FINANCE — GENERAL — 1992

APRIL

Liberty Life sees its letting figures soar

Bday 1/4/92 (58)

Reports by
PETER GALLI

LIBERTY Life Properties (LLP) let nearly 50% more space in its countrywide portfolio in 1991 than in the previous year, says leasing and acquisitions director Russell Inggs.

More than 154 000m² of space was leased out.

Tenants were particularly interested in newly refurbished space in older buildings like 34 St George's Street in Cape Town, which was fully let.

"We have almost no vacancies in our retail portfolio, and office vacancies stand at about 7,5%. We expect these levels to remain constant until early 1993 as the business climate is still reasonably negative," he said.

A number of deals were concluded on the commercial front. These included several lettings in North City House, Braamfontein, where only 700m² remained unlet.

Flagship

About 350m² was let in Princess of Wales Terrace. The conclusion of two deals for the Eastgate Office Tower resulted in another 364m² being let.

The Zimbabwe Trade Mission has taken 1 032m² in the Bank of Lisbon building and MIB Insurance Brokers have taken 193m² at the Promenade in Nelspruit. Longsbank in the Johannesburg CBD has seen the Food and Beverage Worker's Union take 250m² and the SA Chemical Worker's Union 530m².

The group's flagship commercial development, Jorissen Place, is to be completed in the second half of the year.

It offers 28 000m² of A-grade space with rentals negotiable at about R30/m².

"Most of the 1 000m² of retail space is already let, and marketing of the office space is due to start," Inggs said.

The Selby warehouse in Johannesburg is now fully let. A lease for industrial space of 2 250m² at Selby Ext 5 has been renewed for 10 years by ADC Engineering.

Director of shopping centres Gavin Main said the audited retail tenant turnover in the group's shopping centres around the country exceeded R1,6bn.

"This excludes amounts from major retailers in free-standing premises and comes primarily from Sandton City, Eastgate and Alberton City, with Port Elizabeth's Greenacres Centre and Liberty Sentrum in Welkom close behind."

However, he would not disclose profitability levels of the centres as this was "not company policy".

As a result of the refurbishment and extension of Eastgate, LLP had increased its valuation of the centre to R175m.

"This shows the viability of refurbishment, as R77m was spent on the project," Main said.

Now that the Eastgate refurbishment is complete, LLP expects excellent growth in 1992.

It also expects turnover at Sandton City to increase steadily. The R85m revamp of the centre began in February.

On the retail side, Eastgate and Sandton City saw a number of new food tenants take space. Hoagie Diner, Steers, Nino's Coffee Bar and a Spur Steak Ranch were among the new tenants at Eastgate.

Cafe Renoir, Angie's Health Cafe and the Brazilian Coffee Shop opened last year, and Juicy Lucy and Walnut Grove are being extensively refurbished.

A 700m² lease on the banking mall has also been signed with Ristorante Italian.

No changes to life brokers' fees

B/Day 1/4/92

LINDA ENSOR

CAPE TOWN — The Financial Services Board had decided against the idea of deregulating commissions paid to life assurance brokers, Life Offices Association (LOA) director Jurie Wessels said yesterday.

The Competition Board was concerned that the maximum limit imposed by the industry on commissions might constitute price fixing. But Wessels said the Financial Services Board had accepted the LOA's view that the status quo be retained.

LOA public relations standing committee convener Dorian Wharton-Hood said at a news briefing it was proposed there be no regulation of commissions and that brokers be obliged to disclose the commission they were receiving on a policy to the prospective policyholder.

"We don't mind disclosure, but it is a question of the timing and nature of the disclosure," Wharton-Hood said, adding that upfront disclosure would make the selling of life assurance highly difficult and that deregulation was likely to lead to exploitation.

It emerged from the briefing that the report of the committee investigating the levelling of the playing fields in the financial services sector was due to be finalised next month.

The report was expected to contain a chapter by Registrar of Banks Hennie van Greuning on the need for an all embracing Financial Services Act, which would provide for the regulation of the entire financial services industry.

58

Wharton-Hood said the life industry could see the benefits of a holistic approach to the regulation of financial services but was concerned about overregulation. The industry had a long history of self-regulation and did not believe there should be additional regulation laid down by the authorities.

Wharton-Hood criticised the delay in drafting the new long-term insurance Bill, now in its third draft after five years of preparation.

"The industry has spent a lot of time considering the new Bill, but our comments have been ignored. We hope the Bill will finally be put to bed or dropped."

Sapa reports Wharton-Hood said he believed a 15% tax would be levied on pension fund cash flows by a future government to finance housing and social upliftment programmes.

He said the LOA had held discussions with the ANC which wanted to divert some of the enormous funds of insurance companies, and he believed the industry "could live with" a 15% on pension fund cash flows.

State pension funds alone generated at least R10bn a year in cash.

He believed life assurance funds belonging to policyholders would be left alone and that the ANC leadership appreciated the value of these funds for investment in industry and job creation.

Syfrets adds a new product to its stable

BD 1/4/92. (58)

LINDA ENSOR

CAPE TOWN — Syfrets has launched a new unit trust, the Syfrets Gilt Fund, which joins a stable consisting of the Growth Fund, Income Fund and Trustees' Fund with total assets under administration of R1,2bn.

Portfolio manager of the new fund Rob Nichol said yesterday the Gilt Fund would kick off with assets of between R50m and R80m derived from the Syfrets group's large client base which had total assets invested of between R10bn and R12bn.

He said the fund would be an actively managed investment vehicle in the capital market and would enable Syfrets to provide its clients with a comprehensive array of funds from which to construct a personal financial package.

The launch of the fund came at a difficult time in the capital market which had had a strong run and it was probably now in a consolidation phase, Nichol said. Lower rates were expected over the next six months.

"The fund will invest in government, selected municipal and public corporation stock. Because of the potential volatility of capital values associated with investing in the capital market, the risk and return profile will be higher than that of the Income Fund."

He said the Gilt Fund aimed to enhance returns through accurate forecasting of interest rate movements and changes in the yield curve.

"Syfrets intends to achieve superior investment performance from the opportune switching of investments within the portfolio," Nichol said.

He said that in addition to catering for local investors, the Gilt Fund would also meet the needs of emigrant SA investors whose net cash and assets were controlled by an authorised dealer.

"The fund managers will minimise the tax liability for financial and blocked rand investments. The Gilt Fund will also be of interest to managers of smaller pension funds and to investors who wish to "lock in their income return", he said. A minimum investment of R10 000 will be required.

GuardBank fills unit trust gap

BDay 1/4/92

58

GUARDBANK is to extend its unit trust portfolio with the introduction of the GuardBank Industrial Fund this week.

GuardBank Management Corporation executive chairman Roy McAlpine said the new fund, which would be introduced tomorrow, would fill the gap in the GuardBank suite of unit trusts which consisted of three funds — the Growth Fund, the Resources Fund and the Income Fund.

The omission of a fund specialising in financial and industrial shares would be rectified with the introduction of the Industrial Fund, McAlpine said. "As the name suggests, the GuardBank Industrial Fund's investments will be confined to counters in the financial and industrial sectors of the JSE," he said.

McAlpine said the Industrial Fund would exclude mining shares from its portfolio. The investment policy applicable to the Industrial Fund would be similar to that of the Growth Fund in that it would only invest in prime quality counters.

Because of its smaller size, however, "the Industrial Fund would have the ability to invest in smaller market capitalisation companies from which the Growth Fund was, in practice, precluded from investing because of its size," he said.

Bank has duty to avert crises, says Stals

B Day 1/4/92 (58)

SHARON WOOD

THE Reserve Bank would play an important role in containing a crisis threatening the domestic financial system, Governor Chris Stals said yesterday.

Speaking at an international symposium on the outlook for SA financial markets in Johannesburg yesterday, he said the default of one or more large financial organisations would lead to further defaults and this would extend to the core of the banking system.

"The possibility of such an event is of obvious concern to a central bank." The Reserve Bank had a vested interest in the soundness of the financial system and would participate in and promote efficient payments.

"Containment of a crisis may in many circumstances depend more on the actions of the monetary authorities than on those of market or institutional regulators," he added.

The Governor's address came soon after the controversy surrounding reported Bank loans to Bankorp of R1bn and to Absa of R2bn. The Bank response at the time was that it was a lender of last resort, and that extending facilities to financial institutions was not unusual.

Stals said: "If they (the monetary authorities) decide to give direct financial support to intermediaries in difficulty they may, for example, be forced to act against their objective of controlling money supply."

However, the argument that in the case of default the central bank would always bail out depositors was not true, he said. Expectations that the Bank would intervene in case of emergency could encourage intermediaries to take excessive risks.

These considerations gave the monetary authorities a powerful interest in the development of market structures and regulatory arrangements which would minimise the need for intervention on their part.

Thus monetary policies steadily directed towards price stability made financial crises less likely but, conversely, an inflationary environment increased financial fragility.

● See Page 6

PROPERTY

Cape Town market 'still attracting many investors'

BDay 1/4/92. (58)

Reports by PETER GALLI

THERE are still many buyers looking for investments in commercial and industrial property in Cape Town despite political uncertainty and the recession, says Pam Golding investment properties MD John Pistorius.

"These buyers are from across the investment spectrum and include local institutions, big and small investors and entrepreneurs from upcountry and Namibia."

All were looking for "acceptable returns" and a major problem was to find suitable stock as there was an oversupply of A and B grade property in the CBD, the southern suburbs and the northern suburbs.

"Unless buildings are well let, investors are understandably nervous," Pistorius said.

Regarding prospects for the year, he said it was a tight market waiting for stimulus from an economic upturn, which could materialise only in 1993.

The Cape Town market was generally in a better shape than those in other major cities and would continue to grow in status as a preferred investment area, he said.

The "yes" vote in the referendum would mean increased buoyancy in the commercial and industrial markets and a return of foreign investors.

Pam Golding's commercial and industrial division, now known as Pam Golding Investment Properties, was aiming to expand its operations, Pistorius said.

"This expansion will take place particulary in the hotel and leisure sectors, where the company has expertise."

The company had employed more brokers and would be opening a sub-branch in the northern suburbs. It would also increase its adspend.

Seeff, meanwhile, has seen its commercial and industrial brokerage grow over the past 30 months to 15 lease and sale brokers in Cape Town in addition to a valuation department.

"The Cape market is starting to move into an oversupplied situation and 60 000m² of space is coming online over the next six months. This will result in the A-grade and quasi A-grade market being oversupplied," said Seeff Organisation Holdings chairman Lawrence Seeff.

Baker Street Associates MD Rodney Timm said the Cape Town market was struggling, but had good potential. He said there was likely to be a demographic shift away from Johannesburg to Cape Town because professionals were looking for quality of life.

Banks likely to move into insurance market

STAR 1/4/92

58

By Derek Tommey

Banks might soon be allowed to sell their own insurance products, says Dr Japie Jacobs, special adviser to the Minister of Finance.

He was speaking at a symposium in Sandton yesterday on the outlook for Southern African financial markets.

Dr Jacobs said the financial authorities were trying to level the playing field for banks and insurance companies.

They were recommending that banks should be permitted to provide certain investment products being offered by insurance companies.

"If the products are so advantageous to the insurance companies as the banks claim, then they can try their hand at selling them," Dr Jacobs said.

An "Umbrella Act" aimed at improving investor protection was being prepared and would be issued for comment in the next few months.

The proposed Act would be something on the lines of the Financial Services Act in the United Kingdom and would provide for self-regulation in a number of areas.

There were a number of operators in the market who were not properly regulated.

Dr Jacobs said that people offering financial services to the public should be under some form of surveillance, preferably administered by self-regulatory bodies, and should be subject to certain minimal requirements.

It was proposed that an intermediary (brokers, portfolio managers, trust companies, financial advisers, etc) wishing to be registered must pass a "fit and proper" test.

The intermediary must have supporting infrastructural services, such as capital resources and maintain proper records.

The intermediary would have to disclose information about charges, fees and commissions and provide periodic information about the investment's performance.

The legislation would stipulate that persons conducting financial services businesses and offering investment advice must attain certain minimum standards of expertise in the markets in which they operated and the risks incurred on behalf of the public.

The operators must pass the "fit and proper" test.

And presumably, as a result of the Masterbond affair, although Dr Jacobs did not give it as the reason, he said it had been recommended that the Standing Committee on Company Law should be requested as a matter of urgency to re view the provisions for the issuing of debentures and to make proposals for the protection of the public in this regard.

It had also been recommended that there should be an amendment to the Harmful Businesses Practices Act, so that when such practices were discovered, the funds of the operation should be frozen, a curator appointed and, after complete accounting, the available funds should be distributed among creditors.

Dr Jacobs said that all investment carried some degree of risk.

The existence of regulatory conditions under the Financial Services Act no more removed the need for investors to pay attention to where they placed their money than the existence of the Highway Code removed the need to look before you crossed the road.

Dr Jacobs said that investors must realise that if a bank accepted a deposit, it was entering into a contractual obligation.

But this was not the case when money was entrusted to an agency.

In that case, the investor must bear the whole risk himself.

Spotlight on black insurance

B/Day 2/4/92.

THEO RAWANA (58)

BLACK business leaders, economists and insurance, media and advertising executives will examine the black insurance market when they address a seminar in Johannesburg on April 15, says Martin Sweet of Charter Life.

The seminar programme has been specially designed to meet the needs of corporate insurance executives, insurance brokers, senior managers in financial organisations and advertising strategic planners, Sweet says.

The panel of speakers includes insurance brokerage Afsure MD Khehla Mthembu, Fabcos chairman and Inter-Africa Group executive chairman Gaby Magomola, economist and Centre for African Studies director Eugene Nyathi and Tiger Oats deputy group public affairs manager Bobby Makwetla.

There will also be panel discussions.

Standard mutual trust sales soar

SHARON WOOD

STANDARD Bank Mutual Fund unit trust sales soared by 60% in the quarter ended March, lifting assets to a record R552m.

Figures released yesterday showed the Mutual Fund provided inflation-beating returns of 27,04% in the year to March and 18,47% over five years. BDay 2/4/92

But the Gold Fund showed total returns of 7,74% in the year ended March and losses of 3,7% over five years. Cash levels had been held at 25% due to poor performance of gold shares during the quarter.

The Absa holding in the Mutual Fund portfolio was disposed of in the quarter and holdings in De Beers, Driefontein, Charter, GFSA, Gencor, Amgold, Liberty Life, First International Trust, Barlows and Sasol were topped up.

The five largest holdings at the end of March were Liberty Life, Richemont, Liberty Holdings, Remgro and Barlows.

The Extra Income Fund maintained its ranking as the top-performing income trust with returns of 18,34% in the year ~~to~~ March and 16,56% over five years. 58

Inflows into the fund climbed 140% on the previous year and the size of the fund topped the R200m mark for the first time.

