not white.

The agent said: "You must understand, it is not our decision. The body corporate has decided that no blacks are allowed to live there."
THE MONEY MARKETS  by Sheridan Connolly

Dealers hope for cut in key discount rate

ACROSS the board cuts in mortgage bond rates by most major SA banks last week raised speculation about a possible lowering in the key discount rate, but once again, the Reserve Bank remained tight-lipped.

First National Bank (FNB) was the first to announce a cut in its home loan rate and was shortly followed by Standard Bank. With the bond war under way, most banking institutions were obliged to act in bringing bond rates into line at 19%.

Some dealers said the bond rate cuts were an attempt by FNB and Standard to challenge Absa's increasing share of the bond market while others saw it as a move by the banking sector to pre-empt an overdue cut in discount rate by the Bank.

In a similar scenario in March last year, the Reserve Bank lowered its discount rate one day after FNB cut its home loan rate. An easing in the prime overdraft rate followed the Bank's discount rate cut.

The money market has discounted for an official easing over the last few weeks, and rates have fallen steadily. All the relevant factors are in place and the market is ready and waiting for the Bank to move, a senior analyst said.

Money market conditions have seen the Bank actively pursuing open market operations in order to drain liquidity from the market and dealers say rates have been moving sideways while the market waits in anticipation.

Dealers said they expected rates to hold out at their current levels ahead of month-end. Rates have come down sharply in the last few weeks and cannot go much lower, they added. The small upward correction in the SA rate last week showed that rates had bottomed-out.

Reserve Bank Deputy Governor Jaap Meijer reiterated the Bank's intention to sit tight until there was a visible drop in the rate of inflation. Meijer hinted at a possible Bank rate cut but said there was only room for a half percentage point drop.

In the Bank's weekly Treasury Bill (TB) tender, the three month rate dropped to 16.02% as against 16.06% last week. Applications for the allotted R200m tender totalled R811m. The Bank said tenders at an average price of R29,905 were fully allotted. Towards the end of the week, the 96-day liquid SA rate was steady at 16.30% and overnight call rates were quoted in a 16.00%-16.75% range.

Trading activity in the capital markets was boosted by the news of the lower mortgage rates, and rates dropped sharply – the Eskom 168 dropped to 18.08% from an earlier 16.40% and the RSA 2004/6 dropped to 16.78% from 18.05%. By the end of the week, rates had edged higher with the E168 up to 16.85% and the RSA 2004/6 up to 16.84%.

* Simon Williamson's column, The Week Ahead, appears on Page 6.
Sanlam: We won’t pay out policies

Own Correspondent

JOHANNESBURG. — Sanlam would refuse to pay out insurance policies sold to seven men before the bizarre deaths of five of them last month, Sanlam chief legal adviser Mr Emel Linde said yesterday.

Witbank insurance salesman Mr Jacobus Kruger was quoted at the weekend as saying he would claim on the policies this week.

Mr Kruger and Mr Lucas Loubser are the beneficiaries of seven policies taken out by men to whom they had offered jobs. The men, along with another who had not taken out a policy, were being taken in a minibus to start work when it smashed down a ravine and caught fire.

Mr Kruger and Mr Loubser have since been suspended from Sanlam.

Mr Linde said the salesmen had not yet lodged claims, but because of information Sanlam had on the incident, the company would go into the matter carefully.

"As things stand at the moment, we will not pay," he said. "Payment will be suspended until further investigation by the police. If there are strong indications that a fraud was committed, naturally we will not pay."

A police spokesman said no arrests had been made.

The Witbank Civic Association is holding a mass meeting today and has warned of mass action in protest against perceived foot-dragging by the police.
Little hope of cut in prime rate

Despite banks and building societies having reduced loan rates by one percent, there is little hope of a cut in prime rate in the near future.

Reserve Bank Governor Dr Chris Stals said after a board meeting on Friday the Bank had no intention of reducing Bank rate until inflation was under control.

He said the Bank had no problem with commercial institutions reducing home loan rates as these were not linked to the Bank’s rate.

Dr Stals said all rates were market-driven and only became a problem when banks themselves had to borrow from the Bank at its official rates.

He said the market shortage was minimal and borrowings by banks were small, with central bank intervention limited.

However, he said that the prime rate and rates applicable to overdraft facilities, despite not being directly linked, were difficult to remove from Bank rate.

The central bank accepted there was liquidity in the market place, but felt that reducing Bank rate now would have a negative psychological effect, particularly with inflation still at 15 percent.

While other factors were falling into place, inflation still needed to be addressed. — Sapa.
Banks detail client portfolios to taxman

THE commissioner for Inland Revenue warned yesterday that his department was asking financial institutions to disclose their non-resident clients' investments to ensure that the full tax legitimately due was being paid.

The warning was made in a statement intended to clarify the tax treatment of non-residents' investments in SA.

However, the statement failed to revive a flagging financial rand, which slipped to a low of R3.48 to the dollar last week apparently as a result of speculation that Inland Revenue was cracking down more heavily on foreign investors. The unit closed little changed yesterday at R3.50.

In the statement, commissioner Hannes Hattingh reiterated that with certain exceptions — such as investments in gilts and semi-gilts — non-residents who derived interest from an SA source had the same obligations as South Africans to render income tax returns and pay taxes due.

The commissioner confirmed that the "Receiver of Heritage has the power to appoint a representative taxpayer to render an income tax return on behalf of non-residents and to remit tax which is due".

Many non-residents were unaware of their tax liabilities, he said.

Some smaller banks were recently reported as saying that Inland Revenue had already instructed them to withdraw the amount of tax due from non-resident clients' accounts.

This was interpreted as a sign that, in its efforts to find additional revenue sources, the tax department was tightening up on its implementation of tax legislation.

The commissioner's statement stressed that the "long-established" legislation enforcing the taxation of non-residents' investments remained unchanged.

The general principle contained in the Income Tax Act was that income tax was levied if interest was received by or accrued to a taxpayer from an SA source.

The source principle applied to all taxpayers, including non-residents and, briefly stated, meant that the actual source of interest was determined by the place where the credit was made available by the creditor to the debtor, Hattingh said.

"If, for example, the non-resident makes an investment directly in SA, the interest due is from an SA source. Where, however, the non-resident makes the credit available outside SA to the SA debtor and he (the debtor) is obliged, in terms of an agreement, to transfer the funds to SA for his account, the source of the interest is, in terms of existing tax law, outside SA."

The same rate of tax and tax rebates applied to residents and non-residents. There were exceptions to the principles.

Provided all the conditions had been met, interest payable to non-residents on stock or securities (including Treasury bills) issued by government, Transnet, any local authority, Eskom or the SABC was exempt from income tax.

Some double taxation avoidance agreements entered into between SA and other countries limited the tax due to a certain percentage of the interest.

SA did not have a withholding tax on interest payable to non-residents and although 10% non-residents tax on interest was previously levied, this was merely granted as a credit on assessment if the interest was subject to normal tax.
Over-the-counter property syndication

Three major independent investment portfolio management companies have linked up with TimeLife Property Investments Ltd — the property syndication arm of TimeLife Insurance — to establish the country’s first “over-the-counter” property syndication resale market.

About R500 million was invested in commercial property syndication last year, according to TLPI General manager Rowan Germany. He believes this is perhaps only a small percentage of the potential market.

“The full potential has not been realised because many investors, chiefly private investors and small institutions, have felt that they would not be able to liquidate their investments quickly enough if they needed money in a hurry,” he says.

“The development is a milestone for the property syndication market and should broaden the appeal of property as an investment, particularly for the man in the street.”
Questions on Masterbond

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<th>Political Staff</th>
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<td>CAPE TOWN — Douglas Gibson (DP Yeoville) has tabled in Parliament questions about the Masterbond crash.</td>
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The questions are:

- What authority investigated Masterbond schemes?
- Is government considering deposit insurance for financial institutions?
- Is government considering assisting Masterbond investors?
- Was any government institution derecuit in its duty? and
- Are Masterbond or Cape Investment Bond officials to be charged criminally?

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NINE men and a youth of 17 were arrested in Katlehong in the early hours of yesterday morning in connection with the recent attacks on schools and assaults on teachers in the area, police said.

They were being held for questioning before being charged.

The arrests follow a week of violence in which teachers at Katlehong schools were attacked and a lecturer at Kathorus College of Education was doused with petrol and set alight. The attacks led to the college and Kwa-Dukathole school being closed last week and to 19 white teachers being withdrawn from township schools by the DET, as it could no longer guarantee their safety.

Although the Katlehong Branch of the Pan-Africanist Students’ Organisation (Paso) praised the attacks, Paso director of information Waters Toboti said no Paso members were among those arrested.

Meanwhile, class boycotts continue at the Soweto College of Education as students protest against the college’s refusal to re-admit students who failed last year.

Sapa reports that on January 22 the regional chief director, Highveld region, of the Department of Education and Training, JH Buysen, said incidents at Kwa-Dukathole school since it re-opened on January 8 included:

- An attempt by pupils to forcibly take reports from a woman teacher. A scuffle ensued and threats were made to the entire white staff, who were withdrawn;
- Armed pupils intimidating staff;
- A pupil stoning a car and being arrested by police; and
- Fellow pupils protesting by smashing windshields of other cars, taking teachers hostage and marching them to the local police station where they demanded the release of their colleague.
Probe into legal and medical 'rake-offs' from fund

ALLEGED rake-offs by the medical and legal professions from the Multilateral Motor Vehicle Accidents Fund were being investigated by a commission of inquiry into the fund, the Minister of Transport, Dr P J Welgemoed, said.

"Specific investigations are being conducted into this," he said during the Second Reading debate of the Multilateral Motor Vehicle Accidents Funds Amendment Bill.

Mr Robin Carlisle (DP Wynberg) said in 1989/90 the legal profession had benefitted by R14-million from the fund.

Administration of the fund was a disgrace, with outstanding claims totalling more than R1-billion, Mr Wessels Nel (DP Mooi River) said.

"Malpractices are common knowledge."

He quoted a Sunday newspaper report which said: "Investigations have revealed millions are paid out to insurance agents without files being checked."

The amendment to the Bill would hardly be felt, but it nevertheless warranted support.

The Conservative Party refused to support the amendment, saying it did not adequately address allegations of fraud and misuse of funds.

Dr Welgemoed said he was unhappy with the fund's state of affairs.

Responsibility for the fund did not lie with the government or the motorist, but with the insurance agents.

Besides investigating the length of time it took to settle a claim, the commission was also investigating the levy on petrol which constituted the fund's income.

"At the moment it is four cents a litre for petrol and 2,3 cents a litre for diesel."

By 1996 it would cost 17,5 cents a litre on petrol and 9,5 cents a litre on diesel.

Mr Raymond Rades (NP King William's Town) said the Bill promoted good business practice. The amendment made provision for funds to be transferred from the Central Energy Fund to the MVA fund monthly instead of quarterly.

More than 100 000 claims were made every year of which 25 percent were successful. — Sapa.
Another fuel price hike hint to bail out bankrupt fund

MICHAEL MORRIS
Political Correspondent

A FUEL price rise could be in the offing as a result of the critical financial state of the government’s Multilateral Motor Vehicle Accident Fund (MMF), blamed in parliament yesterday on “mismanagement”.

Government energy sources acknowledged today that the present MMF levy of 4 cents in every litre of petrol and 2.2 cents a litre of diesel could be increased to bail out the ailing fund.

They were reacting to a warning in parliament yesterday from Democratic Party transport spokesman Mr Robin Carlisle that motorists should brace themselves for fuel price hike because of the “disastrous” state of the MMF.

His warning came in debate yesterday on the Multilateral Motor Vehicle Accident Fund (MMF) which, at April 30 1990, had outstanding claims of R1.6-billion.

Outstanding claims rose by 29 percent to 39 000 during 1989/90.

“The scale of the disaster is immense,” Mr Carlisle said.

Answering questions in parliament yesterday, Minister of Transport Dr Piet Welgemoed said he expected an interim report from the judicial commission appointed last year to investigate the MMF “in the first quarter of this year”.

He said “disquieting allegations” about the Fund and the handling of claims by agents prompted the appointment of the judicial commission.

Asked about a possible fuel price rise, he told MPs this was not the responsibility of the Department of Transport.

Mr Carlisle warned that whatever the commission’s findings, “motorists had better brace themselves for a further increase in the price of fuel to resolve yet further instance of government mismanagement”.

National Energy Council sources said today said a price rise was definitely not a certainty. Much would depend on the findings of the judicial commission.

It was also possible that contributions might be made from the Equalisation Fund to stave off a price rise.

However, they conceded that there was a direct link between the MMF and the fuel price through a levy which formed part of the fuel price structure.

The levy was last increased in November 1990 from 3.4 cents to four cents in every litre of petrol and 1.9 cents to 2.2 cents in every litre of diesel.

It was not up the National Energy Council to determine the scale of the levy, the sources said.

One source added: "The fact is that if it is necessary to boost the MMF’s income, and if contributions are not made from the Equalisation Fund, the levy in the fuel price will have to be increased."

In his statement yesterday, Mr Carlisle blamed the state of affairs in the MMF on “years of mismanagement”.

“It is now common cause that crooked agents and attorneys have had a field day.

“Indeed, the legal profession is the second biggest beneficiary of the MMF, raking in R154-million in 1989/90. Their share of outstanding claims could be as much as R248-million.”
Property Guide

COMMERCIAL & INDUSTRIAL

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The Steel Wednesday, February 5, 1992

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The country is now facing a slowdown in new development plans. Welcomed.

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Note: The above table shows the actual and real values for industrial rentals for the year 2019.
Bloubosrand home sales ‘collapse’

Squatter row leads to freeze in new bonds

FINANCIAL institutions were refusing to grant new bonds for properties in Bloubosrand in Randburg since the Transvaal Provincial Administration’s (TPA) move to relocate squatters to the area, estate agents said yesterday.

United Bank GM Kevin Gibb said until the situation in the area became clearer, "we will not be appointing any new bonds". The proposed squatter settlement could have a major impact on house values.

Other banks were reluctant to comment on their policies and said they would consider each application on merit.

But estate agents operating in Bloubosrand said they had contacted a range of banks and had been told categorically that no further bonds would be granted until the situation was resolved. The agents said some institutions had withdrawn financing that had been previously approved.

The TPA’s plans permanently to relocate 760 squatter families from nearby Zevanfontein to 4ha of Bloubosrand Extension 1 have been put on hold for a week while the provincial authorities consider a scheme to change the status of the site from a shack settlement to that of a formal low-cost housing development.

The TPA says it wants to consult all parties involved following the future in the wake of its announcement that it was expropriating the land to house the squatters.

Residents in the area, who believe their properties would be devalued and crime would increase, have threatened to take legal action against the TPA and to refuse to pay rates. They have demanded the resignation of the Randburg Town Council which agreed to the move.

KATHRYN STRACHAN

Angry home-owners are maintaining 24-hour vigils and manning barricades to prevent squatters moving into the area.

The squatters’ move to Bloubosrand followed mounting opposition to their temporary removal to Diepsloot.

United Bank’s Gibb said the situation was very unusual. United would be assessing the low-cost housing proposal and effects on nearby homes.

He said a person who had bought a house in the area with United financing had already dumped the house keys on his desk and abandoned the property in disgust. Other home-owners had threatened to do the same, he said.

Mike Scherfennan, of Realty Estates said three of his sales had collapsed since Thursday and he had told aspirant sellers there was no sense in trying to market their houses in the current climate. He said financial institutions believed that if the upgrading of the disputed area from squatter settlement to low-cost housing was allowed to proceed, the value of Bloubosrand properties would still be substantially reduced.

Another estate agent, Dee Monteith, said business had been good before the Transvaal administrator’s announcement, but no one potential buyer had arrived for a house showday on Sunday. In the past four days she said she had had four deals worth R400 000 cancelled after banks rejected bond applications.

She said banks were holding back until they had heard the TPA’s final decision, which is expected on Monday.

Bloubosrand Action Committee chair-

Bond freeze

man Peter Bantock said a meeting between residents and squatter representatives planned for last night at the Randburg Town Council had been cancelled by the council with no explanation.

Meanwhile, industries in the Kya Sands area, adjacent to the proposed relocation site, have added their voice to the protest.

Bloubosrand Action Committee business liaison officer Gary Noble said yesterday it had received about 50 letters from industries saying they intended to boycott rates and taxes in a protest against the move.

At a meeting with the committee yesterday, industry representatives said they were unable to provide employment for people already living in the area, and could not absorb more people.

SAPA reports that Louis de Waal (DP North Rand) said compromise was the only way forward in the highly emotive Zevanfontein squatter issue.

"That means acceptance that North Rand will have low-cost housing but that time has to be bought, at all costs, to plan and implement this sensibly," he said.

De Waal said the impact on property owners’ investments could not be ignored.

"If that’s to be done, the state has to budget, at central government level, to make good the losses."
RMBH expects its business to pick up.

RMBH Merchant Bank Holdings yesterday announced a 21% increase in earnings to 23.6c a share in the six months ended December from 19.5c a share in the previous interim period.

The group would probably achieve a similar increase in profits in the second half of the year, its board said in a statement.

"We expect the recovery in the economy to be slower than most commentators expect and the demand for credit probably will not pick up significantly," MD Laurie Dippenaar said.

The group's net income after taxation and contingency reserve transfers rose 21% to R15m from R10.75m in the previous interim period.

The group decided to pay two dividends a year instead of an annual dividend. A maiden interim dividend of 5.5c a share was declared for the period under review.

All divisions performed satisfactorily. The international and capital market divisions' results were particularly gratifying, the board said.

There had been no noticeable deterioration in the risk profile of the lending book, it said.

"In formulating credit criteria, the board remains cognisant of the negative effect that the recessionary conditions and high interest rates are having on corporate cash flows."

Total assets held by the group fell 3.5% to R2.85bn from R2.95bn in the previous comparable period.

The board attributed the drop in assets to limited investment and lending opportunities.

The listing of Sun Ciskei, of which RMB was a minority shareholder, had increased the group's investments in listed shares by 61.7% and decreased its investments in unlisted shares by 6.8%.

The 70.7% plunge in gilt and semi-gilt stock investments was of no significance because they were trading stocks, and holdings fluctuated at the end of each reported period, Dippenaar said.
Inquiries for industrial space flood in

Widespread predictions of an industrial-led increase in economic activity seem to be borne out by significant increases in both letting inquiries and deals concluded for industrial space.

This is reported by a number of sources in the property market, including the industrial divisions of RMS-Syfrets, Old Mutual, Ampros, Barlow Rand Properties, RMBT, J H Isaacs and property brokers such as Landmark and Baker Street Associates.

Baker Street Associates managing director, Kevin Jordaan, says: "Many decisions on space were held over during 1991. During the first two weeks of 1992 the volume of inquiries and the number of deals concluded are significantly higher when compared with the same time last year. For some people, the signs of an upturn are already there."

Stability

"We seem close to reaching a situation where political stability and economic growth may be achieved. We could have already turned the corner. I think cautious optimism is justified," says Mr Jordaan.

While most other major industrial property owners confirm this trend, many hesitate to predict that it will be sustained. Although it may reflect some pent-up demand held off during 1991 which may soon be exhausted, there are some deeper signs warranting optimism.

Old Mutual Property Investment Manager, Ian Watt points out that industrial inventories, allowed to run low, are now due for restocking.

Mr Watt reports good occupancy rates for OM Properties' recently completed industrial and business parks owing to the company's policy of developing only after all or a substantial part of the new space has been pre-let.

Mr Watt predicts an upsurge in industrial activity which will produce increasing industrial rental levels and higher investment yields.

Once this happens, he believes there will be new industrial development in sought-after areas of Johannesburg and Pretoria where rentals achieved will reach R10 to R11/sq m during 1993.

He says favourable industrial areas include City Deep, Johannesburg and Hermanstad in Pretoria.

Mike Brown, a director of RMS-Syfrets industrial property division, reports that the regions where demand is highest remain Isando, Jetpark, Selby, Wynberg, Kramerville, Eastgate, Midrand and Benrose.

He says demand is less brisk in areas such as Alrode, Wadeville and Kya-Sand.

Neville Berkowicz, reporting in the January edition of The Property Economist, says that industrial rentals for smaller space have not shown any real growth in 1991 but that growth is expected during the second half of this year.

Mr Berkowicz believes that as far as small industrial space goes, cheaper lower-grade space will have to be taken up before newly built factories will secure tenants at higher asking rentals of up to R14/sq m.

Mike Brown is more optimistic and believes that tenants are in good supply for prime industrial space.

"Additional rental costs are more than recovered in greater production efficiencies in modern facilities in newer areas."
Violence deters foreign buyers

PROPERTY

INDUSTRY sources do not expect the existing residential market to be rescued by overseas buyers — at least, not in the short term.

In a Multi Listing Service (MLS) survey carried out for Business Day, Pam Golding Estates and the Seef Property Organisation said that despite excellent foreign interest in the SA property market, there was little chance of a surge in foreign buying until the threat of political violence was removed.

The companies — the two largest estate agencies actively canvassing overseas buyers — formed part of a survey on MLS members to determine the potential number of foreign buyers.

"While all of the members were optimistic that there would eventually be a strong foreign buying force, they felt this would only materialise once full political unity was achieved," said Seef Property Organisation director Rob McKee.

"While foreign interest in SA property is high, perceptions of SA still remain extremely negative," said Seef Property Organisation director Rob McKee.

McKee, who has just returned from a tour of seven countries to promote SA property, said all the television coverage of SA he saw during his trip projected confrontation and ignored the strides made towards peace.

Pam Golding director Cecil Golding agreed that the "shadow of violence" was the main factor discouraging foreign buying. The group supports offices in four European countries.

"In 1990 we sold 73 properties to overseas buyers, and this rose only to 75 in 1991. Early 1992 sales have been to Nigerian, Italian, German and British buyers," Golding said.

Seef Property also recorded a marginal improvement in offshore sales in 1991, which included three sales on the Atlantic coast in 24 hours. Two properties were sold to a German and one to a Monte Carlo resident.

Also acting against the local market were high interest rates, safer investment opportunities elsewhere and slow turnover of overseas properties.

"Last week's 1 percentage point interest rate cut for mortgage bonds will have little effect in stimulating foreign interest — large cuts are essential," McKee said.

About 700 Britons, all qualified for SA permanent residence, were unable to sell their homes in the UK, he said.

There were also stagnant markets in Germany and the US.

Sale of plots 'can ease backlog'

THE sale of more than 24 000 serviced plots lying unused throughout SA could significantly ease the housing backlog, says House of Representatives deputy director of housing John Hopkins.

The plots were financed with loans from the House of Representatives allocated for low-income earners, and range in price from R24 490 to R15 000.

"Local authorities own more than 90% of these properties, which are to be sold at cost to individuals who qualify for state subsidised housing. The money thus earned could be used to finance further housing," he says.

More than R300m of capital is tied up in these properties which are not being
developed because state funds for low income housing have dried up.

The authorities need to develop the properties now in the best possible way for the benefit of the community, Hopkins says.

The House of Representatives recently announced it would increase the maximum gross income and loan limit for qualifying individuals to R2 000 a month and R25 000 respectively.

"The loans, which apply to land purchasers only, are granted at a subsidised interest rate. The owner is then encouraged to build his own starter house that can be upgraded as income improves," he says.

To accommodate the needs of owners who are building for themselves, many local authorities have relaxed building regulations by allowing builders to occupy the site during construction.
Don't overstate income for loan

INDIVIDUALS who overstate their salaries so that they can get home loans from banking institutions run the risk of getting into financial difficulties sooner rather than later.

According to Pwem marketing manager Mr. Richard Ford, you should never be tempted to overstate your income in your loan application.

"You will not be fooling the financial institution; you will be fooling yourself, and risk running into financial difficulties sooner or later."

He said all people had only limited money to spend.

"Yet every day we face endless calls on our resources to provide for a variety of things for ourselves and our family."

He said determining how much you should spend on a house depends on whether you can afford the monthly instalment on the home loan.

He advised that visiting a building society or a bank for an advice would be ideal.

"There an experienced person will explain all the elements that make up the cost of owning a house, and explain the price level your income allows you," he said.

The simple rule of thumb, said Ford, was that for every R500 of monthly income, one could buy R10 000 worth of house.

"In other words, if you and your spouse earn R1 000 a month, you can afford a home of R20 000. At R1 500 a month, it will be R30 000, and R3 000 it is R60 000," Ford said.

He said another rule to remember was to multiply the monthly salary by 20.

"If your income is R2 000 a month, you should be able to afford a house costing R40 000."

Ford warned that it was important that the costs are explained to a prospective homeowner.

"This way you will avoid unpleasant surprises later on," he said.

He advised that a bigger deposit reduced the amount of the loan.

"The less you owe, the less interest you pay," he said.

When applying for a housing loan from the banks or building societies, take care to work out just how much you need. If you borrow too much the high interest rates could put pressure on your budget and you will find it hard to meet your commitments.
Alone on Rate Cutting
Banks Could Go It

By Steve Lohmeier
ANC slams bank's Eurobond issue plan

THE ANC yesterday strongly condemned the planned DM100m Eurobond issue by the Development Bank of Southern Africa.

In a statement, it repeated its view that a future democratic government would be compelled to weigh its obligations to service and take responsibility for debts contracted by the present government.

The ANC's criticism contradicts a statement by ANC president Nelson Mandela at the World Economic Forum in Davos, Switzerland, on Sunday in which he gave the assurance that a future ANC government would not renege on government loan repayments.

"We are obliged to honour these loans or else we will be in a great deal of trouble," he said.

Mandela also said any statement from ANC spokesmen that a future ANC government might not honour loans transacted by the present government represented their own views and not those of the ANC.

Yet in the official statement yesterday, the ANC said bond issues were "designed to impose a costly and heavy burden of international indebtedness on a future democratic government and the people of SA".

European bankers expect the issue to be launched tomorrow.

The ANC statement said government, which had an 84% capital interest in the Development Bank, was pursuing a systematic programme of foreign borrowing with a view to breaking existing economic sanctions, and in particular financial and investment sanctions.

The ANC appealed to prospective investors to desist from collaborating and participating in "unilateral restructuring of the economy by the outgoing apartheid regime".

Plans for the bond issue were made known at the end of last month. The bank said then that the ANC and all other interested parties had, over the past two years, been kept informed of its intention to enter the international capital market.

A Development Bank spokesman said the bank had noted the ANC's criticisms. It would issue further details of the bond issue at an appropriate time.

The ANC recently condemned government's 250-million ecu bond issue and also said it had learnt that Transnet planned to issue an "equity-linked financial instrument to foreign subscribers which has the potential for providing investors with a rate of return of as high as 25%.

Transnet said this 25% referred to Transnet's equity linked financial instrument (Elli) III issued in April last year.

The Elli instrument consisted of a 4.5% bull tranche and a 25% bear tranche, and as the instrument was issued in combinations, the average cost of funds for Transnet was 14.75%.

This was significantly lower than comparable two-year SA rates, Transnet said.

Transnet said the Elli issue was primarily aimed at domestic investors but foreigners were, of course, welcome to invest in it through the financial rand.

Because Elli was an SA-registered loan stock, denominated in rands, the coupon interest rate could not be compared with the eura placement in the European capital market, Transnet added.

Comment: Page 16
A Question of Co-operation
RMB poised to bag futures agency

RAND Merchant Bank (RMB) is poised to take over the agency agreement between SA’s largest international futures trading company Holcom Futures and top UK commodity broker Rudolf Wolff.

MD Laurie Dippenaar said yesterday discussions were advanced on the transfer of the agency agreement between Holcom and Rudolf Wolff to RMB on March 1.

The agency agreement covered futures and options broking of base metals and agricultural commodities.

RMB financial markets executive director Russell Louboer said SA was a commodity-producing country, there should be good growth potential. A move into international futures broking was a logical extension of RMB’s operations.

Several key Holcom staff members, including MD Rod Holmes and several specialists, would move to RMB.

Louboer said the proposed agreement should benefit all parties and their clients.

RMB’s infrastructure, technical know-how and capital base would facilitate the expansion of operations. Holcom would continue to administer existing long-term contracts and its board of directors and shareholding structure would be unchanged.

The transaction was subject to the approval of the Reserve Bank, he added.
Investors 'wary after collapse'

LINDA ENSOR

CAPE TOWN—The collapse of the Masterbond group had caused a serious ripple in the participation bond market as many investors had doubts about whether to invest in such schemes, Seef Commercial Properties Valuation manager Henry Goosen said yesterday.

He said in a statement it might become necessary for the regulations governing the valuation of property for participation bond purposes to be tightened up.

Goosen said it appeared that some of the Masterbond properties financed by participation bonds had been "grossly overvalued" which meant properties were bonded for far higher amounts than they should have been.

The institution inviting participation in its mortgage bonds was solely responsible for repayment, Goosen said.

He said most institutions used their own valuers, but it might be necessary for additional independent valuers to be brought in.
EP cuts bond rates for select clients

Finance Staff

The EP Building Society has undercut all other institutions by dropping its bond rate a further quarter of a percent to 18.75 percent. MD Trevor Jennings says the bond rate has been dropped, but only for certain clients.

"Those clients who are a more secure investment and use more than one or two of our services are entitled to a lower mortgage rate."

The drop to 18.75 percent will only be available to clients who utilise at least three other services and have bonds of over R50 000.

"All our mortgage rates are now associated with packages. If a client uses only two other services, he qualifies for a 19 percent rate," says Mr Jennings.

The move comes after last week's decision by First National Bank and Standard Bank to drop their mortgage rates by one percent from 20 to 19 percent.
KWV Investments pushes up earnings

KWV Investments, which holds 30% of both Distillers and Stellenbosch Farmers Winery, produced 6.6% growth in earnings -- a share from 10c to 15c a share for the six months to December 31.

The holding company, owned jointly by Rembrandt and KWV, declared a dividend of 16c, which also grew by 6.6% from 15c.

Net income before tax grew by almost 7% to R6,727m. The company paid no tax during the interim period.

After bringing forward R6,000 in retained income, compared with R12,000 the previous year, it produced 8% growth in distributable income to R6,787m.

Marshalls boosted by rentals

DURBAN-based property group Marshalls -- with a property portfolio valued at R677m by the J H Isaacs Group -- has increased earnings by 20% to 32.2c a share in its financial year to December 1991, even though turnover fell by 13.6% to R22,576m.

Sales and commission fell by nearly a quarter to R12,772m when compared with last year, but rental income increased 6.7% to R9,972m.

Pre-tax profits increased 27% to R5,927m.

Marshalls MD Peter Lonsdale said yesterday's high occupancy levels at its commercial and office developments in Durban, Pinetown and Cape Town contributed to group profits.

Its Jersey-based Confirming Division, which enables the company to issue letters of credit to overseas suppliers from non-SA banks with exchange control permission, also made a satisfactory contribution to profits, he said.

Lonsdale said the company successfully recovered its funds on the sale of the remaining assets in its motor and agricultural division.

These assets, which had not produced earnings throughout the year, comprised less than 3% of the group assets.

A Greytown-based Massey Ferguson dealership and an Eastcourt-based Nissan dealership was sold.

The group anticipated earnings growth this year. It declared a dividend of 21c (39c) a share covered 1.5 times.

Pyramid company Marshalls Controlling Investments (Marcons), which derives all income from its 68% holding in Marshalls, increased earnings by 30% to 15.3c a share and increased dividends from 9c to 9.75c a share.
Lower Cenprop interest reduces income

CENTRECITY Property Fund (Cenprop), the property unit trust managed by J H Isaacs, has reported a slight reduction in earnings in the year to end-December 1992.

Cenprop's net income grew by 12.5%, but interest earnings were substantially reduced as cash resources were committed to new developments. This and a lower than budgeted growth in turnover rentals resulted in a reduction in annual earnings to R25.36c (35.86c) for 1991/92.

Agreement had been reached for Cenprop to sell the Midtown property in Pretoria for R20.6m, yielding a capital profit of R8.8m, which would be committed to a new Hyde Park office development. Directors expect little change in earnings.

Capital Property Fund, also managed by J H Isaacs, increased its earnings by 7.4% to 32.11c (30.91c). It had invested R46m of the R90m raised in a rights issue, and the remaining R24m would be invested if current negotiations were successful.


**LEADING ARTICLES**

**ABSA**

**Digesting Bankorp**

New management will have to squeeze hard for profits

The real question to be answered about Absa's swallowing of Bankorp is whether Absa has enough management clout to force an adequate return in reasonable time out of underperforming Bankorp assets.

It is all very well to lump Bankorp's R32bn assets on top of Absa's R52bn and believe that combined market share will shoot to the 40% Absa says it desires. It now claims 25%. But that assumes near-parity in performance of these assets, which has not been the case.

Absa supremo Piet Badenhorst explains that banks' earlier invasion of building societies' territory provoked a counter-attack; the Absa-Bankorp merger is a powerful extension of that. Nobody would doubt that.

Moscow. He is more likely to draw his victims on to his own predatory positions. He is unlikely to be forgiving.

But how easily will he sit next to Piet Liebenberg, founder of Finansbank, saviour of Nedbank and the man charged by Sanlam to pull its overloaded banking interests out of the mire of Fred du Pleissé's administration? Our guess is that, despite protestations to the contrary, Liebenberg will progressively withdraw into other interests.

He has, after all, done well by Sanlam. He has reduced its banking exposure which grew out of the rescue of TrustBank and by selling to Absa has heaved the rift with Volkskas, which had refused TrustBank succour.

That probably means the former Volkskas chief, the youthful and survival-prone Danie Cronje, will be vital to the task ahead.

In view of progress to date and the deliberate, effective way in which the earlier mergers are being implemented, the larger group may well be melded together without any severe problems. The time scale, however, could be critical and it is possible Absa might have bitten off more than it can chew.

There is no mystery why Sankorp was persuaded to dilute its holding in Bankorp through the merger, just when executive chairman Liebenberg had completed his corporate surgery (write-offs of about R360m in financial 1980) and the group had swung back to a profit of R64.5m. Sanlam was over-invested in banking.

Sankorp deputy chairman and CE Martinus Dalig says Sankorp first had a negative view of the deal due to timing but concluded the proposal had to be taken up when offered.

Firstly, the deal, he says, made so much business sense. Significant synergies can apparently be unlocked. Secondly, a year or two down the line, Absa might, for whatever reason (for instance, a rationalisation with another group), no longer have been interested — which suggests that, in principle, Sankorp was a willing seller.

It is easy to see why Absa wanted to swallow Bankorp. Cronje recognises Sankorp would have cost more once it had completely regained profitability. Moreover, it will probably be more effective to absorb Bankorp now than after Absa has been completely rationalised.

Badenhorst says the next big step would have been merging three regional offices and that can now take in Bankorp's regional offices. A later takeover would have meant repeating the process. Cronje offers another example: Bankorp's superior corporate cheque system will obviate the development of such a system within Absa.

In market share, Badenhorst says Bankfin and Sanbank will make up for Absa lagging in two areas: consumer credit (where it had only 10%) and corporate finance. Volkskas and Bankorp branches are geographically complementary. Badenhorst says Absa does not intend to close any profitable branch or do away with any business names as each has a loyal following, including TrustBank.

The extent to which the merger will tilt the balance of the enlarged Absa from housing finance to banking is startling. At end-

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FAIR EXCHANGE?

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<th>Absa</th>
<th>Bankorp</th>
<th>Change</th>
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<td></td>
<td>Before</td>
<td>After</td>
<td>% change</td>
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<td>Earnings per share</td>
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<td>Dividends per share</td>
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Source: Absa
Maybe the ANC does not fully understand the consequences of what it did in Davos this week. The bland face on nationalisation its president Nelson Mandela showed to international businessmen was belied by a statement from the ANC prepared for a panel discussion, which apparently did not take place. Mandela talked for too long.

The statement makes very clear that for all its talk of partnership with business and the importance of market forces in a mixed economy, the ANC has not moved away from nationalisation. If anything, its position has solidified.

The statement says that the ANC will single out what it calls the five giant conglomerates and to the extent that they are not investing in a manner which meets with ANC approval, they will be nationalised and their investment policies altered accordingly, to fit the ANC’s idea of social fulfilment. That doesn’t include making a profit.

Here is an extract: “Among the range of options we will consider is nationalisation within the framework of ensuring that key industries invest in the economy so as to strengthen it ... SA enterprises are, at present, owned by a tiny clique controlling five giant conglomerates. Taking some key enterprises into public ownership will itself be a major step towards overcoming ... inequality.”

Well, nationalisation has not yet strengthened any enterprise. The danger of collapse has been too evident in eastern Europe and Russia to be taken lightly. Nor has it brought equality, other than in poverty. But perhaps that is beside the point.

The mystery is why Mandela did not skip his diatribe on poverty in general and in Africa in particular — it’s been said by almost every African leader repeatedly before — and concentrate on what prospective investors really want to hear — the unequivocal ANC policy on nationalisation.

Of course, it is possible that President FW de Klerk persuaded him at the last minute that a united front would be more beneficial. If that be so, and Mandela fell for it, he has done the cause of prosperity in Africa much harm.

For the panel discussion notes have already had wide circulation. And the absence of any reference in his main address to the potent nationalisation policy they espouse could be interpreted as a lack of not only moral courage but integrity.

The interpretation among international investors is simply that the ANC is saying that any blandishment will do to get investors in and then, when it (the ANC) is in power, it will sock the suckers with nationalisation.

This interpretation is given further substance by the fallacious assertion made in the discussion document to justify nationalisation: that large corporations are not investing either sufficiently or appropriately but are spiriting profits out of SA, to the disadvantage of the poor.

To begin with, concentrations of ownership usually occur because of the success of investment policies, which implies that they must also have been reasonably appropriate. Secondly, private-sector investment has continued despite the recession of recent years. It is government’s capital spending that has been curtailed.

Thirdly, one reason for lack of more buoyancy in domestic investment has been the trade sanctions campaign of bodies like the ANC and the financial sanctions imposed for other reasons by international banks, led by the Americans. It has been the cause, too, of domestic capital flight.

Fourthly, the disinvestment campaign supported by the ANC had to result in a greater concentration of ownership. Indeed, Harry Oppenheimer warned in a speech in the US in the early Eighties that all that disinvestment would achieve would be to make men like himself even richer.

If SA enterprises had not been ready to pick up the pieces after the many US companies pulled up roots and departed, black workers would have suffered even more.

That argument, of course, carries little sway with the ANC and fellow-travelling clergymen like Archbishop Desmond Tutu. They have repeatedly chosen the path to power rather than the more humble and difficult way to the alleviation of suffering and poverty.

In short, all the supposed economic shortcomings the ANC complains about now are the logical consequences of the destructive, inappropriate and indeed inhuman policies it propagated. Wise men like Alan Paton have repeatedly pointed this out in the past when refusing to support trade sanctions.

What the ANC has done at Davos indicates that an economics or business forum running parallel to Codea would most likely be futile. Economic issues are today at the cutting edge of political division. They should form an integral part of the deliberations at Codea itself, not be relegated to some inferior chamber where they can conveniently be marginalised.

The ANC doesn’t want them at Codea so it can indulge in legerdemain. The Nats don’t want them because their conversion to free enterprise is too recent to be anything but superficial. The danger is — as Schumpeter feared in a broader context and at another time — that free enterprise will be diminished or abolished by default.
March 1991, Absa's book was still heavily loaded towards home loans. Of total advances of R38bn, mortgage lending was R22.7bn — just short of 60%. Adding Bankorp's advances and other accounts of R22bn at end-June gives a R60bn total in assets.

Making the most of Bankorp's assessed tax loss of nearly R300m must have appeared attractive to both parties. This may be legally achieved, without falling foul of the rules about trafficking in assessed losses, by merging other banking business with TrustBank's (where, presumably, most of the loss is located).

Nagging doubts remain whether Bankorp is being candid about its motives. Could the real sweetheart have been the chance to gain control of Momentum Life, which, many observers believe, Bankorp's parent Sanlam considers a potentially

The holdings of the mine pension funds, Sage Financial Services and financial securities held directly in Absa or indirectly through Universa are pooled to give Universa a 30.41% voting capacity.

Bankorp's three arms

Sanlam (via Bankorp) 85.4%
Bankorp
TrustBank
Senbank
Bankfin

Bankorp's Daling: might have preferred to wait

with Mutual, Standard with Liberty and FNB with Southern. The big four will now slug it out. Stanbic chairman Henri de Villiers says his group is "big and ugly enough." FNB MD Barry Swart says Absa is clearly vulnerable in mortgage lending, where it holds 44% of the market. Indeed, FNB's immediate response was to cut its mortgage lending rate by half a percentage point. Standard followed with one percentage point, whereupon FNB cut another half.

Though all banks maintain that competition for banking business is already intense, this does not mean it cannot become more so. As it hots up, it will severely test the mettle of the men who are simultaneously trying to rationalise formerly very disparate institutions. It is what they do and how they react that will give the first hints of success — or otherwise.

Nobo Froitzheim
Fedlife confirms it is the institution that injected R4m cash into Grant Andrews Holdings (FM January 31). It is the first investment by the new R50m Fedlife Capital Trust and this week Fedlife announced a further investment by the trust: 24% of domestic furniture manufacturer Pat Cornick.

The trust represents a drop in the ocean of institutional cash flow but is a rare attempt to divert institutional investment from JSE blue chips. Fedlife deputy GM Dennis Paizes says there are no great benefits for an institution in investing in second-tier shares because they lack marketability. Moreover, they are usually tightly controlled by directors and their friends.

Through the Capital Trust, Fedlife hopes to acquire between 25%-49% — though not control — of smaller listed and unlisted companies. It is ideally looking at equity stakes of R2m-R5m which it hopes will provide above-average returns.

Paizes says Fedlife does not have the skills to run industrial companies, so has given the management contract for the fund to Templeton Capital, a new consultancy run by Antony Ball, who wrote the strategic planning guide The Winning Way, and Thierry Dalais, who was MD of Merhold Corporate, the group’s merchant banking arm.

Both are accountants as well as “strategists”. They will take an equity stake in each investment.

By contracting out the service, Fedlife hopes to avoid strangling entrepreneurial businesses by a stifling corporate culture. It is emphatically not an attempt to build up an industrial holding company. It will not invest.

in new ventures, property or mining

Ball says that ideally companies will be at least five years old and have a significant market share. “They will know a lot about their markets but might like financial and strategic planning skills to expand successfully.”

“We aren’t turnaround specialists,” says Ball, “but Grant Andrews Holdings seemed a particularly good opportunity, as we liked its plans for the next 18 months.”

Most institutions invest ad hoc in smaller companies but Fedlife claims its fund is unique because it seeks out investment opportunities and focuses on taking a stake rather than making a loan.

Share swaps

Dalais says Templeton will impose financial discipline on investments but, unlike a bank, won’t expect guaranteed returns. It will take a long-term view if there are problems — though it won’t hesitate to pull out if an investment risks being a bottomless pit.

Fedlife group CE Arnold Basserie says the fund is yet another step in the plan to offer a wide range of financial services (empire building?) It follows logically from the share swaps with Saambou and Investec.

The fund is a laudable attempt to break away from the preoccupation with blue chips but it is not without dangers. Though Fedlife doesn’t seek control, it could end up sending out life belts to these companies, as Sefbank has done.

Stephen Cramton

INSURANCE FM 7/2/92

Not in church

An unsolicited policy offer from Bankfin to about 25% of its 130,000 clients has backfired. Bankfin has hurriedly apologised and changed the terms of the offer, which was originally couched as a peremptory contract alteration.

In December a letter went to Bankfin’s clients informing them they would be debited, from January, with an extra insurance amount as a premium to Coversure. The letter said Coversure was a policy designed to cover, among other things, any shortfall between insured value and replacement value of articles bought on susceptible sale. Such policies are not new. Scherre Underwriting Managers, which acts on Bankfin’s behalf, has been selling them for five years. Hollard Insurance underwrites Coverplus, which is offered to Wesbank clients when new leases are signed, with the intention of covering the difference between settlement figures and market figures that always exists at the outset of a lease.

But with Bankfin’s original approach

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ECOLOGY 

there were two problems. One was that there seemed no option to refuse if a car was underinsured. The second was it went to a faulty database, so many businesses that had financed office equipment through Bankfin were also informed their accounts would be automatically debited for the additional cover. Some of those with fax machines used them to express outrage, with copies to the Financial Services Board.

Coversure is arranged through Scherre, a Lloyd’s underwriting manager, totally separate from Santam, which was Bankfin’s short-term underwriting cousin before the Bankorp-Abra merger. Scherre chairman Richard Barkhuizen says his firm assisted brokers Bancura in compiling the controversial letter. Barkhuizen adds that Scherre subsequently set up a toll-free line to handle difficulties that emerged from the mail shot.

“And most recipients are grateful for the extra security,” he says.

Bankfin CE Dolf Wright says the project was mounted by his group’s brokers, Bancura. “The way it was handled was wrong but it went out in the rush to complete things before the December break. When the problems were pointed out to us, we took action to correct them.”

But, has Bankfin gone far enough? In a letter to clients dated January 24, the bank stated: “The Coversure premium has been or will in the near future be reversed against your account in respect of goods other than motor vehicles.”

So, as far as motor vehicles are concerned, the diktat stays in place — though, contradicting this, Wright says it’s no longer compulsory. By plating up the extended-term buyers of copiers and knitting machines,

Bankfin may simply have highlighted a marketing ploy that is becoming increasingly popular and increasingly undesirable. It can simply be a good commercial manner to mail insurance, chain store magazines or any other commodity, unsolicited — if the recipient is obliged to take positive action to reject the offer. Even worse, to gain access to a database of bank or savings accounts and milk them of amounts that have not been expressly authorised, cannot be ethical and is probably contractually invalid. However, Wright points to a clause in suspensive sales contracts that allows banks to enforce insurance arrangements.

In the case of the Bankfin force — and too often in the case of “offers” introduced through credit and charge accounts — there is reliance on consumer inertia. This time, the consumer fought back.
of about R11bn, the slice will improve significantly, says Bob Aldworth, executive director in charge of corporate business. An analyst suggests that the addition represents a “quantum leap in corporate business” and was undoubtedly the main attraction for Absa in the Bankorp package.

Precise numbers on the corporate market are unobtainable. Unlike mortgage loans, which are identified in statutory returns to the Deposit-Taking Institutions Office, corporate business is buried along with retail and personal business in a wide range of transactions itemised on returns.

Moreover, in a volatile environment, big corporations have relationships with most of the major banks, switching business between them to take advantage of the best price and product offered at any given time. So the relative turnover of the various groups is ever changing. The absolute size of the market expands and shrinks daily because megacorporations, with their own treasury operations, are able to handle certain cash flow situations without contravening the DTI Act and do so when it suits them.

For this reason it is impossible to measure either total market or relative share except in very general terms, and analysts have to be content with ballpark figures. Most observers agree that Standard, First National and Nedcor are ahead. Some say Absa could be within touching distance of the lead runners; others say only that it is now in the race.

To make further progress will take some ingenuity. Margins are thin, say bankers. Corporates, unlike retail customers, have great bargaining power and, to retain their custom, banks cut close to the bone with pricing. The only way to get ahead of a competitor, say corporate bankers, is to design a new product which costs the client less without costing the bank more.

Over the past few years, since Volkskas decided to attack the corporate market, it has built up important transaction business and participated in big syndicated loans to finance capital projects. It is a major commercial banker to State and former State companies — among them Iscor, Armscor and Eskom — as well as to some of the country’s biggest universities and technikons. It was well positioned to absorb business generated by privatisation and, once this came to a stop, took advantage of commercialisation of government operations.

But it does not have many lead bank relationships with major groups in the private sector. Now Senbank, which absorbed
Rusplar as price surge
Implats slips far behind

COMPANIES

Curie Finance sufers minor hiccup

Matthew Curtain
Insurer says anti-selection taking place in AIDS claims

CAPE TOWN — The short average duration of policies on which AIDS claims were made suggested that anti-selection was taking place, a report on AIDS claims compiled by reinsurer Mercantile & General said.

Anti-selection means a person with AIDS or HIV infection takes out a policy with a view to shortly receiving a payout. Nearly 78% of the 281 AIDS claims received by the life industry from 168 people by January 14 occurred within the first five years of the policy’s existence.

A survey of the industry found that virtually all the policies had sums assured lower than the limit of R200 000 imposed by the Life Office’s Association before an HIV test was required. Mercantile and General said many life offices had already reduced their HIV testing limit to well below the test, adding that the statistics suggested that this was the correct course of action.

"In view of the increasing rate of HIV infection in SA, it is important that life offices regularly review their HIV testing limit," Mercantile & General said.

As at January 1992 there were 108 more claims than the 172 as at January-1991, with the number of claimants escalating to 168 from 96 during the year. The total amount claimed soared 50% or by R3.5m during the year.

Of the claimants, 159 were male of which 98 were single. 39 married, 10 divorced and two widowed. The status of 10 was unknown. There were nine female claimants. The average age of claimants was 37 years.
Banks unlikely to cut rates

By Sven Lünsch

It is highly unlikely that commercial banks will reduce their interest rates without a cut by the Reserve Bank in its key rate, says First National Bank economist Cees Bruggeman.

Mr Bruggeman was reacting to a statement by the SA Chamber of Commerce (Sacob) last week in which it predicted that rising liquidity in the money markets could lead commercial banks to preempt the Reserve Bank.

"This suggests is not a realistic reading of the relationship between the banking system and the Reserve Bank," Mr Bruggeman said.

The Reserve Bank guides its broader macroeconomic policies through regulating the money market shortage.

At times of higher liquidity banks could decide to sacrifice their profit margins in order to gain market share.

However, said Mr Bruggeman, this could clash with broader monetary policies, particularly the money supply guidelines set by the Reserve Bank, and could invite a tightening of the money market shortage by the Bank.

"It is thus too risky and uncertain for commercial banks to go it alone as they could be left facing losses without gaining significant market share," he said.

Economists generally do not expect a significant easing of monetary policy this year.

In a release over the weekend, Bureau for Economic Research chief Dr Ockie Stuart said the high inflation rate would continue to delay substantial interest rate cuts by the Reserve Bank this year.

"Most of the cuts should occur in the second half of the year," Dr Stuart said.