"In what is regarded as an epic quarter ... we are delighted with the continued support we are receiving from (investors) who realise the long-term benefits ... from making regular investments into unit trusts," MD Derick Finlayson said.

The strong rally recorded by the Dow Jones index in December and January filtered through to the JSE, which experienced a buoyant opening.

With the earnings ratio on the All Share Index nearing levels last seen at the 1987 peak and earnings growth still marginally negative, investment managers did not see a repeat of the returns enjoyed in 1991.

RMB and partner 'now stalking Momentum' (58) BD (Day) 27/4/92

WILLIAM GILFILLAN

RAND Merchant Bank (RMB), combining forces with Rembrandt's Financial Securities Limited, could be set to enter the life assurance business through the acquisition of a controlling stake in Momentum Life, analysts speculated over the weekend.

RMB executive chairman G T Ferreira said over the weekend: "We are not saying it doesn't make sense". And one analyst noted: "RMB has the financial support for such a move through its links with the Rembrandt Group." This move would put the merchant bank into the big league, he added.

The speculation comes on the back of last week's announcement by Absa that Sankorp's acquisition of Momentum had been cancelled.

"Shareholders are further informed negotiations are currently taking place as the result of which another party may acquire a controlling interest in Momentum," it continued.

The fact no counter-announcement was made suggests the other party is unlisted. Both Financial Securities and RMB are unlisted.

Before this development, Sankorp was to have acquired Absa's and Financial Securities' 30% and 29% stakes in Momentum for 340c a share in a transaction related to Sankorp's sale to Absa of its 86% interest in Bankorp.

Sankorp had previously downgraded its offer price from 359c a share. This came on the back of Absa lowering its offer price for Bankorp by R100m to R1,2bn. 27/4/92

As Financial Securities already has a 29% stake in Momentum, the combined force would need to take out only Absa and the minorities.

Absa's stake in Momentum could possibly be settled through swapping Financial Securities' interest in Absa for Absa's holding in the life assurer, one analyst suggested.

Financial Securities holds a 12% indirect stake in Absa through having a 40% interest in Universa, which in turn has a 30% holding in Absa.

"Rembrandt does not have any assurer close to them," an analyst noted.

Although the tobacco conglomerate has indirect interests in the assurance industry through Financial Securities' holdings in Sage and Absa, these were "too far down the line", one analyst felt.

It is understood Momentum top management did not want to work for Sankorp. A combined RMB-Financial Securities acquisition would give management the leeway they were looking for as RMB had a reputation for giving management of underlying operations breathing space, one analyst noted.

NBS mutual fund doubles from R17m

BDay 2/4/92

MARCIA KLEIN 58

A STRONG inflow of sales over the past three months helped the NBS Hallmark Mutual Fund double from R17m to R34m in the year to end-March.

Fund MD Ken Burns said in the latest quarterly report that NBS Hallmark had outperformed the JSE all share index since its flotation in August 1988, with an annual return of 24% for unit holders.

The report, released the day after the year-end, said the fund declared a final dividend of 23,58c a unit, bringing the total payout for the year to 50,31c a unit. This was equivalent to a yield of 6,1% on unit price.

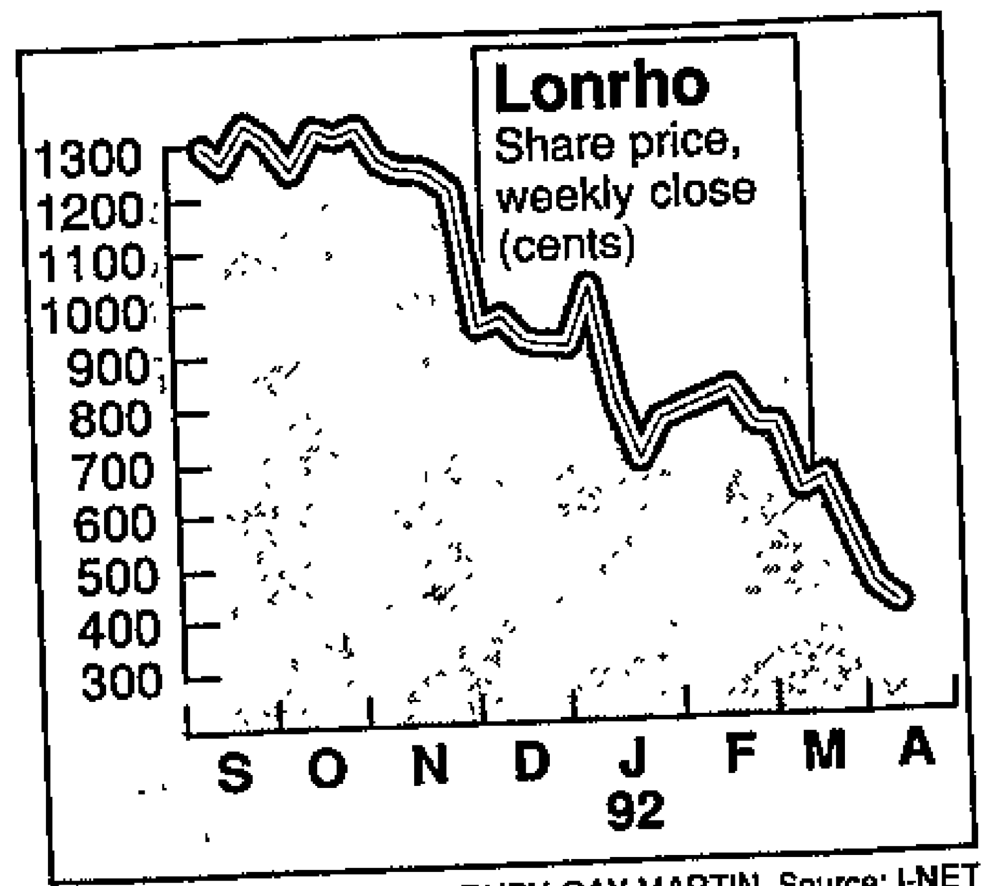
Burns said NBS Hallmark Fund managers were active in the recent spate of rights issues. This included taking up rights and acquiring additional holdings in Gencor, First National Bank, Clicks and Sasol 8,5% convertible debentures. A new holding was also acquired in Tiger Oats via the recent rights issue.

NBS Hallmark's exposure to industrials increased from 36% in December to 46% at the year-end, while the mining content was maintained at 30%. It has 3% in medium dated gilts, and has sold its 5% in property trusts.

Burns said the market was expected to move sideways in the short term, while the economy should turn to a modest growth later in the year.

But he said NBS Hallmark managers were confident in medium term prospects, despite uncertainty in major overseas markets.

They intended to maintain liquidity at the current lower levels. Liquidity was reduced in the last quarter from 22% in December to 13% at end-March.



Graphic: RUBY-GAY MARTIN Source: I-NET

Lonrho touches an eight-year low

BDay 2/4/92

MERVYN HARRIS

LONRHO — in which Old Mutual has built a 3,4% stake — was under renewed pressure on the JSE yesterday. The share touched an eight-year low of 350c before recovering some of its losses as selling dried up. The share closed at 400c for an overall drop of 50c on the day.

The latest Lonrho annual report shows that on January 22, Old Mutual was one of its biggest investors in the embattled conglomerate with 22,3-million shares. Analysts reckon most of the shares were bought at prices in the region of R15. This would indicate that the value of Old Mutual's investment had fallen from R335m to less than R90m at present.

Yesterday it could not be confirmed if any of the selling had been by Old Mutual itself. Old Mutual assistant investments GM Rowland Chute said the life assurer did not comment on individual investments "as a matter of principle".

Yesterday's plunge was a further reac-

☐ To Page 2

Lonrho

BDay 2/4/92

☐ From Page 1

tion to Lonrho's £177,5m sale of a 33% stake in its UK Metropole Hotel chain to Libya. Analysts said the sale could permanently taint Lonrho. The deal already has persuaded Lonrho's second largest shareholder, Fidelity Management & Research of the US, to review its 9,8% interest in the conglomerate.

The current Lonrho share price compares with R13,50 last September and R16,40 a year ago when SA institutions were reported to be large buyers of the shares. With holdings of other domestic institutions, SA interests in the group could be as high as 6%, according to some estimates.

Interest error: Bank pays farmer R59 000

ARG 2/4/92

SHARON SOROUR
Staff Reporter

A MAJOR bank has paid a Philippi farmer back more than R59 000 after overcharging him overdraft interest for five years.

The farmer's bank statements from 1985 to 1989 were checked by Rand Search, a company specialising in checking statements for overdraft interest errors.

It was found the client was overcharged more than R23 000 which, with interest, amounted to more than R59 000, said Rand Search director Mr Mike McKiever.

The bank said the client was overcharged because of "a communication and systems problem", but the systems had been modified to prevent similar problems and the maximum rates allowed by the Usury Act could not be exceeded.

Recently, companies specialising in checking bank statements have caused a rumpus in the banking industry by suggesting that 90 percent of their clients are being overcharged on their overdrafts, sometimes above the maximum rates allowed by the Usury Act.

Rand Search, established in Cape Town four months ago, had checked the accounts of more than 30 clients of all the major financial institutions and errors in excess of R500 000 had been found, Mr McKiever said.

Rand Search had found more than R400 000 had been overcharged over two years on a Hout Bay client's R6 million overdraft.

Other cases at various financial institutions included:

- About R14 000 overcharged over three years on the account of a Boland garage.
- A Woodstock client was overcharged R32 000 over two to three years.
- An engineering company was overcharged R11 000 over three years.

Mr McKiever said his company was in the process of arguing with the financial institutions to recover the money.

The company claimed only a percentage of the money retrieved from the institutions.

While banks argued that the mistakes balanced out on a 50-50 basis, he pointed out that while they might undercharge a client by R50 one month, the following month they would overcharge by R23 000.

"Over two years on one of my client's accounts, the institution undercharged itself by only R3 000 while it overcharged the client by R300 000 ... what kind of 50-50 is that?" he asked.

Complaints that banks were overcharging or altering overdraft rates without the customer's knowledge led to an announcement by Deputy Finance Minister Dr Theo Alant that the interest rates charged would have to be reflected on customer accounts by June.

"The country is facing a huge problem ... one of these days it is going to come to light that the public is owed hundreds of millions because of errors made by most of the major financial institutions in the country," he said.

Mr McKiever said bank clients were often misled by the terminology and vocabularly used by financial institutions.

"For example, if you are a 'prime plus 1 percent' customer, very few people realise the interest is compounded monthly, and they are not getting an annual sum," he warned.

Financial institutions were held to be accurate and trustworthy by the public and if they were "not any of these things", the image of banking was tarnished, he said.

"The bottom line is that banks operate as businesses — they are there to make money."

Banks poised for insurance market?

Business Staff (58) AHG 2/4/92

JOHANNESBURG. – Banks might soon be allowed to sell their own insurance products, says Dr Japie Jacobs, special adviser to the Minister of Finance.

He was speaking at a symposium in Sandton on the outlook for southern African financial markets.

Dr Jacobs said the financial authorities were trying to level the playing field for banks and insurance companies.

They were recommending that banks should be permitted to provide certain investment products being offered by insurance companies.

"If the products are so advantageous to the insurance companies as the banks claim, then they can try their hand at selling them," Dr Jacobs said.

An "Umbrella Act" aimed at improving investor protection was being prepared and would be issued for comment in the next few months.

The proposed Act would be something on the lines of the Financial Services Act in the United Kingdom and would provide for self-regulation in a number of areas.

There were a number of operators in the market who were not properly regulated.

Dr Jacobs said that people offering financial services to the public should be under some form of surveillance, preferably administered by self-regulatory bodies, and should be subject to certain minimal requirements.

It was proposed that an intermediary (brokers, portfolio managers, trust companies, financial advisers, etc) wishing to be registered must pass a "fit and proper" test.

The intermediary must have supporting infrastructural services, such as capital resources and maintain proper records.

The intermediary would have to disclose information about charges, fees and commissions and provide periodic information about the investment's performance.

The legislation would stipulate that persons conducting financial services businesses and offering investment advice must attain certain minimum standards of expertise in the markets in which they operated and the risks incurred on behalf of the public.

And presumably, as a result of the Masterbond affair, although Dr Jacobs did not give it as the reason, he said it had been recommended that the Standing Committee on Company Law should be requested as a matter of urgency to review the provisions for the issuing of debentures and to make proposals for the protection of the public in this regard.

Standard's Mutual fund tops R500-m

(58)

STAR 2/4/92

Reporting yesterday on the performance of the Standard Bank Unit Trusts for the quarter ended March 31, Derek Finlayson, managing director of Standard Bank Fund Managers said that there had been a 60 percent increase in inflows into the Mutual Fund compared with the corresponding quarter in 1990 and assets in the fund had reached a record level of R552 million.

The fund returned 27,04 per cent for the one year period to end March and 18,47 percent for the five year period.

The lacklustre performance of the JSE's gold board had provided little incentive for investment in the Gold Fund, but the fund had taken advantage of the new rule allowing unit trusts to invest 10 percent, as opposed to the previous five percent, of their assets in shares having a market value in excess of R2 billion to improve the quality of its portfolio by increasing holdings in better quality counters and shedding others.

The fund returned 7,74 per cent for the one year period to end March and 3,67 percent for the five year-period.

Inflows into the Extra Income Fund were 140 percent up on 1990 and the fund now tops the R200 million mark for the first time. The fund has remained invested in shorter-dated investments where current yields of 16,3 percent are in excess of the running yields of 15,9 percent obtainable on longer-term investments. This strategy is likely to be maintained.— Sapa.

NBS Hallmark reports good sales

Finance Staff (58)

STAR 2/4/92

Helped by a further strong inflow of sales over the past three months, NBS Hallmark Mutual Fund doubled from R17 million to R34 million in the year to March, MD Ken Burns says in the quarterly report.

The fund has declared a final dividend of 23,58c a unit, which takes the total payout for the year to 50,31c — equivalent to a yield of 6,1 percent on unit price.

Since its flotation in 1988, says Mr Burns, NBS Hallmark has outperformed the JSE overall index with an annual return of 24 percent for unitholders.

Liquidity was reduced in the last quarter from 22 percent at the end of December 1991 to 13 percent at the end of March 1992 (including five percent in short-dated gilts).

He says the fund managers were active participants in the recent spate of rights issues. This activity included the take-up of rights and purchase of additional holdings in Gencor, First National Bank, Clicks and Sasol 8,5 percent convertible debentures.

At the same time, a new holding was acquired in Tiger Oats via the recent rights issue.

The fund's exposure to the industrial board was up from 36 percent in December to 46 percent at year-end, while the mining content remained steady at 30 percent. Looking to the future, Mr Burns says the fund managers expect the market to move sideways in the short term and the current economic recession to turn into modest positive growth later in the year.

"However, the liquidity level can be increased very quickly if negative sentiment in major overseas markets affects the JSE adversely in the short term — which would give further good buying opportunities," says Mr Burns.

Pressure on blue chips

B/Day 2/4/92

58

WILLIAM GILFILLAN

BLUE chip shares would face further upward pressure as a result of the recent relaxation of the rules relating to the holdings permitted by unit trusts, Safegro Unit Trust fund manager Len Olivier said yesterday in presenting its quarterly results.

Helped by an 80% jump in contributions, assets increased 75% to R42m in the year to March.

An income distribution of 2,4c a unit for the second half gives a total distribution of 5,23c a unit over the year, yielding 4,3% on yesterday's closing price. The total return for the year was 28,8%, of which capital growth comprised 23,5%.

As a unit trust was now allowed to increase its exposure in shares with a market capitalisation of more than R2bn to 10% of the trust's portfolio from 5%, Safegro was to further increase its holdings in the blue chips, Olivier said.

Referring to broad strategy, Olivier said there was a clear move away from the traditional consumer sectors towards the fixed investment, export and tourism sectors.

Private consumption expenditure in SA was more than 60% of GDP, whereas the ratio was lower than 50% in Japan.

Africa's bank will welcome SA soon

58

B/Day 3/4/92.

BILLY PADDOCK

CAPE TOWN — SA would soon be admitted as the 52nd member of the African Development Bank (ADB) but would first have to become a member of the OAU, ADB president Babacar N'diaye said yesterday.

Government members said SA's admission to the ADB would improve contacts with Arab countries as well as strengthen government's hand in gaining access to the IMF and the World Bank.

Speaking after his lunch meeting with President F W de Klerk and a large party of politicians, ADB president Babacar N'diaye predicted SA would be admitted to the bank "in the very near future" but at the latest by 1994.

He said his delegation's visit was a fact-finding mission "so that we would look to be operational on day one when that becomes possible", he said.

SA had great wealth and with its mineral, human and capital potential it could become a great asset to the whole continent.

De Klerk said he had discussed the "dynamic process of change" taking place in SA. The meeting had concentrated on the development of southern African and SA's possible role in the sub-continent.

Also at the luncheon was Finance Minister Barend du Plessis, Foreign Minister Pik Botha, Foreign Affairs director-general Neil van Heerden and his deputy Derek Auret. DP leader Zach de Beer, DP caucus chairman Colin Eglin and CP foreign affairs spokesman Tom Langley also attended.

Development Bank of SA communications manager Frans van Rensburg said the OAU had approved the ADB visit. The route to membership of the OAU was clearly open should Codesa negotiations go well.

Yesterday the delegation held detailed meetings with the IDT, the SBDC, Eskom, the Development Bank of Southern Africa and the Urban Foundation.

The ADB delegation has met the ANC, Nafcoc, Nactu, the PAC, Fabcos and other organisations this week and is to meet Inkatha, tour KwaZulu and hold meetings with other non-government organisations.

Van Rensburg said ADB had assets worth \$33bn and a private sector fund for micro projects.

The ADB group is the largest financial institution in Africa made up of the Bank, the African Development Fund and the Nigerian Trust Fund.

The triple A-rated ADB is owned by 51 OAU members and 25 non-African nations. Since its creation in 1964, it has approved loans totalling \$25bn.

It has diversified in recent years from purely project finance to policy-based lending.

At last week's annual meeting chairman Rene Leclezio gave a rough estimate that Lonrho's debt was down to £850m from £1bn after asset sales.

had enhanced the share's riskiness

The question to be asked was who had accumulated all the shares in the wave of selling, he said.

Old Mutual fund's assets soar by R90m

6/pay 3/4/92

LINDA ENSOR

CAPE TOWN — Assets of Old Mutual's Top Companies Fund have soared to R90m since its launch in November last year, Old Mutual unit trust manager Peter de Beyer said yesterday.

About R13m a month had flowed into the fund and the number of unitholders already exceeded 17 000.

Portfolio manager Adrian Allardice was confident the fund would perform well above average, especially as a result of the decision not to chase blue chip consumer shares. The portfolio does not include Wooltru or Edgars.

Another reason for confidence about the performance was the emphasis on cash-flow management and highly selective share purchases in a stock market where shares were at historically high levels.

Allardice said selectivity would be the hallmark of fund management for the remainder of 1992.

"While the recovery in Western economies has not yet occurred and Wall Street remains nervous about US prospects, the upswing is likely to begin later this year.

"In SA economic conditions are equally uncertain with the economy seemingly bumping along the bottom, but the tentative signs normally present ahead of an upswing are becoming discernible."

Allardice said JSE share price levels should receive some support from parastatal buying but he remained cautious in the short term. The Top Companies Fund was defensively positioned with about 17% of its portfolio in banking and insurance shares, sectors which he said tended to be relatively more stable at this stage of the business cycle.

Consumer

"The outlook for consumer shares remains bleak and profit still to be reported may even be below market expectations.

"Inventory levels remain high in relation to demand while the cash strapped consumer is unlikely to feel much relief in the short term."

The core portfolio of the fund was in place with recent purchases including Lenco, ICH, and Didata.

Additions were made to the Absa, Yabeng and Chemserve holdings.

stream in late July with the comple-

exports stood at 300-million litres,

countries in the region, and in another five in East and Central Africa.

CU's unit trust in good shape

(58)

WILLIAM GILFILLAN

COMMERCIAL Union's general equity unit trust, CU Growth Fund, recorded a 24,9% return on an income-reinvested basis for the 12 months to end-March. BDay 3/4/92

Senior GM Roger Wanless said the fund had further added to its holdings in Anglovaal Industries (AVI) and Metropolitan Life and also followed its rights in Clicks, Gencor and AVI.

The fund has disposed of its holding in Absa in view of "a possible digestive problem arising from the Bankorp merger". Concern over the short-term prospects of platinum led it to lighten its holding in JCI.

Top 10 blue chip holdings at the quarter's end included Premier, Richemont, Barlow Rand, SAB, Rustplats, De Beers, Liberty Holdings, Anglo American, and NBS Holdings.

BoE achieves 30,4% return

LINDA ENSOR

CAPE TOWN — The Board of Executors Growth Fund's total return of 30,4% on a repurchase to repurchase basis, achieved in the year to end-March, compares favourably with an inflation rate of 15,8% and the 27,4% total return for the All Share index.

In the last quarter a net inflow of R6,6m came into the fund, boosting its total market value to R61,5m. The liquidity level was maintained at about 12%. BDay 3/4/92

The fund moved into direct holdings of gold shares for the first time during the quarter. About 58% of the Growth Fund is invested in industrial and financial shares and 30% in mining shares.

Senior portfolio manager Ryk de Klerk said he believed gold shares were discounting a gold price way below the current price in dollar terms and represented good value.

He was optimistic about gold's prospects later this year, believing that less gold would come into the market from the former Soviet Union, and industrial demand would pick up as the US and international economies turned. (58)

De Klerk believed industrial shares would provide better earnings over the next 12 to 18 months than the financial sector. The switch in the interest rate cycle could exert pressure on banks later this year and early next year, De Klerk said. The BOE fund had accordingly reduced its weighting in banking shares with the sale of its Absa holding.

Another shift in the portfolio was the move away from fixed investment stock towards consumer counters. Lonhro, Iscor and Malbak were sold and investments were made in Premier and SA Breweries.

EXECUTIVE SUITE

By William Wells and Jack Lindstrom

Business

Talks focus on future of bank

Sowetan 3/4/92 (58)

AN ANC delegation led by Mr Nelson Mandela this week concluded talks with a nine-member African Development Bank group led by its president, Mr Babacar Ndiaye.

By JOSHUA RABOROKO

The talks focused on the future role the bank could play in the economic development of a post-apartheid South Africa.

The meeting, the first working session between the two, discussed the current socio-economic situation in South Africa, the economic policies and plans of the ANC and experiences of other African countries.

Other issues which featured prominently during the meeting were the timetable for the negotiations within CODESA, the installation of an interim government, the bank's own operational polices, the circumstances under which a democratically elected government might become a member of the bank and programmes of action.

Other ANC officials who participated in the meeting included chairman Mr Oliver Tambo, deputy president Mr Walter Sisulu, director of International Affairs Mr Thabo Mbeki, head of economic affairs Mr Trevor Manuel and economic advisor Mr Maxwell Sisulu.

The ANC delegation made it clear that nationalisation was not a matter of ideology or doctrine.

"We have no hit list of industries or sectors to be nationalised," Manuel said, adding, "it is merely one of the many economic instruments that may be considered to correct imbalances and distortions in the economy."

However, the delegations expressed strong concern at the spate of unilateral privatisations being implemented by the South African Government.

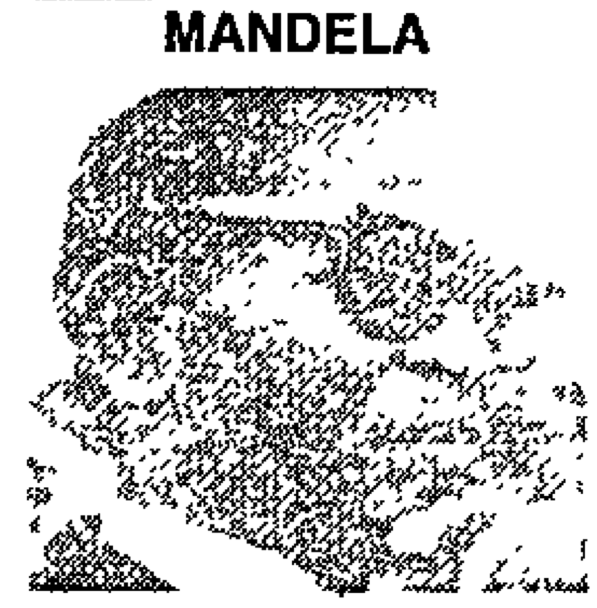
The selection of industries to be privatised, the ANC said, should be left to the democratic decisions of a future government. The current privatisation programme was simply transferring wealth to a privileged few, they said, and would diminish the stock of assets and resources available to a future government.

The bank and ANC officials agreed that a new government would need considerable new resources to address the legacy of apartheid and the needs of the black majority, such as housing, health, education and access to basic utilities.

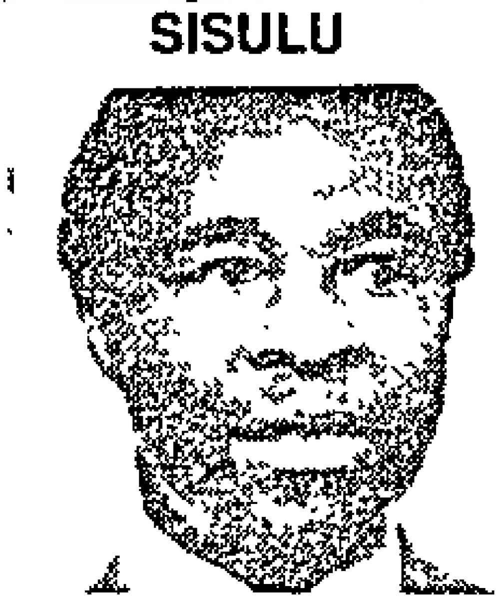
They agreed that such new resources would be

MANDELA

SISULU



TAMBO



MBEKI

better transferred in the form of grant or equity funds rather than debt.

In a separate meeting, the bank's team met Mrs Gertrude Shope and Mrs Albertina Sisulu, president and deputy president respectively of the ANC Women's league, to explore possible areas of co-operation in the future.

After learning of the special needs of South African women, Ndiaye pledged to make every effort to mobilise assistance from other institutions - since South Africa is not a member of the bank - for programmes of the ANC's Women's League

FM 3/4/92

Tax posers

Attempts to simplify and rationalise taxation of the life offices — and, therefore, tax on millions of policyholders — have met new snags.

There will be no quick demise for the sixth schedule of the Income Tax Act as was widely predicted. Nor is there likely to be immediate progress towards dividing life office assets into three separate funds, which would have benefited most policyholders.

The three-fund approach had been endorsed in Finance Minister Barend du Plessis' Budget last month but difficulties emerged in talks involving Inland Revenue, the Financial Services Board (FSB) and Life Offices Association (LOA). There should be

continued

FM 3/4/92 58

no connection between the sixth schedule and the three-fund principle: in practice, they are linked by Revenue's need to generate a predictable income from the life industry.

The schedule was introduced to deter the wealthy from using life funds as tax shelters and it became progressively more complicated. In the mid-Eighties, it was amended to protect the flow of funds to banks and building societies. This was followed by an undertaking from life assurers that they would not issue any form of policy with a projected life of fewer than five years.

The schedule has become an administrative nightmare and needs to be scrapped. It describes "standard" and "nonstandard" life policies in terms which only a few experts in the industry understand, though the tax implications of the definitions are significant.

The FSB argued that a schedule which is a fiscal measure interferes with the board's regulatory authority. Since then, there has been broad agreement on what constitutes an insurance product and what is more suitable for deposit-taking institutions.

Some assurers were confident the schedule would be scrapped, possibly as early as this week, and replaced with product definitions and regulations in the Long-Term Insurance Bill expected to come before parliament next year. The life offices would, meanwhile, comply with a directive to be drafted by the board, with the same regulatory effect.

But Revenue needs to know the regulatory umbrella under which life offices will pay tax. So the rules have to be in place when the schedule is scrapped. The rules attached to the three-fund principle should have covered this dilemma. In this, shareholders' or corporate funds in life offices would be taxed in the same way as any other company, with the two mutuals offering all or part of their free reserves as the equivalent of corporate funds; there would be a nontaxable pool of pension, provident and retirement annuity savings; and a pool of general policyholders' funds would be taxed at the average rate — probably about 32% — instead of the top marginal rate of 43%. The last clause would enhance the savings potential for millions of policyholders.

But Revenue has now pointed out there would be opportunities for tax evasion. A company-owned policy, other than a keyman or deferred compensation scheme, would usually attract tax at the company rate of 48%. But if the company cedes it to a natural person, the tax would drop to the proposed 32% — with a large loss of revenue. The proposals are all back on the drawing board for a minimum of three months.

Meanwhile, insurance brokers who have been selling investment-type products with an undertaking that they will soon be recognised as standard, and therefore contain tax benefits, are on unsafe ground, with a potential for liability suits against them if things go wrong. When the sixth schedule is finally scrapped, it is hoped that all nonstandard policies will become standard. But if Revenue scents that the delay is being exploited, it is possible that policies issued after, for example, Budget day 1992, will not be taken into the lawful net. ■

CODES OF CONDUCT FM 3/4/92 58

Hornets' nests of responsibility

A new code of conduct for estate agents proposed by the Estate Agents Board (EAB) has enraged the Institute of Estate Agents of SA (IEASA) — a private body serving members' interests.

IEASA southern Transvaal branch chairman Bryan Slade says the institute has not been consulted on the code and intends to approach Trade & Industry Minister Derek Keys directly on the matter. The board has submitted a draft of the code to the Minister for comment.