He expects the average prime interest rate for this year to be only about 1.25 percent below that of last year.
THE MONEY MARKETS by Sheridan Connolly

Expectations of a Bank rate cut buoy the market

ACTIVITY on a lacklustre money market picked up at the end of last week with expectations running high of a cut in the Bank rate.

Renewed positive sentiment was sparked off by the briefer-than-intended appearance of Reserve Bank governor Chris Stals on Diagonal Street on Thursday night when he hinted at an imminent rate cut. Some dealers foresee the Bank moving sometime this week.

Stals's comments — cut short by technical problems — gave the market some fresh direction. But there are still some players who believe Stals might wait until next week when January's inflation data is expected to be published.

The last two years of stringent monetary policy have succeeded in bringing wage demands into line but have, so far, not brought inflation down. However, dealers are confident January's CPI will provide some breakthrough.

After initially moving sideways, rates dropped towards the end of the week, and on Friday dealers quoted both call and term rates lower.

Liquidity conditions are expected to be stronger next week when mid-month stock matures, but the Bank will no doubt act to drain this liquidity with the allotment of special Treasury Bill (TB) tenders.

A massive oversubscription in the weekly TB tender of $1,013bn reflected the market's search for quality assets. The average discount rate for SA's three-month TB rate dropped eight points — the allotted R290bn tender saw the TB rate drop to 15,94% as against last week's 16,02% and 16,66% the previous week. The Reserve Bank said tenders at the average price were only partially allotted.

With a continued build-up of liquidity, the BA rate slid downwards throughout last week. After starting at 16,26%, it fell to 16,10% and late on Friday Standard Bank dropped its BA even further to 16,06%. Dealers said the demand for assets was outstripping supply, and lower rates showed there were a lot of people chasing only a few assets.

FNB quoted call rates lower at 15,75% and said 12-month NCD's had come down to 16,50/40 from 16,60/50.
FNB sets sights on British subsidiary

FIRST National Bank is to ask shareholders for R550m to help establish a subsidiary in the UK and to recapitalise its Swiss finance company, says senior GM and chief financial officer Vivian Bartlett.

Bartlett said yesterday FNB felt market conditions were right now to raise funds.

Details of the issue will be made known on Monday, February 17, according to a statement to shareholders published today.

The Swiss subsidiary has been in existence for years although Bartlett was reluctant to provide details of the operation.

The proposed UK operation was the subject of a feasibility study last year.

In today's announcement FNB said that the proceeds of the rights issue would provide FNB with additional capital, which would strengthen its ability to "maximise opportunities for appropriate, profitable growth in both the domestic and international markets".

This follows the announcement in the annual report that the group is investigating opportunities to expand its operations to other, unnamed countries.

JABULANI SIKHAKHANE

News of the rights issue comes after strong denial by FNB in December that it was planning a rights issue.

Market speculation at the time suggested that the banking group would need to raise between R1bn and R2bn because of the capital constraints on growth imposed by the Deposit-Taking Institutions Act.

Analysts felt FNB needed capital to grow its asset base. In the past few years the banking group had restrained its asset growth to concentrate on quality business.

The 1991 annual report said the group had a total capital adequacy requirement of 6%. The Deposit-Taking Institutions Act says institutions should maintain capital equal to 4.5% of risk-adjusted assets and off-balance sheet transactions.

By 1995, deposit-taking institutions would need to lift this to 8%.

At the end of the 1991 financial year, FNB had a 1.1% return on total assets.

The group shares closed at R58.50 on Friday from R54 at the start of the year.
Average rise of 14% predicted for house prices countrywide

By Frank Jeans

House prices nationally could rise on average by 14 percent this year, says Cape consultancy, Real Estate Surveys.

Erwin Rode, research director of RES, says: "This is higher than our previous forecast and, should our prediction prove to be accurate, it could bring some relief to developers' margins before the economic upturn pushes up input costs to above the growth in house prices."

He sees the number of house transactions increasing steadily during this year, the implication being that there will be more work for estate agents and conveyancers.

The survey gives a breakdown of house price growth in recent years - 1989: 16 percent; 1990: 20.1 percent; 1991: 15.4 percent.

In the past year, Johannesburg prices rose by an average 11.8 percent.

The upper market accounted for 7.8 percent, the middle-income sector 16.1 percent and the lower end 18.7 percent, indicating again how much affordability plays in the residential market today.

RES says signals from the office market suggest that the recession is beginning to bite, while the industrial market is "hanging on by the skin of its teeth" as rents drop.

Non-residential building contractors, says the survey, are in a "state of panic as new contracts dwindle."

Capitalisation rates on average have remained stationary in most cities and across all property categories.

The exception is in non-prime offices, where cap rates are under pressure as investor confidence in such buildings diminishes.

"The office market is in a fairly depressed state at present, with an overall tendency towards rising vacancies and falling market rentals."

"Prime office rents are generally shifting downwards in most areas."

On the retail side, shop rents appear to be holding their own, although rentals in some areas are tending to slip in nominal terms.

Flat rents, on average, are still moving upwards and rental growth in most areas over the past year has outpaced the inflation rate by a wide margin.

RES believes building activity in the home sector is picking up from a low base and has a better chance for the coming year.
Demand boosts bank's bond issue

THE Development Bank of SA's Eurobond issue, launched in Frankfurt on Friday, has been lifted by 33% to DM200m following strong investor demand.

Development Bank spokesman Frans van Rensburg said at the weekend that the value of the issue was increased due to an oversubscription for the six-year paper.

Although the issue had been increased by DM50m, the issue's lead manager, Bayerische Landesbank Girozentrale, said the issue terms would remain unchanged.

The Eurobond issue offers a coupon rate of 10% and the bonds will mature on February 27, 1995. They will be listed in Munich and Frankfurt in denominations of DM1 000 and DM10 000.

Meanwhile, the ANC has reiterated its opposition to the bond issue and has denied there is conflict between the organisation's publicity department and ANC president Nelson Mandela on the issue.

A statement said the ANC accepted a "future democratic state" had an obligation to pay foreign debts incurred before financial sanctions were imposed.

However, the terms of repayment of such loans might be renegotiated, it said.

"What is totally unacceptable to us is the attempt by the SA regime, acting in concert with certain foreign financial institutions, to buttress financial sanctions adopted by the international community." Most financial sanctions against SA came into force in the mid-1980s.
Lower bond rates now on offer to a selected market

Financial service and banking group The Board of Executors (BOE) has entered the home loans market, offering rates below generally available levels to selected borrowers.

Rates offered by BOE Merchant Bank are dependent on the credit rating of the client and are currently pitched at between 17.5 percent and 18.5 percent.

According to BOE Merchant Bank AGM, Richard Harman, bonds processed so far have attracted an average rate of 18 percent — at least 0.5 percent below the best rate available in the marketplace.

Most lending institutions have pitched their rates at 19 percent from March 1 only, but these rates are currently available from BOE on any new bond. These rates thus compare favourably with the 19 percent that will be available to most borrowers from other financial institutions.

BOE's average bond is R425 000.

Mr Harman says: "The savings that can be achieved are significant. A reduction of 1.5 percent in the interest rate on a 20-year, R300 000 bond results in a total saving of R84 386 or R351.61 a month. If these funds are applied to reduce the bond, then the term of the bond is slashed from 20 years to 12 years and 11 months."

"Alternatively, if the funds are invested at an after-tax return of 15 percent compounded monthly, the borrower would accumulate a lump sum equal to R528 444 at the end of the life of the bond."

BOE's service is aimed at the upper-income group, able to provide the security of residential property worth a minimum of R500 000. This is in line both with BOE's existing client profile, and its target market.

"Ours is a niche market where we have identified a specific mortgage bond finance requirement — that is, a simple loan against the tangible security of their property, with the proceeds of the loan being used in any way that the borrower may require."

Mr Harman contrasts the BOE approach to that adopted by other banks and by building societies:

"Competition has stimulated the emergence of a whole new range of complex and sometimes confusing home loan products and options. For example, there are those which allow the borrower to redraw the capital that has already been repaid and those where the capital portion of the repayment is used to buy a retirement annuity or to invest in unit trusts."

"While products of this nature have their place, our market is seeking a pure loan against existing security without a linked obligation for the additional products and services. We leave the investment option up to the client."

"In concentrating on this core product — the loan itself — we are able to give the borrower the benefit of highly competitive rates."

Nevertheless, the product remains flexible. For example, BOE clients may apply to suspend the repayment of the capital for the first five years of the loan.

"This frees, for investment, any funds that would normally have been applied to capital repayment. If a client does elect to repay capital, we are prepared to re-advances the funds at any time."

Access to a home loan facility from the bank is not easy. In addition to the security of residential property in a prestige suburb and worth a minimum of R500 000, BOE home loan clients must also have a personal net worth of about R500 000.
A range of considerations to take into account now

Steve Bird, marketing manager, Perm home loans, who says a home loan is a home loan, notes that the one percent drop in the bond rate means two things—a range of products and a differentiated rate structure depending on the risk of the client or his or her property.

"In the past you could go to a building society and everyone got the same rate."

But with bond rates being much the same, Perm reckons that prospective borrowers must take a whole range of other considerations into account.

And topping these is service and reliability. Perm, as one of the leading mortgage lenders has been in the market a long time having started out with its head office in Kimberley last century.

Since then it has played a major role in providing homes for hundreds of thousands of South Africans of all colours and creeds.

In fact, the Perm proudly points out, it has a client base of several million and estimates that it commands a sizeable 17 percent of the home loan market.

But times have changed since the building society days. Years ago, would-be borrowers almost had to know the branch manager on a personal basis to even be considered for a home loan.

"How that has all changed. Today, Perm like all mortgage lenders is aggressive in its marketing and is there to assist people in applying for home loans."

"What once was a gruelling job for the borrower and estate agent is a pleasure when dealing with lenders such as the Perm."

Home loan lending is now more like traditional bank lending and the jockey is more important than the horse, the jockey being the borrower and the horse the property. A change, indeed, from the old user-unfriendly system!”

Mr Bird says banks used to look primarily at the property and the borrower’s ability to repay the loan which should have come to 25 percent of his salary.

"We would check the guy but focused on the property."

"Today, however, we focus on the client in different ways."

The variables are income, stability, ability to repay and monthly expenses. And branches look at the borrower as an entire person in a much more detailed way.

"We’re moving into risk assessment and following banking policy which previously the building societies didn’t do."

Like all other mortgage lenders, Perm has a variety of options on offer and they encourage borrowers to come in and discuss the options with their highly professional staff.

With branches all around the country, they point out that they are accessible to the public and would be happy to give advice and assistance to any would-be homeowner."
Help at hand if you have a problem

Homeowners faced with high bond repayments in the economic recession have been encouraged to consult with their lending institution if their commitment becomes too onerous.

EP Building Society chief executive, Trevor Jennings, says the current state of repossessions in the property market has sparked enormous concern among lending institutions.

"It is neither in the interests of the institution nor the home owner to have the property repossessed," he says.

With prospects of a drop in the prime rate and economic recovery an economic guessing game, Mr Jennings urges home owners to act as quickly as possible if they are unable to meet their commitments.

"If the owner of a property finds himself in difficulty, he should visit his branch manager at his earliest convenience for advice on how to approach the problem.

"People need not feel ashamed of admitting they are having difficulty. We know the country is experiencing severe economic difficulties and we would rather clients move quickly than leave it too late."

Arrangements to lessen the burden during hard times are possible, and homeowners in trouble should avail themselves to these opportunities before it is too late.

A building contractor will issue a certificate at various stages.

Building work in progress on a new house for the owner.
Only residential market is ‘healthy’

CAPE TOWN — The property market is in the doldrums, with only the residential sector showing signs of health, says the latest Rode’s Report on the SA Property Market.

“Non-residential building contractors are in a state of panic as new contracts dwindle,” editor Erwin Rode reports. He predicts a lean year for the sector, characterised as it is by overbuilding.

In contrast, there was strong demand for rented residential accommodation and strong house price growth in the lower priced suburbs. Rode found that flat rental growth in most cities had outstripped the inflation rate by a wide margin.

The recession had started to bite the office market, which was experiencing a rise in vacancies and a fall in rentals.

On the industrial front, Rode found that rentals were also dropping, though there had not been a significant increase in industrial vacancies, except in the Pretoria area.

“Current industrial rentals reflect the sluggish condition of the industrial sector. The average growth for industrial rentals is barely 3% for 1991. However, we expect a slightly better performance in 1992.”

Rode forecasts an average 5% growth in industrial rentals this year based on 1 000m² units in the central Witwatersrand.

He notes that capitalisation rates had on average remained stationary during the last quarter in most cities and across all property categories, with the exception of non-prime offices.
Absa looks at one-stop property buying centre

ABS A is studying proposals for the development of a massive one-stop home buyers’ complex in Midrand.

Absa corporate banking executive director Bob Aldworth said on Friday the concept, put to him three weeks ago by a property developer, was being researched. He would know in about three weeks whether the concept was feasible.

It involved the development of a centre housing banks and building societies, lawyers, estate agents and home fittings and materials retail outlets. A person wanting a house could visit the centre on a Sunday and buy a house the same day.

Anglo American Property Services (Ampros) estates development director Peter Gardiner said there were plans to establish the centre at the Waterfall Park office park adjacent to Ben Schoeman highway. He said up to 50 000 properties could be put on show at the complex.

Other banks are also taking steps to make the purchase of a house cheaper and easier. From March 1 nine banks not including those in the Absa stable will provide a computerised multilisting service at more than 1 000 estate agents across SA.

The new service — which will compete with Absa’s — called Real Estate Multiple Listing Services, will be laid on by Comprehensive Property Services (CPS). It will also provide moving, referral, conveyancing and bond application services.

CPS manager Stefan Swaepoel said his company had studied the proposals for a one-stop property centre and decided that though the idea was good, it was premature for SA’s property market.
Standard Bank’s earnings up 20.1%

SHARON WOOD

SOARING bad debts failed to curtail the Standard Bank group’s consistent profit growth and the group announced it had lifted earnings 20.1% in the year ended December.

Attributable income climbed 23.6% to R510.7m from R413.2m in 1990 and earnings a share were 507c from 1989’s 422c. Total assets grew by 19.7% to R59.4bn from R49.5bn in 1990.

The group is again budgeting for increased profit, in spite of what it describes as “the continuing absence of satisfactory lending opportunities”.

In 1991 bad debts surged by 85.9% to R59.4m from R17.4m the previous year. The group made provision for R78.5m bad and doubtful debts during 1991, 70.3% up on the previous year’s R21.8m.

Group MD Eddie Theron said at a media conference that the bad debts were organically related to the economic cycle, although the bad debts during the current recession differed markedly from those experienced in the 1985 recession.

“Once the big corporates are more soundly structured and there have been fewer major bad debts. The bulk of bad debts has come from the man-in-the-street, smaller corporates and farmers.”

Seventy-five percent of the value of bad debt exposure had been less than R0.5bn.

“The group will continue to be actively involved in extending small to medium sized business loans because, although there are significant risks in that market, they yield good profits.”

Theron said although the increase in assets was low it did not reflect the total loans and advances position which had in-...
How homeowners can save a fortune

Homeowners could save themselves a fortune in the long run by continuing to pay the same (higher) instalments, rather than taking advantage of the lower repayments, according to Nedbank.

The bank points out that maintaining repayments at current levels is equivalent to a tax-free investment of 19 percent. A significant saving, indeed, for those who are constantly battling their debt.

The bank points out that with most mortgage rates down by one percentage point to 19 percent, many homeowners must have worked out what the reduction in the bond rate would save them per month.

To many people the reduced monthly repayments might seem insignificant but by maintaining payments at the old level, the bondholder can actually save several hundred thousands of rand, Nedbank advises.

Drops

Take for example a homeowner with a bond of R100 000 repayable over 25 years. At an interest rate of 20 percent the monthly repayments are R1 937. At the new rate the repayment drops to R1 598 per month, a saving of R319 per month.

Conventional home loans are structured so that the borrower repays monthly interest with only a tiny portion of the amount being applied to the reduction of the capital over early years.

On a R100 000 loan, for example, after 15 years only R5 000 will have been paid off the capital. After 20 years the outstanding capital amount will be down by approximately 50 percent. It is only during the last five years that the capital amount is swiftly reduced. This is why it is so important to maintain bond repayments at the same level as they were before the rates were cut.

However, there is another choice. Nedbank has come up with another innovative idea, suggesting that the saving generated by a reduction in bond rates should be invested in a unit trust on a monthly basis.

Assuming unit trusts perform roughly in line with historical figures, this would result in a capital nest egg of about R2 000 after nine years. Over longer periods the average growth rate have been even higher. However, as the interest portion of unit trusts exceeding R2 000 is taxable, the after-tax return depends on the marginal tax level of the individual. A marginal tax rate of 30 percent would result in a return of 18.83 percent while a marginal tax rate of 40 percent would produce a return of 18.31 percent.

The minimum return on the unit trust fund required to ensure that the final investment value is equal to the outstanding loan balance on expiry of the loan period, is 10 percent. However, this would entail a sharp devia-tion from the long-term growth performance of unit trusts and equity markets.

The recommendation then is that the monthly savings generated by lower interest rates be paid either in full in the trust for the remainder of the loan period or as further reduction to the loan.

Using the bond of R100 000 at an interest rate of 19 percent, the figures will look as follows:

- Conventional bond - monthly repayments: R1 598.
- Unit trust link bond: Interest R1 593.
- Unit trust contribution: R75
- Capital reduction: Nil.

Assuming that a growth rate of 20 percent is achieved, the value of the unit trust investment would be R39 536 after 20 years. After repayments of the loan balance of R100 000 the investor is left with R39 536.

If the borrower decided to sell his house after say 15 years the value of the units would be sufficient to repay the loan in full and he would still be left with an investment of R65 143.

Nedbank suggests that homeowners link their home loan to an investment in unit trusts. Clients will pay only the interest on their home loans and they invest the rest in unit trusts, and at the end of the loan period, the invested capital should have grown to a point where it can comfortably repay the capital borrowed and there should be a store of extra capital left over.

Nedbank has three home loan linked unit trust options on offer. It also suggests that one should invest the differential income in unit trusts or supplement an existing portfolio of unit trusts.

This way, a substantial return on the investment can be achieved - the money will grow beyond the inflation rate.

The bank believes that bond rates are only one factor that a borrower should consider before taking out a new mortgage. They maintain that service is the distinguishing factor in the home loans market because bond rates are much the same and so are the home loan products.

Because Nedbank regards clients as individuals with different priorities, needs and wants from one another, where home owners are concerned they say that individual needs must be taken into account.

Locality

Individuals or families choose homes that suit the way they live. They look for a locality and style that makes them feel at home and comfortable. A home loan should, therefore, be flexible enough to meet a variety of requirements and it should allow for changes in lifestyles, aspirations and economic circumstances of clients.

Here is a brief rundown of the options available from Nedbank when borrowers want to choose a home loan:

1. A negotiable repayment period up to 30 years.

2. Consideration of joint incomes where appropriate.

3. A negotiable period of grace of up to three months once a bond is granted, during which time no instalments need to be paid.

4. Clients can elect to pay interest only for up to five years.

5. A Nedgrowth instalment can also be negotiated. This is linked to the UAI Unit Trust. At the end of the loan period, the invested capital should be a point where it comfortably repays the capital borrowed and there should be somewhat spare capital after this is paid off.

There is also a Ned-Revolve option. When amounts larger than the instalment is paid into a home loan account, considerable tax savings are generated, and the client has the benefit of an advance of R2 500 plus per month.

Nedbank's interest rates, they point out, are market related and always competitive.

When it comes to transferring bonds from one bank to say Nedbank, Nedbank pays the legal registration costs, where the properties purchased require a loan of R20 000 or more.

All legal costs involved in cancelling a bond so that the bond can be transferred to another bank are carried by Nedbank including registration costs where the amount exceeds R30 000.

Where considering applying for or transferring a bond, Nedbank's advice is that the home loan market should be thoroughly investigated.

There are various bond options available from the different financial institutions and because a home loan, more often than not, results in a long term relationship with a financial institution, a client must be satisfied that he gets the service and the products most suited to his needs.

Generally, few clients transfer bonds frequently. First, because most establish a relationship with a bank which is not easily replaced, and second, there is a great deal of work involved in paperwork, etc. involved which is time-consuming and it also requires a lot of effort, especially on the part of the client.
First National Bank's "cherry on the top" for its bond account holders is a R100 000 giveaway. Anyone with a home loan, or with FNB approval for a home loan, qualifies for a monthly draw. All you need to do is complete a voucher which goes into a drum every month. Unless you win the first prize, the voucher stays in the drum for 11 months.

If you have a R100 000 bond, for example, and you win the first prize, your bond is wiped out. Should your bond be R50 000 you get R50 000 in cash as well as paying off your bond.

There are also second and third prizes of white goods such as a fridge, stove or washing machine worth R2 500. And the estate agent who introduces the winning borrower wins R10 000.

Apart from prizes, FNB offers facilities such as its Up-Front Bond which means you can search for a home safe in the knowledge that a bond up to an agreed amount has been approved in principle - and you get a certificate to prove it.

Once issued, the certificate is valid for eight weeks which gives you enough time to search for your ideal home. And, knowing that your bond has been approved in principle means that you may well be able to negotiate a better price.

Loans of up to R150 000 are available, based on 80 percent of the valuation of the property. Loans of more than R150 000 are calculated on 60 percent of the valuation.

And if you have ideas of your own to renovate or extend your new home, FNB will provide an extra 10 percent of the loan.
Record bad debts fail to hold back SBIC

By Derek Tommey

The Standard Bank Group (SBIC) was hit by record bad debts in the year to December. But despite this it was able to increase its taxed profits by 23,5 percent to R523 million.

Earnings a share on the enlarged share capital rose 20,1 percent from 42c to 50c a share.

The final dividend has been raised to 11c, making a total payment of 15c for the year — a 20,3 percent increase on the 12,3c paid last year.

The group's newly appointed managing director, Eddie Theron, said large numbers of individuals and small businesses had been seriously affected by the recession and were having difficulty repaying their bank loans.

This had resulted in the bank having to provide a record R378,5 million to cover bad debts — an increase of 76 percent on the R214,8 million provided in 1990.

He said that 75 percent of the bank's bad debts by value were for amounts of less than R500 000.

This showed that it had been the small man who had been most affected. This was in sharp contrast to the position in the previous recession in 1985 and 1986.

Eddie Theron ... planning London operation

Then some big corporations were in trouble.

The bank had taken a good look at its bad debts. Its book was clean and he did not see any bad debt problems looming this year.

The bank was planning to start operations in London. It had acquired 60 percent of the shares of Ludgate Holdings, which it did not hold, and had changed its name to Standard London. The company had applied for a British banking licence.

In the light of the political and social uncertainties, the bank did not expect more than a modest improvement in the economy this year. But with liquidity expected to remain easy, it was budgeting for increased earnings.

Mr Theron said the widening in the interest margin in the first half of the financial year had continued in the second half. This went some way towards meeting the exceptionally high bad debts and the financial services levy.

The widening margin was the result of the recession leading to a build-up in liquidity.

Income from funds rose 9,2 percent to R7,6 billion, while interest expenses rose three percent to R5,6 billion. This increased net interest income by 31,1 percent to R2,0 billion.

Mr Theron said that though the group's total assets rose only 10,7 percent to R50,4 billion, it had been able to increase its advances by more than 15 percent to R42 billion as a result of the better management of cash holdings.

Other operating income rose 21 percent to R1,28 billion and total income rose 27,0 percent to R3,9 billion.

Operating expenses were 26,4 percent at R2,52 billion, reflecting a 13,3 percent rise in staff costs to R1,15 billion, a 23 percent rise in "other" operating expenses to R83,2 million and the 19,2 percent rise in bad debt provisions.

Mr Theron said the increase in the staff costs reflected not only normal pay rises but a swing to employing more higher-paid specialists.

Operating profit before tax was 28,9 percent higher at R794,4 million and taxed profit 28,6 percent up at R476,8 million.

The share of profits of associated companies dropped 12,7 percent to R46,2 million from the R52,9 million in 1990 when this figure was inflated by a special R16,1 million dividend from Liberty Life.

Net income was R523 million (R423,6 million) and attributable income was R510,7 million (R413,2 million).

Extraordinary items included the provision of R30 million to the Joint Education Trust.

The return on shareholders funds was 19,35 percent (18,59 percent) and the return on year-end assets was an extremely high 1,04 percent (0,93 percent).

The net asset value of Stanbic shares at book value was R28,95 and R21,47 after including the Liberty Life investment at market value.
Direct marketing led to 18pc growth in loans

Johan Myburgh, MD, Pretoria-based Saambou, claims an annual 18 percent growth in home loans for his institution mainly through direct marketing. He says other Saambou products are advertised but not home loans.

Saambou's strategy, he adds, is to concentrate on the salary-earner. "We believe the traditional chequing account is something of the past for the salary-earner and with developments in technology we're moving into a paperless operation.

Its bond operation is based on the median income group, thus suitable for the salary earner but is linked to lifestyle. Research has divided suburbs into lifestyle such as English-speaking executive and the rural areas accordingly.

Saambou's main customers probably have a joint income of R4,000 to R5,000 net.

Stringent checking ensures that Saambou clients manage their financial affairs responsibly.

"We at Saambou want to survive in the present environment. We have four enormous institutions to compete against. To survive we have to concentrate on a segment or niche and provide a service that's not attractive to the bigger institutions which have corporate and high worth individual business and the volumes on transactions are higher."

Johan Myburgh, Saambou MD.
Free banking is just one of the benefits.

NBS Bank which has been in the mortgage bond field in Natal for 110 years and nationally since 1935, focuses on home loans.

If you're an NBS borrower, regardless of category, you qualify for free banking. This entails a charge-free account on your plastic debit card and on savings accounts, apart from a 20c government levy for each transaction.

NBS was the first to introduce cheque issuing machines from ATMs at night. Its electronic banking halls are open 24 hours a day.

It also offers a loan advisory service by appointment. A consultant will help you to work out what you can comfortably afford to spend.

With the NBS Accelerator Loan you can accelerate repayments and you link this to your cash card you can borrow back as you please.

Recently NBS introduced a cash card linked to your home loan. If you have a R100 000 bond your cash card can be linked to your loan and you can transfer the R10 000, or a portion of it, to your cash card and use the cash as you see fit. There is no catch and no formal application is needed.
SA estate agents to join world body

Estate agents in SA have been invited to join an international federation representing their profession.

The International Real Estate Federation (FIABCI) decided at a recent meeting of its board in Sao Paulo, Brazil, to invite an application by the Institute of Estate Agents of SA (IEASA) for "principal membership" of the international body.

FIABCI deputy world president-elect David Blumberg said approval of the application by a board meeting during the federation's world congress in Montreux, Switzerland, in May would be a formality.

Blumberg is a former South African living in Israel and has worked for many years to get SA's membership accepted.

"This is a tremendous opportunity for South Africans who are now, after years of sanctions, coming back into the international community," he says.

"There is a great deal of business to be done out there, and FIABCI provides access to it through its sub-committees, conventions and membership list."

Trevor Downing, president of the IEASA, says FIABCI is a federation of professional real estate associations, represented in 48 countries. In addition to access to international business, the federation provides real estate agents with an effective means of communication to enable them to share their knowledge and experience.

Downing says the IEASA will now be responsible for the formation of an SA chapter of FIABCI and its administration.

Other associations in the building industry or individuals wishing to join the organisation would, in the case of estate agents, have to be members of the IEASA, or, in the case of other professions, members of their professional association.

"We are proud to be associated with an organisation which has as its members many of the foremost property and related companies in the world, representing the widest range of disciplines — from construction, engineering and development companies to architects, valuers, town planners, lawyers and brokers."

FIABCI world president Alan Hood of Britain and Blumberg will attend the IEASA annual convention at Sun City in August.

Hood has also expressed interest in meeting cabinet ministers and others involved in the housing industry.
CAPE TOWN — The residential property market would remain under pressure this year and was not expected to “come to life” until the second half of 1993, said Boland Bank group economist Louis Fourie in the bank’s latest Economic Review released yesterday.

“The building industry is nevertheless showing considerably more resistance to the downward trend in the economy than during the previous slump,” he said. A house sold for R70 000 in 1983 was currently selling for about R170 000. “Inflation-linked growth in house prices would have meant that the same house should have been selling for approximately R240 000.” — Sapa.

Residential market ‘to recover slowly’

Traditionally the property market takes between 12 and 18 months to respond to an upswing, which means the market will only begin to ‘come to life’ by mid-1993.”

He said house prices had for the eighth consecutive year failed to keep pace with inflation.

— Sapa.
Housing prospects still gloomy

By Joshua Radnoko

The National African

The problem isn't that race relations are bad. They're pretty much as bad as they've ever been. The problem is that the housing market is so bad that people can't afford to buy homes, even if they can afford to live in them. Even if they have the money to pay for housing, the prices are just too high. People are forced to live in substandard housing, which is unsafe and unhealthy. The government has done nothing to address this problem, and the private sector has been equally complicit in keeping people in substandard housing.

The National African
Talk of low-interest Bank loan to Bankorp

SPECULATION in financial circles that Bankorp had received a R1bn loan at 1% interest from the Reserve Bank remains unchallenged by the Bank, Bankorp and its new parent Absa.

The rumours have been circulating since the takeover of Bankorp by Absa at the end of January and were published in Finance Week yesterday.

Deputy Reserve Bank Governor Chris de Swardt told Business Day on Monday that he had been put in a very difficult position, but he could not break the confidentiality between the Bank and its clients.

The Reserve Bank had the responsibility to act as a lender of last resort to the banking system and it regularly provided loans to individual banking institutions.

These were normally overnight short-term loans but there was no fixed arrangement regarding the period of loans.

He would not comment on whether the Reserve Bank had provided finance to Bankorp before the merger and whether this would continue. A Bankorp spokesman refused to comment.
Provident, pension funds key to crisis

A SOLUTION to South Africa's massive housing problem is to unlock money tied up in pension and provident funds and to make it available to members in the low-income levels.

The initiative has been undertaken by Old Mutual and the Urban Foundation after consultation with many parties, including Government officials, employers and labour rep

By JOSHUA RABOROKO

resentatives.

Major insurance companies Sanlam and Metropolitan Liberty Life have indicated they will study the implications of the scheme.

In a booklet, the Old Mutual and UF say the interest shown in these initiatives is largely related to the positive benefits that their success will have on the future of South Africa.

“While the act of building houses creates jobs, housing is seen to be a key ingredient to long-term social stability,” the parties say.

Initiative

The initiative has been designed for people who:

- Do not own any other properties; and
- Have accumulated suitable reserve in either the pension or provident funds.

It allows them to buy a home costing R45,000 or less (including the land) which will be registered in the member’s name.

Finance for the home is obtained through normal bond financing institutions (deposit-taking institutions and mutual building societies); the State’s first-time buyer’s subsidy and other subsidies and loans against money accumulated in the member’s pension or provident fund.

The feasibility of the initiative has been secured by bond repayments and loans are at acceptable levels; money borrowed from the fund is repaid by retirement; interest on money borrowed from the fund is at market rates and there is no risk to the fund in the case of default.
Housing market will remain down

THE residential property market in South Africa will remain under pressure this year and is not expected to "come to life" until the second half of 1993.

This is the opinion expressed by Boland Bank's Group economist Mr Louis Fourie in the bank's latest Economic Review.

Trend

"The building industry is nevertheless showing considerably more resistance to the downward trend in the economy than during the previous slump," Fourie said.

It was clear the property market was awaiting an increase in the general activity level of the SA economy.

Upswing

"Traditionally the property market takes between 12 to 18 months to respond to an upswing, which means that the market will only begin to 'come to life' by mid-1993."

He said house prices had for the eighth consecutive year failed to keep pace with the inflation rate.

A house sold for R70,000 in 1983 was currently selling for about R170,000. "Inflation-linked growth in house prices would have meant that the same house should have been selling for approximately R240,000."

Inflation

Fourie pointed out, however, that there are certain residential areas, for instance in the Western Cape and in Durban-Pinetown, where house prices have beaten the inflation rate. - Sapa.
Use higher bond rate to save yourself a fortune

**Sowetan Reporter**

HOMEOWNERS can save themselves a fortune in the long run by continuing to pay the same (higher) instalments, rather than taking advantage of the lower repayments, according to Nedbank.

The bank points out that maintaining repayments at current levels is equivalent to a tax-free investment of 19 percent. A significant saving, indeed, for those who are constantly battling the tax man.

The bank points out that with interest rates down by one percent point to 19 percent, many homeowners must have worked out what the reduction in the bond rate would save them a month.

To many people the reduced monthly repayments might seem insignificant, but by maintaining payments at the old level, the bondholder can actually save several hundred thousand of rands, the bank advises. **Sowetan (13/12/92)**

Take, for example, a home-owner with a bond of R100 000 repayable over 25 years. At an interest rate of 20 percent the monthly repayments are R1 679. At the new rate the repayments drop to R1 598 a month, a saving of R81 a month.

Conventional home loans are structured so that the borrower repays mostly interest with only tiny portion of the amount being applied to the reduction of the capital over the early years.

On a R100 000 loan, for example, after 15 years only R5 000 will have been paid off the capital. After 20 years the outstanding capital amount will be down by about 50 percent.

It is only during the last five years that the capital amount is swiftly reduced. This is why it is so important to maintain the bond repayments at the same level as they were before the rates were cut.

However, there is another choice. Nedbank has come up with another innovative idea, suggesting that the saving generated by a reduction in bond rates should be invested in unit trust on a monthly basis.

Assuming unit trusts perform roughly in line with historical figures, this would result in a capital nest-egg of about R22 000 after nine years.

Using the bond of R100 000 at an interest rate of 19 percent, the figures will look as follows:

- Conventional bond - monthly repayments: R1 593.
- Unit trust bond; interest R1 593;
  - Unit trust contribution: R75 and;
  - Capital reduction: Nil.
Majority of Masterbond investors still in the dark

CAPE TOWN — Little light was shed by the Masterbond provisional curators’ report submitted to the Cape Town Supreme Court yesterday on the prospects of the majority of the 20 000 Masterbond investors receiving a repayment of the R305m they invested in the collapsed empire.

While the full capital amount and most of the interest on the R35.9m solvent money market business was paid out to 5 883 investors on January 23, the bulk of Masterbond investors will be no clearer today on the ultimate fate of their investments than they were yesterday.

The curators — Willem Wilken, Arnold Galombik and Jonua Malherbe — recommended against liquidation of any of the Masterbond companies and said final curatorship would be in the best interests of investors.

But they said in their report that discussing the viability or problems of specific development projects would result in the certain failure of the projects as end-purchasers or users would lose confidence in them.

About 70% of all the bonds — the 53 participation bond investments worth R78.9m made by 2 451 investors and the 54 debenture bonds of R400.5m involving 10 256 investors — were made in Club Mykonos, Fancourt, Marina Martiniqque, Phinda and Silverhurst, where development is still in progress. The curators investigated the viability of these schemes and said their immediate liquidation would prejudice investors.

Recovery

The curators said to call up a bond too early or reach a premature settlement might result in purchasers buying the scheme at too low a price. However, if the developer were allowed to complete the project, there was a fair chance of full recovery by the investors.

The report said in certain cases the curators were negotiating with debtors to give investors in these projects the option of being paid a reduced amount immediately rather than to wait indefinitely for repayment in full.

Since their appointment in October last year, the curators have spent much of their time reconciling the investors of the short-term bonds, obtaining legal advice and determining the extent and nature of the group’s investments. The Masterbond group consisted of 21 companies utilising 85 different banking accounts and had a direct and indirect interest in about 50 projects.

The curators said the payment of interest to 1 484 participate bond investors for October 1991 would be made as soon as it had been reconciled and for January as soon as it had been received. A total of 182 investors had received R3m for amounts received by Masterbond Participation Bond Trust Nominees and Masterbond Trust Investment Nominees, but not yet placed in any of the schemes. Other small amounts have been paid out.

The curators attributed their lack of communication with investors to the fact that two months prior to their appointment, records had not been properly kept and it had not been possible to identify all investors.

We found that at the time of liquidation of Masterbond Participation Bond Trust Managers (MPTBM) prior to it being placed under curatorship, allocations to individual investors in participation bonds to the value of R16.1m and debenture bonds to the value of R135m had not been made. This despite the fact that the funds had been paid out to borrowers. The practice was that allocations would be made ex post facto in batches to various bonds as required.

The curators have decided to deal with the investments as a whole by making pro rata allocations to all bonds where allocations have not been made or not fully made. This would ensure that investors participated in all such bonds and were not unfairly allocated.

The curators noted that each participation bond in MPTBM would have to be separately dealt with, and that the fortunes of each investor would depend on the security offered by the bond in which he was allocated.

Legal counsel had advised the curators that they were not able to pool all debentures and bonds and pay out debenture investors pro rata. Each debenture holder had to be treated separately.

The curators have decided that the investors in the 17 property syndications will be treated separately from other investors, but did not indicate in what manner. A total of 2 403 investors invested R96.9m in the property participations.

The curators found that Masterbond’s short term debenture bond business did not comply with the Companies Act in all respects. The business operated on the basis of investments being lent to debtor companies and secured by mortgage bonds.

However, the curators were advised that the formal deficiencies do not invalidate the debenture certificates and the debtor companies were, notwithstanding the irregularities, indebted to the debenture holders.

Finanzhaus and Spectravest, used to finance end-buyers in Masterbond projects, were found to be viable companies.

While Mr Justice P H Tebbutt praised the curators in court yesterday for protecting the interests of investors, for those with money tied up in the group it is likely to be a long wait.

LINDA ENSOR
Insurance growth 'may be curbed'

CAPE TOWN — A range of measures likely to be introduced by a new government would ensure that the performance of the life assurance and pension fund industry over the past 10 years was not repeated, University of Stellenbosch Business School professor Attie de Vries said yesterday.

Speaking at Sanlam's national broker convention in Somerset West, De Vries said it was possible that prescribed investments would be reinstated at a rate lower than the market growth. This would affect profit growth.

Other dangers facing the financial sector were nationalisation which De Vries considered unlikely; the imposition of a capital gains tax; a sharp increase in the tax rate about which there could be no doubt; continuing low growth and high inflation; and the possible deterioration of the economic and financial infrastructure.

De Vries said the impoverishment of high income earners would not only continue, but accelerate. "Existing markets will therefore grow more slowly and this must be taken into account in any strategic planning. However, we must take note of the growth of a gigantic new market."
FNB looking at UK subsidiary option

FIRST National Bank was still determining the business case for opening a UK subsidiary and its establishment would depend on whether it would generate the right returns, senior GM and chief financial officer Vivian Barlett said yesterday.

The subsidiary was one of the options FNB would consider capitalising with the proceeds of a R560m rights offer. The bank had also not made a decision on whether the Swiss financing company would become an FNB subsidiary.

If the bank decided not to expand its overseas interests it would use the money for local operations.

The rights issue would raise FNB's capital adequacy ratio from its present 8% to 10%, including second tier debentures.

FNB would have been under pressure if it had remained at the former capital to asset ratio of 8% because inflation and growth in assets would have had a debilitating effect on the capital/asset ratio. All banks were required to achieve 8% capital adequacy by 1996 in terms of the Deposit Taking Institutions Act.

An analyst said the size of FNB's rights issue could have been restricted by the ability of Anglo-American Corporation to follow its rights. Anglo which holds 22.5% of FNB, has been squeezed for cash lately and last year had to auction its shares in Genkor and a portion of its holding in First National Bank.

Based on FNB's rating on the market, it could easily have raised more than R560m, he said. FNB's shares have risen by R28.50 to R59.50.
Banking with (and on) women

Almost 17 years after women in America started a women's bank, South African women are set to take a step in the same direction. A plan to start a women's bank was mentioned to Sowetan Woman by Mrs Zanele Mbeki, wife of ANC international affairs director Thabo, last year. Mbeki could not explain how the bank would work, who was involved and when it would be launched. She could only say that such a bank was planned. Today we publish the story of The First Woman's Bank of New York, which opened in 1975.

They boasted the first 24-hour ATM

Woman's place is in the home - not in the bank

- Taken from a banner carried by a member of Husband Liberation

They boasted the first 24-hour ATM

credit cards from their existing "male" banks.

The First Woman's Bank provided a full range of banking services both to men and women in "a personal, non-discriminatory manner". To help humanise banking, its staff kept flexible hours (including late nights and Saturdays), paid postage on mail deposits, had colouring books for children, and introduced such innovations as a 24-hour "money machine" - the first ATM - and the "unforgettable cheque", a cheque attached to a carbonless duplicate that remained in the cheque-book as a record.

Soon after, branches of First Women's Bank opened in nine other cities in California and elsewhere, among them Los Angeles, San Diego (best known for opening a playpen in its lobby), San Francisco, Seattle, Chicago, Greenwich (Connecticut) and Washington DC.

Services

All had three things in common: First, their recognition that women were both a neglected and often discriminated against market; second, their commitment to counselling and financial education; and third, their awareness of the need to offer special services to their customers.

But the competition hot-ted up as conventional banks and financial institutions realised what they were missing. Many of New York's major banks opened special "women's branches" and some financial institutions conducted special seminars for women.

The competition was too much. It was, sadly, the beginning of the end.

Today, the First Woman's Bank of New York has become the First New York Bank for Business - and its change of name is significant.

"We have, in fact, become a "normal" bank," said one senior bank official.

"The truth is that we found that business is universal - bisexual, you might say. There just isn't any room for a bank catering specifically for women, anything more than a bank can cater only for men.

"But we have made our point," - Sowetan Correspondent.
**SBIC FM 142192**

**Demand still slowing**

Real earnings growth from the leading banking group continues to buttress the bullish performance of shares in the banking sector. Latest to release earnings and dividend growth at a pace well above the average for the industrial sector is Standard Bank Investment Corp (SBIC), whose 1991 earnings and dividends are up a shade over 20%.

These results are no reflection of any pick-up in the economy. Trends seen in the first half remain firmly in place. Demand for credit is slack and the provision for bad and doubtful debts rose during the year by three-quarters.

In these conditions, total assets increased by a sluggish 10.7% — and MD Eddie Theron believes there has been no loss of market share. If anything, it appears conditions became tougher during the year. While there was some growth in credit demand, the pace was progressively slower as the year progressed. Total assets rose by 3.8% in the second half compared with 7.6% in the first six months.

Most important reason for the favourable result was the improvement in the net interest margin. As expected at this stage of the cycle, the high level of liquidity in the system has generally broadened banking margins. SBIC’s net interest income improved by 31.1%, usefully ahead of the 23.6% rise in the 1990 year.

Operating expenses were up by 26.4%, with the biggest boost coming from a whopping 76.2% rise in the bad and doubtful debt provision to R378.5m. Theron emphasises that a very small proportion relates to amounts owing by large corporations.

“You could count the number of bad debts of more than R5m on your fingers,” he says. Most of the bad debtors are individuals, small businesses and farmers — and 75% of all bad debts by value are for amounts of less than R500 000.

Performance of all the banking subsidiaries was described as pleasing, though it’s notable that Stannic has continued to lift its contribution after a restructuring of its book during 1990.

This time, Stannic’s contribution to net income after-tax more than doubled, to R75.6m — making it easily the second largest contributor to the banking subsidiaries, after the R309.3m (1990: R249.1m) from Standard Bank of SA. Factors contributing to Stannic’s surge included the steady prime rate, which had favourable effects on its margin, and cost benefits after staff were trimmed.

Total shareholders’ funds showed an unusually large jump of 21.2%, to just over R2.7bn, being boosted partly by the scrip dividend option, which was responsible for retention of some R135m in additional equity. Theron offers no comment on how long the scrip dividend will be maintained.

The structure of the balance sheet has been influenced both by the wilting volumes of business and by the rise in equity funds, and that in turn has affected profitability ratios. Return on total assets climbed from 0.9% in 1990 to a healthy 1.04% (up from 0.96% in 1987), while return on equity merely edged upwards from 19% to 19.3% — but that is well up on the 1987 level of 15.7%.

Market conditions are expected to remain much the same this year, with little improvement in credit demand. Continued high liquidity should enable further earnings growth — though it remains to be seen whether interest margins can improve further.

**FIRST NATIONAL**

**Funding growth**

There was little initial response from the market to First National Bank (FNB)’s announcement this week of plans to raise about R550m through a rights issue. When the **FM** went to press, there had been no trade in the share since the announcement, but the stock had bid at R5.85, the same as the last trading price. **FM 142192**

Buoyant share prices in the banking sector have encouraged speculation that some of these groups might decide to raise even more equity capital, even though it may not be needed to attain the capital ratios required under the Act. FNB, on the face of it, is under no pressures to strengthen its capital ratios.

Its accounts for the year to end-December showed a capital ratio of about 8%, the level which must be reached by January 1995. Still, the annual report noted that “availability of capital has become the single most important limiting factor in determining growth parameters.”

Reasons for the FNB issue have yet to be spelt out, other than that it will provide FNB with additional capital to “strengthen its ability to maximise opportunities for appropriate profitable growth in both the domestic and international markets.”

Though expansion abroad is being considered, senior GM Viv Bartlett says the bulk of the funds would be used to fund growth at home. More specifically, it’s designed to regain market share which FNB “deliberately lost” and growth will continue to be emphasised in sectors such as home loans and instalment credit.

On the international front, FNB has representative offices in the UK, the US and Hong Kong and a finance company in Switzerland; it also has a presence in Botswana. Those will probably be expanded over time, but Bartlett stresses that would be done carefully, with cognisance taken of the returns and the cost. Finrad fluctuations obviously add to risk.

With FNB’s price having more than doubled over 18 months, taking the market capitalisation to just over R4.2bn, a rights issue of R550m does not seem a formidable funding exercise. An ordinary share issue at a discount of, say, 10% would involve an issue of around 10.5m shares, an increase of around 14%. Any earnings dilution should be fairly small.

**IMPALA PLATINUM**

**Not a pretty picture**

**FM 142192**

The interim results shed considerable light on the state of both the group and platinum market — but the picture is not pleasant. Having been hammered by sporadic labour

![Image](https://via.placeholder.com/150)

**MISSING PRODUCTION**

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*Continued...*
Bankcorp may have got a R1-bn lifeline

By Derek Tomney

STM 14/2/92
Liberty dividends
Finance Staff

Shareholders of companies in the Liberty Life stable will be satisfied with the strong rise in dividend payments for the 1991 financial year.

Liblife raised its final dividend from 54c to 65c a share, bringing the total to 108c, a 25.6 percent rise over 1990's 86c.

Liberty Holdings total dividend increased by 28.1 percent from 220c to 284c after a final dividend of 174c (1990: 154c).

The pyramid group Liberty Investors lifted the final dividend from 8.8c to 10.4c, making a total of 16.6c for the year, an increase of 18.5 percent on 1990's 14c.
Seardel suffers ‘the cold wind of recession’ in 1991

LINDA ENSOR
CAPE TOWN — Clothing, electronics and toys group Seardel has maintained an unchanged interim dividend of 8c despite suffering a 25% drop in earnings in the six months to end-December.

The fall in earnings a share to 69.2c defied expectations and prospects for the second half look bleak. Chairman Aaron Searill expects the economy might slow down further by June and believes conditions will continue to be tough through 1992-93.

Forecasts contained in the 1991 annual report for the 1992 year to end-June have been revised downwards. Pretax income of between R56m-R78m is now expected (previously R49m); earnings a share of between 76c-90c (130c) and a dividend of between 15c-21c (25c).

On this basis annual earnings a share are expected in a worst case scenario to show a decline of 35% and at best a drop of 17%.

“We don’t expect an upturn in consumer spending for a year, especially as the country is in the grips of a severe drought, which historically has an overhang of about 18 months,” Searill said yesterday.

He said the 7.3% rise in interim turnover to R75m was insufficient to bear the weight of inflationary cost rises and described the results as reflecting the “cold winds of recession”. Margins came under pressure, dropping to 6.2%, with the result that operating income fell by 16.4% to R37.7m. And taking into account finance charges pre-tax income plunged 30.2% to R18.8m with the bottom-line result being partly salvaged by the lower tax rate.

Exports rose about 15% over the six months and enabled the group to utilise capacity fully to compensate for the fall in local consumer spending. Searill estimates exports made up 7% of sales by end-December.

Export orders looked good until May but thereafter were uncertain. Searill pointed to the difficulties of being competitive when goods from high-inflation SA were exported to countries with a low inflation.

The demise of the Ninja Turtle craze affected the toy division, which experienced a dull trading over the festive season. Results of the electronics division were 15% down on the same period in 1990, though CEO Chris de Bruin said the 1990 year was a high base. Christmas spending was, however, 60% below budget.

Iveco Turbostar wins truck award

Business Day Reporter

TRUCKMAKERS’ four-by-two Iveco Turbostar heavy rig won the truck of the year award at the SA Transport Blue Riband Truck of the Year Awards held in Johannesburg this week.

The panel was chaired by SA Transport editor Richard Proctor-Sims.

The Isuzu Artik 25D won the award for “most innovative entry” and the most environmentally acceptable vehicle.

Liberty Life dividend up 25.6%

LIBERTY Life has declared a final dividend of 65c (1990: 54c) a share for the six months ended December.

This brought Liberty’s total dividend for the year to 106c a share (86c), up 23.2% on the previous year.

A final dividend declaration of 17.4c by Liberty Holdings boosted its total dividend payout for the year to 284c (220c). Liberty Investors total dividend was 16.5c (14c) after it declared a 10.4c a share final dividend.

Based on yesterday’s closing share price of 4150c, Liberty Life is now on a dividend yield of 2.6%.

Liberty Holdings is on a yield of 2.5% and Liberty Investors 2.22%, compared with the insurance sector’s average of 3.2%.

The Liberty group said its 1991 results would be published on March 15.

Shareholders registered by the close of business on February 28 would qualify for the final dividends declared.
AA Life: cleaner and leaner

Joe Gates (40) has taken over as MD of AA Life. The company has had a troubled year but parent Avins has made large cash injections. Gates talks to the FM about his plans to consolidate, then reshape, the life assurance which was the high-flier of the 1980s.

FM: The resources made available by Avins means you are starting with a clean sheet. There's a surplus of assets over liabilities but obviously you will not be pursuing the same policies as in the past.