The furore calls into question the necessity of having two bodies duplicating each other's functions in many areas of the real estate business. The board tells the *FM* in fact that to justify its own existence it feels it must shift its focus towards greater consumer protection.

"This is the philosophy behind the new code. Its purpose is clearly not to protect the status of estate agents, nor to promote professionalism. This philosophy is based on our acceptance as well that the only rationale for the continued existence of a regulating body such as the EAB, is consumer protection".

The IESA suggests the shift conflicts with the EAB's stated function to "maintain and promote integrity among agents." It points out that the EAB is subsidised by agents.

The *FM* understands that the EAB has been busy revising the code — written in 1979 in terms of the Estate Agents Act of 1976 — for two years.

EAB manager Andrew Harrison points out that the old code was written primarily for estate agents by estate agents — not for consumers — and claims it is not the board's job to consult agents. "This is government's prerogative," he asserts. "We have always understood that once government is happy with the basic principles, it could call for comments by all interested parties."

The IEASA argues it is likely that only a limited period will be allowed for it to comment on the sweeping changes proposed to the code. It says further that, based on its examination of a leaked copy, there are cost implications for agents which will have to be passed on to consumers. But it favours some aspects of the revised code which includes prohibitions on:

- ☐ Racial discrimination;
- ☐ Unfair competitive practices such as placing unrealistic values on a property to secure a sole mandate;
- ☐ Estate agents communicating oral offers to clients until the offers have been put in writing and signed by the person making the offer;
- ☐ Agents recommending a particular offer to a seller because the agent has undertaken to sell the purchaser's property as well — without disclosing this information to the seller; and
- ☐ Presenting the recommended tariffs of Sapoa or IEASA as mandatory. The new code points out that these tariffs should serve as a guide only and commissions are negotiated between parties. The IEASA suggests that, to avoid confusion, commission tariffs must be stated in the agreement of sale in order for the agent to be paid the amount stated.

But the IEASA objects to mandatory disclosure by agents of servitudes or any other factors which could have deleterious effects on the property for sale — or on neighbouring properties. This relates to vacant land in particular which might become subject to expropriation for highways, informal settlement, light rail systems and so forth. It seems that an agent who has not made proper inquiries about such matters could be sued for misrepresentation.

The IEASA says that, in certain circumstances, this could protect the purchaser but it is not a service at present provided even by conveyancers. Various travel costs would have to be provided for — to deeds offices, to local municipal authorities and Eskom to confirm any proposed developments in the vicinity, and to provincial administrations to check other proposals for the area. The institute suggests that a buyer could pay a fee for this protection or choose to waive his rights.

The EAB argues that the agent would simply ask the seller for a warranty. The institute replies that, in most cases, the seller is ignorant of hazards.

The IEASA also does not like the prohibition on estate agents from advertising or marketing a property at a price other than that agreed on with the seller, which leads to tags like "priced from R150 000 to R500 000." It warns this will cause conflicts with unrealistic sellers.

Under the code, estate agents will be obliged to explain to the contracting parties all the relevant terms of the contract such as suspensive and resolutive (sale subject to obtaining bond finance) clauses, date of occupation and occupational rent. They will also need to know when the estate agent will be entitled to deduct his commission from the deposit paid by the purchaser — and if this is before transfer, specific agreement is required.

The IEASA says this information has always been contained in the agreement of sale, which by law should be read and understood by both buyer and seller before signing. The EAB argues it is an ethical issue.

The code includes onus on agents to notify all other offerers once the fate of a contract is known. The IEASA says this is always done by agents, yet the EAB says, in its experience, this is seldom done or it is done late.

In addition to changes in the code, the EAB is revising the syllabus for the board exam and has eliminated section B on property economics so that the exam should not be seen as an entry barrier to the business. It

continue →

PROPERTY FM 3/4/98 58

says this is meant as a bridging arrangement until the revised syllabus is complete. The textbook on economics is also largely out of date.

The IEASA warns that according to what is "reasonably expected" of an agent in terms of the Act, he cannot take responsibility for knowledge about subjects such as market evaluations, which have now been — though temporarily — excluded from the syllabus. In other words, the institute concludes that the proposed code and syllabus are at loggerheads. ■

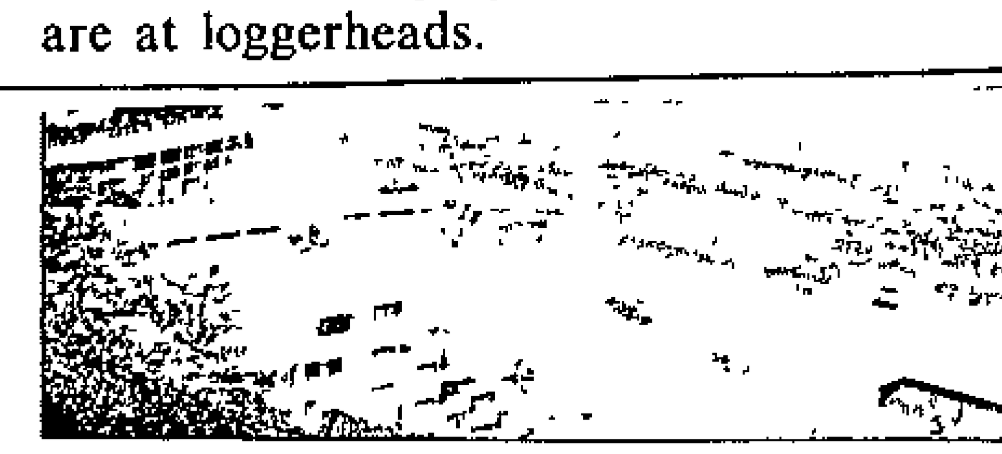
STUNNING VIE

Transvaalers with a spare R1m-R2m a holiday home are the target for ultra-luxury apartments that came on market this week in Clifton.

Clifton Breakers, a Basil Read de opment on the mountain side of Vict Road, offers two- and three-bedroo apartments ranging in size from 173 258 m² and in price from R950 000-R Semi-covered decks add another 58 124 m² to each unit.

Basil Read's aim was to offer a class development at prices lower t those being asked for similar apartm in the area.

This has been achieved, says Samuel Seeff, MD of selling agent Seeff Residential Properties (SRP). He adds: "On current trends — once the property market resuscitates itself — appreciation is assured."



INSURANCE FM 3/4/92

President Phoenix

(58)

President Insurance, which ran off its book last year after a prolonged period of problems, has re-emerged as a niche player, specialising in professional practice and upper-income personal lines underwriting.

Profsure, a fast-growing brokerage and managing agent based in Florida, Roodepoort, has acquired the President licence from Rentmeester Group. Profsure will inject its current R17m of premium income into President and this, together with President's slice of compulsory third-party (MMF) business, will be the base for the new operation.

Profsure becomes almost dormant and MD Willie Smit becomes MD at President. Smit says that, with the President licence, his group inherited "several millions" of recoverable third-party claims, which sweetened the deal. He adds that equity backers include two unidentified banks, some attorneys and businessmen. He holds 24% of the shares.

Smit is emphatic that the new-look President will not compete head on with the majors but concentrate on quality professional practice business.

It was trying to compete across the board that led to President's original fall. Its expense ratios soared so that, at one stage, its solvency margin was a minimal 15%. Just over a year ago, agreement was reached with the Registrar of Short-Term Insurance to take on no new business and run off the existing business. Smit says that was done, no-one suffered and Profsure acquired a clean licence.

Question is, he agrees, whether President can now maintain a good solvency margin, a key measure of claims-paying ability, on such a small base. The R17m premium injection comes cheaply — it does not carry the normal average commission cost that is the brokers' share. Most new business will, of course, bear commission.

Smit says that with a "reasonable" investment in systems, the new President will aim to keep its management expenses to under 10%. If President achieves this and its premium rates are realistic, its total expenses on future business will not exceed about 75%. That is about average in the industry but exceptional for a small firm. Offsetting that, to some extent, is President's need — given its size — to reinsure an unusually high proportion of risk.

But Smit adds that, in the business Profsure managed, rarely did claims experience exceed 60%. So, if the sums all come together, President should consistently make underwriting profits. ■

sulation with the community.
All college and school educa- vention on the restructuring of education in South Africa – Sapa.

Hope that SA will join African bank

Political Staff STAR 3/4/92

CAPE TOWN — South Africa could become a member of the powerful African Development Bank by 1994, according to its president, Babacar Ndiaye.

Mr Ndiaye, who is leading a nine-member delegation on a fact-finding mission to South Africa, was speaking after a lunch with President de Klerk which was also attended by a number of Ministers and leaders of parliamentary parties.

He has also met members of the ANC, PAC, SA Council of Churches as well as trade unions and development agencies.

(58)

Mr Ndiaye said the bank would like to be ready to be operational in the southern African region when this was possible.

South Africa will have to become a member of the Organisation of African Unity before it can join the bank.

Mr de Klerk said the delegation had had wide-ranging discussions on the process of change in southern Africa and the role the country could play in development on the continent.

(58)

INVESTMENT: *Testing times lie ahead for unscrupulous financial intermediaries*

Bill focuses on the investor

STAR 24/4/92

AGENTS canvassing for funds for financial institutions may soon have to disclose their commission rates to prospective investors. This is one of a number of proposals contained in a draft bill to be published later this year which is aimed at giving the public greater protection against unscrupulous intermediaries.

This particular proposal flows from disclosures recently that organisations in financial difficulties were offering agents extremely high commissions to persuade investors to invest their money with them.

Responsibility

It is argued that if the investors had known how much the agent was receiving as commission, they would become suspicious and invested their money somewhere else.

This illustrates one of the key aims of the Bill which is to secure much greater disclosure by financial institutions and intermediaries so that the investor is better able to assess the risk he might be undertaking.

However, the other side of the coin is that the authorities believe that this practice should result in the investor being more able to stand on his own feet and take full responsibility for any losses he might incur.

Dr Japie Jacobs, special financial adviser to the Minister of Finance, told a financial symposium this week that all investments carried some risk.

But the existence of regulatory conditions under the Financial Services Act no more removed the need for investors to worry about where they placed their money than the existence of the Highway Code removed the need for a person to look before they crossed the road.

The Governor of the Reserve Bank, Dr Chris Stals, made a similar point at the same symposium. He warned investors that the Reserve Bank would not bail them out when a financial institution landed in trouble.

He said the responsibility for regulating financial institutions rested with the Reserve Bank. This had given rise to the unfounded perception that the authorities would provide an unqualified guarantee for the safety of all deposits with registered deposit-taking institutions. "This perception is sometimes without foundation," Dr Stals said.

Speaking at the same function, Professor Michael Katz, chairman of the Tax Advisory Committee of the Minister of Finance, put even stronger the point that banks and other financial institutions should be allowed to fail.

He said it was important that the market place should become a participant in the regulation of financial institutions, but that it could do this only if there were full disclosure.

The market must be able to assess the risk and the time had gone when banks or insurance companies could have a different basis of disclosure from that for ordinary companies.

The principle of full disclosure was fundamental and this presupposes that the market could do its job and cause crashes and failures, he said.

Dr Jacobs said the Draft Bill made proposals for people offering financial services to the public to be subject to some form of surveillance, preferably by self-regulatory bodies, and should be subject to certain minimum requirements.

THUMBS DOWN: Chris Stals warned investors they would not be bailed out if financial instutions landed in trouble.

Tighten up

People working in an intermediary capacity such as brokers, portfolio managers, trust companies and financial advisers would have to pass a test showing they were "fit and proper" to undertake to do this work.

The intermediary would have to disclose information about charges, fees and commissions and provide periodic information about the investment's performance.

The bill also contains proposals to tighten up on misleading information and clarify misunderstanding among the public about such words as "trust" which were not protected or privileged in terms of present legislation.

Sanction-busting ploy lets Persetech down

S1Times (BUSS) 5/4/92

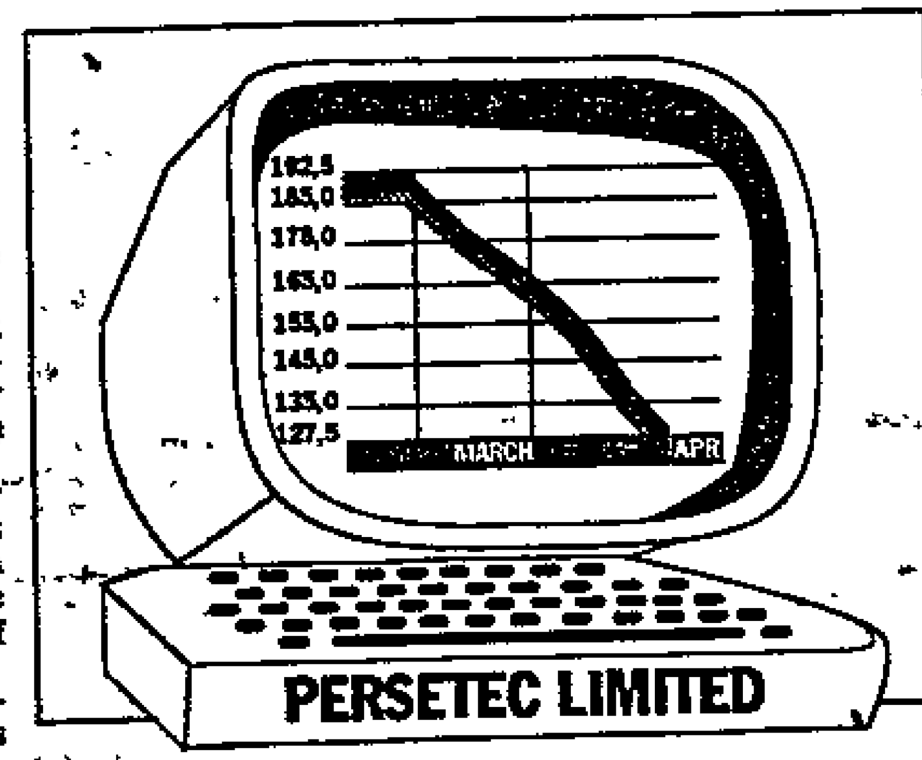
SINCE Persetech's debut on the JSE a month ago at 190c, the price has dropped like a stone to 120c.

A share overhang is the most likely explanation.

Persetech's management gave a presentation to the Investment Analysts' Society this week, but the share failed to strengthen.

Chief executive Peter Ibbotson forecasts earnings for the current year at a touch below 20c, putting the share on a forward PE of only six at the last trade.

Former partner ISG started at 390c, fell to 330c, but is rallying.



Chairman Roux Marnitz gave analysts some background on why Persetech and ISG had been separated out of TSI, which was formed to merge the pair fewer than five years ago.

Mr Marnitz recalled the mood of the day. The computer industry was faced with sanction threats on the grounds that blacks would not suffer if it was singled out, major global players had disinvested and customers were concerned they would fall behind if new technology was unavailable.