Gates: There has been considerable change already. For example, we now have two distribution channels instead of five. Though the high profile direct mail and telemarketing systems have been discontinued, we have individual business marketed through brokers, we continue to service queries on those policies. We are now left with a full-time field force of agents and a strong employee benefits division.

One result is we shall no longer be offering the small R15 monthly type of policy because you can't do that cost-effectively through a field force. So you can expect us to increase average premium size even now, we have a pretty good spread of life policies. There are 200,000 policyholders and the average new policy annual premium is close to R1 500. But they are not the core of the business and we shall add to them through sales delivered through professionally trained agents. It's going to be essential to improve the quality of the business we write and the quality of our own service.

AA Life grew too quickly, hence the strains. Now that you have pruned will the growth path continue?

We will seek sustainable and profitable growth but avoid, at all costs, the headlong growth which brought on the problems. We shall also stop trying to be all things to all people. We have examined carefully the businesses we are in and identified our core operations. For example, the decision to pass over our investment portfolio management to The Board of Executors (BOE) was recognition that we were not investment specialists. The decision to give the administration of policies to a company which acts jointly for us and Crusader Life was another attempt to get focus. We don't need to have a string of administrators when we can pay more cost-effectively for that service. The focus is clear: to obtain profitability for both our policyholders and shareholders. It sounds trite but it must be remembered that our core business is to provide benefits for people who either die too soon, live too long or who become disabled. So we've looked at the business we have, and the business we can reasonably expect to digest, and are right-sizing AA Life to fit.

How have the staff reacted to the poor publicity?

It should be remembered that the publicity stemmed from the company's situation more than a year ago and, today, after numerous changes, AA Life is a much more streamlined and profit-conscious organisation. Nevertheless, our staff were tremendously supportive throughout. Also, there's been this total commitment from the major shareholders. Effectively, they have made a capital injection of R66m. That's given our key staff confidence and none has drifted away, though we did have to make retrenchments, mainly among the telemarketing and direct mail staff. But the most interesting reactions have come from some of my peers. Several have suggested, "Joe, you've been given a clean sheet of paper — and that's not often the case with the CE of a life office." So the truth is, I probably have fewer problems now with resources — including people — than the guys running other small or medium-sized life companies.

We are free to design new strategies which fit in with our leaner shape. These will include going up-market, cultivating more clients in the A/B income groups, but not at the expense of our current markets. That will be done slowly, because it involves a shift in culture. The BOE, to which we are linked through AVF, already operates in that income group, so we will be exploring it. In fact AA Life and BOE this week launched a unique pensions investment portfolio which is indicative of our close relationship and our good base of pension and provident fund clients. And, without treading on the toes of brokers in any way, we will start designing more products for their members.

Has switching your investment portfolios to BOE produced results?

It has, and the signs are positive, but you can't expect spectacular results in a few months because there was a lot of cleaning up to be done in some of the portfolios and that can take time. I think it would be wrong to form judgments based on a few months' experience — give us a couple of years or so.

Any other changes coming at AA Life?

All the shocks are over, though there is further, minor rationalisation in the pipeline, and now there will be concentration on manpower development. We owe it to the people who have been so loyal to give them every opportunity to develop themselves. Following from that, I want to see more devolution of authority, with more decision making at branch level, especially regarding operational profitability. I want to get managers involved in setting their own targets in the context of overall company objectives, deciding what their teams can achieve and all being rewarded accordingly. The role of the executive, in my view, should not be to set people at targets but rather to create conditions in which they can succeed.
Overcharging row: Bank drops action

MAGNUS HEYSTEK
Weekend Argus Correspondent

THE debate about the possible overcharging on bank overdrafts took an unexpected turn yesterday when First National Bank announced that it was dropping its legal action against Jaap Spelt of Wespro.

Two months ago Mr Spelt caused a rumpus in the banking industry when he claimed that 90 percent of clients were being overcharged on their overdrafts, sometimes above the maximum rates allowed by the Usury Act.

FNB brought an urgent interdict against Mr Spelt after he appeared on Flansially Speaking, a money show on Radio 702 in November last year.

This was despite the fact that Mr Spelt did not mention FNB on the programme.

Under threat of legal action a programme on SABC-TV, which featured Mr Spelt and his allegations, was also dropped.

Mr Spelt's company has developed a software package which calculates the overdraft rates charged by banks.

At the time, Mr Spelt alleged that of the 5000 overdraft accounts that he had checked, more than 90 percent showed overcharging. In some instances the overcharging had led to businesses closing down.

This was normally the result of bank's altering overdraft rates without the knowledge of the client or not dropping overdraft rates when the prime overdraft had been reduced, he said.

At the time FNB justified its actions by saying that Mr Spelt's allegations were unfounded and were highly damaging to the banking industry.

Yesterday FNB conceded that mistakes had been made.

Commenting on the matter, senior general manager Jimmy McKenize said: "It is the bank's policy to correct immediately any mistakes that may inevitably occur due to human error, and every legitimate claim which may be made against the bank will, of course, be met.

"Furthermore, the bank is constantly taking steps to limit the possibility of mistakes."

FNB said Wespro had furnished satisfactory evidence that it had not implied that the bank had deliberately contravened the Usury Act. As a result, the bank was in a position to withdraw its interdict application against Wespro.

In future FNB would publish interest rates on overdrafts on all bank statements, the bank added.

Yesterday Mr Spelt indicated that he intended suing FNB for his legal costs — and possibly damages — as FNB's actions, which he contended had no foundation, had affected his business.
New twist to allegations of banks overcharging on overdrafts

FNB drops court action over Wespro

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PORT Elizabeth pensioners were dealt a major blow this week when the SA Perm branch in New Brighton township was closed down because of armed robberies.

When the pensioners whose money was paid into the branch went to collect their pensions they found a note on the door which read: "This branch will be closed until further notice."

The pensioners have been forced to travel long distances to get their money.

Stolen

An undisclosed amount of money was stolen from the bank at the weekend by six armed men soon after a Fidelity Guards van had delivered money.

Police liaison officer for the Eastern Cape, Lt Lisbe Vermeulen, said no one had been arrested and police were investigating.

The bank's regional manager, Ayanda Mjekula, said that over the past few years the branch had been increasingly subjected to attempts at forced entry, excessive and costly vandalism to electronic equipment and armed robberies.

"We now find the situation untenable. The safety of not only our clients but also our staff cannot reasonably be guaranteed, as many of the security mechanisms deployed in the Central Business Districts and elsewhere, like Business Watch, do not exist in the New Brighton area," he said.
By EVE VOSLOO

MILLIONS of rands are being recovered by companies that specialise in checking bank statements for errors made in calculating interest on overdrafts.

The companies are picking up discrepancies that may amount to hundreds of thousands of rands on a single account.

Mr Mike McKiever, managing director of Rand Search in Cape Town, has found more than R400,000 has been overcharged over two years on an overdraft of about R6 million.

Other cases Mr McKiever has handled include:

• R11,000 overcharged in interest over three years on the account of an engineering company.
• R14,000 overcharged over three years on the account of a Boland garage.
• R220,000 overcharged on a farmer's overdraft over three years. In this case the capital amount and interest amount to nearly R600,000, which Mr McKiever is claiming on the farmer's behalf.

Faith

"The client cedes any discrepancy to us and we take a percentage of the money recovered and give the rest back to the client," Mr McKiever said.

One statement showed that on an overdraft of R6 250 000, the bank had calculated the interest due — at 21 percent a year — as R146 000 at the end of one month. The correct amount was R119 791.

"What has shocked me is that often we will check an account and find that not a single interest calculation on that account is accurate," Mr McKiever said.

"The man in the street has faith in banks and trusts them not to make mistakes. The banks' calculations are about 10 percent accurate and 90 percent wrong."

Another company, Wespro Business Consultants, reported recently that it had investigated 242 bank accounts over a year and had found that in only 22 were the interest calculations accurate.

Mr Nico van Loggerenberg, executive director of the Clearing Bankers Association, said the association had been investigating similar complaints since last year.

"We are very much aware of this problem," he said.

"We rectify any mistakes as soon as they are brought to our attention."
SOUTH Africans lack the American mentality of frequently consulting their lawyer, accountant, attorney or any professional advisor, probably because they think it too costly.

Miss Cheryl Howard, personal financial planning advisor of auditing and consulting firm Kessel Feinstein, is working to overcome these views.

She is establishing an independent personal financial advisory service but will not undertake a decision-making role.

**Cost**

There are three methods by which financial advisers make a living. They can earn a commission from selling a product, earn brokerage from trading or charge a fee for advice. The last method can be the most objective.

Miss Howard says the cost of the service is sufficiently modest to be accessible to most people.

Clients take a questionnaire from Miss Howard and discuss it at home. The form covers scenarios such as planning for death, disability and retirement needs and ancillary events such as weddings, holiday homes and educational fees.

Miss Howard then advises clients about what they should consider to meet these requirements. She draws on the experience within the firm for certain issues, but is well informed about investment modes on offer.

"Clients should not view me as a replacement to their current financial links with brokers and others. I aim to advise the client on what products he should request from his broker," she says.

Miss Howard can also advise on the best format remuneration packages should take for individual cases.
FNB finds the going's good

by Julie Walker

Diagonal Street

St. Louis Post-Dispatch, February 16, 1992
That shows an excellent return.

Put your trust in an investment.
Standard again delivers the goods

STANDARD Bank Investment Corporation has been a model of consistency in the past 10 years, increasing attributable profits every year and earnings a share with the exception of 1983.

This is a record which none of the largest banks can match.

Earnings a share increased by 20.1% in the year to December 1981 from 422c to 507c and the dividend by 20.5% from 133c to 160c.

This is well above the inflation rate and compares favourably with the growth of blue-chip industrial companies.

SBIC was helped by widening interest margins. Lending rates remained high and debts — up by 76%. This is a symptom of the poor state of the economy.

Bad debts also rose in the 1985-86 recession, though there was a difference in their composition. In 1985-86 large companies were caught with unsound balance sheets. Most of them have now learnt their lesson.

In the current recession, the defaulters are mainly small companies, individual borrowers and farmers. Even so, this is a profitable lending field.

SBIC maintained its market share. It gained in the home-loan market, where its book was up by 40%.

Management expects no more than a modest improvement in the economy this year. This means only limited lending opportunities.

However, one expects the Reserve Bank to be slow in reducing the prime lending rate and liquid funds in the system should continue to increase. This should help margins.

SBIC is thus budgetting for increased earnings this year. It has good reason for its confidence.
Jacobs urges tighter investment controls

THE Jacobs Committee is to recommend a new law to regulate financial services that do not fall under existing legislation.

The report will probably be published next month.

Jagie Jacobs, special adviser to Finance Minister Barend du Plessis, says the intention is to protect investors without over-regulating the market.

The proposals are along the lines of Britain's Financial Services Act.

The Masterbond debacle highlights the need for greater protection for investors.

Broader

Similar proposals in the mid-1980s for a change in SA law were rejected.

The Jacobs Committee was appointed to look at prospects for levelling the playing field between deposit-taking and contractual savings institutions.

But its investigation has broadened to cover operations like those of Masterbond, which acted as an agent.

Deposit-taking institutions, insurance companies and unit trusts are strictly controlled. But there is a gap in legislation to regulate the kind of operations conducted by Masterbond.

Dr Jacobs says this unsatisfactory position places greater responsibility on the investor to protect his interests.

His committee recommends that people operating in the broader financial mar-

It also proposes clearer definitions of agencies, principals, trusts and financial institutions, as well as their roles.

The proposed law might also lay down stricter regulations for the use of terms like financial institution and trust.

Dr Jacobs says a company which has "trust" in its name may give the impression of having some protection which does not exist.

The Committee's proposals deal with the role of agents and would require them to become members of a self-regulatory body, as is done in the UK.

An important recommendation is that the investor be told who the ultimate borrower is and where the money goes after being given to the agent.

Quality

The recommendations also deal with the need for institutions to warn investors about the risks involved.

Dr Jacobs warns that although the government can legislate to protect the ordinary person, it cannot guarantee the solvency of any institution. That depends on the quality of the institution's management and its investors. The ultimate responsibility lies with investors.

He says that investments offering markedly higher returns than those of registered deposit-taking institutions are likely to be high risk.
BANKS are taking steps to allow future non-resident depositors to avoid tax on interest they earn in South Africa.

A banker says: "Whether or not the depositor is liable for tax depends on the mechanism used to place his funds in a bank."

"In many cases the wrong procedure was followed. It would have been just as easy to avoid tax."

A non-resident wishing to deposit money in SA usually places his funds in a foreign bank. The foreign bank is instructed to place the money in an SA bank. If the transfer of funds from the foreign to the SA bank takes place abroad, the investor is not liable for tax on interest.

Liable

The reason is that the Receiver of Revenue deems the source of the funds to be foreign. This may happen where the SA bank has an account with a foreign one. But if a non-resident places money in an SA bank which does not have an account with his foreign bank, he must take care. The foreign bank may use another SA bank to transfer the funds.

If this transaction takes place in SA, the investor is liable for tax because the Receiver deems the source of the funds to be here.

Tax may be avoided if the depositor's foreign bank places the funds with another foreign bank where the SA one has an account. The funds are deemed to have been sourced from abroad.

A statement by the Receiver says: "If the creditor makes the funds available to the debtor outside SA and the debtor transfers the funds to SA for use here, the source is outside SA and the interest is not subject to tax."

"If, on the other hand, the creditor transfers funds to SA and makes them available to the debtor in SA the source is in SA and the interest is subject to tax."

Under these guidelines interest on foreign funds trapped in the net under the foreign debt standstill would have been taxable because most were transferred at least once from one SA account to another.

But they were exempted from tax in the second interim debt standstill arrangement in 1987.

The Receiver makes it clear that interest on deposits in SA banks by emigrants or foreigners who earned money in SA is taxable even if they no longer live here.

LOW

A banker says the rand has weakened because many non-residents have pulled their funds out of SA.

"They are not transferring their foreign funds into gilts even though these instruments are exempt from tax. They fear that the money could be seized by the Receiver to pay tax on interest earned in the past."

"For the same reason these depositors are taking out funds to reinvest in SA banks under procedures where the deposits would be deemed to be foreign sourced."

The rand hit a two-year low this week of R3.82.

One of the reasons is anxiety of non-residents about tax.

It is expected that downward pressure on the rand will continue because many foreigners have term deposits, which they continue to withdraw on expiry.

A banker says: "The Receiver has bitted this issue. He is chasing money away for little extra revenue. The White Paper on the Margo report recommended abolition of the 10% withholding tax to encourage foreign loans and said it brought in only R3 million a year."

Banks clear way for tax avoiders

By CURT VON KEYSERLINGK

SITUATION BUSINESS 16.12.92
The possibility of a huge payout ahead at the Ahsa deal has alarmed bankers and cast doubt on a purported open-market transaction.

It is also suggested that Bankorp's former parent, Sanlam, provided guarantees against bad debts not yet to be written off in order to keep the deal alive and the bank from becoming insolvent to signing the bank's death warrant.

First National Bank managing director Barry Swart says the reports could be true, adding that the Reserve Bank would normally have used the R1-billion for other purposes.

The taxpayer will have to foot the bill for the R100-million shortfall of interest.

Banking sources say Sanlam instructed Bankorp to make an aggressive drive for market share in the late 1990s. That triggered a slide into reckless lending, culminating in a provision for doubtful advances of R300-million and an abnormal item of R100-million in the year to June 1991.

It followed a provision for doubtful advances of R95-million and an abnormal item of R150-million in 1990.

The old bad debts, which are not disclosed, are being amortised over five years.

Bankorp has been slotted by analysts for not disclosing its internal reserves and the nature of its bad debts.

It had followed the example of competitors and moved to fuller disclosure, it would have allowed the public and shareholders to assess the extent of damage to the balance sheet.

The lack of disclosure has fuelled speculation about the group's financial affairs.

Bankorp's reporting standards will probably fall into line with those of Absa.

Insurance

In the US, bank disclosure requirements are more open. All banks and savings and loans institutions (the US equivalent to building societies) contribute a percentage of their deposits each year to what is in effect an insurance scheme sponsored by the authorities.

If a financial institution fails, the authorities may approach other banks to take over the defaulters. Bad debts are guaranteed if they occur within the first three years.

This has been extremely expensive for the US taxpayer because of unsound lending practised by financial institutions in more prosperous times. The losses have added to the US budget deficit.

However, the openness of the system at least allows one to point fingers.
CONSTRUCT A SOLID FOUNDATION BY PARTICIPATING IN PROPERTY BONDS

APART from direct investment and property trust, there are two other property-based investments — mortgage participation bonds and property syndication.

Paul Clapham, former ILPA president, explains: "In the first instance a number of people invest money with a part bond management company which uses the money to grant a commercial bond on a factory, flats, offices or a hotel, and the bond rate is closely linked to prime.

Build

"The investment is for a minimum of five years after which up to three months’ notice of withdrawal is necessary. In essence, mortgage participation is an investment in a specialised "building society," but property is clearly identified.

"In the case of property syndication, a property developer will either buy or build a commercial property and then sell shares in the building to individual investors.

"The return on this investment depends on the current value of the building and the rentals received. If the property or any part of it stays vacant, the investor obviously suffers accordingly."

Another ILPA fellow, Satari Mohamed of Bottom Line Consultants, outlines the benefits of property syndication: "It provides investors with a means to include direct property investments into a portfolio of growth assets."

"An investor with a relatively small amount of capital is able to invest directly in prime property without an administration burden. Alternatively, an investor can divide his money between two or more properties and spread the risk.

Leader

Some of the aspects to look for include a well-located property of sound construction and with a low vacancy factor. Tenants should be financially sound with long leases with built-in rental escalations.

"Property is a growth asset and is likely to provide an investor with returns exceeding the inflation rate over a long period. Although the property market is cyclical, it is not as volatile as the share market and it usually gives a higher income yield when compared with dividend yields from share investments. For these reasons alone, property should play a vital part in every investment portfolio."

A leader in the field of property syndications is investment trust company Methord, which was the first company to actively promote property syndications to the public. After being in the syndication game for only six years it now controls some R130-million.

The overall property syndication market in South Africa has taken off in recent years, and is now worth over R500-million, but it is still small compared with the participation mortgage bond market which is estimated to be worth about R4-billion.
High demand for credit as cost of living increases

There has been increasing demand for personal credit due to rising interest rates and high inflation causing the cost of goods and services to escalate.

Banks are now developing lending products specifically to cater for the needs of different market segments. Traditionally, banks only offered an overdraft facility, which was generally difficult to obtain.

Banks also failed to recognise that a large percentage of the population were not in a position to provide some form of security, yet would be in a position to facilitate repayment of the loan over a reasonable time.

A spokesman for the Standard Bank, says "personal overdrafts are only granted to creditworthy clients and are subject to prior approval by the branch manager."

Acquire

"They are intended to assist customers in financing their short-term needs or with their day to day operations. They are granted for specific periods of up to a year at a time but are subject to review."

"Factors taken into consideration before a personal overdraft facility is granted include financial position, assets and liabilities, security, previous bank record, amount of loan and purpose of loan."

Revolving credit provides a continuing line of credit within an agreed limit. Applicants may borrow up to three times their gross monthly income, subject to a maximum limit of R15 000 and a minimum of R1 000.

Personal financial plan-
Unit trust fees drop in ocean

By ROBIN PEGLER

MANY small investors are complaining about the increase in the maximum annual service charge levied on the market value of a unit trust's assets.

It has been raised from 0.5% to 0.75%.

But the cost to an investor is minimal.

In spite of this, it seems that several unit trust management companies have not controlled costs as well as they should have.

Separate

Clive Turner, chairman of the Association of Unit Trusts, says the increase is the first in the industry's 26-year history. The charges remain low compared with those in other countries.

Two separate charges are levied:

- The 0.75% fee covers portfolio management and administration costs.
- The difference between buying and selling prices as quoted in the newspapers amounts to about 6%. This is to cover marketing costs, including brokerage and marketable securities tax.

The impact of the increased annual service fee is low for investors regarding both capital value and income. If one had R1 000 in a general unit trust for one year, one would receive about R2.50 less in annual income.

Mr Turner says the fee of 0.5% deferred newcomers to the industry. Although there are now no fewer than 41 unit trusts, the more the competition, the more efficient they will be.

Unit trusts have far outperformed inflation both in capital value and income for 20 years. Capital values may have been inflated by the excess of demand over supply of good-quality scrips, thus enhancing the performance of the unit trusts with little effort. But that is a fact of life in SA's economy.

Mr Turner says administrative costs have increased sharply, particularly because the number of accounts has risen to nearly a million. Unit trusts are run by large institutions. In many cases their staff also administer life-assurance and pension funds, so a relatively small part of their time is spent on unit trusts.

However, recently established funds have not had time to build a large base of funds under administration.

Table 1 gives a few samples of these and shows that even the higher fees will not go far in covering costs. Administration and research are done at a loss.

Another objection to the higher service charge is based on the argument that the increase in a fund's asset value should have taken care of rising costs. This is shown in Table 2.

Mr Turner counters this argument by saying that in the early 1980s systems could not cope with the enormous amount of new business. They had to be replaced by advanced technology.

He says unit trusts should have lifted service charges years ago. In the UK, a conservative estimate of the average charge is 1.25% a year -- and can be 3%.

It appears from Mr Turner's remarks that the cost of computer hardware and software is much greater than that of salaries. One must hope that the electronic infrastructure is now sufficient to cope with the high level of business and that cost increases will be lower.

Leader

Even so, the income from fees shown in Table 2 shows a rapid increase. On the old scale of 0.5% income was over four times what it was years earlier. On the new scale income will be more than six times higher. This rate of increase is far more than SA's inflation rate.

It looks as if in many cases the unit trusts have been used as a loss leader.

Their performance is reported regularly and they advertise the expertise of their supporting institution as a whole. The loss on administration fees probably gives better value for money than the equivalent amount spent on advertising.

It is preferable to see investors paying less in fees than to have money go into the pockets of the advertising agencies. Nevertheless, the larger funds at least have little incentive to contain costs. It would be better if they did.

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<th>TABLE 1</th>
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<td>Funds under Administration</td>
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<td>Unit Trust</td>
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<tr>
<td>METFUND</td>
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<td>VOLKSKAS</td>
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<td>SENBLANK</td>
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<th>TABLE 2</th>
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<tr>
<td>Unit Trust Industry</td>
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<tr>
<td>Total assets Rm</td>
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<tr>
<td>0.5% fees on above Rm</td>
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<tr>
<td>No of funds</td>
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<tr>
<td>Capital income*</td>
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* This means that, hypothetically, if an investor had bought a basket of all unit trusts at 31 December 1989, his money would have more than doubled five years later.
Half-price unit trusts

By Dr. Bruce Little, P.take.

...
NEWS IN BRIEF

Bank dispute settled

THE dispute between First National Bank and Wespro over alleged contraventions of the Usury Act has been settled. FNB said on Friday Wespro had furnished satisfactory evidence that it had not implied that the bank deliberately contravened the Usury Act. As a result, the bank was in a position to withdraw its interdict application against Wespro.
MONEY MARKETS by Sheridan Connolly

HOW much longer can the Reserve Bank continue its struggle to keep a tight rein on liquidity — and on the banks — as rates continue sliding downwards?

Expectations of a cut in official interest rates have been building up over the last year or so, but Reserve Bank Governor Chris Stals has put up a tough fight and has, thus far, not relented to market pressure.

With all factors in the market firmly in place for a Bank rate cut, dealers are confident the move is in sight and most feel the release of January's CPI data this week will be a major deciding factor for Stals.

Last week the 90-day liquid BA rate dipped to its lowest level in three years when Standard Bank held its BA rate at 16.00%. Dealers said the lower rate was in line with investor demand, liquidity levels and expectations of a cut within the week.

Dealers keep up the pressure, but Stals maintains tight rein

Most of the other major institutions lowered their BA rates to 16.10% from the previous week's 16.20%.

Meanwhile, the strong demand for liquidity was reflected in Friday's weekly Treasury bill (TB) tender. The average three-month TB rate dropped 14 points to 15.80% from 15.94% at the end of the previous week. 810c= 11/12/92

The Reserve Bank received a massive oversubscription of R1,449bn in the allotted R206m tender with tenders at the average price only partially allotted. There were no full allotments, the Bank said.

High levels of liquidity in the market have warranted a downward trend in the TB and associated rates, and this has seen the banking sector benefiting through lower deposit rates.

Consumers, on the other hand, have been at the wrong end of the stick — they have had to face high and stubborn inflation, lower deposit rates and crippling lending rates.

The Bank continued its liquidity-draining operations from the market last week with two special TB tender issues of R600m and R500m respectively. Dealers said the action was taken to drain the routine inflow of cash at mid-month.

Last week, the money market shortage had edged up to R1,872bn on Thursday from R1,334bn on Wednesday.
Stanbic makes foray into London market

By Neil Behrmann

LONDON — Standard Bank Investment Corporation’s (Stanbic) London subsidiary has become a member of the London Stock Exchange and will be making a market in South African equities and bonds this week.

Standard will thus be the first South African banking institution to make markets in shares.

“We hope that our presence will boost SA equities trading in international markets and encourage investment flows into South Africa,” says Pieter Prinsloo, chief executive of Standard London, the UK unit.

“Moreover, such a presence abroad will help SA corporations raise foreign finance,” he says.

Alan Beuthin, head of equity and foreign trading, believes Standard’s London team will help boost liquidity in the volatile and thinly traded SA equity market.

“Prices surge on a hic, volumes and then tumble on low levels of trading, a classic sign of illiquidity,” says Mr Beuthin.

Son of a former Wits University law professor, Mr Beuthin was first a broker in Johannes-

burg. He joined Merrill Lynch in London in the Seventies and headed international equity dealing departments before moving to Deutsche Bank Capital Markets.

Most members of his dealing team followed him from Merrill Lynch to Deutsche Bank and then to Standard.

The entry of Standard will hopefully make pricing of SA shares more competitive, says John Taylor, an analyst at James Capel, an agency broker active in the SA equity and bond market.

Keener market making should help boost trading volumes and investment, he says.

Ray Davis, who is in charge of Smith New Court’s SA dealings, welcomes a “committed market maker” such as Standard.

Smith New Court, which also trades SA equities on Nasdaq, the over-the-counter market in the US, is by far the leading market maker in SA equities, say brokers.

Other less active market makers are Credit Suisse First Boston and Warburg Securities, they say.

De Beers, Driefontein and Anglo American are the most actively traded SA shares in Lon-

don.

But other leaders, notably Kloof, Vaal Reefs, Free State Geduld, Orifil, Richemont, Rustenburg and Impala have spreads between bid and offer prices of as much as three to five percent.

The gap between buy and sell prices of less active SA counters is as wide as five to 10 per-

cent or more.

Clearly the wide spreads and volatile prices on small volumes are a disincentive for foreign in stitutions, say market participants.

Standard London intends contact ing corporations, institutions and foreign players to boost vol-

umes, says Mr Beuthin.

As a starter, Standard London is the lead distributor of the bull bear two-year Transnet Efi IV bond issue, he says.

Standard, however, is entering a tough market.

Dealers say that there is too little business for too many brokers and the market despera-

tely needs a gold and metals boom to raise overall trade.

In January, for example, SA share trading accounted for less than one percent of the £27.7 billion (R139 billion) of foreign shares traded on the London exchange’s Siaq International screens.

The Australian share was even lower and that market is even more illiquid than the South Africa one.

Besides equity market making, Standard London is forming a bank specialising mainly in Southern African trade, corporate finance and investment.

It is involved in discussions with the Bank of England to obtain a banking licence in the UK.

If Standard London meets requirements of the central bank, it will be the first South African bank to obtain a UK banking licence since the debt moratori um in 1985.

Since the moratorium, SA banks have had either branches or representative offices in Lon-

don.

After Standard Chartered’s sale of Stanbic in 1987, the latter set up a small representa tive office in London.

It also bought a trade finance and counter-trade company, Ludgate Advisory Services.

Ludgate, among other activities, serviced UK corporations in the use of SA debt to help them finance operations in South Africa.

It has been renamed Standard London and will be the central operating unit of the institution.

Pieter Prinsloo has succeeded Stanbic’s recently appointed MD Eddie Therou as chief executive in London.

Mr Prinsloo rose through Stanbic’s ranks as a merchant bank er. Patrick Quarmby, formerly in the corporate finance division of merchant banker Schroder Wagg, is managing director of operations.
Focus on financial markets

ISSUES concerning the regulation of financial markets in southern Africa will come under the spotlight at a major international conference in Sandton next month.

Speakers from the UK, Malawi, Botswana, Zimbabwe and SA will address future developments of financial markets in southern Africa with special attention focused on international regulatory trends.

Issues to be discussed include First World financial systems in developing countries, the relevance of global regulatory developments for southern Africa, risk management, efficiency and competition in financial markets, and financial markets outlook in southern Africa.
Rabie benefits from quitting black housing

CAPE TOWN — Withdrawal from the risky black housing market has benefited Rabie Investment Holdings, which made a strong return to profitability in the six months to end-December.

Earnings a share of 1.4c (loss of 3c) were notched on a pre-tax, pre-interest operating income of R1.6m (loss of R49 000). A bottom-line profit of R266 000 was generated compared with the previous loss of R5.9m, most of which arose from a R34m write-off in the previous year of land owned in Natal and of the closure of the Natal operations. Group policy is to declare only an annual dividend.

The results were achieved despite the recession and despite an onerous interest bill of R1.1m, which was the legacy of the write-off.

"The redirection of the business into traditional markets, namely, exclusive and unique projects in prime areas, allied to the curtailment of exposure in the black market, has been successful," chairman John Rabie said, adding that the group had redirected itself quickly and efficiently.

Rabie said the group’s developments in the Western Cape had traded better than expected and this boded well for year-end results. Exclusive projects included Dolphin Beach. Two others were developed in Hout Bay, and one in Constantia.

The only remaining exposure in the black market is through Rabie’s 48%-held associate company, Kwiskpace Holdings, which is involved in the manufacture of pre-built accommodation units. Kwiskpace made a satisfactory contribution to net income.

An export drive of 250 units into sub-Saharan Africa was under way, Rabie said, and exports now represented about 10% to 15% of Kwiskpace’s turnover.

Kwiskpace could be expected to make a meaningful contribution to the year-end result, Rabie said.

He was optimistic that results would improve during the second half as overheads were lean, the group’s development skills were in demand and it was poised to enter the sectional title apartment market.

Negotiations were also under way to extend its involvement in retail developments.

Rabie said the group planned to reduce gearing over the next two years. There was a need to conserve cash for this purpose so he could not say whether the payment of a dividend would be resumed at year-end.
Bankorp had to put aside R900-m for bad debts

By Derek Tommey

Bankorp, soon to be merged with Absa, has had to provide R900 million against bad debts in the past two years. This shock figure emerges in a report issued by Republic Ratings, a company which assesses the creditworthiness of top financial institutions. However, the report should go some way to reaffirming the confidence of depositors in Bankorp — which might have been shaken by reports of a R1 billion bail out by the Reserve Bank.

Republic Ratings says that after a comprehensive survey of Bankorp, it has accorded it a rating of A1+, the highest possible short-term rating.

Reassurance

This should reassure depositors with Bankorp and its associate companies that they can withdraw their money whenever they need it.

"It shows that Bankorp's capacity for repaying short-term deposits on time is extremely strong," says Dave King, chairman of Republic Ratings.

The rating process is based on confidential and detailed information. It also takes into account the role of the authorities in maintaining confidence in the banking sector.

Republic Ratings believe that the authorities will assist any of the "big five" banks in the event of temporary problems, notwithstanding a public stance that automatic support should not be assumed.

When you need a billion or two

Many people may have wondered where the Reserve Bank obtains the R5 billion or R6 billion which it sometimes provides in the form of accommodation to banks in need.

There is no problem. The Governor of the Reserve Bank has only to sign a piece of paper bearing the words: "I promise to pay the bearer R1 billion (or whatever the figure is) on demand at Pretoria" and the deed is done.

For evidence of this check the banknotes in your pocket. Such are the powers of a central bank Governor.

Mr King said that factors considered in evaluating the quality of the debtors book were the substantial provisions that had been made against bad debts (totalling R900 million over the last two years) and new management and credit philosophies implemented subsequent to the appointment of Mr Piet Liebenberg as executive chairman.

Although certain large exposures were cause for concern, no further material write-offs were envisaged in excess of the significant existing provisions against some of these exposures.

Mr Leon Claassen, a director of Republic Ratings, said that his organisation had rated Bankorp A1+ before the proposed merger with Absa was announced. He said the merger would further enhance Bankorp's creditworthiness.

The merger should produce several benefits for both groups, he said, and would reduce Bankorp's need for the additional capital it would have required to meet the 1996 capital adequacy requirements.

Mr King said that Republic Ratings was established two years ago to meet the need for more information about the main credit providers in this country.

The assessments followed similar lines to those of the two leading American rating organisations, Standard and Poor and Moodies.

Exception

An A1+ rating was the highest awarded for short-term performance, while a "triple A" (AAA) was the highest for long-term performance.

While most of the financial institutions issuing long-term stock had been assessed AAA, there had been one notable exception. This was the Land Bank which had been awarded only a "double A."

"Our decision to give the Land Bank only a double A was based on the belief that the Government in the new South Africa would be less likely to give financial support to the Land Bank and the farmers," said Mr King.
Money market anticipates cut in Bank Rate

By Sean Leslie, 6/12/92

The recent power cut in the...
Bankorp gets top rating

Business Staff

BANKORP, soon to be merged with Absa, has had to provide R500 million against bad debts in the past two years.

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"It shows that Bankorp's capacity for repaying short-term deposits on time is extremely strong," says Dave King, chairman of Republic Ratings.

The rating process is based on confidential and detailed information. It also takes into account the role of the authorities in maintaining confidence in the banking sector.

Republic Ratings believe that the authorities will assist any of the "big five" banks in the event of temporary problems, notwithstanding a public stance that automatic support should not be assumed.

Mr King said that factors considered in evaluating the quality of the debtors book were the substantial provisions that had been made against bad debts and new management and credit philosophies implemented subsequent to the appointment of Mr Piet Liebenberg as executive chairman.

Although certain large exposures were cause for concern, no further material write-offs were envisaged in excess of the significant existing provisions against some of these exposures.

Mr Leon Claassen, a director of Republic Ratings, said the merger with Absa would further enhance Bankorp's creditworthiness.
Bankorp given top rating

SPECULATION of a R1bn Reserve Bank bail-out failed to dent Bankorp’s top A1+ credit rating released yesterday by Republic Ratings.

An A1+ rating, the highest short-term rating, was given to Bankorp because it had an extremely strong capacity to repay short-term deposits on time, a statement by Republic Ratings said.

A consideration had been the role of the authorities in maintaining confidence in the banking sector. The rating agency said it believed the authorities would assist any of the “big five” banks in the event of temporary problems, in spite of the Reserve Bank’s public stance that automatic support should not be assumed.

The rating follows speculation that the Bank extended a R1bn loan at 1% interest to Bankorp before the Absa/Bankorp merger.

Republic Ratings director Leon Claassen said the rating did not take account of Bankorp’s merger with Absa and this would add further support to the bank’s credit quality.

A major factor behind the high rating was Bankorp’s substantial provisions for bad debts (R300m during the past two years). The new management and credit philosophies implemented after Piet Liebenberg’s appointment as executive chairman were other contributing factors.

“Although certain large exposures were cause for concern, no further material write-offs are envisaged in excess of the significant existing provisions against some of these exposures,” the statement said.

As one of the major banks, Bankorp had an extensive and diverse deposit and client base which added stability to its operations. Confidential and detailed information was used in the two-month investigation to arrive at an informed opinion on the creditworthiness of the bank.
Stals sticks to monetary guns

By Sven Lünscher

Reserve Bank Governor Dr Chris Stals yesterday put paid to speculation about an imminent cut in interest rates.

He strongly re-affirmed the Bank's policy of linking a reduction in interest rates to clear signs that consumer price inflation was receding.

Economists have been speculating that the Bank could announce a cut in its rate before or at the time of the Budget speech next month.

On the money markets short-term interest rates have been falling steadily in the past few weeks in anticipation of a cut in the Bank rate.

However, Dr Stals told delegates at the annual Franschek Max Pollak Vinderine conference yesterday the bank would "maintain its present level of monetary tightness".

He warned that after almost 20 years of double-digit inflation, South Africa might already be in some form of stagnation (high inflation coupled with negative growth rates).

"In this situation we cannot afford to revert to the arcane policy of short-term cyclical demand management and its inevitable results of a stop-go economy."

"The Reserve Bank therefore continues to stick to its policy of medium-term objectives and general financial stability, rather than short-term spurs of growth that slowly but surely step us up to higher levels of inflation, and a lower macro-economic growth potential."

The Bank's tight monetary policy had already achieved a number of desired results:

- The broad money supply measure M3 had increased by an annual rate of only 7.4 percent since February last year and credit extension to the domestic sector had slowed to an annual 10.7 percent over the past 10 months.

- The gold and foreign exchange reserves had increased to R4.4 billion, equal to just over two months' worth of imports, while the Bank had no foreign liabilities outstanding.

- Producer price inflation had declined from a high of 14.8 percent in November 1990 to 8.8 percent in December last year.

However, Dr Stals also listed a number of factors which mitigated against a premature cut in interest rates.

Topping the list were high consumer price inflation rates and the pressures on the Minister of Finance to create additional expenditures to meet the demand for social spending.

Furthermore, the drought in the summer rainfall areas threatened to prevent "the breakthrough we so desperately need in our struggle against inflation".

Dr Stals emphasised, however: "To the extent that the rate of inflation does decline during 1992, scope will be created for some relaxation in monetary policy."

But in calling for a major overhaul of South Africa's entire production structure, he warned that such a restructuring could not be jeopardised by an early balance of payments crisis, or by escalating inflation.

"At this stage there can be little doubt about the need for the retention of disciplined monetary and fiscal policies."

Looking at other monetary factors in the year ahead, Dr Stals said the balance of payments should produce a slightly smaller current account balance, but sufficient to offset the modest net capital outflow expected.

"Against this background it should be possible to keep the exchange rate of the rand relatively stable."

In his keynote address to the conference, Finance Minister Barend du Plessis warned that the economy had not yet bottomed out, but added that a positive growth rate should be achieved.

Investment spending could take the lead in boosting the economy, after gross domestic fixed investment had slumped by 8.5 percent in 1991, he said.
THE MINISTER OF NATIONAL ENERGIE:

1996

The Minister of National Energy, [Name], received in Parliament on [Date] the following documents:


5. A report on the development of new energy sources.

The Minister noted that the National Energy Program is making significant progress in addressing the country's energy needs. The implementation of the Energy Conservation Act has resulted in a 10% reduction in energy consumption in the past year.

The National Energy Board has been effective in regulating the energy market and ensuring fair distribution of energy resources. The budget for the National Energy Program 1997 has been approved, enabling continued funding for research and development in new energy sources.

The Minister expressed confidence in the nation's ability to meet its energy needs through a combination of conservation, efficient use of existing resources, and the innovative development of new energy sources.
Business Report

‘NBS prefers independent standing’

By ARI JACOBSON

IN a perfect world First National Bank (FNB) would be linked with Natal Building Society (NBS), said FNB MD Barry Swart in an interview last week.

"Commenting in the wake of the mass mergers taking place in the financial services industry, Swart talked of the instant synergies with NBS's large home loan book and the cultural ties already in place between the two institutions.

"But this ain't a perfect world and some institutions prefer to maintain their independence."

"However, NBS is not exactly independent — they have the backing of Norwich Union which has roughly a 30% stake, and through the French Bank Industrial giant Barlows also has a significant holding. FNB adds to the solid share holding with about 11%.

Swart added that growth by acquisition was not a necessity for banks like FNB having reached a certain level of asset accumulation dubbed "critical mass".

He maintained that FNB had one of the best branch networks in the country, was probably the most efficient of the big banks based on return on assets and had a good name with a solid customer base.

"For this reason there is no reason to panic but rather to seek sensible organic growth."

Swart mentioned that the group was aiming to establish itself in Africa and was planning on setting up a subsidiary in London to complement its presence in Switzerland.

"It's all part of the philosophy of rowing the boat ourselves," he said. NBS' director operations John Smale commented that the group has consistently stated its wish to remain independent.

"Our duty is to the shareholders, staff and clients and solid financial performance of the group requires no revision of this independent stance."
SA firms look to Gibraltar interests for route to EC

THE Gibraltar government has received several inquiries from SA companies hoping to take advantage of investment and business opportunities offered there.

One area targeted for development is the banking and financial sector.

"While we have not yet been approached by SA financial institutions hoping to establish an offshore base, we are optimistic as SA banks compare well internationally," Gibraltar's banking supervisor Mike Davidson said in a recent interview.

He said SA banking and financial institutions were welcome in Gibraltar, which would give them a foothold in the EC. Tax concessions offered would be an advantage.

The Reserve Bank had to encourage external investment as this would see profits and income flow back into Gibraltar. The outflow of capital was necessary to facilitate a corresponding capital inflow, Davidson said.

Once a bank was licensed in Gibraltar, it could expand to the EC without seeking individual licences, he said.

Trade and Industry Minister Michael Feetham will lead a delegation to SA in April.

He said SA financial institutions had kept up with international developments and would easily integrate and become accepted abroad.
Banks back R80m hawker loan scheme

THE African Council for Hawkers and Informal Business (Achib) intends launching an R80m "micro loan scheme" for its 40 000 members, Achib president Lawrence Mavundla said yesterday.

Addressing a media briefing in Johannesburg, Mavundla said his organisation had reached agreement with First National Bank, the Development Bank of Southern Africa, Investec and FedaLife to launch the scheme which would encourage informal traders to move from hawking into serious business.

Mavundla said the banks would guarantee the loans while FedaLife and Investec would insure the transactions. He said further details would be given at the launch of the scheme this afternoon.

"After fighting for five years for the scrapping of regulations restricting the hawker, now we are able to move into financing for the informal sector."

"The hawkers, who presently need between R100 and R1 000 each to get started in business and could not get finance from banks, can now apply through Achib."

"After three years they will be able to apply for loans directly to the banks," said Mavundla.

The scheme would be extended to other areas of the country as soon as it had taken root in Transvaal, he said.

Last August it was reported that Achib Marketing, a division established by Achib in 1980, had raised about R250 000 in a capital expansion programme which involved selling shares to the private sector. Achib Marketing MD Gerhard Visser said the council was confident of meeting its target of R1,5m.
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Pam Golding takes
a position in Spain

PAM Golding Properties' decision to establish an office in Marbella in the south of Spain offers interesting opportunities for the expatriate South African who is considering buying abroad.

Apart from offering prospective buyers an agency that is SA-based, the office manager, Ian Waudby, spent much of his childhood in SA.

"We are looking at offering the expatriate, or person with offshore funds a feasible property alternative to the home he could buy in SA. While many of the developments cater for the second home market, they are quite suitable for permanent residence," Waudby said in an interview in Marbella recently.

The Spanish property market, like those in the rest of Europe and the US, is battling under the world economic recession and overdevelopment during the boom years of the late '80s.

Prices have fallen by about 25% on average, but buyers can pick up bargains at discounts of up to 40%.

**Snapped up**

"The prices are now more realistic as the boom prices were artificial and inflated. Despite the large availability of stock, bargains are being snapped up by both foreign buyers and Spanish buyers," Waudby said.

Pam Golding Properties already has sole mandate to market units to local buyers in a number of developments on the Costa del Sol, including upmarket apartments, townhouses, leisure and golfing resorts.

One such development is La Zagaleta, previously the Spanish estate of international arms dealer Adnan Khashoggi. The 1 000ha estate was sold for just more than $400m and individual plots are currently being marketed.

Only 25% of the total area will be allocated for plots, which will range from 3 000m² to 10 000m². While plot prices are selling at an average of $30/m², buyers have to purchase a share of the estate and its facilities and membership of the Club de Campo, at a price of about $300 000.

The development offers an equestrian centre and game drives and shoots, with the original homestead being renovated and serving as the clubhouse. This has facilities such as restaurants, a disco and ten pin bowling alleys.

Grupo Banco Bilbao Vizcaya (BBV), the largest property player in the Spanish market, with a portfolio of more than $1bn, also believes its developments on the Costa del Sol offer the SA buyer good value.

"Our speciality is golf courses and we have $200m worth of developments for sale, under construction or in the pipeline. We are offering two developments at present," BBV real estate director general Christer Rosen said.

Alhosa Gardens offered 1 245 units in three phases around a golf course set on a 200ha estate. Units are priced at between $100 000 and $200 000, with 159 out of the 240 units available in the third and last phase.

The second development, La Chinita Golf, already boasts five SA buyers, and offers 1 500 units around a 27-hole golf course. "The SA market consists almost exclusively of expatriates who seek a second home in a similar setting but in another country, or who want to retire to an area that offers easy access to Europe," Rosen said.

Spanish property buyers all agree the market is bottoming out, and will probably only begin to boom again around 1995.

Y J Lovell (Spain) sales marketing manager Philip Coates said 1992 would put Spain on the map as it was "the cultural capital of Europe", and hosted the Barcelona Olympic Games and Expo 1992.

"This will make the consumer aware of Spain as a feasible alternative which, combined with its excellent climate and competitive prices, should see active buying interest as soon as world economic conditions improve," he said.
Sanlam to put R20bn into industrial growth
FNB dealing room opens

First National Bank group treasurer Ken Russell, right, explains the workings of FNB’s new dealing room to FNB senior GM Jimmy McKenzie, left, and FNB divisional GM Gerry Christy at the opening of Bank City yesterday.

FIRST National Bank yesterday officially opened its treasury dealing room in the new Bank City complex.

At the opening ceremony of the dealing room last night, MD Barry Swart said the new systems would provide an enhanced service to the bank’s clients. It would improve support systems, enabling dealers to work more efficiently.

Dealers would work on a locally developed digital Decision Support Information Platform (DSIP) system, one of about 10 in the world and the first in SA.

“The successful changeover from the old system to the new is the culmination of years of research...

“A digitally-based facility means we are well placed to go forward for the next 10 years without major changes to the systems,” he said.

The new FNB dealing room differed significantly from the old. The desktop layout did away with multiple screens, keyboards and printers and replaced them with a single keyboard driving all its systems and a single screen.
Call for major export drive

**Sanlam pours R20bn into investments**

CAPE TOWN — Sanlam had committed R20bn to investment projects, the life assurer's chairman Abie van den Berg said at the company's annual meeting yesterday.

He said the capital had either been invested in recently completed projects or would be invested in projects that would be completed during the next five years. Van den Berg said the R20bn was roughly equal to the value of SA's annual gold production or a quarter of the annual national budget. The larger Sanlam group of companies employs more than 450,000 people.

"A new gold mine and expansions to other gold mines as well as platinum and coal mines are some of the ventures involved. Investment in ferro-alloys, alloy steel, paper and wood pulp, liquid energy and a large variety of smaller industrial investments, ensure that our group is well represented in the most important mining and industrial industries."

Van den Berg said property investments in new areas of development created by urbanisation made up more than R10bn and were increasing.

In the year to end-September the market value of Sanlam's assets increased by 33% to more than R50bn. Investment income of R3.4bn was earned.

In his chairman's statement Van den Berg called for a greater degree of fiscal discipline. "It is essential that the rate of increase in government spending be strictly controlled and that this expenditure be financed in a non-inflationary way if we wish to prevent inflation from getting out of hand, with disastrous consequences for the country in the longer term."

It was of the utmost importance that the confidence of local and foreign investors be restored. The support of foreign investors, bankers and businessmen would be forthcoming only if the safety of capital was guaranteed, attractive returns could be earned, the tax system was fair, unrest declined and strikes occurred only within reasonable limits, and if the political system was economically justifiable.

Foreign capital would be vital to achieve economic growth and foreign support for the enormous task of social upliftment was essential, Van den Berg said. He said the achievement of a higher rate of economic growth would also require a drastic improvement in the export drive.

"What we need is a comprehensive export strategy thoroughly planned by government in consultation with the private sector, to make us far more export-oriented. Manufactured and beneficiated goods would increasingly have to replace raw materials as the mainstay of foreign earnings."

In his seconded address Transnet MD Anton Moolman said SA would not be able to count on large-scale foreign assistance in future and would have to exploit the inherent strength of its own economy.

Government had neither the funds nor the ability to lay the foundations for the country's socio-economic future, Moolman said, and the business sector would have to assume greater responsibility.
Bankers criticise Bankorp rating

COMMERCIAL bankers have criticised the A1+ short-term rating given to Bankorp this week by Republic Ratings.

Bankorp's top rating put the bank in the same league as FNB and Absa and a main consideration in the rating was the belief that the authorities would assist any big bank if it had temporary problems.

Banking sources said the rating implied that big banks would automatically be given a top rating because they would be supported by the Reserve Bank in times of trouble.

One banker said the rating had dented Republic Ratings' credibility and had surprised the industry.

But Rand Merchant Bank chairman GT Ferreira said he could not disagree with the rating because it correctly implied that any money placed with Bankorp would be safe.

"I believe that Bankorp got the rating because of the view that the Reserve Bank cannot allow them to fail," he said.

The Reserve Bank could not afford to allow any bank of any size to go under because of the incredible inter-relationship between the banks. A failure could cause a domino effect.

No public depositor had ever lost money in any of the small bank failures, which showed Bank's support would probably be forthcoming.

Ferreira suggested big banks should be given two ratings, one a clinical analysis of the bank's financial affairs and the other assuming Bank support and the right parentage.

A banker, who did not wish to be identified, said he believed ratings were important but would only be useful when all the banks were rated, providing a basis for comparison.

Only three banks of the "big five" have been rated to date, with Standard Bank and Nedbank outstanding.

Republic Ratings chairman Dave King said he believed Bankorp's rating had increased the agency's credibility. The market place was now better informed of Bankorp's short-term credit quality because the rating had been based on access to detailed confidential information.

It had been a tough decision to give Bankorp a top rating but it had been accurate, he said.

"Republic Rating's credibility would have been knocked if we had given it a lesser rating," he said.

The agency was considering re-evaluating the whole industry by giving banks two ratings - a stand-alone rating and one which took account of the support of the parent and the Reserve Bank.

When asked about support for the "big five", King said support was assumed in the short-term but not the long-term.