The upshot was a three-pronged strategy TSI invested heavily in developing a domestic computer manufacturing industry to combat a worst-case scenario that never came about.

It spent much on establishing surplus supply channels, just in case. Third, the exposure of foreign principals was limited by the formation and flotation of TSI. Their activities were masked by non-disclosure of group financial performances.

With hindsight, it was largely unnecessary. It now makes sense to unhitch two dissimilar groups lumped together under extraordinary circumstances. Mr Marnitz said the cultures were different, but left it at that.

Mr Ibbotson claims Persetech is the leanest player in computers and that it is in peak condition.

It has five wholly owned divisions — Persetel, Perseus, TSD, Sapec and TSM. Its three main subsidiaries market and maintain mainframe equipment and networks, sell and service midrange computer systems and solutions and distribute micro-computers, printers and peripherals

Largest division Persetel is the sole supplier of Hitachi mainframes and Dowty and Comten products.

One analyst asked if there was a threat that IBM might not allow Hitachi to use its software indefinitely

Mr Marnitz dismissed the idea, adding that with the advent of open or standard systems the group would be increasingly able to supply its own software.

He spoke about imaging — data capture direct from a document — and implied it could have enormous potential among the acres of archives at SA's insurers.

Another analyst queried the group's cash pile — R89-million on the latest balance sheet — suggesting that it should be moderately geared since it was making handsome returns on shareholders' funds.

Mr Ibbotson said the cash position was distorted by the introduction of VAT on the day of the financial yearend and that the amount was more like R30-million to R50-million.

That is still about 30c a share, about a quarter of the share price Persetech is considering what to do with the money — acquisitions are possible.

Mr Marnitz said: "We like to take on board entrepreneurs who have set up a good business then find they have limited potential on their own. We issue them with group shares and that maintains incentives."

Another analyst was concerned about the potential of an overhang of Persetech shares on the market, namely those held in the ISM trust as a legacy of its TSI holding. The trust has about 4,5-million shares and there are probably another 2-million with ISM employees.

The potential for depressing the share price was played down by Persetech's directors, but the market does not seem to be convinced.

After all the traumas of the past few years, the computer industry has above-average growth potential. Mainframes still have an important place, upgrading will be inevitable and networking is the new buzzword.

Persetech's track record, disclosed in the prelisting statement, is a bit spotty. There was reasonable growth in sales and earnings until 1989, then two dips until 1991's improvements. Perseus took some blame, but will be profitable this year.

Persetech's management did not get to the bottom of the culture issue. All groups really believe they are the best and have the most competent people and give superior service.

Persetech backed up its claims with a bit of market research putting Persetel tops, even publishing this in the prelisting statement.

Holders of TSI shares received one share in each of ISG and Persetech. Each company will be on its toes to avoid being dubbed the skeleton in the TSI closet.

But, like other companies which adopt a stand-alone identity after being part of a greater group, Persetech's challenge will be to deliver the goods consistently.

DIAGONAL STREET by Julie Walker

ROUX MARNITZ: Back to square one Picture: CRAIG WOODS

Time of his life for Bill Haslam

S1Times (BUSS) 5/4/92 (58)

IN danger of becoming a professional attender of board meetings, Bill Haslam left the comfort of a director's post at one of SA's larger assurers three years ago to tackle something that "could not be done".

Time Life's managing director says: "Everybody told me it was impossible to establish a life office in the highly competitive circumstances. But I love a challenge."

Time Life's results for the year to December 1991 must have silenced the doubters. In only its fourth year, the life arm of listed Time Holdings achieved total net premium income of R17,7-million. In its first year the figure was R700 000.

This was achieved by using independent brokers plus a staff complement of only 39, all concentrating on supplying service.

Mr Haslam says: "I know that service has become a cliche, but it is where our edge lies No situation cannot be turned to advantage."

Mr Haslam points out that startling growth figures are easily achieved off a low base. He has no qualms about the large size of his competitors.

He is proud of his group's achievements. It has stuck to a low-cost infrastructure in the Pretoria-Witwatersrand-Vereeniging region to preclude an expensive branch network.

The focus has been on low-strain policies, such as 10-year endowments on which commissions are not prohibitive. Nevertheless, start-up costs for computers, training and so on are inevitable and Mr Haslam says the company is looking at ways of increasing its capital base.

The group's assets almost doubled in 1991 to R33,6-million. Mr Haslam is especially pleased with the two outside investment managers — Board of Executors and Security Portfolio Managers — which handle the funds.

Each is on a month's notice and although Time Life would not change fund managers lightly, the clause helps to keep them on their toes.

There is an irony to Time Life. It was established out of 1987-listed Time Holdings' principal businesses of housing and property. The initial concept was to provide insurance for bondholders of Time's developments.

The life office has grown rapidly, but most of Time's housing division is up for sale because the problems attached to mass housing refuse to go away.

Time Holdings retains its property development interests and the life office has two important subsidiaries.

One is Time Life Assured Advances.

Mr Haslam says: "We canvassed brokers on client requirements and discovered huge demand for a product such as a 10-year endowment that provides loans to the policyholder. Everybody wants the inflation hedge that long-term well-managed investments provide. But they also want access to the money."

Policies are ceded to Time Life Assured Advances, furnishing collateral against which loans are made at commercial rates. This little enterprise has advances of more than R9-million. It could also provide the platform for a banking operation.

The other subsidiary is Time Life Property Investments, 70% held by Time Life and 30% by Time Properties. It buys and syndicates properties as shareholdings to investors — not new in itself. But there is a guaranteed buy-back at proper prices.

"Property is an integral part of an insurance office's investments and there is plenty of expertise in Time Holdings," says Mr Haslam.

The first property is Darras Centre in the Johannesburg suburb of Kensington.

Perchance, this is a shopping centre I frequent, and noticed only last week the Time stickers across the windows of the half-dozen empty shops.

I called for an explanation when told that the return from Darras Centre was exceeding forecasts.

Mr Haslam explains that the area is being upgraded and there is a demand for a better-quality shopping centre. It was sold by Fedlife last year after a recent revamp Tenants who were behind with their rent are moving out, the tenant mix has improved and shops are being moved to more sensible sites in the centre.

Investors are again found by brokers The rent income yield typically starts at about 10%, rising by 12% a year. Many investors choose to transfer the income directly to an endowment in back-to-back policies, previously the realm only of the lump-sum market. The returns are expected to be superior.

A second syndication is the McCarthy House office block in Wierda Valley, Sandton. It has not sold as fast as Darras Centre — it took only six weeks — because bad publicity from Masterbond and others has hurt property in the eyes of investors

Time Holdings, whose results are due tomorrow, has suffered a similar fate as other second-line stocks. Its shares have fallen steadily to about 50c.

But Mr Haslam is having a ball. "I didn't want to spend the rest of my career in board meetings. I like meeting the clients, looking for the opportunities and turning them to account.

"No disadvantage is so great that it can't be made to work for you."

BILL HASLAM Having a ball

Sanlam trusts on share-buying spree

STAR 6/4/92

By Tom Hood 58

Five unit trusts in the Sanlam stable went on a share-buying spree in the March quarter, drawing millions from their cash holdings to add to their portfolios. And not a single share was sold.

This left a sharp drop in liquidity levels — Sanlam Trust down to 7,9 from 8,1 percent, Sanlam Index 8,6 (12,2), Sanlam Dividend 12,4 (16,5), Sanlam Industrial 10,8 (15), Sanlam Mining 8,7 (11,5).

Purchases by Sanlam Trust were Absa (640 000), SA Breweries, Sasol and Tiger Oats.

Absa (659 000 shares) was bought by Sanlam Index along with shares in Dries, Kloof, Gencor Beherend, Johnnies, GFSA, SA Brews, Sasol and Tiger Oats.

Sanlam Industrial bought SA Brews, Tiger Oats and Lefic. Sanlam Mining bought Harties.

Sanlam Dividend bought Rusplats, Gencor Beherend, SA Brews and Foschini.

Top performer

Top performer was Sanlam Dividend, with a return of 34,5 percent for the year to March. Sanlam Industrial's results were 32,9 percent, followed by Sanlam Trust with 27,9 percent, Sanlam Index with 24,4 percent and Sanlam Mining with 9,1 percent.,

Two income distributions announced were Sanlam Trust, 26,8c on May 22, and Sanlam Dividend, 10,5c on May 15.

Senior portfolio manager Stafford Thomas believes growth through industrial shares will now level off.

"Although the JSE industrial index continued to be the top performer at the beginning of the year, it is not likely that the growth rate will be maintained at such a level.

"The large number of rights issues expected will have a further dampening effect on the industrial index."

Sanlam believes present developments in the US economy will have a positive influence on unit trusts here:

"We are confident that the market for commodities will make a valuable contribution to performance in future," says Mr Thomas.

"The US economy is being stimulated, inter alia by short-term interest rates being at their lowest levels for 27 years, and monetary policy leading to expanded growth in the American money supply."

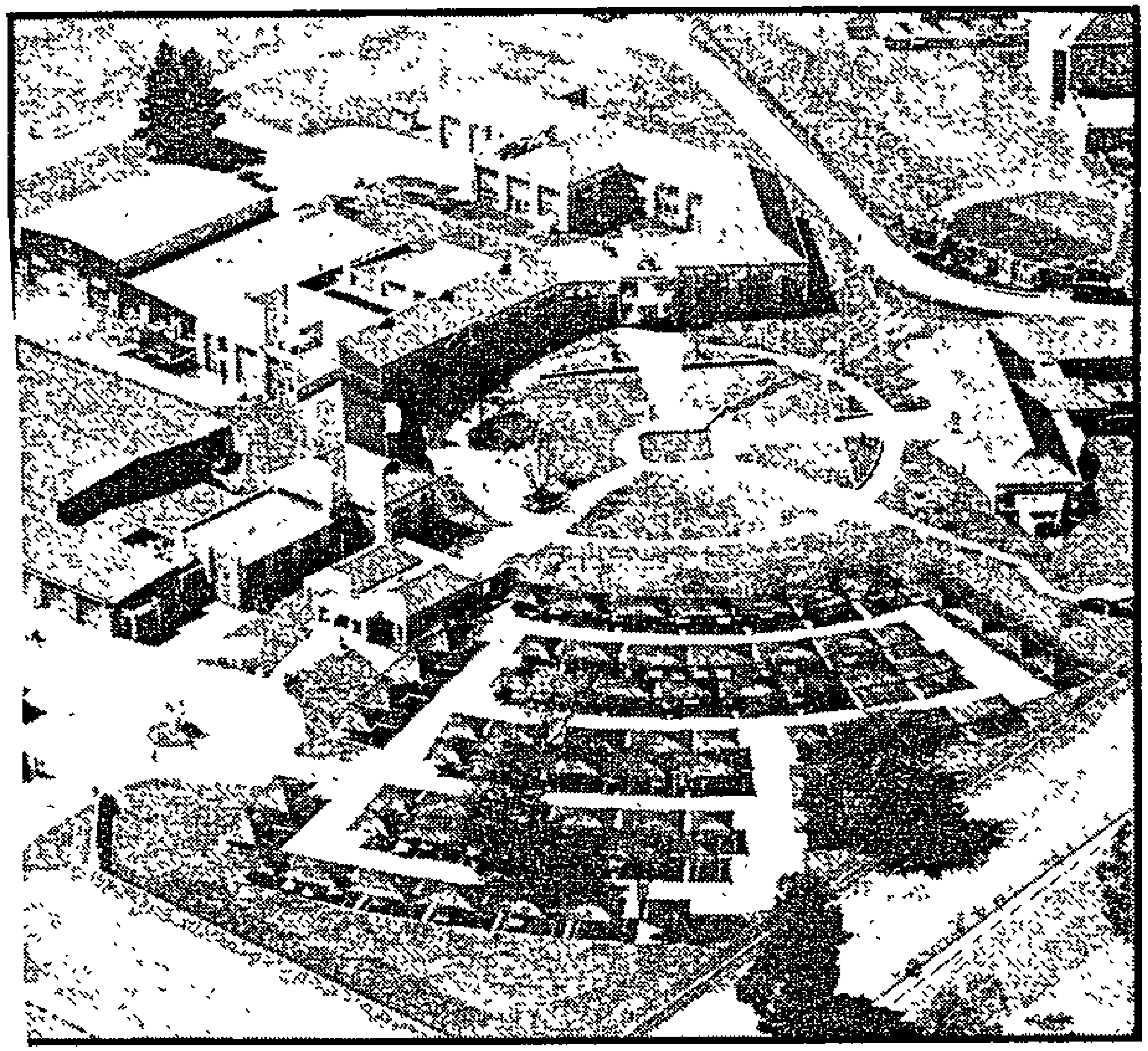
The results will be positive for South African commodities, he believes.

"For example, copper, wood, paper and platinum will probably gain. And Sanlam's two major general funds — Sanlam Trust and Sanlam Index Trust — are well placed to benefit from such developments."

Metlife

Metlife Trust's first full quarter yo March achieved a return of 4,8 percent, equal to an annualised 20,75 percent.

Portfolio manager Philip Morrall says the fund grew from R13,6 million to R17,4 million and the number of unit holders more than doubled.



Offices and factory designed by Taljaard Carter for the DebTech grouping of De Beers Industrial Diamond Division.

Looking for new ways to win

B Day 7/4/92 58

A GLUT of space in the commercial and industrial market, combined with political uncertainty, have compounded depressed conditions to the point where property companies are looking for innovative ways of attracting new business.

Metboard property finance consultant Mike Knightley says that in order to strengthen the group's business and salvage the bottom line, it will have to be better able to meet client needs.

Adjust

While participation mortgage bonds remain popular with investors, institutions must adjust their product to market demand if borrowers' requirements are to be met, says Syfrets property finance senior GM Derek Johnston.

Syfrets, which runs a part bond book of R1,2bn, has seen a strong market move away from traditional part bond finance towards customised individual financing packages tailored to specifc borrower needs.

Historically, the part bond has met investor and borrower needs, being both a financing and investment vehicle.

The trend away from part bonds is largely due to to borrowers' reservations rather than investor sentiment.

While there is still demand for bonds, this is largely from individuals seeking investment and demand from borrowers is declining significantly.

"Numerous competitive financing vehicles have been developed lately and the borrower has little reason to involve himself in a highly regulated, inflexible, fixed period loan where he has to pay interest quarterly in advance," Johnston says.

Where this trend will lead depends on whether alternative investment products satisfy the requirements of participation bond investors and whether borrowers will be prepared to sacrifice a lower rate for the flexibility and customisation of a product like a bank loan, says Johnston.

The key to success in the tough market is creativity in constructing deals, Pam Golding Investment Properties MD John Pistorius says.

Broaden

"Investors need to broaden their vision and there are any number of options worth considering. For example, in the future we may see unlet factories or commercial properties being converted into sectional title residential units," he says.