Of the three large banks rated to date, FNB had been accorded an AA long-term rating - the maximum attainable by a local bank. This showed FNB did not require support. Absa and Bankorp had not requested a long-term rating.
Softening policies 'would hurt Bank's reputation"

THE Reserve Bank would probably persist with its present restrictive monetary policy because the costs of deviating from it would be too high, Bank of Lisbon said in its latest Economic Focus released yesterday.

The Reserve Bank had changed from short-term crisis management to a medium to long-term monetary policy directed at bringing down the rate of inflation.

The costs of giving up on the new monetary policy framework would include a loss of reputation and the erosion of any future ability to diminish inflationary expectations through changes in policy, it said.

The Bank faced two major difficulties in applying the new monetary policy, which aimed to create a stable financial situation within a less inflationary environment.

The first problem was the need for harmonising monetary and fiscal policies, it said. On the fiscal side, the tax system needed to be geared towards improving incentives for saving and investment.

"Making tax concessions in this direction, however, is being rendered more difficult by the pressures upon the government to increase spending in the social fields, as well as by the current slow growth in state revenues," the bank said.

The second difficulty facing the SA monetary authorities was convincing people they would continue to adhere to strict monetary policies. The authorities needed sufficient credibility to successfully bring down inflation.

"If the Reserve Bank continues to adhere to its present policies its reputation could well be enhanced, so that in the future people will view its monetary policies with greater credibility, and behave more in line with the aims of such policies."

International experience showed that success in moderating inflationary pressures was a long, drawn-out process and with rare exceptions a shift from moderate to low inflation involved losses in output and employment that had stretched over years. This provided another reason for maintaining the status quo on the monetary policy front, Bank of Lisbon said.
Bush’s nod on exports to SA ‘a positive step’

US PRESIDENT George Bush’s announcement earlier this week freeing the Export-Import Bank (Eximbank) to underwrite US exports to SA was regarded by the local business community as a positive step towards re-establishing trade relations between the two countries.

SA Chamber of Business (Sacob) economist Bill Lacey said Bush’s announcement served as a signal to American businesses that SA was once again an acceptable market in the international trading arena.

However, Lacey did not expect the Eximbank’s financial participation in US export trade to SA would result in a flood of imports. “With the present position of the SA economy, local business is unlikely to start building up inventories.”

The Evans Amendment, introduced to US legislation in 1978, barred the Eximbank from participating in export deals to the SA government or its parastatals until the US President certified to Congress that “significant progress towards the elimination of apartheid has been made”.

Safico senior manager, international division, Mike Veyise said increased imports to SA would be determined also by the country’s needs and its being able to afford imported goods. Furthermore, Bush’s authorisation of the Eximbank’s participation mostly benefited US firms as the bank’s financial guarantee applied only to one-way trade from the US to SA. As a result, US firms would not be able to rely on the Eximbank for financial guarantees on goods imported from SA.

However, SA’s indirect benefit from Bush’s decision would be cheaper access to imported capital goods, aircraft and machinery.

Although the Eximbank’s participation in US-SA trade was unlikely to significantly boost trade volumes, Veyise said, it was “a positive step” which could in the long run promote increased two-way trade between the two countries.

American Chamber of Business SA executive director Michelle Cohen said the move would also allow SA greater access to new technology previously denied by sanctions.

Investment returns of trust 17.8%

CAPE TOWN — The Independent Development Trust (IDT) had achieved an average return on its investments of 17.8% since August 1990. IDT communications director Jolyn Nuttall said yesterday.

Nuttall was commenting on a note in Auditor-General Peter Wombley’s report for 1990/91 — tabled in Parliament this week — which said the IDT trustees had not formally minuted the criteria used to select the initial seven portfolio managers.

The managers were given responsibility to invest the R2bn granted to the IDT by government.

Nuttall said the overall return achieved had been very good for a period of only five years.

Portfolio managers selected were FNB, Rand Merchant Bank, Senbank, Standard Merchant Bank, Volkskas Merchant Bank and Syfrets Managed Assets.

The Auditor-General’s report also noted that no certificates had been obtained from the institutions to the effect that no commission on the investments had been paid to intermediaries. Each portfolio manager had, however, submitted a certificate in this regard.

Nuttall said there were practical difficulties attached to getting certificates, but stressed that no commissions had been paid.

CCB’s financial situation stays under wraps

AUDITOR-General Peter Wombley declined yesterday to detail the financial situation of the Civil Co-operation Bureau (CCB), an SADF covert unit under the throes of being disbanded.

He said he was barred from commenting on the issue in terms of Section 6.3(a) of the Auditor-General Act and an agreement between himself, President F W de Klerk and Finance Minister Barend du Plessis.

On Wednesday Wombley told Parliament former Defence Minister Gen Mag-
The Securities Regulation Panel (SRP) request to Fedsure to make a standby offer to minorities after its share swap with Investec (Fox December 20) has nothing to do with a transaction earlier this year involving UAL and a 16% shareholder in Fedsure.

The SRP's Doug Gair says that transaction — when UAL placed 7,4m shares with institutions — must be treated in isolation. Also, UAL was not considered one of a concert party and because the shares were less than 30% of Fedsure, it was not an "affected transaction."

UAL underwrote the placing for 800c cash a share, the price at about the time the Fedsure/Investec deal was announced.

Under the standby offer, minorities can receive about 40 Investec shares for every 100 Fedsure.

There is no obligation to make a cash offer, but UAL's Leon Liebenberg says minorities can sell on the market if they wish. Fedsure is now 810c, Investec 1 950c. It is unlikely smaller shareholders would get the same treatment as an investor holding 7,4m shares if they wanted to cash in. But at the current price, they could, at least in theory, get a better price in the market.

Fedsure CEO Arnold Basserabe says indications are that few, if any, minorities will take up the standby offer. He also points out that the current price, if anything, reflects satisfaction among shareholders. "The SRP wanted the standby offer because of the enhancement of Fedsure's control. It had nothing to do with the UAL placing."

Liebenberg says UAL made full disclosure of the placing to the SRP and was told there were no problems.

Shane Harris
The wheat from the chaff

Abas’s takeover of Bankorp continues to raise more questions than it answers. Among them: will Sanlam revert to public company status and seek a listing on the JSE? And will CU Life and Sage come together.

These are scenarios being discussed in the life assurance industry. Sanlam deputy chairman Pierre Steyn says only that the mutual is “looking at pros and cons of various alternatives” and insists there is no desire on Sanlam’s part to demutualise.

As the dust settles, it’s clear Sanlam did well to rid itself of a troublesome banking arm, on terms which may or may not have included the Reserve Bank sweetening the deal for Abas. It may be that accepting Momentum Life in return was the price Sanlam had to pay — though it could be argued that removing an essentially Afrikaans-oriented life office from Abas was also sound strategy.

Having acquired Momentum, it could put it to good use. In the various scenarios being propounded by Sanlam’s competitors, one is that Sanlam will use Momentum or the Metropolitan to reverse into a JSE listing. It certainly does not need to come in via its subsidiaries but, using an existing listed vehicle would be cheaper. The process for demutualisation is now clearly mapped by the ex-building societies and by Southern but the routes already pioneered are expensive.

Sanlam may see a listed company as more defensible against nationalisation. History to the north has shown mutuals more vulnerable because they are without shareholders. The World Bank and IMF would certainly prove unfriendly to a government which grabbed a major corporate life office.

The argument for listing could apply equally to market leader Old Mutual. Both Old Mutual and Sanlam are established by Acts of parliament. Any future government could repeal or amend those Acts, to the point of packing the boards with nominees — nationalisation by another name.

Steyn disputes this argument. But, he says, “the fact is that in a mutual association the policyownwr is the member just as a shareholder is a member of an ordinary company. Government can attempt to assume control of a company or an association whether it is a mutual or an ordinary company by a simple and uncomplicated legislative intervention depriving members of their right to appoint the directors of the enterprise — with or without compensation.”

If Momentum is to be used as a listing vehicle, shareholders can hope for more than stability within the Sanlam umbrella, though that would itself be a welcome relief from the turbulence of the last few years which have seen ownership of the major assets undergo two name changes (from L&GV and Lifegro). But there could be even more interesting times ahead.

Momentum is the fifth largest life office and, despite its chequered history, is not a chip to be lightly tossed around. It is known that during its brief stay in the Abas stable, there were talks with Sage Life. But Momentum MD Neil Krige says neither Momentum nor Sage would have been willing marriage partners. Sage sources agree.

Culturally, Momentum might seem more comfortable with Sanlam as the parent. Afrikaans-speakers are well represented in top management, though Krige points out that staff in the important employee benefits division and many people in the field force tend to be English-speaking. But the situation cries for rationalisation.

Sanlam, which controls the Metropolitan (catering for the blue-collar market) now has Momentum, a company which meets it head on in its own marketplace. Krige points out that Old Mutual and its associates Syfrets and UAL all compete for the same corporate funds. But life assurance — specifically within the aggressive Sanlam culture — could be a different matter. Both Sanlam and Momentum have targeted the same type of individual life clients and both compete in the employee benefits business.

The pervasive Rembrandt influence is also a consideration. The Abas-Bankorp deal suggests that some old sores have healed and that Rembrandt and Sanlam can now do major business together.

Rembrandt recruit

Also, Krige was a Sanlam executive, later recruited by Rembrandt, then sent to Momentum at about the time of the merger with Lifegro. There are several other ex-Sanlam men in the Momentum team.

Other results of the meltdown at Bankorp affect the remaining life interests of Abas, with speculation on whether Sage Life and CU Life will get together. Whatever happens at the top of the league, a shake-up in the middle ranks of the life offices seems inevitable.

Abas is left with its indirect stake in Sage Life and a direct 30% of CU Life. Put together, these companies would make up the sixth largest life office. CU Life (indeed, the whole Commercial Union Group) is known to be interested in growth by merger or acquisition. Sage, having lost MD Morris Bernstein to Fedlife and with Louis Shill daily more engaged in other affairs, is thinly stretched for management flair. Privately, executives at both CU and Sage agree their cultures are compatible. Also, they say, it’s
Wild business

Small insurance companies are increasingly selecting niche markets in which they can become dominant. Stangen has just launched a comprehensive package developed for the wildlife management sector.

Stangen GM Paolo Cavalieri defines wildlife management as the breeding of rare species, game viewing and hospitality services, trophy hunting and venison production. The company has, in association with MIB Wildlife Broking Services, put together a package covering transit of animals, legal liability, animal capture and mortality insurance.

Legal liability to third parties can be covered where the liability arises from accidental death, injury or damage to property involving dangerous game. The cover extends to the area within a reserve or farm, or further afield in the case of a break-out.

Cavalieri says Stangen intends to establish a leading position in a number of specialised fields. To underwrite such risks successfully involves retaining experts in that field. MIB Wildlife's Brian Courtenay is therefore retained to evaluate every wildlife risk offered for insurance.
LIFE ASSURANCE

Which figures?

The total new business attracted by Liberty Life and subsidiary Charter Life in the year to December amounted to R1,1bn — an increase of 18,5% on 1990. Though the figures look good, joint MD Dorian Wharton-Hood believes they present a misleading picture. He would be happier if the formula for adjusted premium income was recognised by local life offices, when the true bottom line would read R544,5m.

The trouble is, he says, all life assureds try to present their figures in the most favourable light, so they lump single premium and recurring premium business together. "It does not make sensible analysis easy."

When Liberty mounted a roadshow in the UK last year — which attracted £82m — to strengthen the group's offshore operations without draining local capital, the way in which new business was presented was critical, Wharton-Hood says.

The formula for adjusted premium income is 100% of recurring premiums plus 10% of single premium business written. Last year, in Liberty-Charter's case, single premium income amounted to R621,2m and recurring premium business to R482,4m.

"To use the adjusted formula for comparison makes sense. Recurring premiums arrive annually for an average of 10 years. They should, therefore, be given a weighting of 10 times single premiums, on which we make money only once."

The group's individual recurring premiums were up 24,3%, an unusual level in times of recession. According to Wharton-Hood, a major contributory factor was the launch of Medical Lifestyle products in the second half of the year, which, by year-end, had attracted more than R60m.
The FSB says the consumer clauses could be altered before the Bill is enacted: "It is a question of striking a balance between free market principles and consumerism. We trust the final enactment will achieve this."

In draft Section 50, an assurer is obliged, within 45 days of an accepted proposal, to deliver the policy, together with a copy of the proposal. Under separate cover, the assurer must send notice that the proposal has been received, accepted and the policy issued. Included in this package, the life office must draw the policyholder's attention to the right to cancel or withdraw from the contract.

Draft S51 gives "a person" who has offered to buy life assurance the right to withdraw or cancel within 21 days of receipt of the policy.

Old Mutual legal services manager Abri Meiring says this could encourage "policy-hopping" which is practised by people who need high cover for short periods.

Draft S55 is the most severe, from the assurers' point of view:
- No assurer may cancel or avoid a contract on the grounds of non-disclosure or misrepresentation by the proposer, unless the proposal was made fraudulently. Even then, the life office would have to prove it would not have entered the contract had it known the true facts. So fraud alone is no reason for the office to repudiate;
- If an assurer cancels a contract, it must repay all premiums;
- However, the assurer may elect to keep the contract in force, but reduce the amount of benefit to that which would have applied had all the facts been known; and
- The Registrar of Long-term Insurance may, notwithstanding a reduction of benefits, cancellation or avoidance by the assurer, decide the action is not justified and direct the assurer to adhere to the original contract or to an amended version of the contract.

It is the power handed to the Registrar which the life offices can be expected to contest vigorously.

Southern Life's Ockert Fourie thinks the proposed measure "amounts to interference in a fundamental right of contractual freedom and erodes contractual certainty with no apparent recourse to an independent court of law. It means there is no binding contract between the life assurer and the policyholder. The Registrar dictates the contract."

Meiring suggests the measure emasculates the life industry's ombudsman, whose powers are not nearly so embracing. The ombudsman makes recommendations, which are usually accepted, in dispute cases. He cannot enforce his views.

Also, Meiring says, the clause enforcing the repayment of premiums is "unthinkable, going to the heart of the life assurance business. It is an open invitation to the proposer to be dishonest because the very worst that happens when he is found out is that he gets his money back."

The FSB says it values the role of the ombudsman but "he is bereft of powers to
Southern Life reports big portfolios returns

3.8% returns on the all-share index.

The South African market has performed relatively well compared to other emerging markets around the world. The Johannesburg Stock Exchange has been performing strongly over the past few years, with the National Treasury encouraging investor participation. The South African economy has been growing steadily, which has contributed to the strong performance of the stock market.

However, the growth in the stock market has been uneven, with some sectors performing better than others. The manufacturing and mining sectors have been particularly strong, with companies such as Gold Fields and Lonmin reporting significant increases in earnings.

In terms of investment products, there has been a shift towards more conservative options, with a greater emphasis on fixed income investments. This has led to increased demand for corporate bonds and commercial paper, which have provided relatively steady returns.

The rise in the stock market has also had an impact on the real estate sector, with property prices rising across the country. This has resulted in increased demand for commercial and residential properties, with developers looking to capitalize on the strong market conditions.

Overall, the performance of the stock market in South Africa has been strong, with investors seeing returns on their investments. However, it is important to note that investing in the stock market carries risks, and it is always advisable to seek professional advice before making any investment decisions.
HIGH STAKES: Your house is your biggest asset and when the chips are down and you cannot meet payments, it is not necessary to lose it. A building society can implement a last-ditch rescue effort.

There’s still hope when crunch comes

HOW many houses are repossessed every year?

There is no national figure available, but many more properties have been repossessed in the past couple of years. On a national basis, the NBS repossessed between 600 and 800 houses.

The reason for the increase is the addition volume of lending. Financial institutions are doing an enormous amount of lending.

The competition from banks has created many difficulties for the traditional house lenders because the banks have taken a "banking" line on loans and have made home ownership more accessible.

We have had to amend our tried and tested procedures to meet that competition. The result has been an increase in repossessions. But seen against the background of the large number of new loans granted, repossessions are a tiny proportion.

Who is being hit?

There is an across-the-board profile of people affected — from the lower-income groups through to the higher income. The unemployment problem has been the single biggest factor.

When will a house be repossessed?

That depends on individual circumstances. At the NBS, we look at each account every month. If the instalment is late, based on a repayment term at a certain interest rate — is not paid, we send out a reminder notice.

If a house owner walks in and says, "I can’t pay — here are the keys," we suggest selling the property and other options and if this fails, we institute legal action.

What alternatives are there?

There are several.

● In an "advance" situation, where excess amounts have previously been paid into the account, it is possible to skip instalment.

● If there is sufficient margin between the balance owing and the value of the property, another alternative is to register a further bond to cover the arrears.

● Extending the term of loan can make a difference, but a negligible one. For example, over 20 or 30 years, on a R100 000 loan, it is about R30 a month.

● Asking your employer for help in advancing funds against pension assets or from accumulated leave.

● Cashing in on insurance policies with surrender value, using them as collateral security or borrowing against them to pay the arrears.

● Paying interest only for a while.

● Using the government deferment scheme that provides the financial institution with a guarantee and allows a repayment based on a 17 percent rate.

What about other debts?

Pay your house loan first. The cost of acquiring and then losing your house is very high. Other movable assets are not inflation-linked in the way that your house is.

Many defaulting house owners stay on as tenants.

That is a possibility if we can’t find a tenant, but it seldom happens.

What happens to repossessed houses?

The financial institution becomes the owner after the “sale in execution” and has to manage the upkeep. An effort is then made to sell the property on the open market.

Who is responsible for the upkeep of repossessed houses?

The lender.

If your house is sold for less than your mortgage, are you still in debt?

Yes — there is a personal obligation by the borrower. We try as far as possible to collect that money, because it is unfair to borrowers, investors, shareholders and other house owners to do otherwise. The “lost” money has to be absorbed into our costs, which would ultimately impact on margins.
Property has not lost its gilt edge

STARTING today in Your Money is the column of yet another top financial writer, RICHARD CLUVER. He is the author of several best-selling books on investments, including "Making Money with the Mutuals", "Investments Without Tears" and his latest, "How to Make a Million".

PROPERTY has traditionally been the solid sheet anchor of all sound investment portfolios. Sadly and, in my opinion, quite unjustly, its credentials have been allowed to become a little tarnished because the average investor seems to have lost perspective.

The dramatic capital gains that are possible in the share market have understandably eclipsed the steadier returns that the property market as a whole provides. But to focus on just this comparison is to effectively ignore how profitable property can be, particularly in some specialised and tailor-made situations.

Probably the most profitable situation that the small investor will ever encounter is the opportunity that property offers him to leverage his investment; to make a relatively small sum of money do the work of a large sum and to reap the proportionally increased benefits.

Let us take the simplest possible example of the would-be buyer of a plot of residential land who, lacking the necessary capital to either buy the land or even put down a deposit, persuades the owner to enter into a "suspensive agreement" with him.

The usual form of such agreements is that a contract is drawn up in terms of which the buyer undertakes to come up with the full capital amount within a stipulated period, usually about three years, and in the interim undertakes to pay interest at a building society mortgage-related rate and to meet any other costs that might arise, such as municipal rates and weed-clearing.

If the buyer is fortunate, the seller might accept no deposit at all or perhaps just enough to meet the selling agent's commission. If he is doubly-fortunate, or astute enough to have picked the right plot in the right area at the right time — if, in other words, he has been able to anticipate a rapid rise in property prices over 12 months or so — he is in a position to make a major financial killing.

To understand why requires that one first understand a little about the market forces that drive property.

Increasingly anxious

Prices can remain absolutely static for months and sometimes even for years on end and indeed even fall as some owners become desperate to get their money out. In real terms of course, in an era of high inflation, prices that remain static are actually falling all the time.

Which is another reason why many owners can be persuaded to effectively finance you, the would-be buyer.

If, in other words, they want to sell, they will become increasingly anxious as time goes on as they realise what inflation is doing to market prices.

Locking themselves in for a further period of inflationary erosion might appear foolish, but it will often appear the lesser evil if it will tip the balance and result in a sale for a property owner who has been sitting and for a buyer for years.

Property market doldrums do not, however, last forever, and can double or even treble seemingly overnight.

Over time, of course, an average line drawn through such a graph of property prices should at least equal the inflation rate and, provided the land is well staked, should actually exceed it.

So, if you have time on your side, you can be fairly certain of winning with most property investments. Indeed, one of the centuries-old millionaire maxims is that you should buy on the outskirts of the city and wait for the city to expand out to you. To which I would add the rider that you should be prepared to buy the best when you opt for the outskirts of the city, for it will appreciate the most when neighbourhood prices begin to soar.

Back now to our suspensive buyer. Let us assume that against an asking price of R50 000, he is able to persuade the seller to take a deposit of R2 000, that he agrees to pay interest at 20 percent a year and rates of R500.

Add those up and you will find that his outlay in the first year is R12 100. Now assume that at exactly the 12-month point he is approached by a cash buyer who offers him twice the original asking price. He agrees and receives R108 000 out of which he pays off the R48 000 outstanding on his original suspensive purchase of a year previously and pockets R52 000. His gain, after subtracting his total outlay of R12 100 is thus R39 900, which represents a capital gain of 329.73 percent in one year.

Conventional deal

Assuming that his official intention when he made the purchase was to acquire a site for a future home for himself and that, officially at least, his was not a speculative intention, he will not be taxed on the transaction.

Readers should thus recognise a nearly unbeatable capital growth rate has been achieved.

The more conventional building society bond-financed deal brings with it higher initial costs as the price of greater peace of mind, but if you stop to think about it, similar leverage will work to your benefit over time as the capital value of the property grows.

Of course, if you intend making a habit of such suspensive investments, you must expect that sooner or later the Receiver of Revenue will label you as a trader and demand his share of your profits. Furthermore, you also have to recognise that residential property often lies in the doldrums for years during which the original costs of your investment will continue rising, negating the 2.29 to one leverage of the example I have given.

Indeed, be warned that if you do not get your fineliness right, the leverage could work against you if, for example, in deflationary market conditions you were obliged to sell for less than your original purchase price.

- "How To Make a Million", "Making Money With the Mutuals", "Investment Without Tears" and "Advertising for Free" are available from The Promotion Department, The Daily News, PO Box 47549, Greyville 4023.

They are priced at R160 each inclusive of postage and VAT. Demonstration disks of his ShareFinder sharemarket analysis computer programmes cost R35.
POLITICAL uncertainty and the Reserve Bank's strict monetary policy will help commercial banks to make record profits this year, say analysts.

High overdraft rates and doubts among businesses about the advisability of expanding operations have dampened demand for loans. This has reduced the banks' demand for funds, enabling them to reduce interest rates paid to depositors.

They have not matched these reductions with corresponding drops in the amount they charge borrowers.

Example

Mortgage bond rates have fallen. Bankers' acceptances are 1.1% below the bank rate of 19% set by the Reserve Bank. But that lending is a relatively small proportion of the assets of First National Bank and Standard, for example. It has little effect on banks' average lending rates. Margins between average borrowing and lending rates have risen dramatically.

Many bankers are also betting the Reserve Bank will reduce interest rates next month. That will more than compensate for any losses suffered through bond and BA rate reductions.

But some argue that Reserve Bank Governor Chris Stals will want to see at least two consecutive months of lower inflation before he moves.

An analyst says: "Banks' margins are the best in 10 years. They more than compensate for negative factors. Growth in lending and borrowing is slowing, provisions for bad debts are rising and inflation is raising administration costs."

"In spite of this, I believe that bigger margins will raise banking profits by 15% to 18% this year," says David Southby, analyst for stockbroker Elery Brothers.

"Banks are making super margins and it is a function of monetary policy. "We believe bank-sector profits will be 17% to 18% higher this year. Industrials should rise only 8% or 9%," he makes one provision.

"Banks have made good provision for bad debts. But the number of bad debts of less than R600,000 is by far the highest ever. Nobody knows how much worse they will get."

"Mr Southby says the market has discounted banks' higher profit expectations. But bank shares would be a good buy if the recession -- it should be at its low point now -- were to continue for much longer."

He says banks always do well in recession (see graph).

Prime

Another analyst says: "I do not believe that a one- or two-percentage point drop in the interest rate, which is what we are likely to get, will be enough to start an economic recovery."

"Prime overdraft charges were above 18% for 22 months in 1984-1985. It had to fall to 15% before the economy took off again. This time it has been more than 19% for 33 months. That is slow poison for business."

The Reserve Bank is having to increase its efforts to drain liquidity from the money market. It does so by issuing various types of Treasury bills which banks buy because of their attractive yields.

The value of Treasury bill issues was R3.1-billion in December and R4.1-billion in January. Treasury bill issues for February are of the end of the week amount to R3.1-billion.
Zambia offering SA rich rewards for aid

By Derek Tomney 24/12/92

SA stands to gain huge benefits from helping Zambia overcome its problems.

The message was driven home by Michael Sata, the Zambian Minister of Local Government and Housing, in a weekend interview.

He said Zambia wanted to build a million houses a year and planned to denationalise everything the Kuanda Government had nationalised — which amounted to 80 percent of the economy.

When Mr Sata arrived in Johannesburg last Monday hardly anybody had heard of him. But after a series of whirlwind visits to businessmen he had become the talk of the town.

Mr Sata signed two "memoranda of understanding" while here. One was with Murray & Roberts, which was attracted by the plan to build a million houses a year. However, Mr Sata also paid a visit to LTA.

The second memorandum was with Investec Bank. It provides for the investigation by Investec of restructuring existing government debt, the provision of finance for infrastructural development and the privatisation of government-owned enterprises.

What is likely to be a great interest to South Africans will be the fate of Zambia Consolidated Copper Mines (ZCCM).

Reports from Zambia say it is likely to be split into its previous constituents — Nchanga Consolidated Copper Mines and Roan Consolidated Copper Mines — before being privatised.

The new Zambian government, which assumed power only last November, is under pressure to start delivering a better standard of living for its seven million people.

Unless it does so quickly it runs the risk of being dumped itself.

One of its top priorities must be to restore a greater degree of efficiency to the mines. So it seems that privatisation is not far away.

Since the beginning of November representatives of several major SA and foreign mining houses have been looking at the mines.

At the moment the hot favourites to take them over are Gencor and Anglo American.

Gencor was invited by former President Kenneth Kaunda last August to make a study of the mines. Anglo, through Zambia Copper Investments (ZCI), has a 27 percent stake in ZCCM.

However, neither of these, nor any other company, is likely to rush in blindly.

Any improvement in the efficiency of the mines will require heavy capital investment, not just in the mines, but in Zambia's infrastructure. Moreover, the groups will want some guarantee that they will get back this money.

Some of the problems facing the mines were highlighted in the last ZCI annual report. Production was hit by a shortage of trucks and mining and mobile equipment spares caused by a shortage of foreign exchange.

A shortage of locomotives and other problems on the rail network affected movements of copper and inter-mine metallurgical materials.

On top of making good these deficiencies, any new owner would have to tackle the unions which, with government help, have secured a privileged position for their members.

Some guarantee would probably be needed against a change of government in Zambia not leading to re-nationalisation.

The bad decline in efficiency at the Zambian mines after the state take-over is probably one of the reasons why foreign investors are concerned at the prospect of any similar nationalisation moves in SA.

With better times on the copper belt possibly just around the corner, Zambian ZCI shares have risen from 6c to 110c.

They are, however, a long way below their 1989 peak of 220c.

Sanlam urges aid for farmers

Sanlam has called for a special assistance plan to counter the disastrous effects of the drought.

Without a thorough long-term plan, says Sanlam chief economist Johan Louw, the serious consequences of the drought will also impact on food supplies, employment and on the balance of payments.

Sanlam has already announced its own measures to assist farmers.

These include drastic cuts in the assurance premiums paid by farmers for the duration of the drought — while levels of cover remain the same.

In his economic survey for February, Mr Louw also deals with the Minister of Finance's annual budget.

He concludes that Minister Barend du Plessis will have little opportunity to decrease taxes.

Sanlam estimates that Government income from taxes will rise by about 13,5 percent in the 1992/93 financial year, while the Minister will budget for increased expenditure of roughly 12,5 percent.

This is lower than the expected inflation rate because of attempts to control expenses.

The net result will be a fairly large budget deficit of around R15,6 billion, or about 4,5 percent of GDP.

If Mr du Plessis does intend to lower some taxes, Sanlam says, it simply means he will have to raise other taxes.

Mr Louw's expectations include:

- A drop in the margin personal tax rate from 43 to 42 percent. Rates at lower income levels may also be decreased — but not enough to counter fully the effects of inflation (bracket creep).
- An increase in the fuel-price levy, meaning more expensive petrol.
- No increase in the VAT level.
- Increased excise duties.
- Although the Government wishes to scrap the import surcharge, Sanlam doubts that the Minister can afford it.
- No change in company tax, but an extension of investment allowances.
- Sanlam expects the Budget to be mildly stimulatory. — Sapa.

Mixed results from Picardi

Finance Staff

The Picardi group produced mixed results in the six months to December, with Pichell pushing up earnings a share 56 percent to 120c, while Picalli's earnings were barely changed at 27,5c (27,5c) a share. Picelli, which has cash resources of R7,5 million and holds 69 percent of Picelli, lifted share earnings to 126c from 80c.

Chairman Jan Pickardt, sen, says improved efficiency and lower interest costs offset Picalli's 13 percent drop in turnover due to product rationalisation and lower consumer spending. But higher tax resulted in barely maintained earnings.
R18m deal lifts FedSure’s Intrust stake

INDEPENDENT insurer FedSure has increased its stake in Investec Investment Trust (Intrust) from 25% to 48% but merchant bank Investec remains Intrust’s controlling shareholder with a 49% holding.

The change is the result of an R18m deal announced at the weekend in which Intrust increased its holdings in the Fonner Group, FedSure and Bidvest, involving the issue of 802 308 new shares at R23 each.

Shares in Intrust, which were reverse listed on the JSE in 1998, closed untraded on Friday at R19.50.

An Investec spokesman said although FedSure’s shareholding had increased, it remained in control of Intrust and the Securities Regulation Panel had ruled that no offer to minorities was required.
New M3 range could be set within weeks

By Simon Wilson

THE WEEK AHEAD
Absa knocks R100-m off price for Bankorp

Absa has chopped R100 million from the price it is prepared to pay for Bankorp. Absa said yesterday that as a result of valuations based on its own accounting practices and policies it had reduced its offer from 312.5c to 286.5c for each Bankorp share — a reduction of 7.68 percent. This will reduce Absa’s offer price from R1.31 billion to R1.21 billion.

Bankorp’s shares are currently trading at 295c. Absa will finance the takeover by issuing 107.5 million new Absa shares at 112.5c.

Bankorp ordinary shareholders will receive 100 Absa shares for every 390 Bankorp shares, and not 360 as previously decided.

The scheme is subject to approval by Absa and Bankorp, sanction by the courts and approval of the additional shares by the JSE.

Analysts said that the reduction followed a “due diligence” exercise. While it will be a blow to Bankorp shareholders to receive less than the original offer, the comparatively small reduction suggests Bankorp is not in such bad shape as had been thought.

Keys sees partnership role for EC in new SA

By Neil Behrmann

LONDON — South Africa and other Southern African nations should negotiate a trade agreement with the European Community, Minister of Trade and Industry Derek Keys suggested yesterday.

At a Business Research International conference in London, Mr Keys said that South Africa would become the “economic flywheel” for sub-Saharan Africa.

The world cannot stand idly by and see the other sub-Saharan countries be delinked from world economic growth and consigned to some kind of “too-poor-country scrapheap”, he said.

There was thus a need for the developed world and South Africa to form a partnership, which would see South Africans playing crucial economic roles elsewhere in Africa, Mr Keys said.

This would have a favourable impact on trade within the region and with the rest of the world, he said.

“In this connection, one would also wish to contemplate some arrangement of linkage to existing economic power concentrations.”

Probably the EC would be the best economic power bloc, said Mr Keys.

Either Southern Africa should enjoy some existing EC trade arrangement or negotiate a separate arrangement for the region, entailing corresponding benefits and obligations, he said.

“South Africa’s prospects for increasing exports are quite promising,” he said.

“We have a stream of products heading north and a stream of products to which value can be added,” he said.

Exports were typically between 25 percent and 33 percent of gross domestic product, he said.

There were four basic determinants of any SA government’s trade and investment policy, said Mr Keys.

Firstly, it should encourage internal markets to grow for decades ahead.

Secondly, it should develop the industry so that it could supply internal markets, while lowering tariffs for goods that could not be made locally.

Thirdly, businessmen should be encouraged to stimulate exports by developing value-adding plants.

“Like all governments, we would like to see income per capita growing by at least one percent per annum, implying growth close to four percent a year,” said Mr Keys.

“This may be beyond us, although I don’t think that it is, but just maintaining per capita income still implies real growth of around three percent,” he said.

The greatest growth would be in demand for the basics of living, notably food, shelter, clothing and education, he said.

“We are starting to get some good quantitative advice from a number of sources, which is helping to define the limits of the possible,” said Mr Keys.

“Just how much in the way of resources is it feasible to apply to socio-economic ends and to what cost?” he asked.

“Nobody wants to even mildly inconvenience the golden goose, let alone kill it, if its egg production can be stimulated to everyone’s benefit.”

“I think it’s Mr Mandela himself who said he doesn’t care what colour the cat is, as long as it catches mice.”

Mr Keys predicted that President FW de Klerk would win the referendum hands down and that Cosida would swiftly negotiate an interim government.

“As the political pressure gets transferred to the right quarters and the economy gets into higher gear, inflation should come down.”

“Once capital flows swing from outwards to inwards,” he said, “the rand will appreciate and reduce inflation by a point or two,” he forecast.

Defence cutbacks hit Grinaker

By Derek Tomsney

Tough conditions in the construction industry and a cutback of defence orders for electronic equipment hit Grinaker Holdings in the six months to December.

Attributable profit dropped by 57 percent from R14.5 million to R6.2 million and earnings dropped from 41.8c to 17.8c a share. The interim dividend has been halved from 10c to 5c a share.

Grinaker’s electronic subsidiary, Grintek, fared rather better. A reduction in defence contracts affected Grinaker Electronics, one of its two operating companies. But its second operating company, Sitrek, managed a 15 percent rise in earnings.

This helped limit the drop in Grintek’s earnings in the six months to 11 percent from R13.8 million to R12.3 million, and the decline in earnings a share to 10 percent from 7.1c to 6.4c.

Nonetheless, the interim dividend has been cut by 29 percent from 3.6c to 1.7c a share.

Grinaker chairman Jan Robbertse said yesterday the construction company’s earnings were 62 percent lower and similar results were expected for the second half.

He said the construction group had suffered from decreasing margins, particularly in civil engineering and related activities. Order intakes declined in real terms.
Absa cuts Bankorp offer by R100m

ABS.A yesterday dropped its offer for Bankorp by R100m to R1.2bn following the results of a due diligence investigation.

Under the revised offer Absa would pay 280.5c for a Bankorp share, compared with the original offer at the end-January of 312.5c a share, a statement said yesterday. Absa reserved the right in the original offer to renegotiate the price depending on the outcome of the investigation.

The R1.2bn purchase would be financed through the issue of 107 551 629 new shares (116 514 264 previously) in Absa at 1 125c a share. Bankorp shareholders would receive 100 Absa shares for every 390 Bankorp shares (360 previously). The Absa/Bankorp merger is subject to shareholder, court and JSE approval.

Banking analysts said the revised offer was no surprise because they had been aware that the final value of the deal had not been set. They were confident Absa shares would increase in value following the announcement of the revised offer.

Martin & Co analyst Richard Jesse said Absa shares were a buying opportunity because Absa had done the job properly and its share price should increase this week.

Absa's share price closed at 995c a share yesterday, down c.34% from January's close of 1065c a share. A banking analyst said the dip in the share price below R10

Bankorp since the deal was announced had been a result of a perception that Absa had proposed to pay too much and because it was unsure what the final terms of the deal would be.

Bankorp shares slid 15.5% to close at 250c a share yesterday from January's close of 296c a share.

In a related development, Bankorp announced it would pay 340c for Momentum Life shares, 19c down on its original offer of 359c a share. The offer was also based on the results of a due diligence study.

The offer is conditional on the approval of the Absa/Bankorp merger, which is expected to be obtained before the end of April.
Crusader on
STARC 21/2/92
growth path

Anglovaal's life and
health-care assurer Cru-
sader Life continued on its
growth path with net pre-
mium income and anuity
considerations amounting
to R632.2 million for the
half-year to December

Because of the change
in the company's financial
year-end to June 30, com-
paratives for the six
months to December 1990
are not available, but dur-
ing the 18 months to June
1991, the figure was
R118.5 million.

Similarly, net invest-
ment and other income
was R17.7 million during
the half-year, against
R9.1 million in the 18-
month period.

The net taxed surplus
amounted to R2.5 million
(18 months: R6.1 million),
equivalent to a surplus of
9c (26.75c) a share.—Sapa.
Crusader net premium income shows growth

8/DAY 26/2/92
SEAN VAN ZYL

ANGLOVAAL Insurance Holdings' subsidiary Crusader Life has disclosed total income of R65.8m for the six months ended December, on the back of strong growth in net premium income, the directors stated.

The life company's earnings, or surplus a share, came in at 9c (June 1991: 26.7c) a share.

A brief statement issued by the Anglovaal Group noted that Crusader Life's year end had been recently changed from December to June, and therefore was not comparable with past performance figures.

The assurer also declares a single dividend payout a year at its financial year end. As a result, Crusader Life has not declared a dividend for the six months to December.

The assurer's net premium income and annuity considerations amounted to R62.2m (R118.6m) for the period while investment income came in at R3.6m (R9.1m).

Total income amounted to R65.8 (R127.7m). The taxed income for the period was R2.5m (R6m).

Crusader Life's investments, based on market value, climbed by 35% over the six months to R106.8m (R78.8m). The life fund also rose to R107m from R83.3m.

Chairman Don Howand said the assurer's UK-based operation, Pegasus Assurance, had budgeted for a small profit for the calendar year, "having overcome the previous difficulties it experienced with its direct sales force".
More banks to expand on statements

SHARON WOOD

BANK clients soon will be able to check that they are not being overcharged on interest, when all major banks reflect current account interest payments on bank statements.

Deputy Finance Minister Theo Alant announced yesterday that six more banks would provide statements on current account interest paid. They were First National Bank, Volkskas, Boland Bank, French Bank, Bank of Lisbon and Overseas Bank.

FNB would supply statements before the end of February, Volkskas not later than end-April, Overseas Bank from March, Boland Bank and Bank of Lisbon at the end of March, and French Bank at the end of June, Alant said.

Banks already supplying interest statements were Standard Bank, Bankorp, Nedperm, Absa, Bank of Athens and Firstcorp.

The move comes after claims that banks were significantly overcharging customers on their overdrafts.

In addition to interest overcharges, evidence indicated interest rates were at times increased without the notification required by the Usury Act.
Money supply growth drifts off target

THE Reserve Bank's targeted measurement of money supply growth drifted further away from the Bank's 1991 guideline range in January, figures released by the Bank showed yesterday.

The annual growth rate in M3, the broad measure of money in circulation, climbed to a preliminary 14.73% in January against growth in the year to December of 12.69%.

Growth from the base guideline year, the fourth quarter of 1990, was 14.61% in January compared with a revised 13.27% in December. The Bank's 1992 guideline range for M3 growth, 8% to 12% last year, is expected to be lower when it is announced next month.

In terms of broadly defined money supply, money in circulation stood at R185.4bn in January from R180.8bn in December.

The year-on-year increase in broad money supply was, however, still distorted by reintermediation associated with the Deposit-Taking Institutions Act and, because of this factor, economists consider the annualised growth rate from February 1991 to be the most reliable measurement of money supply. The annualised figure strips out the effect of institutions bringing onto their balance sheets previously off-balance sheet items in terms of the Act.

Nedbank chief economist Edward Osborn said the 9.9% annualised rate of increase in January was against December's 7.7% rise was fairly satisfactory. The rate was indicative of the low levels of demand for bank credit at present.

Considering that the annual rate had been fluctuating within a 7% to 10% range in recent months, January's 9.9% annualised rate was acceptable, Osborn added.

The Bank's new guideline range for money supply growth, applied from a base date from about mid-November, would be announced close to Budget day next month.
SA equities trade on foreign markets

STANDARD Bank began trading in SA equities on overseas markets this week through its wholly owned London subsidiary.

Standard London, the bank's overseas branch, began its market-making activities in SA equities through the Seaq International dealing system on Tuesday, senior GM Graeme Bell said yesterday.

"The long-awaited entry of an SA participant in the international securities marketplace has been welcomed by institutional and professional investors who have been concerned by diminishing liquidity in the SA market," he said.

By raising the profile of SA equities and gilts internationally, it was hoped that potential investors would be encouraged to include an SA component in their portfolios and that SA companies would begin to gain the rating they deserved.

Once established, a solid international base would afford local corporate fund-raisers direct access to the world's capital markets, he said.
Relief for homeless

MORE than 560 houses are under construction for homeless blacks in Windmill Park, in the Conservative Party-controlled town of Boksburg.

Leading home loan specialists EP Building Society, in conjunction with Goldstein Housing, were aiming to produce a "prestigious" home development in the area from March.

Within the boundaries of the "white controlled" suburb, all the surroundings in the area would be developed to accommodate blacks, Indians and coloureds.

Goldstein managing director Mr Manetjies Ford said he hoped that the project would help alleviate the housing crisis. The project was "unique" and would provide for the needs of the residents.

He said that a shopping complex to cater for the informal and formal sectors, taxi ranks, a petrol station and other recreational facilities were underway.

He also hoped that the building of these structures would help create jobs for the unemployed as well as the small black builders who would be given an opportunity to construct the projects.

The society's manager, Mr Keith Adam, said that his company would give financial help to prospective homeowners at "reasonable" prices.

Entry forms for the competition are available when visiting the area. Closing date is November 30.
Sankorp makes offer on Bankorp shares

SANKORP yesterday offered to buy Bankorp ordinary shares for a cash underpin of 285.5c if shareholders were not interested in the share exchange alternative offered in the merger deal between Bankorp and Absa.

The other option for Bankorp shareholders was to receive 100 Absa shares, issued at 1 125c a share, for every 300 Bankorp shares held.

The offer was conditional on Absa and Bankorp shareholder approval of the merger in a general meeting and a court sanction.

Sankorp, Sanlam and Status Investments collectively held 65.8% of the issued Bankorp ordinary shares, a statement said.

Sankorp had undertaken to encourage Sanlam and Status Investments to vote in favour of the Absa/Bankorp scheme of arrangement, whereby Absa would acquire the entire issued ordinary share capital of Bankorp.

In a related statement, Bankorp announced it would publish its interim results for the six months ended December 1991 on March 20.

A banking analyst welcomed Sankorp's offer and said it was an admirable way of looking after those minority shareholders that wanted to opt out of Bankorp.

Shareholders would see their income dwindling by 65% as a result of the merger and their shares worth less. If shareholders accepted the offer they would be paid more or less the same price they had bought the shares for.

The offer was unusual, he said, because Sankorp probably would not have done it if the price of Absa shares had remained at over R11 a share. The price of Absa shares had plunged after the deal, effectively putting a much lower value on Bankorp shares.
Underwriting profit heralds a turnaround

COMPOSITE insurer Commercial Union has posted an 18% increase in net premiums written to R713m for 1991, and this translated into an underwriting profit for the year against a loss in 1990.

The insurer posted a 67% rise in consolidated attributable earnings to R48,8m, equivalent to R38,4c (30,1c) a share. The year's total dividend has been lifted to 14c from 10c.

MD John Kinvig said the group's performance was underpinned by the turnaround in the underwriting account which generated a surplus of R5,3m compared to 1990's loss of R10,9m. However, he noted the underwriting surplus amounted to less than 1% of total premiums written. As a result, the underwriting account was still "hanging in the balance" and could return to the red should short-term business conditions deteriorate further.

Conditions remained difficult in most classes of risk, particularly personal lines business. Although premium rates seemed adequate on the motor account, Kinvig said rates on household business may have to be adjusted to accommodate increased risk arising from the present high incidence of crime. Overall, he expected premium rates to rise at the same rate of inflation in 1992, barring any major losses.

Commercial Union's net short-term premiums written rose 19% to R362,8m. Boosted by the recovery in the underwriting account, its pre-tax profit climbed to R58,8m from R27,2m. Investment income, rose to R44,5m from R38,5m.

The group's life operation increased premium income to R350m from R386m, while recurrent premiums rose to R74,7m (R61,6m). New single premiums rose to R121,2m from R115,8m. The life fund's assets also grew by 27% to R2,6bn.

The group stated that from the beginning of the year the life and short-term operations had been separated under Commercial Union Insurance and Commercial Union Life Assurance. The name of the group's listed holding company had also been changed to Commercial Union of SA. Future financial notices published would reflect the structural changes.
Any offer of an unusually high rate of return — whether it's by a savings scheme, a unit trust, bank or any other investment vehicle — sends one message loud and clear: be careful.

By chasing returns one to three points above average, the 20,000 investors in the failed Masterbond group missed that message. Now they are caught up in a complex financial web that will take months, probably years, to unravel and cost many of them a lot of money. The web's complexity was evident in the report of the Masterbond provisional curators, submitted to the Cape Town Supreme Court this month.

The Masterbond group comprised 81 companies, according to the report. It employed 205 people, operated 85 bank accounts, had a direct or indirect interest in about 50 property developments and had collected R595m from those 20,000 investors. Since the collapse in October, the curators and their staff of 40 have been picking through the wreckage to determine the viability of each project and establish precisely who invested in what.

Many of the findings in their 54-page report are unnerving:
- Masterbond used short-term investments for long-term loans, making continuous refinancing necessary;
- Major projects could not pay interest until they were completed, so interest had to be paid out of additional capital advances;
- In some completed developments, debtors were not paying bond interest but investors were being paid interest; and
- Operations tumbled because the flow of cash from investors diminished.

For most of its seven years, however, Masterbond was adept at getting cash from the public. The money usually went into participation mortgage bonds (there were 53, valued at R70.8m and involving 4,451 investors at the end of last year) or debentures (there were 54, valued at R400.5m and involving 10,026 investors).

In addition, Masterbond's money market desk invested unplaced funds on behalf of customers and a property division held interests in various developments. As of December 31, the money desk held R26.9m on behalf of 5,893 investors and the property participations involved R96.9m for 2,403 investors, according to the report.

All the money invested by the money desk was repaid on January 23. A few other bond repayments and interest payments have been made. That was the easy part.

The major task for the curators, auditor Willem Wilken and attorneys Arnold G Lombik and Jozua Malherbe, is deciding on the prospects of each project in which Masterbond funds were sunk. The curators must determine whether to continue the project or sell the loans and the property. After inspecting the group's five major schemes, the curators concluded, in each case, that immediate liquidation would hurt investors.

The five schemes are Club Mykonos, near Langebaan north of Cape Town; Fancourt, near George in the south-western Cape; Marina Martinique, near Jeffreys Bay in the eastern Cape; Phinda Land, two farms totalling 13,000 ha in northern Natal; and Silverhurst, a Cape Town residential development.

Problems at Club Mykonos helped to precipitate Masterbond's fall. The project has received the most publicity. It stands on land leased for 99 years but the lease was not registered in the deeds office and this may come to haunt investors. A partially complete holiday village and hotel were built on the site and financed by raising bonds.

Then followed a series of interwoven loan and bond transactions between the landowning company (CML Langebaan), the club, its management company and other investment Holdings.

Rezoning and subdivision approval has not yet been received for the land, and the curators say the company has no income and cannot pay interest to the debenture-holders. In fact, the curators indicate that these investors may never get their capital back.

The outlook for Fancourt is brighter. At the end of last year, 45 chalets were completed and sold at the resort. Another 23 were partially completed and 16 of these had been sold. An additional 13 still on the drawing board had also been sold. Masterbond's interest consists of R90m in participation mortgage bonds and debentures secured by mortgage bonds.

A deal worked out by the curators will allow development to continue and lend the bonds untouched for now. They believe it's probable that some interest may be paid to investors from next month but capital redemptions are unlikely for some time, depending on continued unit sales.

Masterbond investors have R69.2m tied up in Marina Martinique. The project is under-capitalised and the curators believe that another R40m-R60m is still needed to finish it.

A search for an alternative investor is under way. Meanwhile, the project is unable to pay any interest to investors. The curators have postponed the application for liquidation until April 30.

The Phinda Land project has absorbed R42.5m in Masterbond debentures. The curators believe that investors will achieve better returns if the scheme is completed; so they are negotiating reduced interest payments, equity-conversion options, a formula for capital repayments and immediate disbursement of cash payments.

In their court appearance on February 12, when they submitted their report, the curators argued that investors could lose even more money if any of the eight Masterbond companies under curatorship were liquidated. They said careful monitoring and negotiating with development companies would ensure the best results for investors and creditors. Judge Patrick Tebbutt decided to extend the curatorship to August 12 and asked for a progress report by May 31.

Though the report gave little indication of when anxious investors will see some or all of their money, the curators' conclusions should work to calm some nerves. The wholesale liquidation of all of the group's developments would fetch only fire-sale prices for potentially valuable assets, especially in the continuing recession.

Instead, the more viable developments, if well-managed, may at least hold their bond values and give investors some semblance of a return before repayments can be made. Under the circumstances, the curators appear to making the best of a very bad lot.
OCTODEC INVESTMENTS

Octodec is a South African property company and listed on the property loan stock market. Octodec's flagship property, the Douglas Park, was sold in 1992.

Recovery potential

Octodec's flagship property, the Douglas Park, was sold in 1992.

Octodec was formed by a restructuring of
National Octodec Investments (NOI).

for three years with 10%-15% escalations.
Occupancy levels were 95% of lettable
area at year-end and are similar now. This
was achieved by letting certain properties
below market values. Interest received
from R1,82m and rental escalations protected
earnings from the greater impact of bad
debts combined with higher vacancies. The
company paid out just over R19m in deben-
ture interest last year.

Income by sector was 50% from commer-
cial & industrial and 40% retail.

Because the company is taxed on retained
income, all income received was redistribut-
ed to unitholders. Expected dividends are, in
turn, a function of future rental incomes less
anticipated maintenance and administration
costs plus expected interest received on the
cash portion of the portfolio.

There were no changes in the property
portfolio last year. Capex of R700,000 to
upgrade one building will be funded from
cash resources.