"The demand for sectional title residential units, particularly in the R80 000 to R100 000 range, is unrelenting."

Decline of effective rand slows to 0,7%

Bday 7/4/92

(58)

SIMON WILLSON

THE decline of the effective rand — the rand's value against a basket of trading partners' currencies — slowed to 0,7% in the first quarter from a 1% fall in the fourth quarter of 1991, Reserve Bank figures show.

The rand's quarterly effective depreciation in the three months to March was the smallest since the 0,6% fall in the third quarter of 1990.

The effective, or trade-weighted, rand is expressed as an index against the currencies of SA's six major trading partners. The rand's effective index gives a broader assessment of its value than a bilateral exchange rate.

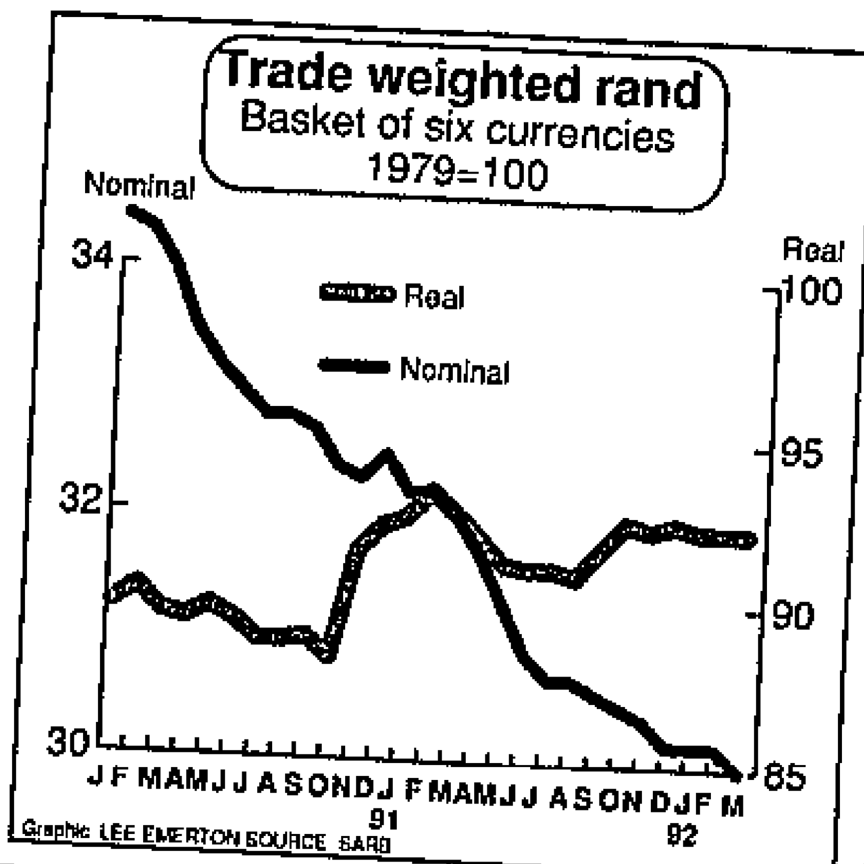
The rand's effective index, based on 100 in January 1979, stood at 30,0 at the end of March. The six trading-partner currencies against which the effective rand's value is measured are the US dollar, sterling, Deutschmark, yen, guilder and the lira.

Although 30,0 is a record low in nominal terms, if the effective rand is adjusted for inflation it is steadily strengthening. The effective rand should be depreciating in line with SA's inflation differential with major trading partners, currently about 10 percentage points at consumer level, but less at producer level.

Instead, reflecting the Reserve Bank's domestic credit policies and exchange-rate management, the effective rand declined only 6,2% last year. Because the nominal effective rand is not weakening in line with the inflation differential, the real effective rand is strengthening.

The strong real trade-weighted rand is currently contributing to the relatively low rate of producer price inflation by restraining import costs. Import prices actually fell 2% in January producer price data, thanks to the strong effective rand and to the unwinding of the effect of a rise in the oil price a year earlier.

The continued resilience of the nominal trade-weighted rand and the extended strength of the real effective rand herald further disinflationary influences from imports during the rest of the year.



Scrip offer well backed

B/Day 17/4/92

(58)

SHARON WOOD

STANDARD Bank Investment Corporation's scrip dividend offer raised its ordinary share capital by 2-million to 104 531 453.

Shareholders took up 2 000 605 ordinary shares, 95,7% of the 2 090 575 shares offered.

The offer closed on March 30 and the new shares will be issued and listed from April 16.

An ordinary dividend of 116c a share was declared on February 11 and would be paid to shareholders who had not elected to receive new ordinary shares.

COMPANIES

Saambou achieves 18% growth

CAPE TOWN — Saambou Bank achieved about 18% growth in its total book to R3,5bn over the past year, says Saambou Holdings group MD Johan Myburgh.

The group will report its results in the next few months. B/Day 7/4/92

Myburgh said the bank had embarked on a strong drive for saving accounts, an area which had been neglected over the years.

He said he would like savings accounts to represent about 20-25% of total investments compared with their current 8%. Term deposits by individuals currently represented about 60% of total investments.

Saambou would concentrate on the deposit side of the balance sheet to get its structure right before embarking on an asset drive, Myburgh added.

He said the bank had recently contracted out the management and development of its computer division to SPL as part of its drive to be one of the lowest cost suppliers of financial services to individuals in the country. Costs presently represented about 3,8% to 4% of total assets and Myburgh said he would like to see this reduced dramatically.

LINDA ENSOR

(58)

Technological development was an area of enormous expense for financial institutions and the bank had estimated that it would be about 10 to 25% cheaper for management of the computer network to be contracted out.

This cost saving could be passed on to consumers in the form of more favourable interest rates.

He said the bank was looking at alternatives to the conventional cheque facility which was becoming too expensive for the average salary earners. One alternative was to combine the old savings account with credit and cash cards.

The bank had identified salary earners and pensioners as its target market for lending and depositing respectively and had adopted the method of the insurance industry to penetrate the market by contracting group schemes with organisations such as the SADF and SAP.

A property investment from UAL

(58)

Bday 7/4/92

SHARON WOOD

A NEW property-related investment instrument, Guaranteed Property Portfolio (GPP), had been launched by UAL, a statement at the weekend said.

The GPP guaranteed the capital value of the investment and would be privately placed with selected individuals, said UAL investment planning services MD Peter Anschutz.

The underlying property of the GPP investment was the Newport Property Fund, to be listed on the JSE in 1993 as a property unit trust. The capital guarantee, at the investment's maturity in 1997, was provided by a zero coupon bond. The investment was expected to provide an increase in income as well as capital growth, he said. GPP would raise R50m for Newport, with a minimum investment of R50 000 an individual.

Investors could choose to waive the capital guarantee in favour of investment in Newport and opt for a higher increasing income stream and capital growth. Income distributions would be paid every six months.

There would be no tax on the capital growth of the underlying property investment. The income yield on the property would be taxable at the investor's marginal tax rate.

Masterbond inquiry widens

Bi Day 7/4/92

(58)

LINDA ENSOR

CAPE TOWN — The public commission of inquiry into the Marina Martinique development near Jeffreys Bay would be extended to cover the collapse of the whole Masterbond group, special adviser to the Finance Minister Japie Jacobs confirmed at the weekend.

Jacobs said the financial authorities had taken the initiative in having the scope of the inquiry — commissioned in terms of the Companies Act — broadened in response to pressure.

An application is expected to be brought in the Cape Supreme Court soon for court approval for the Masterbond group to pay for the substantial costs of the inquiry rather than the liquidated Marina Martinique Development Co. The application will be brought on the grounds that the inquiry will look into the reasons for the collapse of the Masterbond empire as a whole.

Depending on the number of witnesses called, the inquiry could cost about R500 000. Retired appeal court judge Gerhardus Kotze has been appointed commissioner.

The commission has been empowered to call evidence from a wide range of people including former Masterbond directors Koos Jonker, Johan Brits and Johannes Winckler, and all those involved in the Marina Martinique development.

Masterbond investors had about R66m invested in participation bonds and debentures in the Marina Martinique project. But there is doubt about whether the pro-

□ To Page 2

Masterbond

BDay 7/4/92

(58)

□ From Page 1

ject ever could have been viable and whether there was a possibility of depositors getting their money back.

In a recent court application to have Marina Martinique finally wound up, provisional liquidator Ralph Millman said about R80m had been invested in the "extremely ambitious" project. 7/4/92

"There will probably be no free residue in Marina Martinique and consequently neither preferent nor concurrent creditors will receive any dividend at all," he said.

The properties are said to be worth only R20m-R25m while Marina Martinique has creditors with claims totalling R85m. Questions have been asked about the whereabouts of the remaining R60m-R65m invested.

Trusts 'dressed up' at quarter end

B/Day 7/4/92 (58)

MERVYN HARRIS and
WILLIAM GILFILLAN

INVESTORS wanting to go into unit trusts should make their investments at the beginning of each quarter if they want to get the best returns on their money.

Fund managers often window dress portfolios by ramping up share prices to indicate a better performance at the end of each quarter as part of the competitiveness of the unit trust industry.

As a result, the price of 17 of the 22 general equity funds increased on the last day of the January to March quarter reflecting the increased value of their underlying portfolios.

The share prices are often pushed up on very thin volumes.

But the prices of the units tend to tumble in the first day's trade in the following quarter, although part of this drop is sometimes explained by funds going ex-dividend.

For example, although NBS Hallmark's purchase price dropped more than 3% (28,2c) to 882,26c from 910,46c last Wednesday, the first trading day of the April to June quarter, part of this was explained by the 23,58c dividend payout.

Without exception the price of all the general equity funds dropped on Wednesday.

On Tuesday last week, the last trading day of the March quarter, the JSE industrial index rose 30 points to 4 485 with most of the rise coming in the last bout of trading as fund managers lifted index-weighted shares.

"There is always much activity that occurs at the end of the quarter which probably coincides with unit trusts' quarter ends," Unit Trust Association executive Ken Burns said.

Stockbrokers are said to phone fund managers a few days before the quarter ends to ask if they want share prices to be ramped up, especially on the thinly traded blue chip shares, an informed source said.

However, the sharp falls in the indices last Wednesday were accentuated by the plunge on the Tokyo market which sent nervous tremors through all markets.

Window dressing occurs in all markets throughout the world and is especially rife on the Tokyo market.

"Tobashi is the name that Japanese give to the common trick of shifting investments from one account to another before the end of a reporting period," said an article in a recent issue of The Economist.

However, the higher the quarter-end price, the higher must be the following quarter's entry price.

As a result, boosting performance for one quarter will concomitantly reduce the performance for the following quarter.

Cash inflow holds rates down

Bday 7/4/92 (58)

STRONG liquidity inflows into the local money market last week continued to exert downward pressure on rates and saw the three-month liquid BA rate in a lower range of between 15,40% and 15,70% towards the end of the week.

The market saw a substantial influx of cash, arising from month-end squaring and seasonal trends associated with the quarter-end and the new fiscal year.

The sale of government stock of about R2bn was not enough to offset a tremendous amount of government spending which went towards the financing of quarterly payments to the self-governing homelands and to members of the Southern African Customs Union. The result was a three year low in the money market shortage down to R365m after month-end.

The Reserve Bank was active in the market in an attempt to mop up liquidity and to restore the shortage to comfortable levels of around R1bn. The Bank issued a five-day special Treasury bill (TB) tender, but applications were undersubscribed and the Bank received only R450m for the R500m of bills on offer — despite a relatively attractive rate of 15,14%.

Earlier in the week, the Bank raised eyebrows when it failed to issue special bills when the shortage slipped to R700m.

Liquidity conditions in the market are expected to be maintained in light of the moribund state of credit demand growth, and thus rates should continue gradually to ease. The BA rate continued its downward trend last week with one major institution quoting the rate at 15,40% — despite the market having over-discounted the recent one-point cut in Bank rate

The BA rate was last at levels of around 15,40% three years ago, in February 1989. According to market sources, dealing last week on the three-month paper was taking place at levels as low as 15,30% although some of the larger institutions quoted official rates around levels of 15,70%.

The capital market was subdued last week following players' recent activity in reaction to last month's reform referendum. With no major economic indicators released last week, the market lacked direction and rates can be expected to drift aimlessly for another a week with no fresh fundamental news expected for some time.

Towards the end of the week, the benchmark Eskom 168 was at levels of around 16,08% from 16,10% previously, while the longer-term government RSA 150 stock was at 16,31% from a previous 16,38%.

Tenants playing the market off against landlords

THE WEAK economic climate and an oversupplied office market are giving tenants opportunities to play the market off against their landlords, says Anglo American Property Services (Ampros) national leasing director Grahame Lindop.

"We find people are making inquiries about space and rental levels even though their leases are not up for renewal.

"They then threaten to move out and quote what rental levels are being offered elsewhere, with the market therefore looking busier than it really is," Lindop says.

The market has also seen the emergence of some big tenants, but much of this has been due to the merging of companies, which perhaps exaggerated activity in the present economic climate.

H Lewis Trafalgar group MD Neville Schaeffer agrees, saying rentals are moving sideways to downwards, with clients able to obtain premises at much reduced rentals, particularly in areas like Sandton and Johannesburg.

"Landlords are having to negotiate better terms and, in many cases, upgrade their premises and we do not expect much of a recovery in the office sector until the economy starts to improve," he says. B|Day 7/4/92

"Inquiries have diminished, with many not having any real substance to them."

The group has not had any major leases falling due for renewal in Durban, Cape Town or Pretoria over the past six months, but some of the bigger leases will fall due over the next two years.

"These tenants are already demanding to know where they stand regarding future rental levels.

"We are seeing rentals being dropped and incentives increased across the industry.

"In many cases there are no real bottom rental limits as it is better to have a tenant paying a low rental than than to have empty buildings."

Ampros is actively trying to promote the Carlton Centre as the international business centre of Johannesburg.

. Brochures have been printed for offshore distribution, including to foreign trade missions.

"The Carlton is located in downtown Johannesburg and it makes sense for international investors to be there," Lindop says.

Debate rages over timing of upswing

BDay 7/4/92 (58)

PROPERTY players vary in their view as to when the commercial and industrial markets will improve, but all agree this is based on a number of variables, including political and economic factors.

RMS Syfrets commercial division director Mark McReedy says that, given many variables including a reasonable gold price, greater political stability and exports maintaining current levels, both the level of activity in the office market and rental levels should increase.

Delay

"The potential for rental increases relates to demand, which in turn relates to supply. The backlog of vacant space will delay increases, so it is difficult to predict rental levels by the year-end," he says.

Rentals on new projects average R27/m² net for Parktown and the Sandton CBD which, given any degree of upturn before the end of the year, could be closer to R30/m² net.