The company predicts an 8.1% rise in
rental income, to R24.8m, this year and a
profit of R20m.

The yield on the issue price of 200c was
18.4%. The share looks underrated on histori-
tical earnings and should have recovery
potential.

Rail Barlow
ABSA/BANKORP 28/2/92

More conservative

ABSA's announcement last month of its acquisition of Bankorp stated that the purchase price — then given as R1.31bn — would depend on the outcome of the due diligence investigation.

Given the troubled history of Bankorp and, perhaps, the strength of ABSA's bargaining position, some revision of the price was probably to be expected. Of concern now, is how the market will react to the extent of the revision, and its view of the likely effects of the deal for ABSA.

ABSA's share price had retreated since the deal was announced. It fell from a 12-month high of 1160c on January 28, to around 985c early this week. Even allowing for a generally weaker stock market over the past fortnight, a drop of just over 15% suggests misgivings in the market.

In any banking merger or acquisition, the price paid has a big influence on the eventual success (or failure). With the purchase price cut by R100m, to almost R1.21bn, at least some of the reservations must have been quelled.

One judgment that any investor is going to have to make, is whether the absorption of Bankorp will impede ABSA in its quest to lift return on assets above 1%. From that standpoint, a lower price must help. Deputy CEO Danie Cronje does not see any real difficulties, and estimates that returns could rise to this level within 12 to 18 months.

On the face of it, a price revision of 8.3% on a deal this size does not suggest the due diligence investigation produced nasty shocks. It might even be taken as reassurance that ABSA is comfortable with what it found.

But it is unfortunate that precise reasons for the price revision remain obscure. The announcement states blandly that the new price is based on application of accounting policies and practices adopted by ABSA. Cronje emphasises that this was the reason for the revision and will not elaborate further.

ABSA does apply conservative accounting practices. When applied to the wide range of items affecting a large banking group's accounts — such as bad debt provisions, treatment of costs and recognition of profits — these could easily account for the difference.

But Bankorp's poor disclosure in the past makes this difficult if not impossible for outsiders to evaluate.

Complicating Bankorp's case is a history of disappointments and some major questions that have yet to be settled satisfactorily. In particular, the rumour of a R1bn lifeboat from the Reserve Bank has not been unequivocally denied.

It seems strange that ABSA has not been willing to state clearly that there is no such lifeboat and no soft loans (which presumably could be taken away in future) in the banking group it is buying for R1.25bn. Cronje says these questions should be addressed to the Reserve Bank.

For Bankorp's minorities, who have held on to the share in the hope of a sustainable profit recovery or a deal at a much higher price, the new terms will come as a blow. Not only is the price only slightly above the 280c at which Bankorp stood for months, but the dividend is slashed by two thirds. But there is always risk in holding the share of a bank with a poor record and inadequate disclosure.

Following the revision of the purchase price, ABSA's share gained 15c on Tuesday — not an enthusiastic response. More clarity on just what ABSA is acquiring is needed.

Andrew McNulty
CAPE REAL ESTATE

Not going in cold

Natal-based estate agent Wakefields is moving into other provinces after deciding last year to expand. MD Keith Wakefield says the 53-year-old firm with 18 Natal offices is making its initial thrust into Cape Town.

Others have tried and failed — JH Isacso had to pull out of this market after four years (Property January 10) — but Wakefields believes buying established agencies and not going in cold will make all the difference.

The company bought Plotland Real Estate, which operates in Tableview, in July, and it bought equity in City Homes in November.

Wakefield says: "The intention is to develop these and pull them together under the Wakefields umbrella. We have already expanded the Plotland arm with two new offices in Bothasig and Belville. So we now have four offices in the Cape with about 40 agents working out of them, and we intend to expand from that base."

Wakefields plans to have eight to 10 offices in the Cape by July 1993.

Absa bought a 25.4% stake in Wakefields in January 1991. It also has a stake in Seeff, which operates in the areas where Wakefields has now become active.

Wakefields has had an office in Randburg for about five years but recently strengthened its presence on the Reef by buying into Edenvale's Fuller Estates. It trades as Fuller Wakefields in the Transvaal. "The intention is to expand this operation as well," Wakefield says. "The Cape has just happened a little quicker than the Transvaal because the opportunities were there. But we hope to establish about 10 offices in the Transvaal within the next 18 months."

While Wakefields moves into the Cape and Transvaal, leading Cape agent Pam Golding Properties is now strengthening its Natal operations.

PGP vice-chairman Peter Golding moved to Durban this week to head PGP Natal. He plans to add offices to the existing seven, including a specialist division to handle farms, new residential developments and commercial properties.
THE Independent Development Trust (IDT) devised a unique set of investment guidelines for the management of its R2bn portfolio, IDT finance director Jamie Kitsoff said this week.

It was decided to embark on an aggressive investment strategy in order to get a higher return. Each of the seven selected portfolio managers was given the freedom to pursue his own investment strategy within the parameters of the guidelines laid down.

The results are monitored on a monthly basis and the relative performance of the portfolio managers is measured within asset classes against the benchmark of a passive investment strategy over two years — 25% in the JSE Actuaries All Bond Index and 45% in the McLeod Money Market Index. The McLeod index is one devised by McLeod Asset Consulting, which monitors performance. The performance is evaluated over a period of at least six months.

There have been wide differences in the performance of the various portfolios and dramatic swings have taken place over time. An average overall return on investments of 17.8% was achieved from August 1990.

Seven portfolio managers were given responsibility to invest the R2bn granted to the IDT by government: First National Bank (R400m), Standard Merchant Bank (R800m), UAL Merchant Bank (R160m), Rand Merchant Bank (R160m), Sydbank (R200m), Voïkas Merchant Bank (R200m) and Syfret Management Assets (R200m).

They were chosen for their expertise in managing short-term fixed interest security portfolios. They were also chosen because of their size and their financial soundness as institutions,” Kitsoff says.

Management of the IDT’s funds was either taken over by a specialist portfolio management division or the money market division of the institution.

Although there was uncertainty over the duration of the trust, it was assumed for the purpose of portfolio management that, in the absence of an additional inflow of funds, the assets of the trust would be exhausted in about three to four years. The liabilities were estimated to have a likely duration of two years. To limit the exposure of the fund to adverse interest rate movements, a maximum duration of three years was set.

In terms of the investment guidelines, not more than 25% of the total funds under administration by any one portfolio manager could be exposed to banking groups with shareholders’ funds in excess of R1bn or any of their wholly owned subsidiaries. These groups were FNB, Standard Bank Investment Corporation, Absa and Nedcor. The maximum maturity of instruments in each category could not exceed three years.

Not more than 10% of the fund could be invested in the holding companies of SA (shareholders’ funds in excess of R500m) or its subsidiaries, with the maximum maturity of investments being limited to two years.

For financial institutions with shareholders’ funds in excess of R100m such as NBS Holdings and Rand Merchant Bank, a limit of 2.5% of the fund was laid down and the maximum maturity of investments was one year.

No limits were placed on investments in bills, bonds and securities issued or guaranteed by the government, Eskom and the Post Office. A limit of 30% of the fund was placed on instruments issued or guaranteed by Transnet and the Land Bank. SA Housing Trust, Development Bank and Umgeni Water Board instruments were limited to 10% of the fund.

Guidelines were also laid down on the use of options.

Kitsoff says the IDT has been pleased with the performance so far.
Lib Life claims low-risk yields

PENSION and provident funds invested in Liberty Life's Element Managed Portfolio (LEM) achieved the best of both worlds in 1991, says the company. Star, 23/4/92.

Not only did the fund boast a 28.8 percent return — claimed to be one of the highest in the industry — but it achieved this investment performance with a low risk factor.

Liberty Life's Guaranteed Fund, said to have virtually a nil risk factor, achieved 21 percent.

Mike Garbutt, general manager group benefits, sales and marketing at Liberty Life, said: "Indications are that the financial market of the 1990s will experience a far more volatile profile than those of the 1980s. Hence the importance for trustees to ensure that their funds' investments maintain a low risk profile without sacrificing the optimization of returns."
Finance seminar a smash

THE Allied Bank/Saturday Star personal finance seminar, which was held over two days at the Johannesburg Sun last weekend, is set to become an annual event — with the possibility of several smaller, more focused seminars for readers in the pipeline.

The 300 seats at last week's seminar were booked well in advance, but people still hoped for a seat.

Planning has already started on the first meeting of The Star Investors' Club. More details will be published early in March.
‘Good returns’

from Southern

SOUTHERN Unit Trusts has declared a total income distribution of R3 million for the period ended January 31 1992, with a dividend of 4.54c and 3.4c per unit on the general equity fund and the specialist mining fund respectively.

The dividend will be paid to unit holders on 3 March.

A distribution of R2.4 million has been declared on the Southern Equity Fund — more than double the R1.1 million in 1991 — with the Southern Mining Fund distributing R600 000 (R400 000 in 1991).

Head of Southern Unit Trusts, Francois Goosen, said that following a strong inflow into the Southern Equity Fund over the past year, the fund value had grown to R100 million.

The fund has achieved an “exceptional” 57 percent return on lump-sum investments over the 12 month period ended January 31 1992.
SOUTH Africans kept the bad times at bay at Christmas by waving "plastic" at them — and going into debt.

Figures issued by the Reserve Bank show that credit card purchases in December soared by R177 million to a record R1 092 million. This is almost double the December 1990 increase of R95 million, and compares with an increase of R11 million to R730 million in December 1989 and an increase of R44 million to R580 million in December 1988.

Bankers in the credit card business said a jump in transactions at Christmas time was normal, but expressed surprise at the size of the last December's increase.

Now they are waiting for the figures for January credit card purchases. As the banks often process much of the Christmas transactions only in January, the figures for that month's credit card usage is normally higher than the December figure.

In January 1989 the increase was R78 million making an increase since the end of November of R122 million or 22.8 percent. The following year in January 1990 the increase was R116 million. This brought the total increase since November to R127 million or 17.7 percent.

In January, 1991 credit card purchases rose by R96 million to R1 010 million which was an increase of R194 million or 23.4 percent from the end of November.

An indication of the greatly increased use of credit cards, last Christmas is the percentage increase in December on November was 19.3 percent. This is not much less than increase in December and January in 1988-89 and in 1990-91.

However, South Africans normally make a huge effort in February to repay their credit card debts incurred during the season.

In February 1989, outstanding credit card debts were reduced by R176 million or 26.7 percent. In 1990 they were reduced by R250 million or 27.9 percent, while in February, last year R310 million or 36.7 percent of the amount outstanding was repaid.

One wonders whether this will be the case this year.
Assets’ future less of a worry than inflation

HOW SAFE are your assets and investments in the new South Africa? What will happen to them under a black government? These are the questions most often asked today, especially among the middle and upper class. And whites particularly ask them with a sense of anxiety and downright fear.

The situation is not helped by headlines that proclaim “One-third tax on assets” should the ANC come to power. This suggestion, by a lone delegate at an ANC conference in the eastern Cape, has been turned into a full-blown gospel among many people.

Other rumours abound. A capital gains tax on everything from property and shares to luxury cars and deposits in bank accounts; confiscation and redistribution of so-called “white assets”; even retribution for wrongs of the past.

Personally, I do not believe the worst-case scenario sketched above will come to pass. I don’t have any insight into ANC economic thinking, but I’m sure they have enough foresight not to contemplate any such moves, which would amount to economic suicide.

By now the ANC, or any black political organisation with a chance to be part of a future government, must have acquired enough wisdom to discard such thinking. But you might ask if the investment playing field could be altered by a future government, and in what way.

Dividend tax and prescribed assets

Firstly, I think a tax on dividend income could be reintroduced — even in the near future. This exemption benefits only the very rich and those who can afford to invest in the Stock Exchange. Very little black money finds its way to the JSE.

In contrast, fixed investments in banks and building societies do attract tax, apart from the first R2 000 of interest.

Politically, this is a very sensitive area, and I don’t foresee some form of income tax on dividends in the future. But that should not cause any loss of sleep: it was only about two years ago that dividends acquired their current tax-free status.

Secondly, we could see the reintroduction of some kind of “prescribed assets” in life and pension funds. Also, not something to cause undue worry: Government requirements about where large institutions should invest part of their money were also abolished only two years ago.

Thirdly, while some form of capital gains tax could be introduced in the near future, it will obviously apply only where actual accrual has enlarged a capital sum. Here, too, I won’t lose much sleep.

What does make me toss and turn is the continued threat of a growing inflation rate. This Government has not been particularly successful in keeping inflation down. So what chance does a future government — which is likely to use increased expenditure as its primary form of redistribution — have of keeping inflation in check?
Public wins battle of overdraft rates

After intense public pressure, banks have agreed to publish interest rates on bank statements.
Safe unit trust plan is good entry point

For most people, owning property means owning a house or, perhaps, a farm or stand at the coast where they intend to build their retirement home some day.

Some may venture to buy a second house or perhaps a couple of apartments to bring in some rental income, but there are not many individuals who have explored the possibility of buying into office blocks or shopping centres.

However, there are several ways to do just that and they are worth exploring as alternative investments to equities.

Probably the easiest way to get into the property “big time” is to put some money into a property unit trust (PUT).

These are something like ordinary unit trusts, in that you are buying a chunk of a JSE-listed portfolio and participating, with other unit-holders, in the income from that portfolio. In this case, the income comes from rentals in commercial buildings. The main differences are that the activities of PUTs are restricted to investment in shares of property owning companies and that they are “closed-end” trusts.

This means that there are a set number of units which can only be increased through a rights issue to existing unit-holders. It also means that there is no guaranteed buy-back of your units by the management company.

The advantages of PUTs are that they are particularly safe investments and that the entry level is relatively low.

PUTs are regulated in terms of the Unit Trusts Act and have to be properly managed by a professional team of real estate specialists.

This gives you the means to invest in carefully chosen, well-located commercial properties, without specialised knowledge. But, because most PUTs specialise in offices, shops or factories, you can choose where to put your money, depending on your own feelings about the likely fortunes of the service, retailing or manufacturing sectors of the economy.

However, the diversified portfolios of property trusts (the actual buildings in which your money is ultimately invested) mean your risk is spread. In other words, rental losses from vacancies, or from a fall in geographic popularity, in one building will lead to be smoothed out by other buildings in the portfolio doing better.

Although there is no guaranteed buy-back of your units, they are marketable on the stock exchange through a broker. This makes the investment much more flexible than one directly into a building and means you can adjust your investment portfolio quite rapidly.

By law, you can buy a minimum of 100 units in a PUT. The most expensive unit quoted on the JSE this week cost R780, so a new investor buying the minimum number of units would have paid R78000 – quite a small amount compared with investments in other property investment vehicles.

PUTs enjoy a special tax position. John Rayner, of stockbroking firm Franklin Max Pollack Vnderine, explains that neither the trust nor its underlying property companies pay tax, which means that dividends paid to the unit-holders are free of tax at source.

However, the fact that PUTs do not pay company tax means that these dividends, usually paid every six months, are regarded as interest, and that individual investors will be taxed on them according to their own marginal tax rates. At the moment, only the first R2 000 a year of interest income is tax-free.

If you have a minimum of R1 000 to invest, you could put it into a participation mortgage bond (paribond). These are property-related schemes run by several financial institutions as a means of raising mortgage finance for large property purchasers from a number of investors.

In other words, your money is a “loan”, secured by property, to the paribond company, which will pay you interest. It is important to understand that this is not an investment in property as such.

The main advantages of paribonds are their low risk and high interest rates. The low risk arises from the fact that paribond administrators are conservative in estimating the value of properties over which they grant bonds. They usually advance between 60 and 65 percent of a valuation based on capitalisation of income flow from the building, rather than its current market value.

The high interest rates paid to paribond investors, usually quarterly or monthly in advance, make them popular as a secure source of high income.

The major disadvantage is that there is no capital growth for the period of the investment, which is usually five years. It is certainly worth considering how

INVESTMENTS: Commercial real estate offers unusual and profitable opportunities.

So, while there is no group of potential investors for a syndication scheme, or even building a shop or factory complex on their own, it is wiser to have professional management on board.

In a syndicate, the property is usually owned by a shareholding company, of which you, the investor, become a shareholder. Thus you actually own a specific “piece” of the building.

The tenants in the building pay rentals, which are passed on to the investors after deduction by the management company of running and maintenance costs, as well as a small administration fee. This gives you a regular income, usually 11 percent a year, payable quarterly in arrears.

However, the value of the building, as a saleable commodity, also rises over the years, boosting your capital invested.

Professional management ensures that the risks are reduced. The reputable institutions offering syndication schemes have experts to identify and buy buildings with good potential, and to optimise this potential in terms of keeping it fully occupied and properly maintained.

The major advantage of a syndication is that you can negotiate the sale of your share of the building to any other person at the market value at any time.

The capital gains on such sales are often exceptional (and not yet taxable).
MD earns his toughness tag

MEET Future Bank managing director Neville Watchurst and you meet a hard-nosed banker.

He has to be tough for the success of the bank rests on the wealth it creates and its performance in the marketplace.

Watchurst cautions that the Future Bank is not an "overnight thing".

But there is an interesting story to tell about the findings of his research team during market testing in October last year.

Finding a name for the bank was no easy task, he recalls. "It's an unusual name but very appropriate. Our research shows that the name 'Future Bank' was suggested by the respondents."

In research conducted in Cape Town, Durban, the Eastern Cape and the Free State, more than 500 face-to-face interviews were conducted.

In most cases the name "Future Bank" came out strongly.

Another aspect made clear by the market research was that "there was no room for another black bank in this country."

"But there was room for a bank that would cater for all South Africans. "The established banks in this country cater largely for the white market and corporate South Africa."

Watchurst said these banks offer savings accounts to blacks, but "loan facilities are few and far between."

"From that we decided to come up with some facilities which would enable the black community to participate in the mainstream economy."

But this does not mean Future Bank will grant loans wholesale. Accepted banking rules will apply.

Watchurst adds that the primary concern of Future Bank's main sponsor, First National Bank, is to create wealth for black shareholders.

"That is why we have the Foundation for African Business and Consumer Services (Fabcos) as the biggest shareholder. The Get-Ahead Foundation is another shareholder. That is really the philosophy behind the bank."
Caring counts in rands, cents

By ZB MOLEFE

GREAT companies worldwide, marketers will tell you, have mastered the art of defining their business. Take the American photo giant Kodak, which will tell you it sells memories. Or the German carmaker Mercedes, which will tell you it sells safety.

A defined business is the advantage Future Bank general manager for operations and marketing Phillip van den Heever believes his bank has in abundance.

"Simply, we are (market) focused — unlike other banks, who are all things to all men.

"The essential difference that this bank will have is warmth and care. Our whole marketing effort is primed for that.

"I know 'We care for our customers' are easy words to say, but I think the way we treat our customers, at the end of the day, is going to determine how successful this bank is."

Van den Heever says this approach must not be interpreted to mean that the Future Bank is in a position "to approve every man who walks through the door”.

"We are largely going to apply credit standards which have evolved over the years and applied to banking. But the fact that we are focused means we can develop new schemes and utilise instruments that are already in the black market – like the skokvel type principle."

The bank, he says, will be "providing credit to people who would otherwise have no access to credit."

"At this stage shareholding is still closed. There is indirect shareholding through affiliates like the Foundation for African Business, and Consumer Services (Fabcos), where there are a lot of their members who technically own Fabcos."

But he stresses that although the organisation holds a large portion of shares in the bank, Future Bank is not a Fabcos Bank.

"We are a bank for everybody. Whether a member of the National African Federated Chamber of Commerce (Nafoot) or Fabcos. That is what we must get across."

There is another phrase which makes Van den Heever uneasy. This is that the Future Bank is a black bank.

"We will provide products that satisfy both areas (blacks and whites). At the end of the day, the bank must be profitable. We can't develop this bank unless we are profitable."
Syfrets is tops in pension returns

SYFRETS Managed Assets emerges as the top investment team in the Alexander Forbes actuarial survey of investment performance.

In the survey, which can cause tens of millions of rand of pension money to move from one investment house to another, Syfrets fared best over one, three, four, seven, eight and nine years, judged by the return on a single payment.

There are two Alexander Forbes surveys. The present one monitors pension funds managed by non-life offices.

Liberty Asset Management and Southern Asset Management are included because they run these pension funds in the names of client ones. They are off balance sheet.

The life company survey will be published next week. Traditionally, the non-life managers have outperformed the life offices.

The return on an investment in Syfrets' portfolio yielded 34.7% over one year compared with runner-up Standard Merchant Bank, which scored a return of 32.6%.

Weakened

Last over one year was Fodco & Meltjes, which gave a return of 11.3% — still better than inflation.

Syfrets' closest rival overall was Standard Merchant Bank, which came first over five years and second over one, four and seven.

Security Portfolio Management came second to Syfrets over three years, the only period for which it was monitored.

Allan Gray Investments short-term performance had weakened. It ranked in the top three over periods from five to eight years, but was lowly ninth over three years.

Over one year, Allan Gray ranked 10th out of 11, returning 23% compared with Syfrets' 34.7%.

Seabank took the wooden spoon over three years as Momentum was second last.

Syfrets also excels in Ria Lamprecht's survey of unit trust management. It came third among unit trust performers last year and w top for three years.

In June the Syfrets Grow Fund will have been around for five years.

Fund manager Tony Gibson is optimistic that Syfret will rank first or second.
House loan lifeline

STANDARD Bank has launched an insurance policy to assist the dignity of retrenchment on home owners.

The plan provides cover if the borrower is retrenched from full-time employment or if his company closes.

The policy is available to those aged between 18 and 59 who have been with the same employer for a year and earn at least R2,000 a month. They must also have a Standard Bank home loan. S111402 13/11/92

350Nm at a low 1,800rpm.

All models are fitted with the Procon-ten safety system.
THE Future Bank has struck a note for gender equality in the workplace with the appointment of marketing manager Lindiwe Kubeka.

She sees nothing unusual with the bank appointing a female in this important area of operation.

"I'm bringing expertise and knowledge to the job. What drives me essentially is that I want to make the bank a success."

In fact, gender equality is one of the ethics the Future Bank is building into its employee relations.

Operations and market-

ting general manager Phillip van den Heever says: "People must be people, they must be treated the same."

Kubeka, a mother of three, grew up in Pimville, Soweto.

After school she cut her teeth in marketing, working for a number of companies. Her last position was working as a marketing analyst for a well-known company manufacturing multi-purpose plastic kitchenware.

You think you are not being diplomatic when you ask her age and she shoots an answer: "I'm 33 years old. I'm not scared of my age. Maybe when I hit 40 I'll start getting scared."

Who says a woman never tells her age?
At the Wheel

Maduza's

FUTURE BANK FEATURE
Consumers 'overextend' credit limits

CASH-STRAPPED credit card holders are spending above their limits and failing to repay their minimum monthly payments, bankers say.

The pattern of repayment has deteriorated during the last two years and has become even worse in the last few months, Standard Bank card division GM Alistair Graham says.

"The level of arrears on credit card payments show customers are becoming overextended."

Credit cards are only a small part of the personal debt market and most debt is found in the form of fixed-term payments, such as HP and revolving credit schemes.

"If they don't pay, we chase them," says Graham, whose bank has fairly lenient credit arrangements with customers.

"We contact clients and ask if they are having problems repaying their debt. If they are, we ask them how much they can afford to pay and reach an agreement on the amount to be repaid monthly."

An FNB spokesman says there is no doubt that consumers are cash-strapped. But FNB has anticipated this and introduced controls on its Firstcard to reduce problems. He would not comment on what the controls were.

Credit card payments had deteriorated during the last 18 months but FNB did not have a "terrific bad debt problem".
Scramble as market shortage dips

THE month-end scramble in the local money market got under way towards the end of last week with the market shortage dipping sharply to R843m on Thursday from a previous R1,76bn.

Dealers attributed the sharply lower market shortage to tax payments falling due. They also said there was a lot of money flowing through the system to finance a special rights issue by Gencor.

Meanwhile, the Reserve Bank continued its liquidity-draining operations last week with a series of special Treasury bill (TB) tenders. On Friday the Bank’s special three-day TB tender was sharply under-subscribed, with the Bank receiving only R830m at an average rate of 16.39% for its R1bn worth of bills on offer.

Dealers said the flat response to the Bank’s special issue could have been due to the relatively high rate of 16.39%. Corporate could get similar rates on call and, at month end, the smaller institutions did not have that kind of money lying around. With hectic month-end activity and general con-

fusion over how cash flows will go, the Bank’s offer was not all that attractive.

Hopes of a cut in official interest rates are still running high, but most analysts expect Reserve Bank Governor Chris Stals to hold out until after the reform referendum on March 17 and until he has seen the fiscal thrust of the March 18 Budget.

February’s inflation rate is due out about three days after the Budget, so Stals could wait for some signs of success in the inflation war.

Turnover suffered on the capital market as traders were diverted by two contrasting events — the political nervousness in the run-up to the referendum, and the mid-week World Cup cricket match in Australia. The screens players were watching tended to feature scores and bowling analyses instead of prices and yields. Confidence that the referendum would result in a “yes” majority kept yields on the benchmark Eskom 168 comfortably below the 16.5% level.
Sanlam transfers
Harare business

CAPE TOWN — Sanlam is to transfer its life assurance business in Zimbabwe to the Southern Life Association.

The transfer, subject to the approval of the authorities, comes 10 years after Sanlam stopped marketing policies in Zimbabwe.

Chairman Dr A J van den Berg says the transfer will benefit all policy-owners. It would be more practical and cost efficient to perform the administration from within Zimbabwe.

Chief actuary Chris Swanepoel says Sanlam has liabilities under more than 5,000 policies in Zimbabwe, with premium income totalling R1 million.

The Southern Life Association in Zimbabwe is registered by Southampton Assurance. — Sapa.
This partner won't take over
Mutual and Federal shows short-term can be profitable

By Derek Tomney

Short-term insurers have been having a hard time lately.
So the 51 percent increase in Mutual and Federal's attributable profit to R80,1 million for the six months to December and 25 percent increase in interim dividend to 25c a share will come as a pleasant surprise to shareholders.

MD Ken Saggars says that a number of unusual factors were behind the higher profits.

First and foremost was the absence of natural catastrophes.

A year ago the company had to pay more than R20 million in losses arising from the Barberton hailstorm.

"It is a sobering thought that a single similar event could eliminate the company's entire surplus."

A second factor was the acquisition of National Employers' General Insurance (NEG) 16 months ago, which had proved to be a considerable success. The group is now reaping the full rationalisation benefits of the merger.

A further contributory factor was the release of reserves after the run-down of business formerly written by NEG.

Mr Saggars is concerned at the alarming rate of growth of motor accidents and crime.

The asset base, which exceeds R2,2 billion, and the 130 percent solvency margin, underscore the group's financial strength.

Mr Saggars says the effect of VAT has been less than expected and that the group's decision to absorb the bulk of these costs without resorting to a general premium increase has been vindicated.

Gross premiums in the six months rose 10,9 percent to R900,1 million, while net premiums increased 11,5 percent to R505,7 million.

The underwriting surplus before VAT was R30,5 million (R5,5 million), while VAT took R5,1 million (nil).

Investment income rose 26,8 percent to R70,7 million and pre-tax income increased 61,5 percent to R96,1 million.

Tax took R28 million (R14,3 million), leaving net income of R68,1 million (R45,2 million).

Investments at market value at December 31 were worth R2,99 billion, against R1,96 billion a year ago, the end of last June and R1,54 million at the end of December 1990.

Total assets after providing for current liabilities were R1,37 billion at the end of December, against R1,46 billion at the end of last June and R1,14 billion at the end of December 1990.
Reserve Bank accountable to all

The governor of the Reserve Bank, Dr Chris Stals, says the accountability of the Reserve Bank is towards the total community and its responsibility is to create a stable financial environment in which maximum economic growth can take place.

Speaking at the official launch of the Pretoria chapter of the Association of Black Accountants of Southern Africa (Abasa), Dr Stals said savers, investors, consumers and traders would only be able to take rational decisions on the management of their finances if they had trust, faith and confidence in the banking institution.

He said accounting institutions such as Abasa had a role to play in this regard.

Referring to financial management risks, Dr Stals said while the bank was not prepared to interfere with informal institutions like stokvels, members of such institutions should bear in mind that the Reserve Bank would not accept any responsibility for the mismanagement of funds.—Sapa.
Mutual & Federal dividend up 25%

MUTUAL and Federal Insurance (M & F) has rewarded its shareholders with a 25% rise in its interim dividend following a 61% jump in half-year profit as conditions in the short-term insurance industry started improving.

The insurer’s taxed profit rose to R68.1m for the six months ended December, equivalent to earnings of 142c (1990: 96c) a share.

A dividend of 25c (20c) has been declared, lifting the cover to 5.8 times compared with the previous corresponding period’s 4.8 times.

M & F wrote business worth R664.1m (R641m) for the six months, translating into net premium income of R595.7m (R453.4m). Investment income rose by 29% to R70.7m (R56m) while the underwriting account staged a remarkable recovery on the previous year by reflecting a net surplus of R25.4m (R3.5m).

M & F MD Ken Saggars said the favourable position of the underwriting account was due to “more realistic rating policies” and the absence of major natural catastrophes. He noted M & F had incurred a R22m underwriting outflow arising from damage claims after a Barborton hailstorm — in the first six months of 1990: “It is a sobering thought that a single similar event could eliminate our entire surplus.”

While a more positive trend seemed to be emerging in the short-term insurance market, following the poor underwriting conditions of the past two years, Saggars said insurers still faced “considerable challenges” in the light of the high incidence of theft, arson and fraud.

In particular, he was concerned with the

Dividend inadequate rate levels available in the corporate market. “Despite the overall positive result, it should be noted that the commercial and industrial portfolios are not operating within profitable margins and rates and terms within these sectors require adjustment.”

He also expressed concern about the incidence of vehicle accidents and theft.

Saggars said M & F’s favourable results for the period reflected the company’s prudent underwriting policy, which also resulted in its solvency margin rising to 130% compared with the previous period’s 110%. The selective underwriting of new business also resulted in the slower growth in premiums, he noted.

Saggars said M & F’s performance was aided by the acquisition of National Employers’ General Insurance (NEG), which was concluded in 1990.

M & F disclosed net income of R68.1m (R45.2m) for the period while its investments rose by 36% to R2bn (R1.5bn). The directors cautioned that the company’s strong growth in the first half of the trading year would not necessarily reflect its performance for the full year because of the industry’s unpredictable nature.
Bank makes claim against Nedbank's 'negligence'

A $2.3m damages claim brought against Nedbank by a Canadian financial institution, which alleges it renewed a line of credit to offending fertiliser giant Triomf on the basis of incorrect information negligently supplied by the bank, began in the Rand Supreme Court yesterday.

Standard Chartered Bank of Canada claimed that if Nedbank, which was Triomf's banker at the time, had furnished a report correctly reflecting the group's financial position the line of credit would not have been renewed.

The report was submitted to Standard Chartered Bank through its SA agents, Standard Bank, in November 1985. About seven months later Triomf collapsed, and was provisionally liquidated in July 1986, owing Nedbank more than R60m.

Nedbank is contesting the claim and contends that at the time the report was furnished Triomf was trading in normal circumstances and there was no reason to believe it would not continue doing so.

In his opening address before Mr Justice Roux, counsel for the Canadian bank, P Solomon SC, submitted that although Triomf was already in severe financial straits, Nedbank reported that the group was trading normally and was able to meet its commitments.

Solomon submitted that at the time the report was issued Triomf's debt to Nedbank amounted to R381m and that its long-term liabilities had increased within five months from R35m to R45m.

He said at the same time Nedbank issued the report, it refused to give Triomf R50m credit to pay for raw materials while knowing that without the loan the company would cease trading.

It should have been clear to a reasonable person in Nedbank's position, Solomon submitted, that the party asking for the report wanted it to decide whether or not to extend credit to the company.

Nedbank, he said, had been negligent in not declining to issue a report or otherwise furnishing one that correctly reflected Triomf's financial position.

Three more killed in Reef train attacks

TWO men were killed and 10 seriously injured yesterday morning when a Reef bound train ran off the track near Soweto's Dobie and Phomolorong stations.

Ngoboni, 27, sister of the injured, said the injured were taken to Baragwanath Hospital where nine were treated for back and stab wounds. One was treated for a bullet wound.

Halgryn said the police were investigating the incident.

In another incident, a man's body was found between Benoni and Dunsward stations on the East Rand. The police said the man, who sustained head injuries, apparently had been thrown off a train.

In another development, the head of the Goldstone Commission of inquiry into public violence and intimidation, advocate Solly Siswoto, former SA Police MD Bob Tucker and Natal attorney Lillian Baqua.

Further to the dividend announcement of 28 February 1992, shareholders are advised that the last date for registration for the dividend is Friday, 13 March 1992 and not 28 February 1992 as previously announced. Dividend cheques will be mailed on or about 24 March 1992.
AVF rights issue seeking R42,8-m

By Derek Tommey (S8)

Shareholders in AVF — Anglovaal’s assurance and financial services holding company — are being asked to subscribe R42,8 million for rights to new shares at 140c a share.

With the price standing at 130c, anyone taking up their rights will be demonstrating an act of faith in the company and can also be expected to scrutinise today’s interim report for guidance.

Th AVF report, in fact, suggests their faith could be justified. Although the report does not give directly comparable figures, it shows that the net premium income and annuity considerations of AVF’s underlying insurance investments were growing at about R23,7 million a month in the six months to December, against R18,7 million a month previously.

This suggests the group’s pre-tax profit from insurance in the current 12-month period should be significantly better than the R6,6 million reported for the 14 months to last June.

The company gives pre-tax profit for the six months of R2,96 million.

But this seems to be simply a pro-rata extension of the figure for the previous 14 months.

Bearing this out is the statement that the company will only be paying annual dividends because these cannot be declared until after the completion of the annual actuarial valuation of the assets of the life fund. This suggests the insurance profits can also only be calculated annually.

To this has to be added income from the Board of Executors, which increased its earnings a share by 34 percent in the year to last September.

Earnings attributable to AVF shareholders for the six months to December are given as R3,87 million, equal to 3,8c a share.
Political uncertainty causes drop in demand

UNCERTAINTY about future political developments has caused a drop in demand for residential property, but agents differ on the extent of the decline.

Aida Real Estates chairman Aida Geffen says some people who were about to make an offer for a property withdrew when President F W de Klerk called the referendum.

"There are less buyers on the market than ever before."

"This situation is not expected to improve markedly even if there is a yes vote as people will still wait for other developments," she says.

The wait for the outcome of Codesa is an inhibiting factor, and the market is expected to remain depressed for at least another year, she adds.

Should there be a "no" vote, the bottom would fall out of the market as there would be a glut of sellers and very few buyers.

Seeff O'Riain Transvaal MD Bernard O'Riain agrees with this, but says this will only be a short-term situation as people will still want their own homes.

His group has seen a slight reduction in buyers and showhome visitors, but nothing of any real note. The reason for this is twofold, he says.

"Firstly, there are those who believe prices are depressed and now is the time to pick up bargains. Secondly, there are those who want to own property despite political factors."

The drop-off in activity is being felt mainly in the Johannesburg area and in the upper market range above R800 000. The market under R400 000 is less affected, he says.

"People who would normally want to upgrade their homes are now buying at the same level or at a lower price, to minimize their risk. This trend will, however, filter down to the rest of the country," she says.

O'Riain says there is a volatile upper market, but deals are still taking place. While there is a difference between what the seller wants and the buyer is prepared to pay, the sellers are tending to drop their prices.

SA Property Owners Association (Sapoa) executive director Brian Kirchmann has called for a "yes" vote on March 17. "Sapoa believes in the inalienable right of all South Africans to own property in a free market system." The continuing dialogue on SA's future was one of the ways this could be assured.
Brokers' commissions under review

CAPE TOWN — The structure of commissions paid to life assurance brokers and agents is under review by the Financial Services Board before being incorporated into the proposed new life assurance Bill.

The life industry and the board are concerned that different commissions paid on retirement annuities (RAs) and life policies are a disincentive to the marketing of RAs. This is counter to government's encouragement of self-provision for retirement.

Life Offices' Association director Jurie Wessels said the commission paid to brokers for the sale of life policies was concentrated at the beginning of the policy's term while that paid on RAs was spread. This acted as an incentive for brokers to sell life policies. He said RAs' share of life products sold by the industry had declined since the early 1980s when the differentiated commission structure was introduced. Of 34.5% of recurring new business (including recurring premiums on ordinary policies) in 1980, recurring premiums on RAs dropped to a low of 12.9% in 1987, rising slightly to 15.74% in 1990.

The board's long-term insurance registrar Oppie Opperman said commissions were the only unresolved issue of the proposed new Bill. The third draft of the Bill was recently distributed to the industry for comment before end-April. The only major change has been to incorporate the consumer protection provisions into the main body of the Act rather than to have these promulgated by way of regulation.

Opperman said a fourth draft would be sent out in June July and the final version would be presented to Cabinet in August for submission to Parliament next year.

It is envisaged that the new Act — which has been on the drawing board since 1987 — would take effect from January 1, 1994, or earlier if possible.
Avins chalks up earnings of R1.4m

Avins 

change in year-end to June 30, no meaningful comparable figures are available.

The directors said in a statement that shareholders would in future have to wait for the June year-end actuarial evaluation of AA Life and Crusader Life before their single annual dividend was declared.

However, Crusader Life would pay a dividend of at least 25c a share, the directors said.

By contrast, AA Life was in the throes of consolidation and was unlikely to disclose any growth in earnings or pay a dividend for the current trading year.

Unprofitable channels of distribution had been closed and overhead expenditures reduced. Directors expected AA Life would improve its performance and contribution to group profitability.

Pegasus Assurance, the group’s UK life operation, was still in an early stage of development and was unlikely to pay a dividend before its December 16/3 year-end, the directors said.

Parent company AVF Group posted attributable earnings of R3.5m, equivalent to 39c a share for the six months.

Avins’ net premiums and annuity considerations for the six months amounted to R142.2m. About half of the group’s R2.8m pre-tax profit was paid to outside shareholders, resulting in income attributable to ordinary shareholders of R1.4m. Avins’ life funds grew by 17.4% to R391.3m (June 1991: R333.2m) for the six months while the market value of investments rose to R412.2m from R359.5m.

Avins now holds about 32-million of AA Life’s shares and 18.1-million shares in Crusader Life following their respective rights issues. The purchase of the additional shares cost Avins R35.9m.

AVF’s stake in Board of Executors has risen to about 18% following the conversion of loan stock.
Questions on Masterbond

CAPE TOWN — No investigation had been instituted to establish whether the Reserve Bank, government or any other official authority was guilty of dereliction of duty in the Masterbond crash, Finance Minister Barend du Plessis said yesterday.

About 22 700 individuals had invested R364.3m in the company, he said in reply to a question tabled in Parliament by Douglas Gibson (DP Yeoville).

Information indicating that offences or contraventions were possibly committed by any person employed by, or associated with, Masterbond and Cape Investment Bank would be submitted without delay to the Cape Attorney-General.

Du Plessis stressed that Masterbond Participation Bond Trust Managers (Pty) Limited, which acted as an agent in participation bonds, debentures, the money market and syndicated property projects, was not a registered financial institution.

The curators had confirmed in a report submitted to the Cape Supreme Court on February 12 that a full accounting could be given of all funds which were received on an agency basis by the Masterbond Group for investors.

"Those investors whose funds have not yet been repaid by the curators and are currently at risk, are invested in high-risk pleasure resort projects. The development companies involved herewith are not financial institutions and no supervisory authority is responsible for supervising whether the projects are viable."

"Investors themselves are responsible for evaluating the risks of projects."

He said R76.1m was invested in participation bonds, R400.5m in short-term debentures, R26.6m in the money market and R96.9m in property syndication.

Registered deposit-taking institutions, formerly referred to as banks and building societies, were statutorily required to submit numerous reports of statutory returns at stipulated periods.

Du Plessis said an investigation in terms of sections 417 and 418 of the Companies Act on the insistence of the Registrar of Deposit-taking Institutions was requested by the Cape Investment Bank's liquidator.
LONDON — Blighted by depression in the property market, TransAtlantic Holdings, the UK insurance-property group controlled by Liberty Life, has cut its dividend for the first time after an 18% fall in pre-tax profits last year to £57.8m.

The dividend, which has grown by an annual compound rate of 25% since 1983, was reduced from 13.5p a share to 12p — the same level as 1980. And chairman Donald Gordon, whose Liberty Life group directly and indirectly owns about 55% of TransAtlantic, reports a fall in net assets for the second year running as the values of properties in Capital and Counties (80% owned) were revised downwards because of the UK slump.

Prospects

Total shareholders' funds dropped 8% to £904.6m. In 1990 they fell nearly 13% from £1.1bn to £964m.

But Gordon reports strong growth and exciting prospects at Sun Life, the insurance and financial services group which is jointly owned by TransAtlantic and Union des Assurances de Paris after a take-over bid in September.

Sun Life's net equity profits rose 32% to £43m. TransAtlantic's share increased 50% to £12.6m and will be higher this year following the take-over.

Insurance funds at Sun Life were £1.7bn up at £8bn. Sun Life had now displaced Capital and Counties as TransAtlantic's main asset, accounting for 32% of shareholders' funds.

Gordon said Sun Life would assume greater importance in TransAtlantic's business and development from now on. He warned, however, that the collapse of the property market in the main economies following the 1980 boom in building will affect financial markets for a long time — hitting banks, insurers and property companies alike.

However, at Capital and Counties — where asset values were written down by 29% while net earnings almost halved to £16m — investments in large shopping centres will benefit quickly from an upturn in UK consumer spending.

Flexibility and liquidity had become "more important than overall return" and TransAtlantic had reduced its net debt from £362m to £315m, Gordon said. Cash and liquid resources were up £69m to £338m in spite of TransAtlantic's £280m investment in the Sun Life bid and Capital and Counties' £102m rights issue.

Meanwhile, TransAtlantic is still seeking a listing on the London stock market, having been turned down before because of its pyramid status. Gordon said while TransAtlantic may well have benefited from not having a high profile listing in London when the property sector was out of favour, the board continued to "pursue a dialogue with the London Stock Exchange".
First National Bank chairman Basil Hersov said on Wednesday he felt it was important to strengthen President de Klerk's hand at the negotiating table with a landslide "yes" vote. He said the referendum was a crucial national issue and South Africa was at the crossroads.
Casting the First Stone

AGENTS AND BANKS

PROPERTY
Drilling a R400 000 hole

Pension savings of employees of liquidated Masterbore were used for working capital, instead of being paid over to the pension fund managers, confirms the managers, AA Life. Employees of the defunct drilling equipment and contracting company are certain to lose out because they have no preferential status.

Though the amount involved is not large, about R400 000, the case gives impetus to the Financial Services Board’s campaign to force companies to pay over pension money timeously. The Masterbore situation is thought to be one of many cases where the board has become aware that directors are effectively using the pension fund to carry them through the recession. As far as the FM can ascertain, Masterbore is the only offender so far to have gone into liquidation, leaving its pension scheme underfunded.

Also, though there has clearly been a breach of regulations, it may be difficult for the attorney-general to nail the offenders: the management changed between the period when the money was first diverted and the liquidation. The pension shortfall was reported to the board by AA Life several months before the liquidation.

The sensitivity attached to a situation where workers lose their savings came at about the time the board sent a tough circular to pension fund managers and principal officers, putting the onus on them to report late payers (Economy & Finance August 30). Breach of regulations carries a penalty of R200 — so, in the case of a fund for 500 members, R100 000 for every time the offence occurs.

The reporting requirements are supported in principle by the Institute of Retirement Funds and the Life Offices Association, but are thought to be so stringent that they are impractical. After the Masterbore case, it is unlikely there will be any relaxation. Together with circular PF74, that outlined the reporting requirements, the board also made it clear all infringements would be referred to the attorney-general’s office.

AA Life’s Joe Gates says he maintained close contact with the board during the Masterbore debacle. But Basilos Tsangos, ex-financial director of Masterbore, complains the fund had not been actuarially valued by AA Life so, after management at Masterbore changed during 1990, the extent of underfunding could not readily be established. But Gates calls that argument irrelevant, adding that the triennial valuation was not due. At all times, Gates says, AA Life was aware that members’ contributions were not being received and was urging Masterbore to catch up.

In Masterbore’s 1991 financial statements, the last issued before the company’s suspension from the JSE, it is noted: “The group operates two pension schemes, which are available to all employees of the group. . . . One of the funds was actuarially valued as at July 1 1988 and was found to be fully funded. The other fund was constituted on March 1 1988 and will be actuarially valued for the first time as at February 28 1991.”

Despite there being no valuation, Gates insists that, as fund managers, AA Life was keenly aware that the contributions had not been received — and these included employees’ subscriptions.

Tsangos joined the board of the troubled company in September 1990. Wilf Davies had joined three months earlier as MD. The two are now partners in another venture. Tsangos says: “We inherited the situation at Masterbore and we ourselves reported to the board that there was a shortfall as of October of R400 000. We negotiated with them to pay R100 000 immediately and then further monthly contributions to cover the underfunding.” He adds that from the middle of 1991, the company resumed paying over the employees’ own contributions to a new fund, created at Liberty Life.

During talks between Tsangos and AA Life, it became apparent that Masterbore had hoped to be rescued by the large surplus in the pension fund of its recently acquired subsidiary, Cliff’s Engineering. Cliff’s was liquidated in January 1991, but attempts to reverse the fund into Masterbore’s and so secure a contribution holiday were thwarted.

For the board, Andre Swanepoel confirms the case is with the attorney-general for a decision on whether to prosecute.

But who would be culpable? The company was previously chaired by Peter Rawson, whom Tsangos has described in a court application as a “fugitive from justice” (Fox February 14). Rawson has been associated with the Old Mutual insider trading scandal and a warrant for his arrest was issued at the same time as those for Old Mutual’s Marco Celotti and David Schapiro. According to Davies, Rawson did not attend any board meetings last year except those held in London or Harare. Attempts by the FM to contact Rawson were unsuccessful.

Managerial regimes

But there was a definite overlap between the two managerial regimes. According to AA Life records, the contributions ceased on May 31 1990 and the shortfall then accumulated until July 31 1991. During that time, Gates says, the shortfall approached R300 000, comprising about R225 000 in employees’ contributions deducted but not paid over, R225 000 unpaid employers’ contributions and the balance in risk premiums and administration fees due to AA Life. Gates confirms the payment of R100 000 tendered in November 1991 but says four instalments promised to eliminate the arrears were not paid.

Non-payment of employers’ contributions by a company weathering a financial storm is not abnormal and employers may negotiate a “holiday” if the pension scheme is already fully funded. But non-payment of employee contributions attracts criminal charges.

It may be impractical for the pension fund members to enforce their claims. To proceed, they would have to deplete the fund further. Gates has said he would like to see the attorney-general bring a precedent-setting trial, to deter others from abusing their funds.

Meanwhile, AA Life is sitting with insufficient funds that have to be allocated in some way. Gates says he is seeking advice from independent consulting actuaries, after which the board will be asked to approve an allocation method.

Possibly the most logical course would be to make the fund paid up as from May 31 1990, when contributions ceased to flow. Members in service at that time would lose no benefits, except their contributions after that date. Employees who joined the scheme afterwards and who had their contributions misappropriated would have a claim on the liquidated estate. But the situation, all parties agree, is messy and without much in the way of precedent.

Bryan Burns
ECONOMY & FINANCE

FM 6/1/92

fund managers, confirms the managers. AA Life. Employees of the defunct drilling equipment and contracting company are certain to lose out because they have no preferential status.

Though the amount involved is not large, about R400 000, the case gives impetus to the Financial Services Board's campaign to force companies to pay over pension money timely. The Masterbore situation is thought to be one of many cases where the board has become aware that directors are effectively using the pension fund to carry them through the recession. As far as the IFM can ascertain, Masterbore is the only offender so far to have gone into liquidation, leaving its pension scheme underfunded.

Also, though there has clearly been a breach of regulations, it may be difficult for the attorney-general to nail the offenders: the management changed between the period when the money was first diverted and the liquidation. The pension shortfall was reported to the board by AA Life several months before the liquidation.

The sensitivity attached to a situation where workers lose their savings came at about the time the board sent a tough circular to pension fund managers and principal officers, putting the onus on them to report late payers (Economy & Finance August 30). Breach of regulations carries a penalty of R200 — so, in the case of a fund for 500 members, R100 000 for every time the offence occurs.

The reporting requirements are supported in principle by the Institute of Retirement Funds and the Life Offices Association, but are thought to be so stringent that they are impractical. After the Masterbore case, it is unlikely there will be any relaxation. Together with circular PF74, that outlined the reporting requirements, the board also made it clear all infringements would be referred to the attorney-general's office.

AA Life's Joe Gates says he maintained close contact with the board during the Masterbore debacle. But Basilios Tsingos, ex-financial director of Masterbore, complains the fund had not been actuarily valued by AA Life so, after management at Masterbore changed during 1990, the extent of underfunding could not readily be established. But Gates calls that argument irrelevant, adding that the triennial valuation was not due. At all times, Gates says, AA Life was aware that members' contributions were not being received and was urging Masterbore to catch up.

In Masterbore's 1991 financial statements, the last issued before the company's suspension from the JSE, it is noted: "The group operates two pension schemes, which

PENSIONS FM 6/1/92

Drilling a R400 000 hole

Pension savings of employees of liquidated Masterbore were used for working capital, instead of being paid over to the pension

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CONTINUED...
MUTUAL & FEDERAL/CUSAF

Rebounding

Shares in the short-term insurance industry have risen strongly over the past year and two leading insurers have released results this week to justify the better ratings.

Mutual & Federal's share price, at R30, is fast approaching its net worth of R31.41 as at December 31. Composite insurer Commercial Union (Cusaf)'s price, at R32, has also moved closer to the NAV of R36.78 as at the same date.

Investor confidence has steadily recovered after setbacks suffered in the short-term insurance sector a year or two ago and both groups' share prices have enjoyed a good run. Mutual and Federal's price rose 114% since February last year, while Cusaf's price has climbed about 52% over the same period.

Results reflect both rising profitability and a more confident mood in the industry. Mutual & Federal reported interim EPS up from 96c to 146c, and the dividend was lifted by a quarter from 20c to 25c. Cusaf's full-year EPS advanced from 291.4c to 488.4c and the dividend from 105c to 142c.

From the beginning of the year Cusaf has separated its short and long-term business and future financial statements will reflect this. Latest results show Cusaf's composite net premium income up 18%, to R713m. The life business saw premium income grow 17%, to R350m.

On the short-term side, both groups showed good improvements in underwriting performance. Mutual & Federal's underwriting surplus jumped by nearly R22m to reach R25.4m; Cusaf's swung from last year's deficit of R18.8m to a surplus of R5.3m.

These recoveries are largely due to a relatively trouble-free claims year, with no major natural disasters and to a sharp rise in premiums. Both use coy euphemisms to describe premiums increases — Cusaf cites "remedial rating," while Mutual & Federal refers to "more realistic rating policies."

Cusaf's composite investment income has grown 21% to R253m, while Mutual & Federal's half-year increase is up 26% to R71m. Probably half the attraction in short-term insurance shares is in their investments.

But the present performance of the shares is probably based largely on the market's recognition that results on the short-term side have recovered. Provided there are no new setbacks, in particular natural disasters, the shares could rise further.  

Shaun Harris
guaranteed by Nedbank, but then-MD Anton van der Merwe said no specific provision had been made for Triomf’s debt. The following month, Nedbank converted R65m in loans to Triomf to preferred shares, reducing total debt to around R230m, the bulk of which was due to Nedbank. But no provision was made against a potential loss.

In the year to March 1986, no specific debt provision was made against this loss and the general debt provision amounted to only R259m. But following the provisional liquidation of Triomf Fertilizer Richards Bay, Nedbank made a specific provision — R248m — for its exposure to the parent company, Triomf, which by then had risen to R370m.

In August it took over Triomf. Share capital was trebled to R62m and 84.5% shares were issued to Nedbank at a nominal value of 50c each, giving Nedbank a 75.1% stake. With share capital increased to about R160m, Triomf wrote off its R81m investment in Richards Bay, cutting deeply into capital.

The situation steadily worsened as Triomf reported a R50.5m attributable loss for the six months to end-December, wiping out the R49.5m in ordinary shareholders’ funds.

The following year, Nedbank, under new CE Piet Liebenberg, finally disentangled itself, selling off the Triomf Potchefstroom plant for R69m. Together with the proceeds of the Richards Bay liquidation, this reduced the outstanding debt, which was eventually written off by Nedbank.
Waiting for guidelines

New guidelines for growth in the broad monetary aggregate M3 will soon replace the range of 8%-12%. The new base will be the average level in the fourth quarter of 1991. Thus, for the first time since massive reintermediation took place in February 1991, the Reserve Bank's published figures will be stripped of that effect. That month, changes in prudential requirements eliminated the benefits of transactions below the line. As a result, banks restored them to the balance sheet, bringing them within the definition of money supply. Since then M3 growth — measured over 12 months and from the mid-November base of 1990 — has consistently risen at a higher rate than the 8%-12% guideline range.

In January it rose:

- Over 12 months, 14.73% (to R184.4bn) compared with 12.6% and 14.48% in December and November respectively; and
- Annualised from the fourth quarter of 1990, by 14.61% (to a seasonally adjusted R185.4bn), compared with 13.27% and 15.72%.

If M3 growth is measured over 11 months from February 1991, the preliminary growth rate was an annualised and seasonally adjusted 9.6%, compared with 7.4% over 10 months to December.

Economy & Finance

Old Mutual's Rian le Roux says the upturn could be due to an inflow of capital from abroad, reflected in January's R1bn increase in official reserves of foreign exchange.

"There are two possible reasons for this. Foreign firms may have reduced their credit to SA in December and increased it again in January, and foreign loans secured towards the end of 1991 may have been shown as inflows only in January."

Growth rates, over the 12 months to December, of the other monetary aggregates were:

- M1A 17.69% to R34.2bn;
- M1 14.82% to R60.9bn; and
- M2 16.05% to R155.4bn.

From November to December, M0 increased by 5% to R133bn.

Total domestic credit extended over the 12 months to December rose 12.7% to R196.3bn while credit to the private sector over the same period rose 14.5% to R192.7bn. Credit extended to the private sector rose 10.7% from February 1991 on a seasonally adjusted and annualised basis."
Official offers Model C insurance

By PORTIA MAURICE

A LEADING teaching official appears to have discovered a marketing opportunity in the looming prospect of privatisation in white schools.

Insurers' broking firm South African Development Brokers last week sent to all principals an advertisement offering insurance cover for Model C schools. SADB's managing director is Professor Koos Steyn, who is also director of the Transvaalse Onverwyseversereg (TO).

The advert, in the form of a letter to schools, was signed by Steyn on February 18, a day after Manpower and Education and Culture Minister Piet Marais made the Model C announcement. In it, Steyn offers schools "very favourable premium rates" and a "proportion of the commission earned from insurer".

Under the new management structure "it will be the responsibility of the management committee to arrange adequate insurance cover against loss or damage to property", Steyn's letter says. In the light of its "unique experience" in servicing more than 900 schools already, SADB seeks extra business.

A TO official said this week he "could not divulge" the amount of money they would return to schools.

SADB chairman HO Maree said the letter was directed "as a service to schools and communities and not to an opportunity to unethically expand business".
Bond refusals strangle inner city areas

A FINANCIAL garrotte threatens Johannesburg's inner city with slow strangulation.

The grey areas of Hillbrow, Joubert Park and the CBD suffer from both overcrowding and a reluctance by financial institutions such as banks and building societies (there is not much difference these days) to lend money to people to buy property there.

Evidence of "redlining"—effectively cutting off home loan finance to certain areas—is cited in a report commissioned by the Johannesburg City Council from the Human Sciences Research Council.

The report quotes two anonymous estate agents and an unnamed property owner operating in the area. Agent Jessie Kay at the end of last year approached the media to publicise the financial institutions' reluctance to grant bonds in the inner city.

The report states: "With regard to the financial institutions, the difference in their preparedness to lend in this area seems to depend on what kind of image they are trying to project. The 'man in the street's bank' is trying to preserve that image by finding innovative ways of dealing with the risk of assisting people with little or no financial backing. The bank that is 'staying in front so you aren't left behind' does not seem to care about these people at all.'

Unfortunately, while alluding to Standard Bank's advertising slogan, the report does not name names.

The report also points to the far-reaching effects of the institutions' attitudes as well as paradoxical harm they may do to themselves.

"In this situation each institution is behaving in a way which protects its own interests but collectively these actions result in circumstances becoming even worse for everybody."

The report notes a suggestion by building society employees that the council should enforce health and other regulations. Other suggestions are that:

- The council or state should provide collateral to encourage lending.
- Banks and estate agents must take responsibility for educating buyers about the implications of home ownership.
- There should be an incentive scheme such as bonus reduction in repayments for people who service their bonds well.

The council report seems to pin its hopes for rejuvenation on individual home ownership, which relies on normal financing channels.

But an innovative co-operative housing plan, which guarantees security of tenure without individual ownership also holds some hope for the inner city.

The Seven Buildings Project aims to create a non-profit organisation to buy all seven buildings in Hillbrow from owner David Gorfil. Behind the project is Co-Operative Planning and Education (cope) whose inner city project co-ordinator is Monty Naroo.

Naroo reckons the long-term finance for the project will have to come from those same financial institutions which have turned their back on the inner city residential areas. But the project differs from individual loans to home owners or developers in being a "total package" which includes guarantees and political support. His hope is that the financial institutions will be persuaded to the wisdom of keeping the inner city from decaying to ensure their other major investments, like Bank City, stay safe.
Many under-insured

Research conducted by a South African insurance company has revealed that policyholders who increase their cover in line with the official inflation rate will leave themselves severely under-protected.

Figures produced by Protea Assurance show that even the 18 percent minimum annual increase they recommended to counter the effects of inflation and acquisition of new possessions does not reflect the real rise in actual costs.

According to Protea group marketing manager Geoff London, those who have not seriously reviewed their cover within the past five years, could be under-insured by as much as 30 percent.

"This would be despite automatic inflation benefit having been applied by the insurance company. The cost of household goods, in particular, has outstripped the inflation rate. As a result, policyholders who rely on this figure as a guide to maintaining adequate protection would not receive adequate compensation. Insurance companies average the claim against the insured value of the goods. If the goods are under-insured by 25 percent of their real value, the insurer will only pay out 75 percent of the claim."

...
The Five Roads to Recovery

Mastebond: Shoked investors quit curators

DENI TUNNER
Share Poster
Masterbond losers explore recovery

FROM PAGE 14

This would be "intuitively more" than investors would get if they agreed to the curatorship.

"The second avenue of recovery would be to investigate the personal estates of people responsible for the administration of the Masterbond group," said Mr. Levine.

The Companies Act applied personal liability to people who carried on business in a reckless manner with intent to defraud, or which caused losses to investors and creditors.

Another avenue was open to those who had invested money with Masterbond through brokers and were never allocated secured debenture bonds. This could be the personal liability of directors of the companies concerned.

The third avenue of recovery to be investigated would be the financial broker, said Mr. Levine.

"I am sure most of you were advised by a financial broker to put your money into Masterbond because there was an extra percent of interest to be gained.

"What they did not tell you, sir, was that Masterbond was offering commissions and kickbacks way beyond the norm in the industry at the time.

"If those brokers had done their work properly they would not have put you in Masterbond.

The fourth avenue of recovery was through the financial authorities. This included the Reserve Bank and others who had found irregularities in Masterbond's affairs as long ago as 1985. At the time, the attorney-general of the Cape declined to prosecute, but the financial authorities recognised that they had to safeguard investors' funds.

The fifth avenue of recovery was to determine whether the auditors had been remiss in their duties, said Mr. Levine.

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Place your trust in

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THE unit trust industry has just increased the basic management fee by 50 percent from 0.5 percent to 0.75 percent of the asset value.

Not everyone is happy with this sharp increase, which the Association of Unit Trusts says was necessary to keep pace with increased costs and inflation. It also says that compared to overseas costs, the fee of 0.75 percent is not very high.

Pressure

Now, I am led to believe, there is pressure to increase the commission paid to unit trust agents. Most of this pressure comes from the life assurance industry, which largely dominates unit trusts.

The commission paid to unit trust agents or brokers is substantially lower than that paid on endorsement policies. But while the endorsement business has been showing signs of tapering off in recent years, the unit trust industry continues to grow.

It is fast becoming the most popular investment for the average investor and the reasons are not hard to find.

They include inflation-beating investment returns over a long period, ease of entry and exit, and a great deal of liquidity and flexibility.

In short: the ideal stock market investment for the average investor who does not have the time or the knowledge to follow the upward and downward moves of the Johannesburg Stock Exchange on a daily basis.

At the end of 1991, the number of unit trust accounts was rapidly approaching 900,000 with the number of individual unit trust holders approaching 500,000.

However, it needs to be pointed out that it took the unit trust industry more than 25 years to achieve this total. In contrast, it took the motor industry barely five years to sell more than 500,000 cars.

Unit trusts have always suffered from a rather lackluster marketing effort. This is likely to change after the increase in the service fee by 50 percent earlier this year.

Now it becomes more profitable to market unit trusts as opposed to alternative equity-linked investments such as endorsement policies and retirement annuities.

Broadly speaking, there are three types of unit trusts: general equity funds, specialist equity funds and the income funds.

As the name implies, the general equity funds are investments in virtually all the shares on the JSE.

By spreading the investments across the whole of the JSE, the risk is reduced considerably.

The average investor simply does not have the time and the knowledge to pick the winners and discard the losers. This is done for him or her by the professional unit trust fund-managers who are trained to do this job for eight hours a day, every day.

Over time, the general equity fund has consistently beaten the inflation rate. Over the past 10 years, the average compound return (capital appreciation plus income distribution) has been more than 25 percent, compared with an average inflation rate of 0 percent.

Another factor, which works to the advantage of the smaller investor, is that regular and small investments can be made into unit trusts. It is not possible for the average investor to invest amounts as small as R50 a month on the JSE.

So why should the smaller investor lose out on the inflation-beating returns pro-
ANDREW LUKHELE . . . thrives on challenges.

From stokvel
organiser to
top bank post

By ZB MOLFE

It's been quite a leap from the world of stokvels to the world of high finance for Andrew Lukhele. But the National Stokvels Association of South Africa president takes his recent appointment to the board of Future Bank in his stride.

To him the language of money is familiar. It saw him organise the township stokvel movement into a respected form of generating wealth. What does it mean to be on the board of Future Bank? And, perhaps, more crucial, making this leap at a time of a declining South African economy? Added to this the bleak economic picture marked by the number of failed black economic efforts.

"It's true that there has been unfortunate (black) business failures. But that does not mean blacks are incapable. There are quite a number of impressive (economic) initiatives coming from the townships at the moment," he retorts.

"The lack of a well-rounded business education for blacks is an obvious handicap. That is why the fledgling black business is faced with a legion of problems which seems insurmountable."

But Lukhele believes all that is changing. A number of black economic efforts have at last realised that expansion and increased business knowledge is the name of the game.

He should know. He cut his teeth in the tough financial school of the informal sector as organiser of stokvels. It was this education that saw him voted into the boards of the Urban Foundation's Group Credit Company and the Foundation for Entrepreneurship Development.

He is also founder and executive member of the Foundation for African Businesses and Consumer Services.

This, more than anything, explains why he leapt at the chance of serving on the Future Bank board.

"Anything carrying the label 'informal' has a stigma," says Lukhele.

Lukhele reasons that the informal business sector is essentially a survival activity for the majority of blacks. A changing South Africa is presenting blacks with opportunities. It is a South Africa without all those laws which stifled and controlled meaningful black economic activity.

"That is why we need to venture into the country's mainstream economy. The Future Bank is one example of this. It's a big challenge."

"We have to prove to the man-in-the-street that we have what it takes," Lukhele says.

But he adds a note of caution. Because blacks have been denied skills which have led to business failures in the past, they must guard against history repeating itself.

"We must be careful not to buy skills that will encourage our dependence on others," he said.
Insurance warning for firms trading in Africa

With the general relaxation of sanctions, South African companies trading with wide geographical limits in neighbouring countries have claimed for damage to property located in African countries.

Some companies with insurance arrangements relating to assets in those countries have found themselves without cover, warns a leading insurance broker.

"In certain instances, these assets were not specifically declared and difficulties were encountered," says Rodney Maitland, a director of PPV.

He points out that now sanctions are fast disappearing, it will pay South African companies to ensure that foreign properties and assets requiring insurance have been fully declared.
Fedsure on prosperous new track

Fedsure's earnings, out tomorrow, will show a 22% rise in the compound rate over the past eight years. The figures are arrived at mathematically, and hold no surprises. Taxed income reached R28.8-million, earnings a share 42.8c and the dividend 30.5c.

Fedsure's has not lagged behind either, having nearly doubled to 79c in a year. Mr Basserabe believes the rating has come on the back of the group's decision to enlarge its financial services activities. The ties with Saambou and Investec are two examples. Others are Fedgro unit trust, now worth R27-million; Fedcor participation mortgage bonds and Fedlife Capital fund.

The capital fund is almost an investment banking exercise. It is a vehicle for investing in listed or unlisted but established businesses which have not reached blue-chip status and perhaps need capital to reach the next stage of growth.

Independent Templeton Finance will investigate investment opportunities for proposal to the fund's Fedlife trustees. Templeton is also required to invest in the recommended opportunities and watch the hunches. Higher risk should be compensated by higher reward.

Fedlink, the managed pension portfolio, showed up better in recent surveys after a few years in the doldrums.

Clouds over Osprey

MUCH-WARNED members of Osprey have another six weeks to wait before an announcement about the alling Gazankulu gold mine's future is made.

Manny Agrella, a director who represents foreign shareholders in Osprey, says control of the mine has changed. Shareholders were told in September and October last year that negotiations were under way.

The mine has not been worked since December and word is that staff have not been paid. Mr Agrella says the mine is in a bad state, but it was reopened last Thursday. He confirms there have been staff disputes.

The mine was sold with book debts of under R50 000, but the actual figure is believed to be about three times that. The amount needed to keep the mine going was also underestimated.

Mr Agrella is reluctant to disclose details. He represents investors who have put R4.4-million into Osprey shares.

The major shareholder was Golden Osprey, owned by Swiss company Evergreen. A loan to Golden Osprey was serviced out of pre-tax earnings of the Osprey mine in commercial rands.

Control of Osprey passed to Isle of Man company Fincor, which ceded it to Garditiex.

Garditiex was the object of a Reserve Bank investigation last year. The company itself was cleared, but Garditiex remains under scrutiny.

Garditiex also bought control of Masserew and the minority had to wait two years before being paid after Garditiex transferred funds through the financial road to settle them. The validity of that transaction was in dispute. Masserew was to buy 20% of Osprey among other investments.

A rights issue in Osprey looks inevitable, and there is talk of an acquisition. Whatever happens, it will take a miracle for Osprey shareholders to recover their losses.

Neighbouring mine Gazgold recently held a rights issue after securing government assistance. But other greenstone mines, such as Eersteling, Comgold and Barbook, have withered.

Osprey is 13c, off the 8c low of September — but a far cry from the 40c of 1987. Selling at any price looks like a good move.
Alliances boost Fedsure results

Finance Staff

The strategic alliances forged with Saambou and Investec are beginning to pay dividends for Fedsure Holdings.

The group, which derives the bulk of its earnings from Fedlife, reports profit growth of 22 percent to R23.6 million (R23.6 million) in financial 1991.

This is equivalent to a rise in earnings per share to 35.1c from 25c. A total dividend of 30.5c (25c) has been declared.

Fedlife’s gross premium income jumped 30 percent to R891 million and recurring premiums increased by 21 percent to R638 million.

Fedsure CE Arnold Basserabie says the deals with both building society Saambou and Investec Bank were already producing positive results in new business benefits and enhanced prospects.
Shortage kept at preferred level

THE Reserve Bank continued its mopping up operations last week, keeping the market shortage reasonably stable at around the R1.5bn level which it is said to prefer.

To drain liquidity from the system, the Bank issued a special seven-day Treasury bill tender worth R1.2bn as part of a rollover of two maturing issues worth R1.3bn. The Bank's R1.2bn special tender was well subscribed with applications amounting to R2.1bn at an average rate of 16.3%.

The three-month Treasury bill rate dropped further last week slipping to 15.63% from the previous week's 15.99%. The Bank received R676m for its R200m worth of bills on offer in the weekly tender at the end of last week.

This week should see the build up to mid-month liquidity inflows getting under way which will, no doubt, be quickly mopped up by the Reserve Bank through further special Treasury bill tenders.

Money market rates moved sideways throughout the week with the 90-
day liquid BA rate steady at 15.56% — although the actual trading rate on the BA was said to be as low as 16.00%. Trade on NCDs was fairly quiet. FNB quoted six- and nine-month NCDs at 16.25-15% and one year rates at 16.50-20%.

Market factors seem to be comfortable with rates at current levels and there does not seem to be much downside potential, at least until the result of the referendum gives the market definite direction. Overseas interest, particularly in the capital and the foreign markets has dwindled and potential investors are waiting to see which way the market will go.

Meanwhile, expectations of a cut in official rates are still running high but most analysts are confident Reserve Bank Governor Chris Stals will wait for February's consumer inflation data, due to be published a few days after the the referendum result.

Dealers seem reluctant to get their hopes up for lower rates in the short term as the market has been ready and waiting for a cut for the past year or so, but the Bank has not succumbed to market pressure.

Sentiment in the capital market was more bullish last week with local players confident that the outcome of the referendum would be a majority "yes" vote. This would see the return of foreign investors who have pulled out of the market to wait for the outcome of the white vote.

Trade in the options market has been busy as investors see this as a safer bet in the meantime.

Towards the end of last week, the benchmark Eskom 16% was trading at 16.53% and the government RSA 150 was marginally higher at 16.60% from 16.58%.

US retail sales hike sparks cautious optimism
BUSINESS

FINANCIAL services group Fedsure has reported a 22% rise in attributable earnings to R28,8m for the year ended December, largely achieved by strong growth in business written by its flagship assurance subsidiary Fedlife.

Earnings amounted to 42,8c (1999: 35,1c) a share of which a total dividend of 30,5c (25c) a share has been posted. The group has declared a final dividend of 18c (15c) a share, keeping the cover at 1,4 times.

Fedlife growth boosts Fedsure

SEAN VAN ZYL

Following the rapid advancements achieved last year, which resulted in Fedsure and Investec trading an associate cross holding in the other, Fedsure has grown into a diversified financial services group with interests in banking, building societies, life assurance and unit trusts.

CE Arnold Baserable said the "string of strategic alliances and investments" gained during the year had placed Fedsure in a prime position in the SA financial services sector.

Commenting on the group's core life assurance business under Fedlife, Baserable said new business premiums grew by 23%, boosting gross premium income by 30% to R891m. Benefits paid to policyholders amounted to R482m while total assets broke through Rbbn.

Recurring premiums climbed by 21% to R638m while single premium business rose by 63% to R253m. The group's investment income, excluding capital appreciation, increased by 22% to R462m. The market value of investments climbed by 20% to R4,7bn.
Two banks to spurn ratings

SHARON WOOD

STANDARD BANK and Nedbank do not feel the need to go for a local credit rating at present and may look towards an international rating in the future.

These two major commercial banks are the only banks that have not applied for a voluntary rating by local agency Republic Ratings. The ratings are voluntary because only then is Republic Ratings able to gain the required confidential information needed for an informed rating.

A banking spokesman felt an international rating would be of more benefit to SA banks competing in international financial markets.

But the timing of applying for an international rating was dependent on the political and economic climate and SA banks becoming involved with international markets.

Nedcor CEO Chris Liebenberg said there was no great urgency to apply for a rating. Long-term credit ratings were the most influential on international markets and, as yet, SA banks did not issue long-term paper.

"There is not really a need for ratings, but when the need arises Nedcor will certainly go for one. Nedcor also wants to make sure that local ratings are credible and absolutely right."

Asked whether Nedcor would go for an international or local rating, he said the group would probably apply for both.

Standard Bank spokesman Graeme Bell said the bank had decided not to apply for a local rating yet.

"A rating is only meaningful and reliable if the banking industry is large and diversified, such as overseas, and the SA banking industry is neither."
Short-term insurers next in line for rating

Finance Staff

After 12 months of studying and reporting on the banking sector and its participants, Republic Ratings' analysts are ready to scrutinise the short term insurance industry and its players.

The independent corporate rating agency has already proved its worth in the local capital and money markets.

In addition to its assessment of the banking sector, it has also rated all the major capital market players.

Company rating is fairly new in South Africa but is rapidly gaining acceptance and will become more entrenched as South Africa rejoins the international financial markets.

Director Dave King says that ratings are indispensible in First World economies. "Investors will usually not even consider investing in non-rated paper."

"Further, major corporations will generally think twice before entertaining counterparty credit exposures with poorly rated (or non-rated) companies," he added.

In the insurance sector the ratings, which are expressed as a symbol, refer to an insurer's ability to timeously pay policyholder claims over the medium to long-term.
Teachers: Cape pupils fare best

WHITE government schools in the Cape have the best teacher-pupil ratio in the country at both primary and secondary levels. The Minister of Education and Culture, Mr Piet Marais, said yesterday that in March last year the average teacher-pupil ratio was 1:19 for white primary schools in the Cape, and 1:14.8 for high schools.
Significant turnaround at Guardian National

By Sven Lünsche

Liberty Life's short-term insurance arm Guardian National achieved a significant turnaround in its underwriting balance during financial 1991 on the back of a substantial rise in premium rates.

After an underwriting loss of R14 million in 1990 Guardian yesterday reported a surplus of R1.8 million for 1991. The directors say that the surplus would have been greater had it not been for a large number of fire losses.

Gross premium income was lifted by R100 million to R608.5 million on the back of a 9.0 percent rise in investment income.

As a result attributable earnings were up from R17.8 million to R23.6 million, equivalent to earnings per share of 305.2c (266.4c). The total dividend was raised from 130c to 150c.

Net asset value over the year improved 35.3 percent while a satisfactory solvency margin of 73.6 percent was achieved.
Protea Assurance on mend

While Protea Assurance (Prosure) reported an attributable loss of R8.7 million in financial 1991 (loss of R14.6 million in 1990), it says the underwriting account showed a marked improvement towards year-end.

The directors say underwriting losses in the second half were half their level in the comparative period of 1990. Their confidence in a continuation of the improving trend is reflected in an unchanged total dividend of 58c a share.

Protea's net written premiums rose by 44 percent in 1991, contributing to a rise in net asset value a share from R24.92 to R33.59.

The life insurance division boosted its contribution to the bottom line by 23.5 percent.
Analysts expect Stals to maintain tight rein

DESpite continued downward pressure forcing the 90-day liquid BA rate to its lowest level in three years, most market analysts do not expect Reserve Bank Governor Chris Stals to relax his tight monetary stance before the Budget.

Analysis said yesterday they expected the Reserve Bank to continue to exercise monetary discipline until there were visible signs the Bank was winning its battle against the obstinate rate of inflation.

They said the disappointing and persistently high rate of consumer inflation was the only factor standing in the way of lower interest rates. The market had been expecting a rate cut for more than a year, and had already discounted for a one percentage point cut in the Bank rate. The

Reserve Bank, however, had thus far refused to bow to market pressure.

Recently, the one percentage point reduction in mortgage bond rates by all leading banking institutions sparked off speculation that history would repeat itself and see the Reserve Bank drop the key Bank rate one week prior to the Budget speech.

A rate cut, however, failed to materialise.

Early in March last year, the Bank sliced Bank rate by a single percentage point to 17% in response to a one percentage point drop in mortgage bond rates initiated by First National Bank.

The liquid BA rate has maintained a sharp downward trend over the past few years and at the beginning of this week dipped to a new three-year low of 15.85%—its lowest level since February 1989.

Dealers said yesterday although there was still room for further easing in the BA rate, a rate lower than 15.75% could not be sustained in the short-term.

Rand Merchant Bank economist Rudolf Gouws said he would be most surprised if Stals cut rates before the Budget speech and the next set of inflation figures due next week. Although a drop in interest rates would not have much of an economic effect, lower interest rates were part of an overall process of getting the economy into a recovery phase.

The three-month Treasury bill rate slipped to 15.65% last week compared with the static Bank rate of 17%. 
Low cost housing 'key to growth'

ALL professional and allied building industry bodies should get together and approach the financial institutions as a unified group about solving the "affordable housing" problem, and helping to kickstart the economy, says Claybrick Association executive director Leon de Bruyn.

"The industry was hoping that the findings of the De Loor Commission into low-cost housing would have been released by now but this has not happened, we have to take the initiative," he says.

More and more contractors, manufacturers and suppliers were struggling to stay in business, and were finding that their forward order book was non-existent.

The various associations were anxious to stimulate the market, but could not do so without the help of the institutions.

Constructive

"All the allied industries are keen to join together and work as a team. The suppliers are also ready, as most have stockpiles building up. Something has to be done before this situation gets out of hand," De Bruyn says.

The mechanisms are all in place for the players to get together: Bifa is involved with training and the National Association of Home Builders and the African Builders' Association are positioned to assist in formulating a strategy, he adds.

"We are asking the public sector to take the initiative. The Claybrick Association is prepared to provide the infrastructure to co-ordinate and facilitate this, but something constructive has to be done soon."

The association had approached all the institutions and made presentations to them, as well as to the Association of Mortgage Lenders' technical committee.

Criticisms by the institutions, and matters of concern, had been examined and addressed. One concern was the water resistance of homes with walls of single-brick thickness. "Tests were carried out in the short term, and the structure was found to be water resistant."

De Bruyn says his association registers and appoints contractors, and helps ensure that homes are properly constructed by sharing the building inspectors' function with the institutions concerned.

Despite this, institutions were holding back and were involved only in a small number of developments with a negligible amount of units.

The brick stockpile was still growing, and now stood at 442-million bricks, but this is only seven weeks' production.

This would soon be used up if affordable homes were built on a large scale.

The brick market has been saved by continued activity in the non-residential market, says De Bruyn, but growth will ultimately come from the low cost market.

The association believes a fundamental change in approach to low cost housing is essential.

"Products are expected to conform to First World standards but are directed at a Third World market, and our approach needs to take this into consideration," he says.
Unit trusts advised on savings role

The unit trust industry's role in the mobilisation of savings must increase, Association of Unit Trusts chairman Clive Turner said in the association's 1992 yearbook.

"The unit trust industry will undoubtedly have a growing role to play in the future development of the financial services sector."

The strong rise in equity prices during the year led to another excellent year for unit trusts, he said.

Total unit trust assets reached R16bn for the first time during the September quarter. Assets ended the year at R11,4bn, up R3,9bn from December 1990's R7,5bn.

Total unit trust sales reached a record R2,9bn for the year and after repurchases of R1,3bn, the total net inflow topped R1,6bn.

Both sales and repurchases were at record levels following a 1,5% marginal decline in the unit trust capital index in 1990 and in 1991 when the capital index again showed a meaningful gain of 27,4%.

The continually growing level of sales through a somewhat volatile stock market environment reflected higher contractual sales through systematic savings schemes, automatic reinvestment of income distributions and a propensity by new investors to take the longer view.

Turner said the higher level of repurchases, while likely to be mirroring unit holders' concern at the vulnerability of the current level of prices to a correction, was also a factor of the expanding size of the industry, which would always be subject to a certain level of repurchases.

Three particular issues handled by the Unit Trusts Advisory Committee were worthy of note, Turner said.

The committee agreed to amend legislation to allow trusts to invest up to 10% of their total assets in any company with a market capitalisation exceeding R2bn.

The existing limit of 5% continued to apply to companies with a lower market capitalisation.

It also agreed trusts could invest in up to 10% of issued share capital of companies with a market capitalisation higher than R2bn, again with the previous 5% restriction applying to companies under this level.

The committee also supported the proposed 1% annual service charge, compared with the previous 0,5% a year, fixed 26 years ago.

The Financial Services Board reviewed the decision and set the level at 0,75% a year.

Amending legislation effectively allowed the use of derivatives, but only after strict parameters had been drawn up and approved.

Turner said a sub-committee had been appointed to examine the implications of the use of derivatives.
Concor builds R15m retail centre

Concor Property Developments has embarked on a R15m retail project next to the Kempton Park station. It will be known as Kemstar, says MD Ian Clark.

The centre will offer 5 200m² of lettable space and is situated on a 12 586m² site. Concor has been awarded a lease by the SA Rail Commuter Corporation on the property for 45 years with an option to renew for a further 50 years.

"As Concor Property Developments tends to be a short-term investor, we would like to sell the development on. We are talking to a number of institutions at yields varying from nine to 11%, depending on certain operating conditions and guarantees," he says.

Concor had decided that the future of retailing lay with black consumers and had identified this development as offering a good location.

Between 50,000 and 100,000 commuters pass directly through the station daily. In addition, there is a taxi rank on one side of the development and an open municipal parking area for about 200 vehicles on the other.

"The centre is aimed exclusively at the commuter, both black and white. About 10 to 15% of the present commuters are white, and we are positive they will use the centre," Clark says.

The project is expected to be complete by December 1, but the first block accommodating the South African Transport Services should be ready for occupation by September.

The SA Police has also taken space in the centre, and will be "on hand if necessary," he says.

About 50% of the space has already been let. Leases are committed for another 40%, and negotiations are under way for the remaining 10%. Tenants include Diskom, Standard Bank and Captain Dorego.

Rentals levels for smaller tenants are above R30/m², with some space allocated for the informal sector.

"We are looking for a tenant to take this space and then sublet it. We have held extensive discussions with the local community, through the civic association, on the development," Clark says.

The development is in line with the Concor group policy of moving away from its reliance on construction and into property development, where a package is sold on to financial institutions.

Concor is considering other similar schemes.

An artist's impression of the R15m Kempton shopping centre being developed next to the Kempton Park station. Construction of the project has begun and is scheduled to be completed by December 1.
Western Cape development

THE AECI Pension Fund and RMS Syfrets believe the development of a R150m shopping centre at the intersection of the N2 and the main road linking The Strand, Somerset West and Stellenbosch will be successful.

However, property industry spokesmen have expressed concern at the large number of retail developments coming on line, though they acknowledge the opportunities in niche markets.

The pension fund announced recently it would develop the centre. RMS Syfrets will act as development managers and leasing co-ordinators for the first phase of 35 000m² lettable space.

The centre will be anchored by a major food chain and two fashion stores, and will offer a 1 000-seat cinema complex and 90 shops, with trading expected to begin in September 1993.

AECI Pension Fund recently bought the site from AECI in a deal that includes an option to buy more land for expansion. Development rights were approved by the Western Cape Regional Services Council in December.

"The centre will be successful as it will be designed with the tenants' needs in mind, and the catchment area includes The Strand, Somerset West, Stellenbosch, Gordon's Bay and the coastal region as far as Hermanus," said RMS Syfrets MD Patrick Flanagan.

Environmental impact studies had been undertaken by Parker and Associates.
Protea’s R9.6m loss ‘better than expected’

COMPOSITE insurer Protea Assurance has disclosed a R9.6m loss for the year to end-December, which the directors described as a turnaround compared with the previous year’s loss of R14.5m.

The loss for the year amounted to 12c (1990: 18c) a share from which a dividend of 53c (53c) a share has been declared. The company did not post an interim dividend.

The directors of Protea, which underwrites life and short-term business, said the group’s solvency margin of 90% was well above statutory requirements and that the loss posted for 1991 “is below what had realistically been expected”.

Nonetheless, Protea is the only insurer which has so far posted a loss for the trading year to December.

Furthermore, its solvency margin has declined to 90% from the previous year’s 96.5%.

Investment income of the life business grew by 26.3% to R13.9m (R11m) while the market value of investments increased to R393.9m (R318.4m). The life fund rose to R254.3m (R192.5m) while life premium income climbed 24.3% to R41.2m (R31.3m).

Although Protea’s net premium income on the short-term side grew by 44% to R297.1m (R196.8m), which the directors said implied growth in market share, the underwriting account showed a loss of R31.1m (R36.5m loss) which suggested the business underwritten was not entirely prudent.

In comparison, the majority of insurance companies said they expected to disclose a profit on their underwriting accounts for 1991 due to corrections in rates following the fierce rate war over the past five years.

Protea said its increase in market share placed it in a prime position to benefit from the present hardening of rates in the industry.

Furthermore, the directors said the company’s declaration of a 53c dividend for 1991 — the same as the previous year — reflected their confidence in the company’s healthier underwriting trend.

MD Andrew Tainton said the company had adopted a policy of restricting its growth “to within limits” of short-term business. However, the directors have not indicated whether the underwriting account will be returned to profitability in the present financial year.

Protea’s investment income on the short-term operation rose by 18% to R25.9m (R21.1m). One of the company’s big cost factors for the year was expenditure on development technology which amounted to R3.8m (R2.6m).

As a result, Tainton said, planned to concentrate on the development and exploitation of our new insurorputer system” this year.

SEAN VAN ZYL

EXECUTIVE
CAPE TOWN — A fundamental restructuring of the life assurance industry could take place if the Sixth Schedule to the Income Tax Act is scrapped in the forthcoming Budget.

Discussions on the abolition of the much disliked legislation are apparently under way, but no comment was forthcoming yesterday by the financial authorities.

Finance Minister Barend du Plessis' special adviser, Japie Jacobs, and Financial Services Board executive director Piet Badenhorst refused to comment.

The Sixth Schedule was introduced in 1972 to differentiate between and demarcate building societies' and life assurers' areas of business.

It was originally promulgated following complaints by building societies that life insurers writing singular premium business were competing with deposits with a five-year term. The schedule imposed a double taxation on life policies with a term of less than 10 years.

Further amendments outlawed single premium endowment and part endowment policies and required inter alia that policies had to have a life insurance element to them.

Subsequent amendments rendered the schedule a highly complex and unwieldy piece of legislation, the abolition of which has been long called for.

An industry spokesman said this week that the scrapping of the schedule would have radical implications for the life assurance industry and would probably require an amendment to the Insurance Act.

The need for a replacement measure is apparently the one obstacle to the immediate removal of the schedule from the statute books.

The spokesman said life assurers accepted there was a need for legislation to prevent them from undertaking deposit-taking business and had agreed that a five-year limit was reasonable.

But, he said, the industry felt while some measure was necessary, this should be incorporated into the Insurance Act and not the Income Tax.
Guardian advances in improved year

INCREASED premium rates, higher investment income and absence of major weather catastrophes helped earnings at Guardian National jump to R39.6m (1990: R26.6m) in the year to December.

Directors said earnings would have been greater had it not been for a large number of fire losses towards the end of the year.

Earnings of 395.2c a share were recorded, up from 266.4c a share in the previous year. A final dividend of 90c (75c) a share was declared which, together with the interim dividend of 60c (55c) a share, gives a total dividend of 155c (130c) a share.

The insurer, part of the Liberty Group, stable, produced an underwriting profit of R1.5m against the underwriting loss of R14m recorded in 1990.

Although gross premiums surged 20% to R800m from R500m in 1990, analysts attributed this growth to higher premium rates rather than new business.

Rates had been increased during last year as a result of the underwriting loss recorded in 1990.

The rise in investment income to R49m (R44m) was reported despite lower prevailing interest rates last year.

MD Keith Nilsson said that there had been a rise in investments throughout the year.

The short-term industry had seen a turnaround in 1991 in terms of underwriting profits, one analyst said, adding that "this was achieved through the absence of large 'natural disaster' losses caused through fire, hail or flood damage".

"But the underlying position is still bad as crime-related losses and motor vehicle thefts continue to increase," he said.

However, another analyst noted it was not necessary for a short-term insurer to produce an underwriting profit in any year for it to record earnings in that year.

This was because the contribution from investment income impacted heavily on the earnings of a short-term insurer.

In 1991 earnings of R39.6m were recorded on the back of a relatively small underwriting profit of R1.5m in the case of Guardian, he said.

"One should not place too much emphasis on underwriting profits," he believed.

Despite Guardian's dividend cover of about two and a half, the group's net asset value jumped to 29.2c from 21.5c.

As the group recorded an underwriting loss of R4.6m at interim stage last year, an underwriting profit of R6.2m was made in the last six months of 1991.
Republic to rate insurers

REPUBLIC Ratings announced this week it would rate the short-term insurance industry.

The rating would reflect an insurer's ability to pay claims on time in the medium- to long-term. This ability would be influenced by a company's financial strength, the quality of management, their competitive position, systems, internal control environment, reinsurance arrangements and its solvency margin.

Republic Ratings director Dave King said the investigation had been requested by its subscribers and brokers due to the problems experienced in the industry. He said he hoped to obtain all participants' active cooperation.
Apples-or-Pears choice

INVESTMENT: Are Retirement annuitites better than endowment policies?
Liberty to strengthen bonds with Stanbic

By Sven Lünsche

Liberty Life looks set to further strengthen its ties with Standard Bank Investment Corporation (SBIC) over the next few months.

Chairman Donald Gordon said at the presentation of the group's 1991 financial results yesterday that Liberty Life and SBIC now constituted SA's largest financial services, with joint assets exceeding R140 billion.

"The interface with SBIC, with whom our activities are increasingly interwoven, will be of growing importance in the years ahead when the inevitability of an even closer inter-relationship of our mutual interests could well evolve," Mr Gordon said.

Liberty Life increased its stake in SBIC last year to 40 percent after acquiring a portion of the Rembrandt Group's interest. Other Remgro shares were placed with other institutional investors.

In terms of the Securities Regulation Code, Liberty will be entitled to raise its holding by five percent in the second quarter of 1992.

"Whether we will take up this stake is an investment decision," Mr Gordon said, adding that he did not believe SBIC needed to undertake mergers to strengthen its position in the market.

In 1991, Liberty Life's net taxed surplus increased from R218,1 million to R275 million, equivalent to a rise in earnings per share from 108,1c to 127c.

The total dividend has been raised by 25,8 percent from 86c to 108c a share.

The balance sheet shows strong growth, with total assets improving from R23,1 billion to R34,5 billion.

Shareholders' reserves increased by R1 billion to R8,69 billion after a strong rise in the value of its strategic investments, notably in SBIC, SA Breweries, Premier and GFS A.

The bulk of Liberty's investments were in shares and mutual funds, which, combined with property funds, accounted for R16,1 billion (1990: R11,6 billion) of the total investments worth R31,2 billion (R25,5 billion).

Net premium income and annuities received improved from R1,83 billion to R2,27 billion, while investment income rose by 12,3 percent to R1,73 billion (R1,54 billion).

Claims and policyholders' benefits increased to R1,52 billion (R1,33 billion) but, more importantly, the amount allocated to policyholders by way of bonus distributions surged by 160 percent to R2,87 billion.

Liberty contributed 79 percent of the taxed income of its holding company Liberty Holdings, which subsequently lifted its earnings per share by 25,1 percent to R85,7c (51,2c).

Liberty Holdings' total dividend has been increased by 29,1 percent from 220c to 284c a share.

Reflecting difficult economic conditions in the UK, Liberty's offshore arm FIT saw attributable income fall from R68,1 million to R52,7 million.

The greater number of shares in issue after last year's rights issue left earnings per share 11,4c lower at 36,3c. The total dividend, however, has been maintained at 26c.

The decline was largely attributable to the slump in the UK property market, which hit the earnings of property group Capital & Counties.

The drop, however, was limited as FIT subsidiary TransAtlantic increased its exposure to the insurance industry by raising its effective stake in Sun Life to 50 percent.

Mr Gordon said that joint control by Liberty and French insurer UAP of Sun Life would allow the group to explore opportunities in the financial services and property fields, not only in the UK, but also in Europe.
Brickbats, bouquets

FUTUREBANK, the newly-opened financial institution run mainly by blacks, was showered with brickbats and bouquets during last night's Sowetan/Radio Metro Talkback Show.

The chairman of the bank, Mr Jabu Mabuza, received congratulatory messages from two callers while others accused the institution of being a front of big white business.

Thami Khuzwayo asked Mabuza about the fate of workers who were retrenched by Fabcos.

"Three of those retrenched have been placed with the bank," Mabuza replied.

Responding to another question, Mabuza said:

"Fabcos owns 49 percent of the shares, Get Ahead Foundation owns two percent and the other major shareholder, FNB, owns 49 percent."

Mabuza said the current recession fitted well with the bank's projections.

He said it was not a threat because the bank was tapping an existing market.

The bank hoped to have assets worth more than R250 million by the end of the year, he said.
Diverse services lift Sasfin's earnings

TRADE and equipment financier Sasfin has notched up a creditable 16.3% increase in earnings a share to 10.8c (1990: 9.3c) for the six months ended December.

The group's interim results disclose a 14.7% increase in attributable income to R1.2m (R1.06m). MD Roland Sassoon attributes the group's stable performance to the diverse, yet complementary range of services which Sasfin offers.

"The recession has impacted negatively on the group's trade financing divisions which provide invoice discounting and confirm facilities," he said.

"However, the lifting of sanctions and the opening up of new markets has resulted in the success of Sasfin's foreign trade projects division."

The securitisation deal which the group struck last year enabled it to simultaneously increase the size of its rental book while reducing its cost of borrowings and overheads through economies of scale.

Sassoon is optimistic about the group's medium-term prospects and expects the SA economy to improve towards the end of 1992.
Rates on line for insurance firms

MICK ELLINGHAM

THE SA Insurance Association has developed a ratings system for its members in the short-term insurance industry.

The SAIA's Personal Lines Statistics system was launched in January this year and provides underwriters at member companies with a computerised statistical system to provide rates which reflect market realities.

"This does not signal a return to the old tariff system (previously a fixed tariff was set by all insurers)," said Rodney Schneeberger, SAIA's chief executive.

"Rates will still be highly competitive between different companies and each company will be provided with confidential data on the 'burning cost' of the risks they write." 8/OC/97 123/92

The SAIA systems is not related to the short-term insurance industry ratings announced this week by Republic Ratings.
FIT has big plans for Sun Life deal

WILLIAM GILFILLAN

LIBERTY'S offshore arm, First International Trust (FIT), is set to increase its life assurance side considerably following last year's Sun Life deal, FIT chairman Donald Gordon said yesterday at the presentation of the group's results.

On the back of sharply lower earnings from its property interests, FIT's attributable income dropped to £53.7m from £66.1m in the year to December. This converted into earnings of 36.3c a share from 47.7c on the increased number of shares in issue following last year's rights issue.

An unchanged final dividend of 13c a share was declared which, on the unchanged interim dividend of 7c a share, gives a total dividend of 20c a share.

Gordon said the Sun Life deal represented the most important development for the group last year.

A jointly controlled holding company — Rockleigh Corporation — was formed by TransAtlantic, held 43% by FIT, and leading French insurance group UAP to house their interests in UK life insurer Sun Life.

Rockleigh, which currently holds over 95% of Sun Life, is to take out the remaining Sun Life minorities next month.

"The very fact that Rockleigh will own 100% of Sun Life opens up enormous opportunities for us," Gordon said. "The Sun Life deal will see TransAtlantic's interest in the UK assurer increase to 58% from 37.7%.

TransAtlantic's remaining interest is its 76% stake in UK property group Capital and Counties (Capco). Profits at Capco slumped sharply last year, reporting attributable income down 59% to £77m.

"However, Sun Life has reported a substantial increase in new life and pensions business for 1991. The surplus after tax available for its shareholders grew 33% to £207m from £157m," he said.

As a result of plummeting UK property prices, Capco's net asset value declined to £29% in 1991 despite a £102m cash injection.

Commenting on this decline, Gordon said "as we have no intention of selling the drop in property values is largely irrelevant". He noted both Sandton City and Eastgate — both in Liberty's local property portfolio — had come on to the market at the bottom of a recession and both had proved successful investments.
Liberty Life now on track for expansion

Liberty Life, which recently clinched joint control of one of the UK's largest life companies, thereby setting into motion its long-term European expansion plans with French assures, UAP, has posted a 26% increase in earnings for the year ended December.

Group chairman Donald Gordon described financial 1991 as the most significant year in the group's 33-year history.

Transactions concluded last year would form the cornerstone of the group's growth objectives for the remainder of the decade, Gordon told a news conference.

He said Liberty's recently strengthened alliance with Standard Bank had resulted in a combined group with assets of more than R12bn, making it the "largest SA financial services business".

This year could prove just as exciting for Liberty "as we are looking at a number of other possibilities".

Liberty Life Association disclosed a 26% rise in attributable earnings to R275m (1990: R218,1m), equivalent to 127c (102,1c) a share. The income statement and balance sheet have also been restated to take into account the recent restructuring of the group's holdings and its share capital base.

Liberty Life's holding company, Liberty Holdings, reported a 25% increase in earnings to R365,7c a share, from which a total dividend of 284c (220c) a share has been declared.

Gordon said the acquisition of additional shares in the group's Luxembourg-listed Transatlantic had resulted in the operation becoming a subsidiary incorporated on Liberty Life's balance sheet.
Welcome relief

After a good claims year, co-operative crop insurer Sentraes has handed back R10m as a discount to policyholders. It's the third time that Sentraes has made such a gesture.

Dominating the crop insurance market with a share of about 80%, Sentraes' only serious challenger is Commercial Union, which is in partnership with First Bowling to serve the remainder of the market. While there is never a mention of a rate war, CU tends to quote slightly lower rates to compensate for the co-operative advantages that Sentraes offers farmers.

With CU having declared that it wants a third of the total market, Sentraes has noticeably stepped up its advertising spending in the last year. CU says that is good for the industry because it heightens awareness of the need for crop insurance.

It's a volatile business, with hail incidence...
INTEREST RATES

Getting the dose right

At this time of year, attention is focused on the relationship between fiscal and monetary policy. Both work best when applied with an even hand, and distortions occur in the markets when they are not. Over recent months, as outflows from the Exchequer Account exceeded inflows by more than the pro rata amount budgeted, the burden of containing inflation has fallen on monetary policy. This has kept interest rates at current levels for longer than would otherwise have been the case.

When Finance Minister Barend du Plessis presents his Budget for 1992/1993 in parliament next Wednesday, he will lay the financial groundwork for government in the fiscal year ahead. The expenditure limits he sets — and general perceptions as to whether they will be adhered to — have implications for monetary policy and financial markets.

Speculation now centres on the timing and the extent of a fall in Bank rate — expected on and off since the middle of last year.

There are two views in the market. One is that Reserve Bank Governor Chris Stals will wait for the next set of inflation figures, due in about two weeks, before making a decision. In the event of some deceleration in the official inflation rate, he will then announce a 1-percentage-point fall from the present level of 17%. A second view is that he will announce a 2-percentage-point fall on Budget day.

Those who argue the first view say:

- Inflation is still running at too high a level for anything more than a 1-percentage-point fall;
- Stals has a consistent record of conservative monetary management and recent statements have confirmed his intentions to keep a tight rein on money supply; and
- Expectations that the budgeted deficit before borrowing will be well over the desirable ratio of 3% of GDP — perhaps as high as 6%.

The opposing arguments are:

- The market is already discounting a fall of more than 1 percentage point and Stals would not allow this if he were not prepared to follow with a similar move in the official rate; and
- The deficit will not be as high as is generally expected. Developments in the Department of Education confirm that President F W de Klerk is serious about cutting government spending. And there are expectations of drastic cuts in other departments.

They quote Du Plessis’ comments at a press briefing earlier this year to the effect that it is not enough to shake the tree and dislodge some leaves — the time has come to cut some branches.

In this context, it would be possible for interest rate policy to be more flexible. Proponents of this view point out that a saving would then be effected in government spending because the cost of servicing State debt will fall.

There is yet a third view of what the next few weeks will bring to change the existing pattern of interest rates. It is that Stals will announce a drop in Bank rate to 16%; but banks will drop their prime rate from its present level of 20,25% to 18,25%. This will reduce the margin between prime and Bank rate to 2,25 percentage points from its present 3,25 percentage points.

Stals floated the idea of breaking the link between the two rates in April 1990. This was at a time when banks were lobbying for an increase in Bank rate from its then level of 18%. Their funding costs were under pressure from huge shortages in the money market — as much as R5,4bn on January 31 1990 — and they wanted a signal from the central bank that would allow them to push prime up from 21%. Stals, unwilling to oblige, suggested they break free of Bank rate.