However, Seeff Organisation Holdings chairman Lawrence Seeff expects the take-up of space to take place in the first quarter of 1993.

"This prediction is assuming that the amount of space that has been coming on-line until now tapers off. The market must also not rely on an inflow of offshore clients, thereby facilitating the quick uptake of space, until political stability is achieved."

Anglo American Property Services leasing director Graeme Lindop believes the market will get tougher and stay that way until the end of 1993.

"There is no reason why the property market should get any easier before this time. The market lags some nine to 12 months behind the economy, which has not really shown any signs of turning as yet," he says.

He disagrees with McReedy on the prospect of rental growth, saying there will be no rental growth until there is at least an equilibrium between supply and demand, with real growth taking place when demand outstrips supply.

While the commercial market is relatively quiet, there is sustained activity with the emphasis on quality space. Good A-grade buildings are letting at the expense of C- and D-grade buildings, with rental levels holding up in certain high-demand areas, McReedy says.

"The trend sees a predominance of smaller inquiries, with many leasing deals of between 200m² and 500m² being closed. This is a good sign as upturns often begin with smaller inquiries," he says.

Old Mutual regional property manager responsible for its R313m central Durban portfolio Charles Oxenham agrees. The focus has moved to the smaller end of the market, but he is confident this shows the market is starting to turn.

Mcreedy says large space users tend to plan in 15 to 20-year periods as opposed to single business cycles.

"If they are going to move in a recession, they are well aware of the benefits of negotiating advantageous long-term deals".

Fewer developments are coming on stream, with existing stock being taken up first, which is an indication of the continued economic downturn, he says.

Industrial tenants are hunting bargains

BDay 7/4/92 (58)

THE prevailing situation of static industrial rentals, with little opportunity for short-term growth, is giving many of the larger industrial users an opportunity to take advantage of conditions and lease more space or relocate.

"This is happening in industrial areas like the Gables, Cleveland, Mondi, Crown and Aeroton,"Russell Mariott & Boyd (RMBT) industrial leasing director Simon Noyes-Lewis says.

There is very little development of new sites.

"Developers are tending to look at the redevelopment potential of older properties that they can pick up at bargain prices in the present market," says Noyes-Lewis.

"Redevelopment enables lower rentals to be offered than would be possible with comparable new projects."

RMS Syfrets industrial division director Mike Brown says some of the older multi-level buildings have no redevelopment potential. They have seen no growth in rentals for the past five years.

"There is little to no demand for this space and its only worth is its residual value," he says.

"The industrial market is under pressure, with the country experiencing no economic growth, a static GDP, vacancy rates high and rental levels dropping."

Brown says, overall, the industrial market is underdeveloped relative to the office market, but has some optimism.

"Several large institutions have recently bought large tracts of vacant land which they anticipate will increase in value and be taken up within nine months of the economy turning," he says.

Surplus

Very little land is available to the north of Johannesburg, yet there is a surplus of mini-market space in the south.

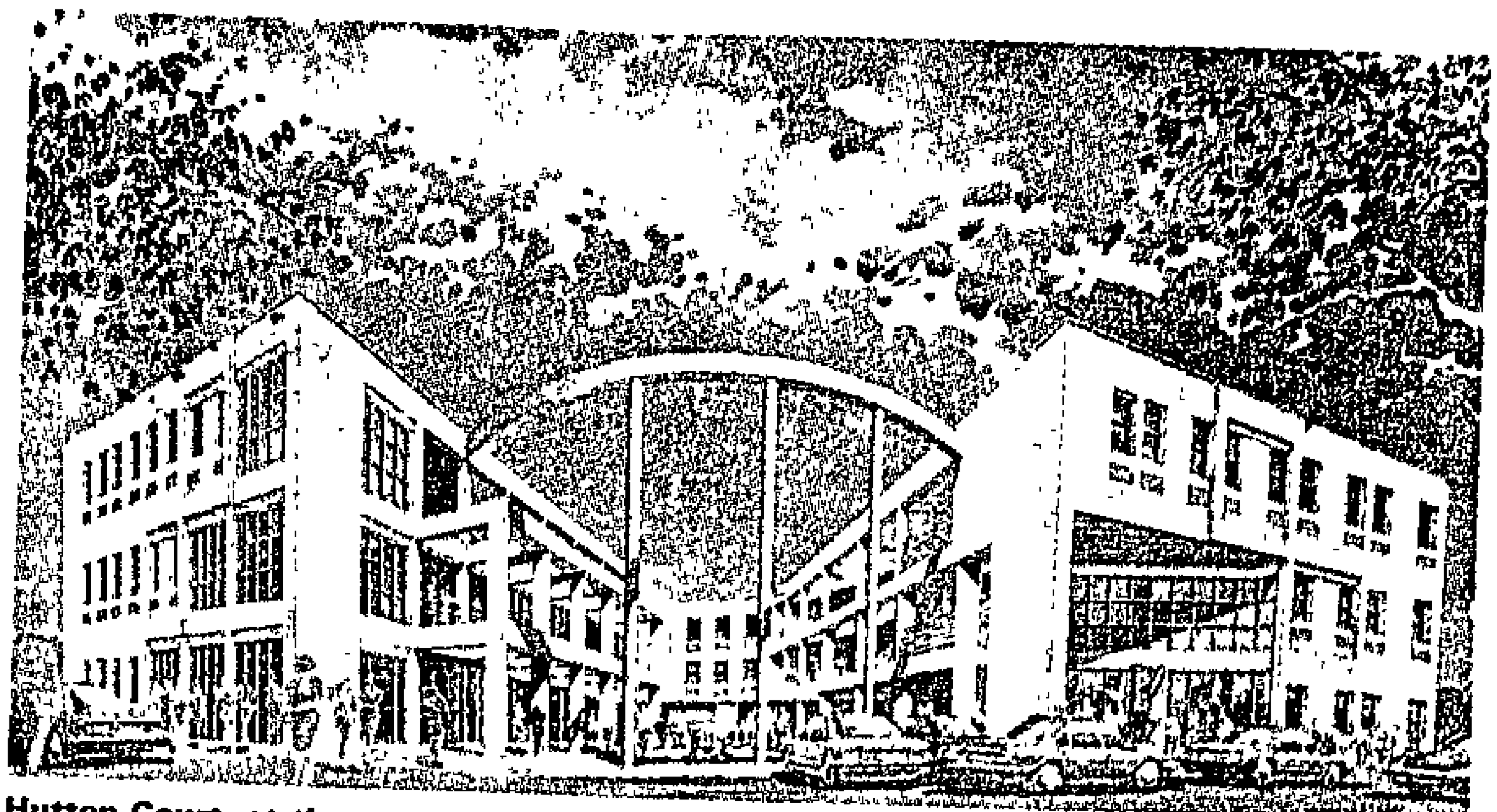
If there was an overnight improvement in demand, existing available space in the south could accommodate up to 3 000m², say Brown and Noyes-Lewis.

Security is a motivating factor as to where companies locate their industrial property and many companies have moved from traditional areas to new ones, Noyes-Lewis says.

"This is evidenced in the movement away from Wynberg to Eastgate. Wynberg is close to the township of Alexandra and the buildings are older and the roads more congested," he says.

"There has been no real movement of industrial rentals or vacancies over the last six months, although areas on the fringe of the various CBDs — away from the congestion and older buildings — still have potential."

Brown says industrial rentals have held firm on average over the last year to 18 months, but have regressed in real terms when seen against high inflation and interest rates.



Hutton Court, at the corner of Summit and Jan Smuts Ave, is due to come on line next year. It will offer 5 000m² of space in the niche Rosebank market.

Codesa gives industrial market a slight boost

S10ay 7/4/92

THE Codesa negotiations have created a sense of euphoria and given the industrial market a slight boost, says JH Isaacs (JHI) industrial leasing and sales director Wayne Wright.

"The Codesa negotiations have given the smaller industrialist some encouragement to move into the market," he says.

RMS Syfrets industrial division director Mike Brown agrees, saying 1992 began on a very positive note, with Codesa and widespread expectations of an interest rate drop creating optimism that was reflected by good industrial activity.

"Unfortunately, the volatile state of South African politics, influenced by continuing international pressure and violence, the Potchefstroom debacle and the referendum, created pessimism and general uncertainty," he says.

JHI has also seen a number of entrepreneurs moving into the market as they feel the time is right and that the market offers opportunities in areas like refurbishment.

S8

Demand

"There are three areas of high demand in the industrial market: micro units of about $150m^2$, but situated in the right location; and space in the $600m^2$ to $800m^2$ and the $1\ 000m^2$ to $1\ 200m^2$ areas," he says.

The areas with the highest demand areas tend to be those based in the CBD because of the availability of public transport and access to freeways. Very little speculative development is taking place, with most activity being tenant driven.

A lot of companies, institutions and developers are planning now for the future.

Demand could move upwards with the lifting of sanctions, improved political sentiment and a drop in the interest rate if these factors continue to follow the path they have started on.

Also, the opening up of southern Africa as a trading and export partner is promoting a number of developments being planned now or 18 months down the line.

"There are serious buyers in the market from our neighbours in Africa. They have already taken up a fair amount of space on the commercial and distribution sides. Some units are combined office and warehousing or distribution facilities," Wright says.

The Midrand area is benefiting substantially from this business because of zoning requirements, as well as the nature of some of the operations.

'Rent-free deals not good for anybody'

BDay 7/4/92

THE present proliferation of commercial property deals incorporating a rent-free period is not so marked as it was in 1986, says RMS Syfrets industrial division director Mike Brown.

"The 1984-1986 recession saw a lot more speculative development, with non-institutional developers reacting to the high interest rates and poor economic condition by offering rent-free or subsidised deals rather than having vacancies," he says.

Rent-free deals have historically proven to reflect badly on the value of the property and owners prefer tenants paying rent as it creates a sense of value with the tenant, says Brown.

The current trend is to rather discount rentals in the early part of the lease.

Despite efforts to attract overseas investment, no major interest is expected in the near future. "Industrialists are inclined to test the waters carefully before making a major move," Brown says.

"Our political and economic situation is still too volatile to expect results at the moment," Brown says.

"Overseas-controlled industrial operations already involved in South Africa usually have surplus space in the SA plants and will use that first.

"The only real demand that can be expected will be in the warehousing field, with demand based on new operations or the further development of existing ones resulting only from increased production and sales once the available surplus space has been filled."

Revamping is a popular option, if prices are right

REFURBISHMENT appears to be one of the options still available to developers and speculators alike. If the property is well-located, there is demand and rentals should be lower and therefore more competitive.

BDay 7/4/92

RMS Syfrets industrial division director Mike Brown says many dilapidated properties are being snapped up and revamped.

While this is not a suitable option for all tenants, it offers a cost-effective solution for the larger ones who can lease 10 000m² to 15 000m² of warehousing, in a good-as-new property, at lower rentals than they would otherwise pay, he says.

(58)

Potential

Russell Mariott & Boyd industrial leasing manager Simon Noyes-Lewis also believes developers are beginning to look at the redevelopment of older properties that can be picked up at good prices.

JH Isaacs MD Colin Wright goes further and says there is potential for the redevelopment of older buildings into residential accommodation. With time, these properties will become affordable and the real value of a building will be dependant on its future use.

Seeff Organisation Holdings chairman Lawrencce Seeff says refurbishment seldom creates A-grade space. However, B-grade space, for which demand does exist, cannot be built.

Optimism expected to yield results

BI Day 7/4/92

THE referendum result has resulted in more optimism in the commercial, industrial and retail markets, but this will fall away if there is not seen to be progress, Board of Executors (Transvaal) director Mike Rosholt says.

"I am not sure if this optimism will filter through in increased demand for space as trading conditions remain tight, economic conditions depressed and interest rates high," he says.

However, the Budget was milder than expected and any cut in interest rates will have a tremendous effect on the market. Local investor confidence is also expected to improve due to the referendum result.

"We believe this will be reflected in the syndication market. We recently completed a R35m syndication of three buildings — two in the Johannesburg CBD and one in Illovo — and response was good," Rosholt says.

Another BoE retail and office syndication in the Johannesburg area, which is well tenanted, will soon be launched. However, private developers are battling to make margins.

While the institutions are still buying, the thrust over the next six months will be for investment property, with the industrial market more buoyant in this regard, Rosholt says.

While approaches from offshore merchant banking institutions have been made, nothing has materialised from this. "There are still perceived risks associated with investing in this country and we have not yet concluded any deals."

Senbank trusts go more liquid

(58)

STAR 7/4/92

Unit prices of the Senbank's General Trust and the Industrial Trust improved during the first quarter of the year by 6,7 percent and 8,6 percent respectively.

In the nine months since the conversion of the unit trusts to equity funds from fixed interest funds in June 1991, unitholders earned a total return of 16,8 percent with the General Trust and 20,3 percent with the Industrial Trust.

Funds invested in the Senbank unit trusts grew further in the quarter, those of the General Trust by 46,5 percent to R6,9 million and those of the Industrial Trust by 57,2 percent to R2,4 million.

The number of unitholders in Senbank unit trusts increased by 69,3 percent to 5558 during the past quarter.

The fund managers said prices on the JSE showed further increases during the first quarter of 1992, primarily as a result of high liquidity and the inflow of new funds into equities despite a falling dollar gold price and uncertainty due to international conditions and the outlook in South Africa during the negotiation phase.

The management of the Senbank unit trusts considered it advisable in these uncertain circumstances to increase the liquidity levels of the unit trusts. — Sapa.

Two Senbank trusts show improvement

B/Day 7/4/92

UNIT prices of Senbank's General Trust and the Industrial Trust improved during the first quarter of the year by 6,7% and 8,6% respectively.

In the nine months since the conversion of the unit trusts to equity funds from fixed interest funds in June 1991, unitholders earned a return of 16,8% with the General Trust and 20,3% with the Industrial Trust.

The fund managers said in a statement yesterday the Senbank unit trusts performed satisfactorily, despite uncertain conditions on the JSE. 58

Funds invested in the Senbank unit trusts grew further in the quarter, those of the General Trust by 46,5% to R6,9m and those of the Industrial Trust by 57,2% to R2,4m. — Sapa.

Alcohol linked to poor black health

Sowetan 8/4/92

MORE than 60 percent of black psychiatric patients were treated for alcohol-related conditions, the MEC for social welfare and liaison services, Mr Temba Nyati, said yesterday.

Thirty percent of black patients hospitalised for medical reasons were treated for alcohol-related problems, he said during the Provincial Budget debate in Cape Town.

The Cape Province's first frail care facility was being erected in Cape Town this year. There were 18 service centres for aged blacks and three old-age homes for blacks in the province.

There were four special day-care centres for severely mentally retarded blacks, and 11 workshops for the disabled.

Nyati said an estimated 21 000 social workers were needed by the turn of the century, but there were only 1 089 registered black social workers, and no more than 4 000 social workers in the country.