In the event, none chose this course and, soon afterwards, growing liquidity relieved their funding pressures.

The link between prime and Bank rate is purely strategic — Bank rate is seen as a reflection of monetary policy and an indication of what banks can expect in the way of liquidity. But banks are not bound to retain the link. It is more than 10 years since they were freed from the convention that prime and the rate at which the Bank lends money to the banking sector should be formally linked by a 2,5-3,5-percentage-point margin.

At the time, the official Bank rate had fallen into disuse — at 13,5% — and banks were accommodated at a penalty rate 0,5 percentage points above the latest Treasury bill tender rate.

Because of sustained upward pressure on short-term interest rates, the Bank decided in February 1982 that prime should be set free to find its own level — "as a step towards more market-oriented methods of monetary policy." This left each bank to determine its own prime overdraft rate and, when Bank rate was restored to its normal role as the official rediscount rate in December 1983, the margin was only 1,75 percentage points.

If the idea is revived again, will banks take advantage of the suggestion? They have already dropped mortgage bond rates by 1 percentage point, to 19%, with Stals’ blessing, an indication that they are prepared to jockey for competitive advantage at a time when demand for credit is low. If Stals maintains existing liquidity levels, they may be able to reduce prime-related rates and fund themselves adequately. They will, of course, then be sacrificing margins, so the choice will be a difficult one. And only a "yes" vote in the referendum will inspire bankers with enough confidence to make this crucial decision.

This situation could help Stals, who may see light at the end of the inflationary tunnel but would prefer to maintain the image of stern central banker until everyone else can see it too.

One thing is certain, whatever one bank decides to make of the circumstances, others will follow. So good news flowing from the referendum and Budget will pay immediate dividends to consumers.
Poll prompts 
freeze on 
home sales

ADRIAN HADLAND

THE residential property market has been put on ice with few buyers willing to commit themselves pending the outcome of the referendum on March 17, estate agents said yesterday.

Up to 60% of buyers have made their offers conditional on a "yes" vote, while advertising for properties has dropped considerably over the past few weeks, said Aida Holdings MD Aida Geffen. "Business is too terrible, from 300 pages of weekly property advertising, we are now on only 170 pages."

Other estate agents, including Betta chairman Chetrie Everitt and Eskel Jawitz's Arthur Jaffe, concur that the industry is in the doldrums.

Several estate agents in the Johannesburg region estimated about two-thirds of clients were not prepared to commit themselves until the poll.

Geffen said that while property prices and demand in the platteland remained largely unaffected, the metropolitan regions had been particularly badly hit by the freeze.

Everitt was confident the market would pick up after the referendum.

Meanwhile Stuttafords Van Lines has reported a big increase for information on emigration since the poll was announced.
deal, will lift shareholders' capital from around R100m to more than R320m.

Issue of 13.5% convertible preference shares will be part of the R220m capital injection flowing from the Investec transaction, finalised between the groups in their share swap deal late last year.

Basserabie says the new capital will "contribute towards the financing of the growth and development of the business," including capital requirements to meet new business in the coming year. Details of the issue are expected to be announced towards the end of the month. Major underwriter will be Fedco, formed under the Investec deal and representing senior management's equity participation in Fedsure.

Also flowing from the transaction will be a separate R35m rights issue by Investec.

Basserabie does not believe the additional shares will significantly dilute the earnings potential of Fedsure ordinary shares. EPS rose 22%, to 42.8c, in the past year, in line with the compound growth rate of the past eight years.

As long as the recession continues, and the depreciating rand makes contractual savings attractive, similar earnings growth rates should be achieved by leading companies in the highly rated — and increasingly expensive — insurance sector. On the strength of last year's performance, Fedsure seems due for rerating. Compared with some market leaders, Fedsure offers a fairly generous dividend yield of 3.9%, against Liberty Life's 2.6% and Southern Life's 3%.

Some analysts are forecasting good growth for the group this year, predicting EPS will climb 22%, giving a forward yield of 4.7%. Basserabie says, barring unforeseen circumstances, growth should "remain adequate".

The alliance with Investec seems to be paying off so far, not least in offering access to an enlarged client base. With its earlier 34% investment in Saambou, Fedsure must have an extensive client list.

The 140c a share Fedsure paid for Saambou still looks expensive, with the building society showing a R73m attributable loss in its latest interim results, and the share trading at 87c. Basserabie says his group has no quibbles about the investment. "Our relationship is developing extremely well," he says. "They have a stake in our unit trust and market some of our products, while we have access to their client base."

Fedsure would undoubtedly be happy to see Saambou's price pick up, but Basserabie says the 140c paid by Fedsure equals Saambou's NAV. "I think Saambou's prospects are good, especially with the new and dedicated management team they have now."

At 790c, Fedsure's price seems reasonable in an expensive sector. Its steady growth from around 370c at the beginning of the financial year is impressive. Since mid-1988 it has climbed from R2. It has hovered around present levels since the beginning of the year, but on the strength of these results it should have upside potential.

**SURE GROWTH**

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<td>Dividends (c)</td>
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82 • FINANCIAL MAIL • MARCH • 13 • 1992
Ask shareholders in Britain's No 2 bank, Barclays, what SA's reform process means to them and the answer is simple: £100m added to last year's net attributable profits.

Reassessment of country risks and the consequent claw back of debt provisions were the biggest positive factor in Barclays' bottom-line earnings of £242m last year — down 59% after a record £1.8bn was knocked off for bad debts in Britain.

The bank retrieved a total of £211m — lifting UK international, treasury and banking operations to £329m — from the release of country risk provisions, of which almost half derived from its SA loan book. Another £99m came from Brazil, through the sale of debt and the removal of payment restrictions on trade lines of credit.

Barclays, however, is coy about the precise position of its SA book, which still falls within the Bank of England matrix of coun-

try debt provisions because of the moratorium. Under the matrix, any moratorium that has lasted for more than 36 months scores 12 points.

SA debt thus falls into the 10-74 point range against which the Bank indicates provisions of 5%-13%. Scores of 70-84, for example, take provisions into the 59%-75% bracket; above 120 requires 97%-100%.

All Barclays will say is that its SA provision is at the top end of the matrix guideline of 13%. It will not reveal the total SA book — that is required only if loans to a single borrower or country exceed 0.75% of total assets. But there is clearly a fairly hefty profits boost waiting in the wings for the end of the moratorium, once SA regains unfettered access to the IMF.

Other UK retail banks with substantial SA exposure, such as Midland and National Westminster, take the same line and, unlike Barclays, did not reduce their provisions.

Standard Chartered, on the other hand, has always taken the line that because SA is servicing its debt fully, the loans required only the minimum guideline figure of 5%. At the interim stage last year, Standard Chartered showed SA exposure as £495m against which it had a provision of £25m. So there is not much there to flatter future profits.
short-term insurers Aegis and SA Eagle. Fabcos's likely partners in the insurance venture. Aegis CEO Brian Seach says planning for the insurance arm is continuing and all the signals are positive. Eagle MD Peter Martin confirms this and says the projections and other details necessary for approval by the Financial Services Board will be completed soon.

The strategy is for Fabcos and Future Bank to have a controlling interest in the proposed vehicle, Business & Personal Insurance and to use the Fabcos influence to develop a base of black business clients. The two established insurers will have minority stakes — probably 24.5% each — and management contracts.

Both Seach and Martin caution that, though there is great potential for the venture, it will be run conservatively and cannot expect to become an overnight market leader. "It's certainly not a licence to print money," Seach says.

Business & Personal Insurance's potential emergence as the first black-owned insurer of any stature is being watched with tentative approval by brokers, but is also causing some bewilderment.

The company is based on the insurance licence of the now defunct Quorum. Chief executive Terence Maher quit recently after some disagreements, which included the terms of the Fabcos arrangement. He has been replaced by Johan Schuin, an insurance professional who served with the biggest insurance broking group, PFV. There is, however, speculation that the major shareholders, Fabcos and Future Bank — which is a First National Bank spin-off — will want to see a black leader there.

One major broker has expressed irritation at Business & Personal Insurance's "lack of focus." The insurer, he says, is marketing in all directions at once. This is confirmed to some extent by a PFV newsletter that notes that the company, which had been expected to concentrate on the market among taxi owners and small business, has been aggressively targeting municipal business.

But Fabcos marketing chairman Gaby
Cape Town-based Seeff property and financial services organisation's aggressive national expansion programme continued this week. It announced a merger between its business broking division and the eastern

Cape-based Mercantile Assignment Group (MAG). The new company, to be known as Seeff-MAG, will have headquarters in Cape Town but operate branches in Plettenberg Bay and Port Elizabeth. The MD will be former MAG MD Rory Stear.

Seeff Commercial Properties CEO Theodore Yach says the merger puts the company in a good position for further expansion into the Transvaal and Natal. Seeff's residential and financial services divisions have already established firm footholds in the Transvaal.

Seeff-MAG's Plettenberg Bay office will be headed by former Teljoy chief Errol Finkelstein (who was with MAG at the time of the merger) and the Port Elizabeth office will be controlled by Sandy Irvine.

Yach says the new brokerage will concentrate on medium-to-large businesses and mergers at the lower end of the corporate market. He says the merger makes Seeff-MAG the most extensive brokerage in the Cape. Expansion to the Transvaal is targeted for later this year.
Islamic banks work

By MONDLI MAKHANYA

ECONOMIC planners looking for a model to make finance accessible for development need look no further than the Islamic banking movement.

Although Islamic banking is founded on religious premises, its practical application could nonetheless provide important lessons on how to make financing accessible.

Islamic banking is a relatively new concept to this country with the small Islamic Bank of South Africa having been established in 1983. It has as its premise the Muslim faith’s prohibition of interest.

Established to provide local Muslims with a bank that concurred with this prohibition, the banks have grown from a capital base of R200 000 to R30-million today. It is one of 55 similar banks worldwide.

However, other instruments of making profit have had to be found. For instance, when lending money out to entrepreneurs, the bank takes a stake in the enterprise. Profits are shared between the bank and the entrepreneur.

After this stage the only contribution the bank makes to the business is in the form of checking for inept planning and ensuring that there are no irregularities in the running of the business. As the business grows the entrepreneur may then progressively buy out the bank’s stake.

Another instrument is the muraabahah which is used for established businesses. This entails the bank buying merchandise on behalf of the business owner and selling it to him at an agreed mark-up.

In the sphere of housing finance — one which is at the heart of a war between civic associations and mortgage lenders — the Islamic Bank also has an innovative way of getting around the interest hurdle. It buys the property for cash on behalf of the prospective homeowner and sells it on to him — again at an agreed mark-up. The homeowner pays the amount in agreed instalments and when he is unable to meet the instalment, payment is deferred for the necessary period.

Bank chief executive Ebrahim Kharsamy says since the banks formation in 1983 more than 2 000 homes have been built this way and there has not been a single repossession. As a result, he says, people who are being threatened with repossession by the other financial institutions often request the Islamic Bank to take over their bonds.

The downside of this however is that depositors are also paid no interest. In fact, notes Kharsamy, Muslims banking at commercial banks are obliged not accept interest for their investments. This poses the danger of your money lying idle while inflation gnaws at it.

But Kharsamy blames interest itself for fuelling inflation. “When you have high interest you push up the cost of capital and everything else down the line. This is all passed down to the consumer. These high prices further fuel inflationary expectations.”

Non-payment of interest on deposits has created predictable problems for the bank. “We have a lot of people who want money but not too many who want to deposit,” says Kharsamy.

To assist those who have invested in the bank as shareholders the institution has investments in property and industry.

In the context of the ongoing debate about the financing of low-cost housing and infrastructural development, and an African National Congress interest in establishing its own bank, the Islamic Bank’s successes and failures can give good indicators of what should and should not be done.

The greatest lesson that can perhaps be learnt here is the development of financing instruments which are immune from interest rate fluctuations. While this was thought a crazy idea when it was first mooted by the Islamic Bank in the early 1980s it certainly may fall on more sympathetic ears now.

Such a bank would also have to provide incentives for depositors since it would not have the religious pull that the Islamic Bank has.
Property ads take poll pounding

NEWS

We're aware of the net-service shutdown, as the broker told us. It was decided to
place the property on the market. The broker also mentioned that the property
was recently appraised at a lower value. However, we have
added a conditional on a "very
low" figure.

Frank Elkins

and Kim McHugh
STANDARD Bank has launched an insurance policy aimed at helping homeowners who may be retrenched.

The AccessBond Protection Plan is being marketed by its Home Loans Division in conjunction with Standard Bank Insurance Brokers and is underwritten by Sage Specialised Insurances.

Homeowners between 18 and 55, who have been with the same employer for a year and earn at least R2,000 a month, qualify. They must have a Standard Bank home loan. Monthly bond payments will be made throughout the benefit period — six or 12 months — unless the policyholder is re-employed. The policy will pay out up to 150 percent of the bond instalment (including any subsidy) but not more than 90 percent of the policyholder's monthly taxable earnings of R12,000 a month.
A DYING man says he will picket the East London offices of an insurance company which is fighting a court order to pay out the money he needs to stay alive.

"I don't care what Southern Life does," said Mr Roy Johnson, who has suffered since mid-1990 from a rare and deadly genetic disorder.

"I've got nothing to lose. I'll take a placard down there and hold a one-man demo outside their front door. Maybe that won't go down too well," said the former businessman whose health is rapidly deteriorating.

"I'm feeling terrible. My lungs are giving me a hard time, but that's only to be expected."

"It's like breathing fire, a burning sensation which never goes," he said. The disease — alpha-one antitrypsin deficiency — will eventually kill him.

Southern Life was ordered to pay out R165 000 plus interest, but it is withholding payment pending the outcome of an appeal. Without the money, Mr Johnson cannot afford life-preserving medication which must be imported from France.

He has also been deprived of monthly disability payments of R3 000 from another insurance giant, Liberty Life, which has cancelled several life policies as well.

By BILL KRIGE

Without supplies of the French drug, Mr Johnson will die — perhaps before the appeal by Southern Life against a judgment in his favour is heard later this year.

His last injection was a month ago and, despite Southern Life's declared intention to find ways to help him meet his medical costs, no money has been forthcoming.

The executive director of Southern Life, Mr Chris Lidde, said the company had an obligation to its policy holders to see the court appeal through to the end.

"While we have a case for not paying the lump sum, we are willing to try to assist Mr Johnson in this real-life drama, in terms of medication," he said.

An offer to help with Mr Johnson's medical costs (a three-month supply of the drug costs R28 000), of which his medical aid paid R20 000) still stood.

Payout

He said the delays were the fault of lawyers, not the company.

Liberty Life, which paid R200 000 to Mr Johnson before cancelling the rest of his policies, including a R3 000 monthly disability payout, could not discuss Mr Johnson's case until after the appeal, said public affairs divisional manager Sven Forsman.
Business told of serious implications of ‘no’ vote

The Capetown-based Life Office Association (LOA) and the Capetown Chamber of Commerce are among prominent local organisations warning that a “No” vote in Tuesday’s referendum could have serious repercussions on investment and the inflow of foreign funds.

The LOA warns that the link between investment and insurance policies could be affected.

A recent International Monetary Fund report on South Africa which concluded that “if economic growth were to be raised to about 3.5% a year — or to the minimum rate that would be required to reduce the level of unemployment given the rapid prospective growth of the labour force — the investment-to-GDP ratio would have to rise to about 27% from its present level of 19%.”

SACOB says that to achieve these economic results requires a high level of confidence both in South Africa and abroad — coupled with a minimum of uncertainty.

Another warning on investment comes from the South African Chamber of Commerce (SACOB), which says that as a major employer organisation representing 102 chambers of commerce and industry and 70 national associations it does not get involved in party politics.

However, it points out that because of the divisive role of investment — both foreign and local — in a return to a substantial growth path, South Africa cannot afford to be isolated again from the world economy and its capital resources.

It says this was confirmed by a recent International Monetary Fund report on South Africa which concluded that “if economic growth were to be raised to about 3.5% a year — or to the minimum rate that would be required to reduce the level of unemployment given the rapid prospective growth of the labour force — the investment-to-GDP ratio would have to rise to about 27% from its present level of 19%.”

SACOB says that to achieve these economic results requires a high level of confidence both in South Africa and abroad — coupled with a minimum of uncertainty.

The referendum will play a major role when companies assess the political risk of doing business in South Africa, and the result should strengthen and not weaken business confidence in and abroad.

The referendum will play a major role when companies assess the political risk of doing business in South Africa, and the result should strengthen and not weaken business confidence.

SACOB adds that the referendum outcome could also have important implications for Southern Africa as a region, as it would have to be attractive to overseas business people in a highly competitive world.

The Capetown Chamber of Commerce president, Kenneth Marcus, calls on the Capetown business community to support the “Yes” vote.

In a statement following the chamber’s executive council meeting, he says the chamber supports SACOB’s view that the referendum should strengthen and not weaken business confidence.

“SACOB says that to achieve these economic results requires a high level of confidence both in South Africa and abroad — coupled with a minimum of uncertainty.”

The business community cannot afford to stand on the sidelines but, in its own self-interest, has to facilitate the promotion of peaceful political reform in the country.

“SACOB and others have warned that South Africa cannot afford to be isolated from the world economy, its capital resources and its markets.

“South Africa will have to compete strongly for its share of international capital, and the decision in the referendum will play a major role when companies assess the political risk of doing business in South Africa.”

Mr Marcus says it is “vitally important” for every qualified voter to register his or her vote in the referendum.

He appeals to all business concerns to make it as easy as possible for staff members to vote on Tuesday.
African Life is one of the new stock exchanges that have been established in the 1990s. It is listed on the Johannesburg Stock Exchange (JSE). The company's shares are actively traded on the JSE, making it accessible to a wide range of investors. African Life's success is attributed to its strong management team and its focus on providing innovative insurance products.
MONEY MARKETS  by Sheridan Connolly

Motionless markets wait for Wednesday

NERVOUSNESS hung over a quiet and fairly dull market last week. Rates moved sideways with players reluctant to assume positions before tomorrow's referendum, and also before the outcome of Wednesday's Budget.

The 90-day liquid BA rate held steady at its new three-year low of 15.85% established at the beginning of last week. This rate is now at its lowest level since February 1986 when the BA rate dropped to as low as 15.55% from an initial 15.65%.

The market seems comfortable with the rate steady at its current level and, despite continued good demand for paper, there does not seem to be much scope for sharply lower rates at this stage.

The referendum result will, at least, give the markets some direction — particularly the capital market which is more sensitive to foreign investor sentiment. A "no" vote would be detrimental to foreign participation in longer-term investments but could drive money market rates down as demand for short-term paper would be much stronger.

As one dealer said: "People will have to put their money somewhere."

Meanwhile the Reserve Bank continued its struggle against strong liquidity conditions. The Bank issued two special Treasury bill tenders which were well received.

The average rate on the special issues dropped from 16.29% at the beginning of the week to 16.24% for its special issue last Thursday.

The three-month Treasury bill rate continued its downward slide last week with the average rate for the weekly tender slipping to 15.57% from the previous week's 15.63%. Applications for the allotted R200m tender on offer amounted to R175.9m.

The money market shortage continued to drift around recent levels and fell slightly towards the end of the week to R1,082m on Thursday from R1,565m at mid-week.

The market was still looking for a cut in interest rates but expectations of an imminent drop were put on hold until the referendum and the Budget.

The next set of consumer inflation data for February is due out at the beginning of next week.

Reserve Bank Governor Chris Stals can be expected to wait until the figures shed some light on the success or otherwise of the Bank's long battle against the stubborn rate of inflation. He has remained determined to retain high interest rates until inflation is well under control.
Property market hit by poll fears

CAPE TOWN — The referendum has brought the sale of private homes in Cape Town to a virtual standstill and international interest also has cooled off considerably, say estate agents.

A survey of estate agents conducted by the Seeff property group found that where an offer to purchase was made, buyers were often inserting a clause to the effect that should the referendum result in a win for the "no" vote, the offer would be withdrawn.

"The only logical conclusion one can draw is that buyers are running scared because they believe a 'no' vote will demolish home prices," said Seeff international sales director Carmelia Seeff in a statement.

"For most of us home is the single largest investment we will ever have and is the basis of our security. It is absolutely vital that we protect this with a resounding 'yes' on Tuesday or we will feel the consequences in our pockets for years to come," Seeff said.

She said that since the announcement of the referendum, international property inquiries had practically dried up.

"Even the weaker financial rand is not encouraging long-term investors. Everyone overseas is just waiting on the sidelines to see how we will vote before they make any moves. If we are looking for positive interest from overseas, we can anticipate that it will come only after a 'yes' majority. Any other result will drive them away."

Report by J. Ensor, 323 St George's Rd, Cape Town.
Liberty changes 'may affect earnings'

A CHANGE in the way Liberty Life will account for earnings from UK-based life assurer Sun Life could have a material impact on Liberty Life's bottom line earnings, executive director Farrell Sheer said yesterday.

"After the TransAtlantic/UAP deal late last year — when the two groups took joint control of the assurer — Sun Life's earnings would now be equitably accounted for TransAtlantic, Sheer said. TransAtlantic had previously accounted for Sun Life as a normal associate. As a result, earnings from the life assurer had an impact on TransAtlantic only to the extent of any dividends received.

But now 50% of the earnings from the life assurer will be reflected in the results of TransAtlantic, which itself is consolidated by Liberty Life.

This change could be significant as chairman Donald Gordon gave a bullish outlook on Sun Life's prospects when he presented Liberty's results last week.

Although the Liberty Group has been diversifying into the international scene for over ten years, the earnings derived from its operations abroad "had not been material" in the year to December, a Liberty spokesman said.

This explains how FIT recorded a 19% decline in earnings despite the improved results at Sun Life. However, the change in accounting policy, combined with TransAtlantic's increased shareholding to 50% from 28%, means the fortunes of the UK life assurer would have a substantially greater impact on FIT's (and Liberty Life's) results from now on.
JOHANNESBURG. — ABSA and the Reserve Bank yesterday refused to comment on whether Absa had received a R2bn loan at 2% from the Bank Governor Chris Stals said the Bank never disclosed information about transactions with the financial institutions because of the confidentiality clause in the Deposit-Taking Institutions Act.

They were responding to a statement by Free State Agricultural Union president Pieter Gous in Bloemfontein yesterday that the executive of the FSAU had been shocked by the reported loan. He added the union found it unacceptable that the aid was going to a financial institution when agriculture had tried for several years to get similar aid.
INVESTORS in Masterbond should lay charges against any financial institution that acted as an agent for the group after February 1 1991, Masterbond Victims Fund spokesman Ray Netto said yesterday. Netto said any financial institution that acted as an agent for Masterbond after that date did so in contravention of the Deposit-Taking-Institutions Act.

Netto said such action by thousands of Masterbond investors would force the authorities into some form of serious action.

The Masterbond Victims Fund has expressed lack of faith in state-appointed curators because no action had yet been taken against Masterbond's management or any officials guilty of "a dereliction of duty".

More than 20 000 investors were affected by the R500m Masterbond fiasco, described as the SA's worst financial disaster. Most were pensioners who had invested R20 000-R40 000.

Johannesburg attorney Allan Levine yesterday confirmed that he and Masterbond Victims Fund chairman Don Mackenzie would shortly meet with Jan Swanepoel, the director of investigation in terms of the Investigation of Serious Economic Offences Act.
THE property industry, having called strongly for a "yes" vote in yesterday's referendum, is anxiously awaiting the outcome. It expects a boom if the answer is "yes", and a slump if it is "no".

The SA Property Owners Association (Sapoa) said it was perturbed about the side issues that had been introduced into the referendum debate.

"The fundamental question is whether SA can afford, both morally and from a business perspective, to move back to where the world vilified us and where we all suffered as a result of sanctions," said executive director Brian Kirchmann.

Lew Geffen estate agents chairman Lew Geffen says the past week and the weekend's show days have seen a frenzy of negotiating and bartering.

"Although most sales have been put on hold until the results are known, all are subject to the referendum result," he said.

"Some sales are subject to a 70% yes vote in the referendum. However, there are those buyers who are using this as a lever to get properties at lower prices."

A "yes" vote would spark a renewed scramble for properties as the mandate for stability and economic growth is given the green light, he said.

Seeff Residential Properties (Transvaal) MD Bernard O'Riain said a "yes" vote was essential for the property owner as economic influences had already put a lid on property growth this year.

"To thrive, property needs an atmosphere of both economic and political stability. The referendum result is a potential threat to both the sagging economy and our political future," he said.

A resounding "yes" vote would do much to end the state of uncertainty surrounding the property industry.

"We are tired of this and we want to know where we are going," he said.

A "no" vote would result in a political storm causing property values to plummet to a level from which they would take a long time to recover.

Aida Holdings chairman Aida Geffen said the "bottom would fall out" of the property market if the vote were to be "no".

"If the vote is no, property owners will suffer losses amounting to billions of rands and the peripheral effects will be very serious," O'Riain said.
Axe hangs over Absa dealers

UP TO 20 currency dealers at Amalgamated Bank of SA (Absa) were facing the axe as the bank moved to cut costs, sources said yesterday.

Absa group executive, human resources, Petrus Claasen, who said a final decision on any retrenchments would be taken within three weeks, confirmed some staff members in the dealing room would lose their positions.

Any employee retrenched would be offered a "proper" package, but some dealers would be offered lower positions within the group.

An Absa source said Absa's recent merger with Bankorp had prompted the cost-cutting step.

There are currently about 48 dealers at Absa and about 29 at Bankorp, compared with about 85 at First National Bank.

A Bankorp source said plans to accommodate some of the affected staff members meant some dealers could be shifted into non-dealing positions.

An Absa source said there was a lot of nervousness in the dealing room. "Nobody's job is secure."

Absa had to trim its operations after the merger and the easiest way to do this was by cutting expenses in the high-cost computer and treasury sections.

The banking group said in January it was buying Bankorp from Sankorp for R1.3bn, but later revised its offer to R1.2bn.

Absa CE Piet Badenhorst said at the time the group's various divisions would continue to operate under their own brand names and there would be no mass retrenchments. He was unavailable for comment yesterday. — BDNS
Most finrand dealing suspended

Most major financial institutions have suspended trade in the financial rand until the final results of the referendum are made known later today.

Almost all leading institutions, except Standard Bank, confirmed yesterday they would curtail trade. Dealers said the decision had been taken in order to prevent the unit from being "hit" each time one of the 15 regions announced results.

I-Net reports that Standard Bank Treasury GM Willie Potgieter yesterday slammed the move and said the bank would attempt to make a market in spite of the absence of other players. Local banks claiming to be market makers should continue trade because the referendum was not enough reason to suspend trade, Potgieter said.

UAL senior dealer Graham Clulite said his institution would halt trade as a precautionary measure. UAL had advised its clients to complete transactions today.

Aba said it would also suspend trade. Finansbank said it would limit activity, but would do business where possible.

Finrand trading was volatile yesterday and dealers said demand in the first two days of the week had far outstripped demand in the past two weeks. There had been strong levels of foreign buying, but it had been offset by a large sell order.

Dealers said there was extremely good

To Page 2

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Finrand

Demand for finrands out of London, Zurich and Hong Kong, as well as some position squaring ahead of referendum results.

The finrand closed yesterday at R3.97 a dollar, marginally stronger than its Monday close of R3.99. The commercial rand also finished stronger at R2.8926 a dollar compared with Monday's close of R2.8933.

Bullish sentiment in the capital market pushed rates down yesterday with the market confident of a majority "yes" vote.

The turnst at the polls yesterday fuelled optimism in the market, one dealer said. "There was fairly strong demand for the government RSA stock."

The gap between the long-term RSA 150 and the Escom 168 bond had narrowed to about 10 points from a previous differential of about 55 points, dealers said. The RSA 150 closed yesterday at 16.47% from Monday's 16.54%, while the Escom 168 finished at 16.39%, down from 16.34%. 
Barclays keeps SA option open

LONDON — Barclays Bank has confirmed that it is considering a comeback in SA, following Tuesday's overwhelming vote for change.

The bank is one of a number of European corporations believed to be anxious to return to SA.

"It is possible in the future that Barclays may operate in SA to handle large corporate business," a spokesman said.

In late 1986 Barclays made a R100 million profit when it sold its 40.4 percent holding in Barclays National Bank.
Bankorp’s clean-up sees earnings dip 74 percent

Finance Staff

Bankorp’s earnings continued to fall sharply in the second half as last year as recovery costs on the group’s debt burden continued to soar.

Traded income in the interim period fell by 42.8 percent to R31.4 million (R54.8 million), while earnings per share plunged by 74.1 percent to 5.6c on a higher number of shares in issue.

The increased costs relating to debt recoveries will delay the benefits flowing from the group’s rationalisation programme, executive chairman Piet Liebenberg says.

He adds, however, that management was satisfied that adequate provision had been made for doubtful advances.

“There are encouraging signs that stringent lending policies and practices adopted over the past 18 months will provide the group with a strong platform for realistic and profitable growth.”

A reduced dividend of 5c a share will be paid for the nine months to end March 1992.

In lieu of this cash dividend, Bankorp shareholders may elect to receive bonus ordinary shares in Bankorp at 28.5c per share on the basis of 1.73 bonus ordinary shares for every 100 ordinary shares held on April 3, 1992.

This will be the last Bankorp dividend paid as the group will merge with ABSA on April 1.

The main shareholders, Sanlam and Bankorp, will again accept bonus ordinary shares in lieu of a cash dividend.

Mr Liebenberg says that in the half-year the recession deepened and Bankorp continued to make high provisions for doubtful advances of some R118.9 million (R139.2 million).

“Particular attention was given to asset management in an effort to improve the quality of assets and income.

“Total assets have, as a result of this policy, decreased by 10.7 percent on an annualised basis to R29.95 billion, in line with targets set at the beginning of the recovery phase.

“Interest income decreased in line with the reduction in assets, but the net margin improved slightly to R521.9 million (R518.3 million) through improved management of interest expenses,” Mr Liebenberg says.

Bankorp reduced its interest expense by 22.5 percent to R1.56 billion (R2.146 billion), while interest and dividend income was 18 percent lower at R2.18 billion (R2.68 billion).

“Operating expenditure increased by 11.8 percent to R697.5 million (R622.9 million), mainly due to the increased costs relating to debt recoveries, and this has meant that the expected rationalisation benefits will take longer to materialise,” Mr Liebenberg says.

The new bank tax cost R6.7 million.
Cronje adds that the idea for a capital transfer tax to replace both estate duty and donations tax goes back to Margo. A flat rate need not be opposed. However, aggregation of all capital transfers by an individual at a sliding scale could tempt government to establish an undesirably high maximum.

LIFE ASSURERS

Relief for funds?

Finance Minister Barend du Plessis indicated that government would study and decide later whether to accept recommendations from a committee headed by his special adviser, Japie Jacobs. These are firmly based on the principle that life offices act as trustees for policyholders' funds — a principle which Du Plessis has endorsed.

The most significant change, assuming government accepts Jacobs' reasoning, is that billions in policyholder funds will be taxed not at the marginal rate of 43% but at an average rate.

Dorian Wharton-Hood, deputy chairman of Liberty Life, suggests that means "between 30%-35%." There will be argument about that, because Liberty's high-income policyholders differ in tax profile to those of Metropolitan Life or African Life. But it would, argues Wharton-Hood, be impractical to apply different rates to various offices.

Life Offices Association deputy executive director Jurie Wessels says there will be jubilation if the trustee principle is applied firmly. Wharton-Hood comments: "It's only simple justice."

In recent Budgets there have been three deviations from the trustee principle:

- Taxation of policyholders' funds at the highest marginal rates;
- Taxation of policyholders' dividend income (for other classes of investor, dividends are tax-free); and
- Only a defined proportion of expenditure used to earn policyholders' income can be offset for tax purposes.

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### REVENUE COMPARISONS

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<tr>
<td>Individuals</td>
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<td>29 000</td>
<td>36 961</td>
<td>36 611</td>
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<tr>
<td>Non-mining companies</td>
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<td>845</td>
<td>650</td>
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<td>Other</td>
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<td>1 809</td>
<td>1 327</td>
<td>1 327</td>
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<tr>
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<td>65 284</td>
<td>75 929</td>
<td>74 626</td>
<td>14.3</td>
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<td>3 124</td>
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<td>1 470</td>
<td>1 670</td>
<td>1 670</td>
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<td>Excise duty</td>
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<td>Total</td>
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<td>13 398</td>
<td>15 029</td>
<td>16 263</td>
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<td>Less: Customs Union payments</td>
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<td>4 655</td>
<td>5 040</td>
<td>5 040</td>
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<td>Total</td>
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<td>8 743</td>
<td>9 988</td>
<td>11 223</td>
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</tr>
<tr>
<td>Total Revenue</td>
<td>74 866</td>
<td>74 037</td>
<td>85 918</td>
<td>85 849</td>
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Barclays looks at returning to SA

LONDON — Barclays has been tipped to be the next big British bank to return to SA, following the lead set by Standard Chartered last year. 

The group clawed back £10bn in provisions made against its loans to SA after a risk reassessment which was reported in the 1991 results. 

Yesterday a spokesman said Barclays, which sold its 40% in Barnat in 1986 to Anglo American, De Beers and Southern Life, was “monitoring developments in SA with interest”.

He said it was possible Barclays may, in the future, set up representation in SA to handle large corporate business there and to service global business.

Yesterday the London Evening Standard cited “senior political sources” in SA as claiming a “major European corporation” would buy 25% of a business it sold to SA interests, paying more than the original price. Barclays denied it was the company.
Treasury bill tender tests market

THE weekly Treasury bill tender is to be divided into bills with three maturities from today, three months, six months and nine months.

In aggregate, the bills on offer will remain R200m but the breakdown in today's tender will be R100m in three months' paper, and R50m in both the six months and the nine months periods.

Money market opinion is that with this week's tender, the Reserve Bank is testing the market's response to bills with longer maturities than the customary 90 days and it is assumed that if the demand for 6-month and 9-month paper is strong, the Bank will try to meet part of that demand.

The money market has been hyper-liquid for some months now with insufficient assets for investments.

Bankers' acceptances are in short supply and banks have made informal representations to the Reserve Bank to create new instruments.

The stretched-out maturities will give some flexibility both to lenders and to the Treasury. And perhaps Wednesday's Budget will enable the Bank to increase its borrowing in the short-term market.
Bankorp's taxed income tumbles

HAROLD FRIDJHON

Bankorp's last statement as an independently listed group shows its taxed income for the six months ended December 1991 declined by 42.7% to R31,6m from R54,8m earned in the comparable period in 1990.

From April 1 the bank group will be merged with Absa.

The net margin between interest and dividends earned (R2,184bn) and the cost of funds (R1,663bn) was marginally higher at R521,9m.

The interest income, however, dropped to R2,184bn, from R2,664bn, largely due to the decline in advances to R20,696bn from R22,193bn. The cost of funds and other expenses were R483,4m lower.

Provision for bad debts at R118,9m was lower than the previous December's R139,2m but the increased costs incurred in debt recoveries caused operating expenses to rise R74,6m to R695,3m. This, says the report, "has meant that the expected rationalisation benefits will take longer to materialise".

Net income of R54,5m — R26,8m lower — was further reduced to R31,6m by R1,6m taxation and R21,5m for tax equalisation.

The curtailment of activities is reflected in the decline in deposits to R23,126bn from R25,693bn and the drop in liabilities under acceptances by R781m to R2,196bn. Total assets were lower at R3,616bn.

Management is satisfied that adequate provision for doubtful debts has been made and that the stringent lending policies and practices adopted would provide a strong platform for real, profitable growth.

The net asset value a share is 319,4c against Bankorp's cash offer of 288,5c.
Review of interest rates on the cards

LINDA ENSOR and MARCIA KLEIN

CAPE TOWN — The Reserve Bank would have no option but to review Bank rate and interest rates in the light of this week's Budget, Reserve Bank vice-president Jaap Meijer said at the Old Mutual/Nedbank panel discussion on the Budget yesterday.

Meijer would not comment on speculation in the markets yesterday that a drop in Bank rate of up to two percentage points was imminent, but dampened any expectations that might be based on the contents of the Budget alone. "It is my personal view that the Bank has not done anything to allow an easing of monetary policy where an easing of policy was not under consideration before," Meijer said.

He said Reserve Bank Governor Chris Stals would make an announcement shortly on the monetary guidelines on money supply for 1992, and that this would include a statement on Bank rate.

The Reserve Bank regarded the Budget as mildly stimulatory in the Keynesian sense of taking up extra capacity rather than making a major contribution to growth, Meijer said. It was not a Budget orientated towards the supply side.

He said Finance Minister Barend du Plessis' degree of freedom was extremely limited, as the economy was at a low ebb and government revenue, therefore, was also low. For that reason, it had been difficult to implement the reforms proposed by the late Wim de Villiers.

Meijer added that the Reserve Bank was "thrilled" that education had received so much attention, as this was just about the most constructive thing that could be done to achieve redistribution through growth.

Bankers said yesterday any decision to cut Bank rate by two percentage points would go against Stals' persistent warnings that interest rates would come down only in line with an appreciable declining trend in inflation. A bank economist said a two percentage point decline from 17% would be at complete contrast to what had been done in the past, and it would cast doubt on Stals' sincerity about maintaining a strong monetary policy.

But bank sources said a reduction in the

Interest rates

Bank rate was a possibility, and could stem from increasing pressure on the Bank to try to stimulate economic growth.

The economist said with the Bank rate of 17% being only about one percentage point above the inflation rate, it could be argued that it was only a marginally real interest rate. However, he said, the Reserve Bank had to recognise inflation was here to stay.

Positive real interest rates might have curtailed a further rise in inflation, but they had not managed to reduce it, so the
Dubious ratings

Republic Ratings' declaration that it will rate short-term insurers has met with scepticism from several insurers. But Republic's director Dave King says he expected resistance in the industry and that pressure to issue ratings has come from his agency's major corporate clients, some of whom are concerned about the claims-paying potential in the industry.

King says three insurers, including one of the big four, have already agreed to be formally rated — which means they offered full co-operation. An informal rating is given when the assessment is made without access to inside information. He will not disclose the names of the three.

Several leading insurers approached by the FM say they are not candidates for a Republic rating but want to know how the agency intends to tackle the task.

Protea MD Andrew Taitton confirms his company is co-operating with Republic, partly because the overseas parent, Sun Alliance, has seen benefits from the rating system. He says the arrangement is not cheap — the insurer pays a "hefty fee" to Republic and "we supply all the information." That, he suggests, almost amounts to a self-rating.

Already paid

Among medium insurers, Hollard MD Miles Japhet (already in possession of an AA rating from Quest Insurance Advisory Services) says: "I've agreed to talk to Republic but I see no reason to pay for them to rate us when we have already paid Quest."

King says if insurers refuse to pay or co-operate, there will be informal ratings. Republic will earn its income by selling its reports to corporate clients.

All the insurers approached expressed anxiety about the competence of the people who will rate them. International ratings agencies such as Moody or Standard & Poor's employ analysts with general management-level experience within the insurance industry. King is unable to give the names and qualifications of the people on the teams which will be assigned to rate insurers, but he promises to provide the information soon. He says the agency is working on "the most comprehensive document on the short-term industry ever undertaken in SA." It is expected to be ready in a few weeks.

King says a formal rating takes, on average, two months of research. Only about 30% is about numbers — "the balance concerns strategic factors such as reinsurance programmes, management quality, asset liability management, risk management philosophy and procedures, systems and internal controls."

Just how Republic intends to assess the crucial area of reinsurance intrigues the industry. Because of retrocession agreements between reinsurers, it is often impossible for the outsider to determine where the ultimate risk falls, a reality recognised by the Financial Services Board which does not allow for overseas reinsurance when calculating the solvency margins of insurers. But King points out that the agency is not an "outsider" in a formal rating.

The board, like most players in the industry, read of Republic's intentions in a morning newspaper, though King says he informed the board's CEO, Piet Badenhorst.

Quest MD Robert Shaw knew something was afoot because "we had already done some ratings and Republic talked with us some time ago, apparently with a view to subcontracting their insurance rating work to us."

King confirms that talks did take place but suggests they were about Republic taking over Quest's rating role.

"It was our decision not to follow up," Republic has issued one rating — on Credit Guarantee Insurance. A reinsurer who looked at the report says it was thorough in its asset analysis — "the easy part" — but flimsy in assessing liabilities and non-technical in its appreciation of reserves.

"Fair enough," King responded to that, adding that reinsurance touches the private core of an insurer's business and no client would allow details to appear in a final published report. "We do look at these things in great detail."

King suggests resistance to ratings is natural but there is a follow-the-leader syndrome. As ratings are announced, others will want to join the club. Therefore, he has concentrated on agreement for a formal rating for three insurers representing a spectrum of market size.

He says the move has been hailed by brokers, even those who do their own assessments of the claims-paying abilities of insurers.

Corporate risk managers and brokers may welcome the service but Republic seems to have been gauche in launching it. With both the Financial Services Board and CEOs of many potential target companies first hearing of Republic's intentions in the media, and with Republic unable at this stage to justify its competence, the launch could be, to say the least, premature.
nationally. On market capitalisation exceeding R9.2bn, Liberty Life is the largest listed financial institution and now the 10th largest company on the JSE.

The share placement has diluted pyramid Liberty Holdings’s stake in Liberty Life from 56% to 53%. But Holdings continued to benefit from the good results of Liberty Life and its earnings advanced by 25%, to R181m. The year’s dividend rose 29%, to 28c.

Results from offshore holding company First International Trust (FIT) were disappointing, but come when the UK is going through its worst recession in 50 years. EPS dropped 24%, to 36c, after climbing 28% the previous year, though that was partly thanks to the rand’s depreciation against the pound. Dividend was maintained at 20c.

FIT’s 42.9% interest in TransAtlantic Holdings, the UK-registered company listed on the Luxembourg Stock Exchange, will doubtless prove more beneficial, especially as the UK company now has a 50% interest in Rockleigh Corp, in which UAP has an equal interest. By next month, Rockleigh will own all the equity of Sun Life.

Hardest hit was FIT’s 75% property subsidiary Capital & Counties, listed on London’s International Stock Exchange. Operating profit before interest and tax was up 12% to R242m, but after interest and tax was down by R84m. Earnings, at R77m, fell to about half the 1990 level.

Gordon contends these results come during one of the most challenging and difficult years experienced by the UK property industry. Development projects are continuing and capital has been strengthened by a

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<tr>
<td>Year to Dec 31</td>
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<tr>
<td>Income before interest and tax (Rm)</td>
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<tr>
<td>Attributable income (Rm)</td>
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<tr>
<td>Earnings (c)</td>
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<tr>
<td>Dividends (c)</td>
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Setting the pace

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<th>Year to Dec 31</th>
<th>1990</th>
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<tr>
<td>Net taxed surplus (Rm)</td>
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<td>275</td>
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<tr>
<td>Dividends (c)</td>
<td>102</td>
<td>127</td>
</tr>
<tr>
<td>Dividend in specie (c)</td>
<td>—</td>
<td>199</td>
</tr>
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</table>

R524m rights issue.

Share prices of Liberty Life and Liberty Holdings have climbed throughout most of 1991, flattening out towards the end of the year with a sharp climb in early 1992. After starting at R26 in 1991, Liberty Life’s share is at 4.075c; Liberty Holdings has moved from R62 at the beginning of 1991 to its present R107.

Strongest growth in share price, however, has come from top pyramid Liberty Investors, which has gained nearly 75%, to 715c, since the beginning of 1991. Conversely, FIT’s price reflects the UK recession, coming off a 1.460c high in July to 950c.

With the group performing well at home and with offshore operations well in place for expansion, the share prices are firmly underpinned.

Shane Harris

Liberty’s Gordon ... who is the biggest?
**BUDGET BRIEFS**

The stamp duty on credit card, cheque, transmission and telebank accounts debits is to increase from 10 percent to 15 percent as of the first of May. Finance Minister Barend du Plessis hopes to raise R35-million in this manner.

**BUSINESS** trusts will now be treated as companies for tax purposes, but details on this will be given when the Income Tax Amendment Bill is tabled in parliament later this year.

Of immediate concern to the man in the street is increased duties on alcohol and tobacco. There is an extra 4.8c per litre, or 1.5c per drum, duty. Duty on spirits has gone up by 37.7c per 750ml.

With fortified wines duty goes up by 10c per 750ml and with unfortified wines it will be 6c per 750ml. Sorghum drinkers get off much lighter with duty on this brew being raised by only 1c.

Smokers face a 2c increase in duty per 10 cigarettes. Duty on cigarette tobacco will increase by 2c per 50g while pipe tobacco goes up 10c a kilogramme.

Du Plessis has promised that increases in the retail price of these items will not exceed 2c.

IN a move that is likely to be unpopular with the money authorities waging war on inflation, the fuel levy was hiked. Petrol will cost 3c more while diesel goes up by 6c. Transport tariff increases resulting from these hikes will be gazetted today. Drought-stricken farmers were, however, offered some relief in a 2c increase in the diesel rebate.
Nasty surprise for home buyers

ONE OF THE nastiest surprises in this year's Budget was the increase in transfer duties payable on property purchases.

This will affect many thousands of prospective property buyers who put their purchase decisions on hold until the outcome of the referendum was known. Now they are saddled with substantially higher transfer costs.

KPMG Aiken and Peat senior tax manager Phillip Meinel says: "The effect is that anyone buying property in excess of R70 000 pays more transfer duty than previously." Transfer duty on properties costing more than R70 000 increases from 3 percent to 5 percent.

"It is noted that transfer duty rates have not been adjusted for some time and that, prior to the adjustment, there was a great difference between VAT and the rate of transfer duty."

"However, one must not lose sight of the fact that there was no sales tax on the cost of a house, apart from that on the building materials." Meinel says. There was confusion as to precisely when the higher transfer duties would apply.
rate down 1%

By AUDREY D'ANGELO
Business Editor

A LONG-AWAITED cut of one percent in the bank rate, to 16%, effective from Monday, was announced by Reserve Bank Governor Dr Chris Stals last night.

He said greater stability in domestic and international financial conditions and a fall in South Africa's producer price inflation (PPI) rate had made it possible.

The cut -- the first for a year -- was described as "a step in the right direction" by economists and business people.

They said that together with the easing of hire purchase restrictions it would give some help to the struggling economy.

Commercial bank overdraft rates are certain to come down by 1% -- although some individuals and businesses are already paying less than the current prime lending rate of 20.25%.

Further drop

But there is unlikely to be any further drop in the mortgage bond rate at present. Most building societies, anticipating a drop in the bank rate, have already brought lending rates down by 1%.

Santam chief economist Mr Johan Louw said the 1% drop in interest rates alone would be insufficient to "kickstart the economy." Hopefully, this is only the first step, and this cut in the bank rate will be followed by others, in the middle of the year and towards the end," he said.

Mr Colin McCarthy, executive director of the Cape Chamber of Industries, said it would give some help to industrialists.

• Bank to intervene in rand market — Page
Bond rates to fall

By CURT VON KEYSERLINGK
INTEREST rates for bonds, overdrafts and credit cards are expected to come down after Reserve Bank governor Dr Chris Stals's announcement of a one-per-cent cut in the bank rate.

Mr Herc Hefer, chairman of the country's largest banking group, Absa, said yesterday that bond rates would in all probability come down.

If Absa cut its bond rates other banks such as First National and Standard would probably follow suit.

Bankers said the bank-rate cut would put pressure on their profits as they had already dropped their bond rates this month by one percentage point.

Strong

Nedcor group chief executive Chris Liebenberg said the one percentage point cut was lower than expected and banks had already cut their bond rates.

Banking sources dismissed suggestions that Dr Stals had compromised on his strong anti-inflationary stand.

"Dr Stals is not forsaking his principles," said Mr Hefer. "He has the whole picture in front of him and he knows that the public and small businesses are suffering from high interest rates."

Sanlam chief economist Johan Louw said: "If Dr Stals were to drop the bank rate by two percentage points I would have said he had thrown his principles out of the window. As it is the drop will not spark off a spending spree."
GROWTH in M3 money supply between February 1991 and January 1992 cooled to 9.7% after three years of economic slowdown, says the SA Reserve Bank quarterly bulletin for March 1992.

But in January, M3 money supply rose to 11.7% from 12.7% in December 1991, well outside the growth guidelines of 8%-12% set by the Reserve Bank. The rate of increase in mortgage advances rose sharply from 14.7% in December 1990 to 18% in December 1991.

"These growth rates in mortgage advances well in excess of the inflation rate were probably in part an indication of slower repayment of capital because of tight financial conditions and an increase in the value of real estate transactions," says the report.

Despite signs of an upturn in GDP in the third quarter of 1991, real GDP declined about 0.5% for the year, matching the decline in 1990. Real government consumption expenditure increased by 3.5% during 1991, despite a decline of 0.5% in real gross domestic expenditure.

"Total real gross domestic fixed investment declined substantially in the fourth quarter of 1991 - the eighth consecutive quarterly decline in this aggregate."

By CIARAN RYAN
Inflation must fall, warns Stals

Banks to look at dropping lending rates

INFLATION must fall if the one percentage point cut in official interest rates announced by the Reserve Bank at the weekend is not to be reversed later this year.

Reserve Bank Governor Chris Stals issued this implicit warning in a statement accompanying the cut in Bank rate to 16% from 17%, effective today.

New Bank guidelines for money supply growth this year, also announced at the weekend, are lower and narrower than for 1991 and signal another year of tight monetary policy and a further extension of the two-year credit squeeze.

Major banking institutions will meet today to decide whether they will follow the Reserve Bank’s lead and drop their prime lending rates.

Standard Bank MD Mike Vosloo said the bank still had to decide officially but it would probably reduce its prime rate. An

SIMON WILLSON
and SHARON WOOD

Absa spokesman said there would be a meeting today on the issue. FNB would also meet today, a spokesman said.

Stals said under present circumstances most deposit-taking institutions — banks and building societies — could be expected to reduce their lending rates accordingly.

But he stressed there was no legal obligation on the deposit-taking institutions to follow all changes in the Bank’s rate and at this stage, in order to introduce more flexibility in the market system, the Bank was prepared to abolish the convention of a fixed ratio between the prime lending rate and Bank rate.

“There exists only an unwritten convention that the prime lending rates of deposit-taking institutions should not be more than three percentage point above the Bank rate.”

Commercial banks were free to determine their other lending rates according to their own discretion and judgment, he said.

Banks broke with this convention in October last year when they increased lending rates by 6.25% to recover the tax levied on banking services.

In cutting Bank rate from 17%, where it had stood since March last year, Stals anticipated a fall in the inflation rate, which stood at 16.2% in the year up to January.

“Recent developments in financial conditions are encouraging, but provide no conclusive justification for a general relaxation in monetary policy,” Stals said.

“The reduction in Bank rate can only

be justified on the assumption that inflation will decline again during the course of 1992.

“If not, the stance of monetary policy will have to be reconsidered.”

The rate cut was intended to acknowledge the progress made so far in efforts to reduce underlying inflationary pressures in the economy. The financial disciplines needed to bring down the nominal rate of inflation to a more acceptable level could not be neglected.

Trends in the major components of last week’s Budget reconfirmed the need for the retention of a relatively restrictive monetary policy, Stals said.

To help maintain a restrictive monetary stance, Stals said the Bank wanted to retain a money supply growth rate of

about 10%.

“At this level, the rate of growth in M3 is significantly below the current rate of inflation and the existing downward pressure on inflation through monetary policy will be upheld,” Stals said.

The guideline range for “acceptable” growth in M3 from the fourth quarter of 1991 to the fourth quarter of 1992 is to be 7%-10%, against the range for the same periods in 1990-91 of 8%-10%. This is the lowest level for money supply guidelines since the Bank first set monetary targets in 1986. The range is also the first to be set only three percentage points wide, a factor which imposes further discipline on the monetary variables in the coming year.
Banks pondering a further cut in mortgage rates

By Magnus Heystek, Finance Editor

Commercial banks will meet today to decide whether another reduction in mortgage rates is warranted.

This follows Friday's announcement of a cut in Bank rate from 17 to 16 percent by Reserve Bank Governor Dr Chris Stals.

The announcement came as a surprise, especially after government spokesmen had denied a cut in interest rates was likely to follow last Wednesday's mildly expansionary Budget.

It now seems as if the authorities have given the tacit green light for a mild consumer-led boost to the economy because the drop in interest rates, which will affect prime overdraft rates and other short-term money market instruments, come hard on the heels of a revision of the conditions relating to the purchase of motor vehicles and furniture.

The Reserve Bank has consistently said that a lowering of Bank rate will only be allowed once the inflation rate starts moving down.

The inflation rate figures for February are expected later today and a lower rate of increase in the Consumer Price Index (CPI) is on the cards.

But Dr Stals warned that the cut in Bank rate could only be justified on the assumption of lower inflation over the rest of the year. "If not, the stance of monetary expansion will have to be reconsidered," he said.

Banks reacted cautiously to the sudden cut in Bank rate, but it is almost certain that their prime overdraft rate is bound to come down.

However, another reduction in the home loan rate is less certain.

On Saturday, Jimmy Mackenzie, the outgoing senior general manager of First National Bank, warned that any reduction in mortgage rates would have to be matched by a lowering of deposit rates.

If the mortgage rate is reduced by another one percentage point, it will mean a reduction of ten percent in mortgage repayments since the beginning of the year.

This factor, coupled with the improved hire-purchase terms, could be a welcome boost to consumer spending.

In another important development, Dr Stals hinted that certain foreign exchange control regulations were likely to be relaxed or even scrapped entirely.

"As sanctions are now being lifted, unnecessary exchange control restrictions should also be phased out," he said.

But he said the stage had not yet been reached where the two-tier currency system could be abolished.

The financial rand, an investment currency introduced in 1985 and used by foreign investors, has traded at a discount to the commercial rand.

It also acts a barometer for foreign political attitudes to South Africa.

Dr Stals said the Minister of Finance (Barend du Plessis) had agreed that the Reserve Bank should start intervening in the finrand market in much the same way as it did in the commercial rand market.

He said the supply of finrands would be gradually reduced if the Reserve Bank, over time, turned out to be a net purchaser of the currency.

Domestic liquidity could also be regulated through this intervention, Dr Stals said, with the application of a part of any further increase in gold and foreign reserves.

Foreign creditors with claims in the debt standstill net would now be able to sell finrands to the Bank through authorised dealers — if they elected to convert their claims into finrands.
MONEY MARKETS

Market in a buzz over expected bank rate cut

RENEWED expectations ahead of Friday night's cut in the bank rate had the market in a buzz at the end of last week.

Reserve Bank Governor Chris Stals announced on Friday night a one-percentage-point cut in the bank rate to 16% from 17%. Market analysts, however, had been expecting at least two percentage points off the Bank rate — arguing that anything less would not have a significant impact on the economy.

Stals also announced the Bank's new money supply growth guidelines for M3, which proved to be in line with market expectations. The new guideline range is 7% to 10% from the fourth quarter of 1991 to the fourth quarter of 1992 — the lowest guideline range since the Bank first introduced growth targets in 1986.

The Bank has managed to curb money supply growth through its restrictive monetary policy in recent years. M3 money supply growth slowed to 10.3% in 1991 compared with 13% in 1990 and 22% in 1989.

Stals had, in recent months, held his ground, saying high interest rates should be maintained until the stubborn rate of consumer inflation showed some signs of relenting. So far, inflation has remained disappointingly steady with persistently high food prices taking the blame. But Stals had no doubt come under pressure from government and the market which were desperate for some form of relief.

Speaking on TV on Friday night, Stals warned that lower interest rates could only be justified on the assumption that inflation would decline during the course of 1992. If inflation remained a problem, higher interest rates could be considered.

Strong liquidity in the money market kept short-term rates at their recent lows and also kept the Bank busy with mopping up operations. The Bank issued three special Treasury bill tenders last week in an attempt to drain excess liquidity from the market.

The money market shortened was back at the R1.30m level for most of the week after dropping to about R400m the previous week. The shortage was higher at R1.39bn on Thursday from R1.04bn on Wednesday.

The BA rate drifted down a further five points from its recent two-year low of 16.5% to a new low of 16.25%, although some trade was done at levels as low as 16.70%. A reduction in interest rates should not have any great effect on the BA rate because it has already discounted a 2% cut in the prime rate.

The Bank altered the format of its weekly R200m Treasury Bill tender on Friday with the introduction of three separate maturity dates. It divided its issue into a three-month, six-month, and nine-month bills.

Applications for the three-month tender worth R100m amounted to R788m at an average rate of 15.38%, the six-month R50m tender received R493m at an average rate of 14.83%, while the Bank received R420m for its nine-month R5om tender at an average rate of 14.33%.

Towards the end of the week the benchmark Eskom 168 was high at 16.11% from a previous 16.07% while government RSA 150 long bond was also up to 16.32% from 16.27%.
Bonds are expected to say today whether the one percentage point drop in the bank rate announced at the weekend will mean another drop in the bond rate.

Yesterday reports indicated interest rates on mortgage bonds, credit cards and overdrafts could be lowered.

But Econometrix director Tony Twine said the lower bank rate did not necessarily mean a drop in bond rates.

A drop in mortgage rates was, unfortunately, not a direct consequence of a drop in the bank rate in the present situation, Mr Twine said.

In effect, institutions had pre-empted the drop in the bank rate by dropping their rates in February.

"The drop will have a mild stimulatory effect on the economy but this is a consequence of, and not necessarily the objective of, dropping the Bank Rate," he said.

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* Banks ponder cut in mortgage rates — Page 13
South Africa's major commercial banks yesterday all reduced their prime overdraft rates by one percentage point to 19.25 percent, but the home mortgage rate remains unchanged for the time being.

This decision has dashed the hopes of cash-strapped homeowners who might have been looking forward to another drop in the bond rate, after bond rates were dropped early last month.

Explaining the decision not to reduce mortgage rates any further for the time being, a spokesman for the Standard Bank said that banks preempted the Reserve Bank's decision to lower interest rates by a "couple of weeks".

Bond rates will only decline further if inflation comes down in the next month or two, economists yesterday warned.

The reduced overdraft rate follows Reserve Bank Governor Dr Chris Stais's weekend announcement of a 1 percent drop in the Bank Rate.

Absa announced it would reduce the prime lending rates of Allied, United and Volkskas banks to 19.25 percent from Saturday.

Nedbank also announced a reduction in its prime rate while Standard Bank reduced its prime overdraft rate to 19.25 percent with effect from April 1.

FNB will drop its prime rate from 20.25 percent to 19.25 percent with effect from March 27.

See report Page 19.
Banks to cut prime rate

SEVERAL banks yesterday announced a one percentage-point drop in their prime lending rate following a Reserve Bank Governor Dr Chris Stals' weekend announcement of a drop in the bank rate.

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Nedbank also announced a reduction in its prime rate while Standard Bank reduced its prime overdraft rate to 19.25 percent with effect from April 1.

FNB will drop its prime rate from 20.25 percent to 19.25 percent which, in effect, means cheaper monthly repayments of overdraft facilities as well as more accessible borrowing.

Recently appointed FNB senior GM Norman Axten said the bank welcomed the rate cut and believed the move would have a positive impact on the economy.

FNB took the lead recently in bringing down the cost of home loans when it dropped that rate from 20 to 19 percent. The FNB rate becomes effective from 27 March 1992.
Reserve Bank confirms finrand intervention

THE finrand firmed yesterday following last week's referendum result and confirmation from the Reserve Bank that it had intervened in the finrand market.

The unit finished at R3.94 to the dollar, off its opening level of R3.91 but stronger than its previous close of R3.58.

Reserve Bank governor Chris Stals confirmed last night that the Bank had intervened in the market yesterday, but "only in small amounts". The Bank would continue to intervene on a regular basis, Stals said.

Some dealers felt the Bank's intervention would stabilise the unit and boost investor confidence, but others said sporadic intervention by the Bank would destabilise the currency and it would no longer be a true indicator of foreign sentiment.

Players were unsure of how and when the Bank would intervene, dealers said.

Finrand dealers said there had been good two-way trade yesterday, with some squaring off by investors. The finrand strengthened to an intraday high of R3.49 before slipping to its closing level.

One dealer said the announcement had come at a bad time. The market had just recovered from anxiety about non-resident tax liability, which had affected investor confidence in the finrand.

The stronger finrand put mining financials and gold shares under pressure as there was confusion over the Bank's impact on finrand trading, dealers said.

Capital market dealers said rates edged up in response to the cut in the Bank rate to 16% from 17%. There was some profit-taking as well as strong overseas buying in the government RSA long stock.

Capital market rates eased last week in response to the overwhelming "yes" vote in the referendum but, because the market had discounted more than a one-point cut in the bank rate, there had been a slight upward correction in market rates yesterday, dealers said.

The benchmark Eskom 160 hardened to 16.14% at the close of trade yesterday compared with its previous close of 16.04%. The government RSA 150 was higher at 16.35% from a previous 16.20%.

In the money market the drop in the bank rate appeared fully discounted as most institutions left their 90-day liquid BA rates unchanged at 15.60%.
Major banks drop prime lending rates

MAJOR banks reacted swiftly to the cut in Bank rate, announced on Friday, by dropping their prime lending rates by one percentage point yesterday.

But a mortgage rate cut is not on the cards because, banking spokesmen say, rates have already fallen by a percentage point this month in anticipation of the drop in Bank rate.

Absa led the field yesterday by dropping its prime lending rate from 20.25% to 19.25%. FNB, Standard Bank and Nedbank followed with similar reductions. The revised prime lending rates became effective at the end of March.

A bank source said banks were adopting a wait-and-see attitude about mortgage rates and that the possibility of a cut could not be ruled out. If one of the major banks was to reduce its mortgage rate, others would follow, he said.

FNB welcomed the Bank rate cut and senior GM Norman Axten said the bank believed the move would have a positive effect on the economy in general.

Standard Bank MD Mike Vosloo said his bank had no plans at present to reduce mortgage rates.

A banking source said all loans linked to prime would be reduced by one percentage point, including credit cards, overdrafts and lease agreements. There could be a delay but banks would eventually pass on the cut to customers.

Standard Bank card division GM Alistair Graham said credit rate interest charges would come down by one percentage point, but this would take a month to implement.

The margin between prime and personal lending rates would remain unchanged because this was determined by the individual risk-status of the customer, a bank spokesman said.

A Standard Bank spokesman said the maximum legal interest rate banks could charge under the Usury Act would fall in line with the reduction in prime. But the Usury Act limits would change only by government decree. This normally lagged behind prime rate changes, and could take a couple of months.

The maximum Usury Act interest limit for loans of between R6 000 and R50 000 is 29% and more than 32% may not be charged on loans below R6 000.
In the past year, monetary growth has been
reduced, leading to lower inflation and
lower interest rates. This has resulted in
lower borrowing costs for businesses and
individuals, stimulating economic activity.

The central bank, however, is maintaining
short-term interest rates at a high level to
prevent inflation from rising. This strategy
is expected to continue for some time,
as the economy adjusts to the lower growth
environment.

Monetary policy is closely monitored by
economic analysts, who use various indicators
to assess its impact on the economy. One such
indicator is the money supply, which reflects
the total amount of money in circulation.

The chart below shows the trend in money
supply over the past decade, with a steady
increase from 2000 to 2010, followed by
a decline since then. The recent
reduction in money supply is
expected to continue, as monetary policy
remains tight.
Budget move may boost insurers

EARNINGS of short-term insurers could be set to rise following the reduction in the period after which equity investments may be disposed of without being subject to capital gains tax, analysts believe.

In the Budget, the period after which equity investments would be free from capital gains tax was halved to five years. Analysts believed the short-term insurers stood to benefit from this change more than the life assurance industry, which had in the past been "tougher" on the short-term industry.

"As the authorities view the life funds as trustees acting for the man in the street, the tax legislation applied to life offices is reasonably favourable," one analyst said.

As short-term insurers would now be able to sell off investments after five years, this gave them more flexibility with their investment portfolios.

"Where the insurer had a high solvency margin, management could decide to dispose of low yielding equity investments and move into higher yielding gilts," an analyst said.

As the capital value of the investment portfolio could suffer when moving from low to higher yielding investments, this strategy was more likely to be adopted by insurers with strong solvency margins.

Legislation stipulates a short-term insurer must have a solvency margin of 15% (and a further contingency reserve of 10%).
Banks cut prime but not mortgage rates

By Magnus Heystek

All major banking groups reduced their prime overdraft rates by one percentage point yesterday, in line with the weekend decision by the Reserve Bank to cut Bank rate by that figure.

Most banks have now reduced their prime overdraft rate to 19.25 percent, which will have the effect of reducing all interest rates linked to prime, including instalment sale agreements.

But home mortgage rates will not be cut immediately.

According to spokesmen for the leading banks, Friday's cut in Bank rate was pre-empted by them a month ago when they unilaterally reduced mortgage rates.

Even at current levels, some mortgage rates on offer to selected clients are lower than the prime overdraft rate.

However, a further softening in money market conditions could soon lead to another reduction in bond rates, a banker said yesterday.

First out of the starting stalls yesterday was First National Bank (FNB) with its announcement of a one percentage point cut in its prime lending rate.

Positive impact

The drop from 20.25 to 19.25 percent means substantially cheaper monthly repayments of overdrafts and more accessible borrowing.

"First National Bank welcomes this Reserve Bank rate cut," said Norman Axtene, recently appointed senior general manager at FNB.

"This move will have a positive impact on the economy in general," he said.

FNB took the lead recently in driving down the cost of home loans when it dropped that rate from 20 to 19 percent.

In addition, FNB customers with a cheque account and two bank services had their bond rate reduced to 18.75 percent, while the rate for FNB Gold Card holders was cut to 18.5 percent, making it the cheapest home loan on the market.

Mr Axtene said: "FNB will continue doing everything in its power to pass on meaningful benefits to customers whenever the opportunity arises."

The new rate becomes effective from March 27.

Standard Bank yesterday followed suit, reducing its prime overdraft rate to 19.25 percent, effective on April 1.

Nedbank and ABSA announced similar reductions.

Nedbank's new prime lending rate of 19.25 percent is effective on March 28.

The Afrikaanse Handelsinstituut (AHI) welcomed the lowering of Bank rate, describing the reduction as the correct action to take in the light of recessionary conditions.

Inflation worry

Executive director, Professor Joe Poolman, said yesterday that while the cut in Bank rate, coupled with the relaxation of hire purchase terms, was welcome, it was important not to stimulate the inflation rate again.

Gold and foreign exchange reserves should also be protected, he said.

The AHI was confident that if these and other factors remained favourable, further steps would be taken in the near future to stimulate the economy.
Property industry unsure of 'yes' vote's influence

WHILE the property industry has welcomed the 'yes' vote in the referendum last week, players disagree about the influence it will have on the market.

Pam Golding Properties executive director Mike Bissett says it will instil investor confidence in the country and the property market. This means overseas buyers will keep their lines of communication open and local investors will again start "putting pen to paper".

Property Economist Neville Berkowitz says international financiers should be willing to lend money to a new SA well on the road to political reform, which should see interest rates come down over the next year.

"There have been many tenants sitting on the sidelines waiting for the results of this referendum and who will now be more likely to commit to longer-term leases," he said.

However, Seeff Group Holdings chairman Lawrence Seeff feels the euphoria engendered due to the referendum result was partly offset by the Budget which did "less than nothing" to stimulate growth in the construction and property market.

"The fact that only 6.5% of government spending is to be allocated to capital projects is hardly stimulatory. While there is some relief for large construction companies in the provision for economic housing, this has been partly offset by the 2% increase in transfer costs," he says.

The Minister had failed to meet the challenge of SA's current needs. Seeff was hoping for an anti-inflationary budget with measures to promote business and industrial growth.

This will have put more people into jobs. "Tax holidays could have been offered to the overseas industrial investment and moves to end the wildly expensive and irrelevant tri-cameral system could have been announced," Seeff said.

However, Camdon's group MD Scott McRae disagrees with this, saying the increase in transfer duty and the fuel price will have little impact on the market and improved overseas sentiment could see an inflow of foreign capital into local property.

"The Budget was clearly aimed at investing in political stability and the increased policy budget indicated a commitment to capital formation. This will also have a stimulatory effect on the property market.

SA Property Owners' Association (Sapoa) executive director Brian Kirchmann says the property industry can now look forward to relative prosperity.

"I believe we will soon see a number of foreign investors and developers looking for opportunities..." Anglo American Property Services MD Gerald Leistner says the referendum result and conservative Budget could between them give a slight boost to the property market.

"The residential market, which has been dead, will start to improve, but for the commercial market to improve will need a drop in interest rates and general growth in the economy," he says.
Interbank changes name

Finance Staff

Interbank, (previously Interbank Discount House) has added finance services to its traditional money, capital and derivatives market activities.

To reflect the new services, it has been decided to change Interbank's name to Secfin Bank.

The finance services offered by the bank will focus on home loans of R200 000 or more and asset financing for the professional market, high-grade companies and government and quasi-government sectors.

Secfin Bank has shareholders' funds of R22 million and is a wholly owned subsidiary of Secchold, the listed bank holding company, with shareholders' funds of R60 million.

Secchold's major shareholders include Sanlam, Old Mutual, ABSA (via United Insurance), and Rand Merchant Bank.

Secfin's annual results to June 1991 showed a taxed profit of R3,579 million and shareholders' funds of R19,179 million. Deposits and investments were R615 million and R929 million respectively.

Management believes that by being clearly focused, keeping overheads low and providing exceptional personal service, Secfin's finance services will, within a reasonable period, provide satisfactory profits of a recurring nature.
Taiwanese bank ready for business

By Magnus Heystek
Finance Editor

The wave of foreign investment promised in the event of a referendum yes vote seems to have started. Yesterday the Bank of Taiwan said it intended to start operating in SA with a capital investment of R60 million.

Earlier, British entrepreneur Richard Branson said he intended making large investments in SA.

Other deals are in the pipeline and a rash of similar announcements can be expected.

Bank of Taiwan has occupied a building in Rosebank for some weeks, awaiting the outcome of the referendum to announce its plans.

In an interview, MD David Chang, said: "Although all the obstacles to economic growth have not yet been removed, we feel confident about the South African economy.

The outcome of the referendum was a "silver lining" and if violence can be scaled down, I believe that the SA economy has a great future."

According to Mr Chang, a career banker, he will initially concentrate on trade finance between South Africa and Taiwan.

"There are a great number of Taiwanese businessmen and manufacturers in South Africa.

"My bank will concentrate on them, but will also finance any kind of trade between the two countries," he said.

He added, however, that the bank would also act as financial gateway between South Africa and the whole of the Far East.

Bank of Taiwan, which is a registered deposit-taking institution, would at a later stage consider entering the local retailing market, Mr Chang said.

The local operation will initially be staffed by 20 people, five of whom are from Taiwan, with the rest recruited locally.

The bank will officially open its doors on April 2.

Until then Mr Chang will have some time to sharpen his golf, which he calls the "best fringe benefit" he's ever had.
Insurance scheme for commuters

An insurance policy scheme aimed at protecting road and rail commuters in the event of death or disability in accidents or violence was launched in Johannesburg yesterday.

Robin Pogir, a director of the company behind the Safe Journey Commuter Policy, says it is aimed mainly at black commuters, but whites who travel by bus, taxi, aeroplane or train also qualify.

The policy covers any fare-paying commuter for a fixed amount, payable in cash, to his/her nominated beneficiary in the event of the policy holder being killed or permanently disabled while commuting.

It costs R50 a year, is paid in full on issue and provides cover of R10 000.

Individuals may purchase up to 10 policies and increase the cover to a maximum of R100 000.

Children over the age of five and under 16 qualify for the policy, but are only eligible to R5 000 life cover, irrespective of the number of policies bought.

Disability cover for children will increase from R10 000 to a maximum of R100 000, depending on the number of policies purchased.

The riots and strikes limitation clause has been removed from the provisions of the scheme. Mr Pogir says, adding that the policy has been undersigned by certain underwriters at Lloyd's of London.
War of the banks fought on service

BY ARI JACOBSON

BANKERS are in agreement that undercutting competitors on price is no longer a sensible strategy in the industry — service now being the key element in attracting customers.

The old-fashioned way in banking was to build business by simply offering a lower price (interest rate) on anything from home loans to overdraft facilities.

But at First National Bank's senior GM Niel Swart says in the macro sense its now impossible to compete on price.

"Just look what happened when we lowered the home loan rate a few months ago by 0.5% to 19.75% — everyone followed — Standard Bank undercut us by a further 0.5% to 19.25% and then we followed." He adds that competition is now taking place on a micro scale. "If we want to entice a corporate client to FNB, we match or outdo competitors on all product prices plus we throw in some free service which ties in with the particular company's profile".

That is where banking warfare is being fought, says Swart.

Nedcor's CE Chris Liebenberg mentions that building big balance sheets through asset expansion, without underlying profitability, is past. "Business is now based on sophisticated credit management with the risk weighed up against the reward." Liebenberg adds that Nedcor will maintain its competitive edge by targeting marketing for specific styles. "This is highlighted for example in the differing appeals of the Perm and Nedbank."

Standard bank Investment Corporation's (Stanbic) divisional GM home loans Duncan Reekie talks of the packaging concept for customers — with a wide array of services under various plans. There is the achiever plan focused on the youth market and the prestige plan for the go-getting client.

But this is not unique to Stanbic says Amalgamated Banks of SA's Mike de Blanche. Volkskas bank for instance has the cum laude plan for super-achievers.

De Blanche reckons that Absa's competitive edge will come from its strong branch network through Allied Building Society, Volkskas bank, United Building Society, Sage financial services and as from April with Bankorp's Trustbank, Senbank and Bankfin.

From a banks perspective the game plan among the big four is to attract credit-worthy clients.
PROPERTY developers and owners could hardly have asked for a better present than the overwhelming yes vote in last week's referendum.

This was said by the executive chairman of the Murray and Roberts Properties Group, Mr. Eric Field, when he opened the East Rand Mall in Boksburg.

**Catalyst**

He said that one interesting outcome of the referendum was the obviously exuberant and good-natured attitude of black and white shoppers towards each other.

"It seemed almost as if the referendum result was the catalyst that we have all been waiting for to reach out and find each other," he said.

**Dramatic**

He added that while he did not expect a dramatic improvement in rent levels and property values, he nevertheless did expect a steady improvement and he had no doubt that March 17 would prove to be the turning point for the property industry.
Sankorp acquisition bid delays capital base plans

THE proposed acquisition by Sankorp of Absa's and Rembrandt's interests in Momentum Life had delayed the insurer's plans to strengthen its capital base, MD Niel Krige said yesterday when presenting the group's results.

The current limited capital base and a conscious decision to reduce single premium business saw premium income decline to R428m from R461m in the six months to December, he added.

However, helped by higher investment income and lower payouts on claims and benefits, the life insurer increased excess "income over outgo" to R291m from R283m.

On earnings a share, which rose to 12.3c (11.4c), an interim dividend of 7.5c (6.75c) a share was declared.

When the 1991 year-end results were published last September Momentum said it intended to strengthen its balance sheet. But the proposed Sankorp deal had delayed this.

"A rights issue would be the most obvious route to take to recapitalise the group. But other possibilities were also being considered," he said.

Currently the group's shareholders' funds as a ratio of total funds is about 15%. As the ratio should be at least 3%, shareholders' funds would need to be increased to about R225m from R113m at the end of December.

On the group's closing price yesterday of 520c a share, about 35-million new shares need be issued which is over half the 70-million in issue.

In the R150m deal Sankorp is to acquire Absa's 30% stake and Rembrandt's 28.7% interest in the life assurer. Following the acquisition, Momentum will continue to operate under its current management.

Krige said the decision to reduce single premium business was taken over two years ago as profit margins in this area were limited.

"As the main source of profit in this area is derived from the difference between interest earned by the assurer and the interest paid out to the beneficiary, margins are narrow," he explained.

He noted the taxed surplus of R8m (R6m) represented 50% of the group's taxed surplus for the 12 months to end June. As a result the 12.3c earnings a share did not reflect this year's performance.
Bank retail deposit rates to drop

RETAIL deposit rates at all the major banks will move down by about one percentage point within the next week. Absa and FNB would reduce their rates on April 27. Nedbank on April 28 and Standard Bank on April 1, a bank source said yesterday. Savings accounts through to fixed deposits would be affected.

The move follows the reduction in commercial banks' prime lending rate and will be the first significant reduction in retail deposit rates since March last year when prime came down by a percentage point.

At that time retail rates fell less than a percentage point because of the extremely competitive state of the market, a source said. While conditions were always competitive on the retail side, current conditions had changed from those prevailing last year and the market was more liquid.

The planned cut in retail rates was quite significant, he said. This would again bring wholesale deposit rates above retail deposit rates.

A Standard Bank spokesman said the interest rate cuts would vary because of the diversity of deposits, but overall rates would come down by a percentage point. Retail rates were never dropped by the same amount across the board, he added.

PNB senior GM Norman Axten said deposit rates would decline by up to a percentage point.

Nedbank was still discussing how much rates would fall, but it would probably be in line with the other banks.
Taiwan bank expresses
great confidence in SA

SA WOULD have one of the world's strongest economies within 20 years, Bank of Taiwan SA MD David Chang said this week.

The state banking institution of the Republic of China, with total assets of about R6bn, will open its first African branch in Johannesburg on April 2 this year.

The bank was welcomed to SA by the mayor of Johannesburg, Jan Burger, last night. The mayor said "there will undoubtedly be increased two-way trade and investment between the Republic of China and SA".

Focusing on trade and corporate financing, the bank hopes to act as a conduit for foreign investment, particularly from the Far East.

"We want to be a bridge to channel funds to meet the needs of industrialists here in SA," said Chang.

The Bank of Taiwan is the 33rd foreign bank to establish operations in Johannesburg, with many more looking into the possibilities, said Johannesburg City Council commerce and industry director Collin Wright.

"The fact that the Bank of Taiwan has selected Johannesburg as one of its key international locations is of great significance and is indicative of the commitment from that country in terms of investment in Johannesburg and SA," said Wright.

The Bank, one of the world's 150 largest, has 100 branches and 6,000 personnel mostly in Taiwan. Further branches are planned in Los Angeles, London, Amsterdam and Frankfurt while a New York branch was established in 1989.

The SA branch, which obtained its provisional banking licence from the registrar of Deposit-Taking Institutions in Pretoria in December last year, opens up next month with capital assets of R50m.

"Once the political uncertainties are eliminated, more investment will come. The potential here is so high," Chang said.

The bank's objective was to build up a base in SA and in the longer term Johannesburg would become a gateway to the rest of Africa.

"Foreign investment from Taiwan mostly focuses on the Far East — Thailand, Singapore, Indonesia — because geographically and culturally, Taiwan is closer to those places. With the establishment of the Bank of Taiwan in SA, capital from the Far East will now have access to a direct channel for investment," he said.
AFDB chief due soon
African Development Bank (AFDB) president Babacar Ndiaye is expected to visit South Africa from March 29 to April 9, the Department of Foreign Affairs announced yesterday.

AFDB said in a statement issued through the department that the visit was at the invitation of the government, the African National Congress and the Development Bank of Southern Africa (DBSA).

The AFDB chief would hold discussions with major political parties, government ministers, financial institutions, business organisations, labour unions, religious bodies and civic groupings.

Mr Ndiaye said he had been heartened by the overwhelming white vote in support of the negotiation process, and that if the process was successful, South Africa could become a member of the AFDB within two years.

The AFDB Group, with total assets of $33 billion, is the largest financial institution on the African continent. — Sapa.
Catching its tail

Year-on-year money supply figures, which for so long masked a deceleration in the growth rate, are now hiding a sudden upturn. This can be seen by comparing growth in the broad monetary aggregate M3 from February to February — 10.83% — with growth from the mid-November base of the current target year to February — a seasonally adjusted annualised 16.34%. The annualised figure exaggerates the increase, of course, but it is an indication of the pace of change.

Revisions of seasonally adjusted annualised M3 growth for previous months have been published. This is because, from now, calculations will be based on mid-November 1991, where previous calculations related to mid-November 1990. They show growth to the end of:
- November of 39.74%;
- December 1.57%;
- January 12.09%; and
- February 16.34%.

The M3 figure for February is provisional. The full balance sheet of the banking sector will be reflected only in the revised estimate to be published next month.

In the past, discrepancies between the preliminary and final estimates of M3 have related largely to changes in the status of holdings of certificates of deposits. Those held by nonbanks are part of money supply while those held by banks are not. Changes of ownership are contained in the revisions.

Revised estimates for January show M3 grew 14.42% (down from 14.73%) to R183.9bn. Of the other aggregates:
- M2 grew 16.78% to nearly R155bn;
- M1 16.31% to R58.1bn; and
- M1A 16.83% to nearly R33bn.
Only AECI and Iscor have raised money via commercial paper since issuers of these instruments were exempted from the requirements of the Deposit-Taking Institutions Act in January. The slow start is not unexpected because:  

- Paper markets are traditionally sluggish before a Budget;  
- The referendum made prospective issuers more cautious, says Sarel Oberholzer, head of treasury operations at Discount House of SA, which handled the AECI issue; and  
- Commercial paper markets are usually slow to start, says Tom Makinson, of the Association of Corporate Treasurers, who notes that the present situation is not unlike that in the UK when commercial paper was introduced. There were onerous restrictions that later fell away.

In SA, the market will continue to be inhibited, as long as commercial paper requires a bank endorsement. The requirement, a concession to banks, is intended to be a temporary measure.

Meanwhile, Makinson says, the endorsement requirement removes the incentive to choose commercial paper above other sources of funds: “The cost of the endorsement is warranted only where credit-enhancement is needed.”

As it stands, corporate paper is little different from a nonliquid BA, says Robin Marsden, of Deloitte Peat Marwick’s financial services team. “So commercial paper will be in demand only to the extent that there is a demand for nonliquid BAs.”

But AECI group treasurer Chris Sinclair says commercial paper issues have some advantages over BAs— they are less costly — 0.25% commission is charged by banks for endorsement on each commercial paper issue as opposed to 0.5% on nonliquid BAs — and interest rates may float. “It is a cost-effective means of diversifying our sources of finance.”

The new securitisation market is also facing impediments. Securitisation — the sale of parcels of assets as negotiable securities — was also given the go-ahead in January. But securitisation issues can be effected only by deposit-takers.

Another problem is that credit risk cover is difficult to obtain locally. Says Marsden: “UK insurers recently experienced losses in the securitised and general mortgage markets, and their local affiliates are now avoiding this type of business.”

A further problem is the complexity of securitisation issues and lack of knowledge about them.
But whose life? 21/3/72

ECONOMY & FINANCE

Conversely, of course, all life policies earn commission for the intermediary. But the report was in 1962, to the Bank of England, and the intermediary's commission was not included in the cost of the policy. The report of the Auditors-General makes it clear that there is no life assurance for the life offices to which these products were sold. The life offices now pay out more than they have been receiving.

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Comprehensive news report about the African Development Bank annual meeting and its implications for South Africa and the continent.
Public Adjusters' MD Mike Gaines suggested this at the opening of the firm's Randburg offices this week. His proposal raises the questions:

- Would this be a useful tool for the consumer?
- Does it add value to the existing chain of consumer protection?
- And
- Is it simply an exercise to raise the profile of Gaines's organisation?

Existing regulators include the Financial Services Board, brokers, loss adjusters, the ombudsman for the short-term industry and recourse to law.

The broad role of the FSB is to assess the ability of a registered insurer to pay claims. A broker will usually fight for the client's rights and sometimes succeed only to the extent that he has clout in the marketplace.

Ombudsman Bill Schreiner's office is only three years old. Gaines says: "His effectiveness is severely limited because he can act only in domestic claims." There are other limits to Schreiner's powers.

Loss adjusters have a strict ethical code which insists they must be impartial when assessing the insurance payout. They are paid by the insurance companies. The emergence of the "public adjuster" to represent the insured means the insurer has a new watchdog.

Gaines's firm works on a variable percentage but usually gets 2.5% of the payout on a commercial claim.

He says speed of settlement is sometimes more important in commercial cases than the amount paid out: "There is no sense in getting a R1m cheque months after your business has been liquidated because of events against which you were insured."

He adds that a procedure is needed to help the consumer who faces a R20 000 loss. Alternate dispute resolution is now being practised in 35 centres in the US. Prompted by high legal costs, procedures for either mediation or arbitration have been introduced. Cover, an SA insurance magazine, notes that "interestingly, insurance companies, rather than claimants, tend to take the initiative." There are now moves afoot to introduce a similar system in SA.
Closed case

The judge dismissed a claim of R5.5m instituted by the Standard Chartered Bank (Stancha) of Canada, against Nedbank, in the Rand Supreme Court last week.

Stancha Canada claimed that Nedbank caused it a loss of R5.5m when it advised that Triomf Fertilizer, Richards Bay, was trading normally and would, in these circumstances, be regarded as good for its normal business. The claim related to a general bank report requested, on Stancha Canada’s behalf, by Standard Bank of SA in November 1985.

Stancha Canada claimed that, depending solely on that report, it extended the existing line of credit and subsequently discounted a bill of US$2.6m drawn by a Canadian sulphur exporter, Camsulex, on Triomf. It also waived recourse to Camsulex. This discounting was done about two months after the date of the report.

Triomf was liquidated in July 1986, before the due date of the bill and the bill was consequently not paid.

The judge distinguished between a general report and a specific report for a set amount and period. He concluded that Nedbank would not have known the report was required for a foreign client and for a foreign currency and said it could have been for 10 to 100 clients. If a liability was to be incurred in such circumstances, it would lead to limitless liability which is a liability for which our law does not and should not provide.

When Nedbank submitted the report, Triomf was millions of rands over its overdraft limit and Nedbank was reluctant to extend further credit. However, the judge ruled that Nedbank’s advising that it regarded Triomf as good for its normal commitments, while trading at a loss, should not be interpreted as a misstatement of fact as Nedbank continued to “prop up” Triomf, allowing it to honour its commitments for a long period thereafter.

If a banker had to incur a liability under a general report, it would be better for him not to provide such a report. From the evidence, it appeared bankers regard a general report as a “snapshot” of a client on the day it is requested and it is not intended to be “prophetic.”

The report also contains two remarks which should have attracted the attention of the person reading it: that the company had suffered setbacks and that the figures of the holding company were available. The evidence indicated that nobody in Stancha asked what those figures were.
INTEREST RATES

Reading the omens

The announcement last Friday of a one per-
centage point fall in the official rate at which
the Reserve Bank lends to the banking sector
took some market players by surprise.

Earlier in the day, the Bank's weekly
Treasury bill tender included — for the first
time — six- and nine-month bills. So the
Bank's own treasury did not signal a fall.

Also caught wrong-footed were those who
expected that, with the market already dis-
counting a fall in Bank rate of more than one
percentage point, Reserve Bank Governor
Chris Stals would announce a bigger reduc-

Disappointment was reflected in long
rates. The benchmark Eskom 11% climbed
from its Friday close of 16,045% to end
Monday at 16,135%.

Whether a fall of one percentage point was
appropriate depends, perhaps, on whether
the recent surge in the official inflation rate
— based on the consumer price index — or
the rise in producer inflation is regarded as
the most reliable indicator of the path of
future inflation. Stals must have pondered
over the conflicting evidence.

Since January 1991, when the CPI
climbed 14,3% and PPI 14,4%, the two have
moved in opposite directions (see P38). By
January 1992, the gap between the two rates
amounted to 9,5 percentage points. Tradi-
tionally, PPI movements precede those of
CPI but this period of 12 months in which
they have moved in opposite directions falls
well outside the normal lag.

If PPI is an accurate reflection of funda-
mental inflation, there would certainly be a
case for a larger fall in Bank rate. But Stals
chose the path of caution because he knows
the strength of inflationary perceptions. He
must also have been influenced by the latest
money supply figures which show a recent
acceleration in the rate at which the broad
monetary aggregate M3 is growing (see
P36).

This is probably due in part to an inflow of
foreign funds.

Though it is good news for the balance of
payments, the inflow creates excessive liq-
uidity in an economy protected by exchange
controls — which is an important reason for
Stals's decision to intervene in the financial
rand market (see below).

The relaxation of hire purchase restric-
tions announced a day ahead of the an-
nouncement of a fall in Bank rate does not
signal a change in monetary policy.

That the two announcements came within
a day of each other is coincidental, Stals told
the FAF.

The decision on HP requirements was de-
signated to help certain sectors — the car
industry and furniture retailers — while the
fall in the official Bank rate was a logical
outcome of market conditions.

"We have reduced the rate to a level which
we can defend," says Stals.

He has signalled that monetary policy will
remain firm by setting the target guidelines
for growth in the broad monetary aggregate
M3 at 7%-10% for 1992, below the previous
year's 8%-12%.

And on Tuesday, he was siphoning money
out of the system with a R500m tender of
special Treasury bills.

Stals stressed that the convention that
banks should reduce their own lending rates
in line with Bank rate no longer holds. He
said they are free to set their rates according
to their needs. But no bank took advantage
of this to gain a competitive benefit in the
market — all major banks announced one
percentage point falls. They are reluctant
to sacrifice margins and uncertain about liq-
uidity in the market.

Rediscount bills

Along with the fall in Bank rate, other
rates at which the Bank rediscounts bills for
banks were lowered:
☐ On Rand Bank bills to 16,15% (down
from 17,15%) ; and
☐ On bankers' acceptances to 17% (17,5%).

The penal rate on overnight loans will be
fixed at 1,5 percentage points above the
prevailing prime rate.

FINANCIAL RAND

Package deal

Reserve Bank Governor Chris Stals has
equipped himself with a versatile new policy
instrument. With one stroke he has found a
way to reduce:
☐ Liquidity in the money market;
☐ The financial rand's discount against the
commercial currency;
☐ Debt held in the standstill net; and
☐ Losses incurred on the Bank's forward
cover operation.

For the first time since the financial rand
was introduced in 1961, the Bank will inter-
vene in that market. By using dollars to buy
financial rands, it will offset inflows of
foreign funds to the money market. Though
determined "at the discretion" of the Bank,
the exchange rate of the financial rand will
be linked to the level of official reserves.

At the same time, the Bank will shrink
the pool of financial rands which will increase
the value of the unit. Stals implies in his state-
ment that this is a first step towards
abolishing exchange control. "As sanctions
are now being lifted, unnecessary exchange
control restrictions should also be phased
out."

For some time, he has complained that
exchange control has distorted SA's finan-
cial markets, creating liquidity which would
not be there if market forces prevailed. This
has the unfortunate effect of stimulating
credit creation and driving inflation. Now he
has found a way to tackle that problem.

He points out that foreign creditors with
claims against the debt standstill net (now
worth less than $6bn) can convert these into
financial rand. They can then sell them,
directly, through authorised dealers in
foreign exchange, to the Bank. But, clearly
the Bank could not absorb huge sums over-
night, so transactions will be limited by
availability of reserves.

As long as there is a discount, the Bank's
financier interventions will generate profits.
At prevailing rates R100 will eliminate R350
in financial rands, at a cost to the Bank of
only R290. These profits will be transferred
to the Forward Contracts Contingency Re-
serve Account of the Treasury, held by the
Bank, which had accumulated debits of
R10,4bn by March 1991 — the latest avail-
able figure. Allocations from the Budget in
certain years reduced the amount.

The immediate effect of the operation will
More join 'stokvel clubs'

MORE and more people are joining the Standard Bank Society Scheme, which works on the "stokvel" saving concept popularised by Andrew Lukhele, president of the National Stokvels Association of SA.

Standard Bank's John Holloway, divisional general manager of marketing services, said about the scheme: "The bank believes this to be a major step into a largely unexplored market but one which is considered to have exciting potential to narrow the gap between the informal and formal financial sectors."

One of the people who are excited by this new approach is Martha Ramothiola, treasurer of the

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ANDREW LUKHELE...
Popularised scheme.

Fanang Diatla Society which has been operating from Diepkloof, Soweto, since 1979.

The group, with 35 families on its list, first operated on an ordinary savings account before learning about the new scheme.

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They see a lot of advantages with the scheme, such as higher interest rates and less hassles with withdrawing large sums of money.

Ramothiola said all that was needed was to present your JD and signatures on the form.

"You are also informed on how your money works for you," she said.

According to Alphina Kgarosi, treasurer of the Mandebele Burial Society which operates from Molapo, Soweto: "There are no interest charges with the 'Grey Book' (that's what stokvel groupings call the book for the scheme).

"We receive monthly statements and all members love it."
A safe scheme for savings

By NOMVULA KHALO

THE Lerato Women's Club is one of the groups of savings clubs to have opened an account with the Standard Bank.

The club was recently handed a folder sheet by the bank's customer consultant, Nomusa Ndabaningi, to enable club members to keep track of their financial record with the bank.

Yalezwa Makana and Buyi Radebe were two of the Lerato Women's Club members who opened the account under the bank's Society Scheme.

The purpose of opening such an account is to introduce a new concept to women's clubs where they will be able to put their money in a safer place - instead of choosing a treasurer within the club and asking her to take care of it.

Accepting the folder sheet this week, Makana said: "The society scheme is a good idea because there are no service charges and you earn interest."

Outlining the nature of the women's club, another member Radebe said their club consisted of 25 members who met on the first week of every month.

She said each member pays R100 every meeting, which is taken to the bank for saving and drawn in December. The total amount is then divided among the members.

Makana thought the scheme was a great idea to help the community save money for special projects.

"By taking advantage of the scheme you know that at the end of the year you can take your family on holiday with the money you have saved throughout the year," she said.

Before Standard Bank offered this service we saved our money using extremely primitive methods.

"We used to go to another member and give her the table money, leaving it under her sole care."

"This was too risky for one could not guarantee the safety of the money."

She said they were extremely happy with the Standard Bank scheme, which besides keeping their money in safe custody, was also adding interest to their initial savings.

WHERE THERE'S SMOKE... Stokvel members make up for lost time socialising at a shebeen in Soweto.
SA soon to become a member of African bank

South Africa can expect to become the 52nd African member state of the African Development Bank "in the very near future", says ADB president Babacar N'diaye.

But South Africa must first become a member of the Organisation of African Unity.

Mr N'diaye said on his arrival in Johannesburg yesterday that he was in South Africa to salute all the parties involved in the democratisation process.

The developments in South Africa were much in line with the processes being carried out in the rest of Africa, he added.

The African Development Bank is Africa's equivalent of the World Bank and has a total of 76 members, 51 from Africa and the rest from industrialised nations including Japan, the US and France.

Mr N'diaye said he hoped his visit to South Africa would lead to the ADB being able to offer its assistance in development programmes in South Africa.

He was optimistic discussions with the political, non-political and business organisations would be fruitful.

The nine-member ADB delegation is scheduled to hold meetings with all the major political groupings including the ANC and Inkatha.

They will also be holding discussions with organised business, non-governmental development agencies as well as the Industrial Development Corporation and the Small Business Development Corporation.

With regard to membership of the ADB, sources close to the agency indicate that South Africa may become a member within the next two years.

Qualification means becoming a member of the OAU.

Mr N'diaye was invited to South Africa by the Development Bank of South Africa, the ANC and the Department of Foreign Affairs.

He is scheduled to leave on April 9. — Sapa.
Expected Bank rate cut had little effect

THE Bank rate cut had little effect on the local money market last week as the market had already discounted for a cut in excess of the 1% drop announced by Reserve Bank Governor Chris Stals.

Meanwhile, strong liquidity continued to exert downward pressure on rates and the three-month BA rate dropped a further 39 points last week to 15.50% compared with 15.80% at the beginning of the week. This is the lowest level since February 1999.

The Reserve Bank’s weekly Treasury Bill (TB) tender continued to reflect good demand for quality assets. The Bank again issued a tripletender with the R200m issue spread over three, six, and nine months.

All three issues were well subscribed — the Bank received R917.6m for its R100m three-month Bills on offer at an average rate of 15.0% while the six- and nine-month tenders received R64m and R36m at an average rate of 14.7%, and 14.2% respectively.

Last week’s six- and nine-month tenders were not as well subscribed as they were the previous week when players were still expecting a Bank rate cut. With the 1% drop in Bank rate to 16% from 17%, players should stay short until expectations for a further dip in Bank rate develop.

Solid demand for the three-month TB last week and weaker demand for the other two maturities reflected the hunt for short-term paper. The three-month TB rate also continued its downward slide to 15% at the end of last week from a previous 15.48%.

Capital market rates took a breather last week to recover from the effects of the referendum, the Budget and the Bank rate cut which boosted the market sharply. Rate moved sideways in a lethargic market. The post-referendum increase in foreign buying did not hold last week and lower foreign interest capped bullish sentiment.

Capital market rates largely ignored the spate of economic indicators released last week. Consumer inflation, producer inflation, money supply and trade figures all showed positive developments and boosted hopes for a sooner-than-expected upturn in the business cycle. But capital market rates were not much affected by the bullish sentiment.

At the end of the week, the benchmark Eskom 168 had hardened to levels around 16.12% from a previous 16.10%. The government long-stock RSA 150 was also higher at 16.35% from 16.30%.

The Reserve Bank continued with its battle against strong liquidity levels and issued two special TB tenders in an effort to drain the market. At the end of the week the money market shortage was higher at R1.60bn from a previous R835m.
Life assurance hope for tax Act change

CAPE TOWN — The life assurance industry is hoping that the three-fund principle for the taxation of life offices — announced by Finance Minister Barend du Plessis in his Budget review — will be incorporated into the Income Tax Amendment Act.

This usually comes before Parliament in about June. The Act implements the Budget proposals. It is expected that the Sixth Schedule to the Income Tax Act will be scrapped soon and replaced by a regulation in the Insurance Act.

Life Offices’ Association (LOA) director Jurie Wessels said initial calculations indicated that the life industry as a whole would pay less tax should the three-fund proposal be implemented, although life assurance businesses could end up paying more.

Currently life offices operate two funds: an untaxed fund derived from retirement-related policies, taxed in the hands of the beneficiary; and a taxed life fund. The assured is allowed to deduct only 55% of the life fund’s gross income as part of taxable income and must apply the top marginal rate for policyholders instead of the average rate, which the industry believes should be applied.

The assured as a company does not pay tax on surpluses derived from the untaxed fund.

The Equal Competition for Funds in Financial Markets committee — chaired by Finance Minister Barend du Plessis’ special adviser Japie Jacobs — recommends three funds. In addition to the taxed policyholders’ fund and the nontaxable pension, provident and retirement annuity fund, it envisages a corporate fund subject to the company tax rate.

Wessels said the corporate fund would consist of the surpluses of the taxed and untaxed funds.

Pleasing to the industry is the fact that the trustee principle would apply to the policyholders’ fund. All expenses would be deducted for tax purposes, no tax would be paid on dividends and the average marginal rate would be applied.

Wessels said a committee of life assurance actuaries, Inland Revenue and Financial Services Board officials were working out the details of the proposals, such as how to allocate shared overheads to the three funds and how to provide for the tax treatment of money channelled from one fund to another. Mutual assureds which did not have corporate funds would have to create them out of their untaxed free reserves to comply with the new disposition.
Business squeeze means boom in debtor insurance

GIVEN the depressed economy and the rising number of companies experiencing the squeeze, it's hardly surprising that business is booming for SA's newest Credit Underwriting Agency, CUAL.

The three-year-old CUAL was launched because of a perceived demand for local credit insurance and judging by the fact that some 75% of its business is new to the industry, the perception was on target.

CUAL MD John Manners says indications that CUAL has grown the market are evidenced by the fact that companies which were not traditional insurance users are now insuring their books.

These include companies in the computer, freight forwarding and chemical industries.

To date work has focused on local insurance business, but this will soon be broadened to include export business.

The specialities of three groups are the key to CUAL's ongoing success.

Expertise

The groups are Commercial Union, Hollaendia Reinsurance and KreditInform.

Manners, who has been involved in both insurance and reinsurance, has the necessary expertise to ensure that the speciality expertise of each is utilised to its fullest potential.

"Our portfolio of business shows the traditional spread found in most insurance books, with some focus areas being the clothing and textile, building, steel and engineering industries," he says.

For credit insurance policies to be established, limits are set for each debtor and the activity of debtors is then monitored on an ongoing basis, a credit management function may often be necessary.

"Clients get management reports so they can identify problem accounts early and sort things out before they become too serious.

"Effectively, clients have an administrative system outside their offices which is monitoring debtors -- and more specifically, problem debtors.