The CPA was appointing social auxiliary workers to support social workers. - *Sapa*

Absa won't talk about retrenchments

Sowetan 8/4/92

AMALGAMATED Banks of South Africa yesterday declined comment on a report in the *Sunday Star* that it plans to retrench at least 4 000 workers in a sweeping rationalisation programme.

The finance section of the *Sunday Star* reported the casualty toll could reach as high as 6 000 by mid-year.

However, Absa human resources director Dr Petrus Claassen this morning declined to confirm or deny the extent of staff cutbacks with a terse "No comment."

He added: "There is a retrenchment programme and full agreement has been reached with the trade unions about the procedures to be followed."

Equity consolidation likely

B/Day 8/4/92 (58)

WILLIAM GILFILLAN

A PERIOD of consolidation in the equity market was probable as many areas were in expensive territory, Guardbank Management Corporation chairman Roy McAlpine said yesterday, when presenting the results of Guardbank unit trusts for the year to end March.

Guardbank Growth Fund, the general equity fund, recorded a 25,69% total return (capital appreciation and income reinvestment) for the twelve month period while Guardbank Resources Fund, specialising in the natural resources sectors of the economy, recorded a total return of 19,58%. The Income Fund, which aims to maximise income and excludes equity investments, recorded a total return (including income reinvestment) of 18,18%.

Although McAlpine believed a period of consolidation in the equity market was probable, the burgeoning institutional cash flows, the improving balance of payments account, a declining interest rate pattern, and the more positive political environment "should provide a measure of support", he said.

"Internationally, world stock markets are exhibiting a nervous and choppy trading pattern, exacerbated by the precipitous fall in Japanese markets as measured by the Nikkei Dow Index which traded at a five year low on 31 March 1992."

Domestically, corporate profitability remained under severe pressure and the effect of the drought had yet to ripple through the economy.

"However, the first quarter of 1992 saw some easing by the authorities in terms of a 1% cut in the bank rate, an easing in hire purchase restrictions, and a mildly stimulatory budget."

Guardbank Industrial Fund, a new unit trust specialising in financial and industrial shares, was launched last week. Its investment policy would be similar to that of the Growth Fund, McAlpine said.

Abcon ahead of forecast

B10 ...
8/4/92

PETER GALLI

(58)

RECENTLY listed Abcon Properties has posted a total distribution of 14,169c a combined unit in its first preliminary reporting period from December 2 to February 29.

"The earnings are slightly ahead of the prospectus forecast, due to higher than expected interest income, but results for the 15-month period to end-February 1993 are expected to be in line with the forecast," MD Niki Vontas said in an interview.

Dividends of 0,058c a share and interest of 55,384c per unsecured debenture, giving a total return per linked unit of 55,442c were forecast in the prospectus for the annualised 15-month period. This translates into an earnings yield of 11,09% on an issue price of R5,00. The distribution declared yesterday amounted to a yield of 11,33%.

Income before debenture interest of R5,934m was reported, with R5,922m being paid in interest. This left pre-tax income of R12 000 of which R6 000 went to tax and the remaining R6 000 was paid out in dividends.

The share was untraded yesterday at its recent March 27 low of 500c, the same as its listing price, off its December 2 high of 520c. Abcon has a portfolio of 29 properties valued at R182m, almost all located within 15kms of the Johannesburg CBD.

Sanlam Properties puts money into education

B/Day 8/4/92 (58)

Reports by
PETER GALLI

MORE and more people in the property and related fields are identifying the need for educational facilities, and doing something about it.

Sanlam Properties is becoming more involved in the supply of educational facilities. It has made more than R63m made available on a commercial basis for expansion at two tertiary institutions, in Johannesburg and Port Elizabeth.

Architects Stauch Vorster, who advise the Development Bank of SA and other groups, say the shortage of buildings for education has reached crisis proportions and needs urgent examination.

"We are involved in a number of projects which entail the development of new low-cost systems for building and working together with the user community," architect Shelagh Nation says.

Sanlam Properties GM Dolf Muller says it is clear that in the new dispensation the state has less funds for the development of office and school buildings. Sanlam Properties was able and ready to fill the gap, and would welcome further involvement.

Sanlam Properties is financing the first R28m phase at the Port Elizabeth Technikon's Summerstrand campus, completed in February and consisting of three apartment buildings, accommodation for small businesses, sport and administration facilities and a parking area.

In Johannesburg, Sanlam Properties is financing Damelin College's new R35m complex, which involves the redevelopment of the Marinhof site in Braamfontein and the redevelopment of the centre, providing for 2 000 students.

"Education in SA is at the crossroads. Not only is capital expenditure coming under pressure due to lack of state finance, but so is current expenditure," says Muller.

Nation says the shortage occurs most acutely at the bottom of the education pyramid where early learning centres are desperately needed.

"Primary schools have to respond to necessary cost reductions when there are increasing demands but no budgetary increases to meet them."

Tertiary education was under pressure to be more sensitive to the needs of commerce and industry, and student accommodation at schools had to be re-evaluated.

Changes at TrustBank

STAR 8/4/92

Amalgamated Banks of South Africa (Absa) is rationalising the Volkskas and TrustBank head offices.

(58)

With immediate effect, HG "Hennie" Diedericks, deputy operating executive of Volkskas becomes operating executive of the TrustBank division of Absa and replaces Johan Howell, who is retiring.

Koot van Vuuren, operating executive of Volkskas, who was due to retire at the end of June, retains his position until the rationalisation of the two head offices is completed towards the end of the year.— Sapa.

Hennie Diedericks

US economy 'can aid SA unit trusts'

(58)

BDay 8/4/92

CAPE TOWN — Sanlam Dividend Trust has produced a return of 34,5% for the year ending March 31, according to the latest figures announced by the Association of Unit Trusts.

Sanlam Industrial Trust's results for the same period were 32,9%, followed by Sanlam Trust with 27,9%, Sanlam Index Trust with 24,4% and Sanlam Mining Trust with 9,1%.

Two of Sanlam's unit trusts declared income distributions for the six months to March 31. Sanlam Trust will pay 26,8c per unit on May 22, and investors in Sanlam Dividend Trust will receive 10,5c per unit, paid on May 15.

Sanlam said in a statement yesterday it believed present developments in the American economy would have a positive influence on SA unit trusts. "We are confident that the market for commodities will make a valuable contribution to performance," said Stafford Thomas, Sanlam Unit Trusts' senior portfolio manager.

"The American economy is being stimulated, inter alia, by short term interest rates being at their lowest levels for 27 years, and monetary policy leading to expanded growth in the American money supply."

The results would be positive for SA commodities, he said.

"For example, copper, wood, paper and platinum will probably gain. And Sanlam's two major general funds — Sanlam Trust and Sanlam Index Trust — are well placed to benefit from such developments."

Thomas believes that growth through industrial shares will level off. "Although the JSE Industrial Index continued to be the top performer at the beginning of the year, it is not likely that the growth rate will be maintained at such a level." — Sapa

Unit trust managers

STAR 8/4/92

go bargain hunting

8/4/92

By Derek Tommey (58)

Standard Bank Mutual Fund sold its entire holding of 715 200 shares in Absa, worth about R7,15 million, after news of the planned merger of Absa with Bankorp.

This is one of a number of interesting transactions conducted by various trust managers in the March quarter.

Sage Fund drew attention with its fairly heavy purchases of gold and mineral shares in the quarter — suggesting it has been engaged in a spot of bargain-hunting.

It bought 120 000 Freegolds for R3,45 million and 340 000 Harties for R4,76 million.

It increased its holding in Driefontein from 250 000 to 260 000 shares worth R10,2 million and raised its stake in Western Deep Levels from 60 000 shares to 70 000 shares worth R6,76 million.

It increased its stake in Samancor, the ferro-chrome producer, which recently shut down its furnaces for three months, from 100 000 to 110 000, worth R3,72 million, and acquired 50 000 PPRust, increasing its stake in the company to 137 000 shares worth R794 000.

It invested another R4,5 million in boosting its stake in Gencor from 2,1 million to R2,6 million shares worth R28,1 million.

Sage Fund raised its stake in Nedcor and Sage Holdings, and acquired more Tiger Oats, CNA, Pick n Pay and Wooltru.

But it trimmed its stake in Malbak by 15 percent to 874 400 shares worth R11,14 million, and sold all its 360 000 Lonrho shares, its 49 000 Plate Glass shares and its 30 000 Pepkor shares.

It sold some of its Foschini and Tongaat shares.

Stake

But while Sage was buying Wooltru shares, Guardbank Growth Fund was selling 50 000 A shares.

However, at the end of the quarter it still held 700 000 Wooltru A shares worth R45,5 million so it cannot be said to be divesting.

Guardbank sold 100 000 Anamint, reducing its stake to 300 000 shares worth R31,5 million.

It exchanged its 1,1 million Placor for 550 000 SA Breweries B convertible preference shares and exchanged its 3 100 000 TSI shares for 3 100 000 ISG shares and 3 100 000 Persetech shares.

Sanlam puts it faith in commodities

STAR 8/4/92

Finance Staff 56

Sanlam Dividend Trust has produced a return of 34,5 percent for the year to March, according to the latest figures announced by the Association of Unit Trusts.

Sanlam Industrial Trust's results for the same period were 32,9 percent, followed by Sanlam Trust with 27,9 percent, Sanlam Index Trust with 24,4 percent and Sanlam Mining Trust with 9,1 percent.

Two of Sanlam's unit trusts have declared income distributions for the six months to March. Sanlam Trust will pay 26,8c per unit on May 22, and investors in Sanlam Dividend Trust will receive 10,5c per unit, paid on May 15.

Sanlam believes present developments in the US economy will have a positive influence on SA unit trusts.

"We are confident that the market for commodities will make a valuable contribution to performance in future," says Stafford Thomas, Sanlam Unit Trusts' senior portfolio manager.

"The US economy is being stimulated, inter alia, by short-term interest rates being at their lowest levels for 27 years, and monetary policy leading to expanded growth in the American money supply."

The results will be positive for SA commodities, he believes.

"For example, copper, wood, paper and platinum will probably gain. And Sanlam's two major general funds — Sanlam Trust and Sanlam Index Trust — are well placed to benefit from such developments."

Mr Thomas is of the opinion that growth through industrial shares will now level off:

Life assurers 'discuss principles' with ANC

LINDA ENSOR

CAPE TOWN — The Life Offices Association (LOA) had been holding talks with the ANC and other extra-parliamentary groups on ways of investing its funds in socially desirable projects, but LOA chairman Louis Shill categorically denied yesterday that any percentages or figures had been discussed so far.

"There is no question of any allocation of sums," Shill said.

The Financial Mail reported this week that "life assurers are close to striking a deal to put about R5bn a year into 'socially desirable' projects such as low-cost housing and education. The mechanics are still being discussed."

The FM said the ANC was considering a social levy of 10%-15% on total income from premiums and investment. B/Day 9/4/92

LOA director Jurie Wessels said yesterday this idea had not as yet been presented to the LOA. Wessels denied that any deal was in the process of being struck about a R5bn-a-year investment or a 15% prescribed asset requirement. Only broad principles had been discussed so far, he said.

Shill stressed that life assurers were keen to be involved in social investments, were intent on doing something meaningful in this area and had taken the initiative in setting up talks with the ANC and other groups.

A number of worthwhile and innovative ideas were under discussion.

However, it was too early to reveal the contents of the discussions at this stage.

COMPANIES

New Seeff property syndication

CAPE TOWN — Seeff Trust has launched a R36m syndication of the BSE Centre in Bellville in what is believed to be the largest property syndication in the country and the largest commercial property deal in Belville. B|Day 9|4|92

This is Seeff's ninth syndication in two years and brings the total capital value of its syndicates to more than R100m.

The twin tower centre in the Belville CBD is less than four years old and has a lettable area of 11 369m² including a ground floor retail section and A-grade office accommodation. It has a parking garage and 158 bays outside.

Tenants include Trust Bank and Bankfin, SA government departments, Rentmeester Beleggings and several professional firms.

Belville is one of the fastest growing satellite towns in the country and has a shortage of A-grade office accommodation, Seeff Trust MD Mike Flax said at the launch of the syndication yesterday.

He said Belville also had the lowest vacancy rate of 1,6% in A-grade offices compared with the national average of about 10% and rentals compared favourably with the Cape Town CBD.

LINDA ENSOR

A total of 3 600 units of R10 000 each with an initial income yield of 10% and an annual rental escalation of 11% will be offered mainly to Seeff's pool of more than 5 000 clients. The total return, including income and capital has been projected at 21,08% in the first year, 25,9% after three years, 50,32% after five years, 44,55% after seven years and 63,96% after 10 years.

"In keeping with our practice of providing full security for our investors we have arranged for the sellers to furnish a guarantee for rental returns and escalations in the form of a fully repairing and insuring head lease for five years. This will virtually eliminate any serious risk factor for investors," Flax said. 58

Flax was confident that despite its size the BSE Centre would be fully syndicated, adding that what made the investment especially attractive was that architects had completed a preliminary study for the erection of a third tower block.

He said the addition could be undertaken in a few years time through internal gearing and without the need to introduce more outside capital.

Gibraltar, SA to form bank links

BDay 9/4/92 PETER GALLI (58)

THE Reserve Bank had given the visiting Gibraltan delegation a clear indication that it would sanction the formal establishment of local banking institutions in Gibraltar and the concomitant transfer of funds, Gibraltar's banking supervisor, Mike Davidson, said yesterday.

"We have had discussions with Absa, Nedbank, FNB and others and, while it is too early for any decision on their establishment offshore or the relocation of existing offshore operations to Gibraltar, response was positive," he said in an interview.

Both the Reserve Bank and Gibraltar were looking for quality operations that were properly supervised. Gibraltar had the infrastructure to ensure this, and response from Governor Chris Stals and other senior Bank officials at yesterday's meeting had been "positive", he said.

One of the primary benefits Gibraltar had to offer was that it fell outside the customs, tax and VAT requirements of the EC, but had access to it.

Gibraltar Trade and Industry Minister Michael Feetham said he was surprised at the sophisticated infrastructure in SA.

The delegation met senior ANC officials who asked that no action be taken until a transitional government was in place. "We will respect this and merely wished to explain our goals for future interaction between SA and Gibraltar," Feetham said.

Timelife's direction pays off

B/Day 9/4/92 (58)

MICK ELLINGHAM

TIMELIFE Insurance disclosed a 70% increase in its premium income to R17,7m (1990: R10,4m), while its life fund climbed 187% to R24,7m (R8,6m), according to the company's results for year ended 1991.

The company almost doubled assets to R33,6m (R17,4m), continuing its planned development into a fully fledged financial services institution.

MD Bill Haslam said the company's performance was the result of Timelife's "clearly focused direction and ready response to market needs".

Haslam said Timelife's subsidiaries — Timelife Property Investments (TLPI) and Timelife Assured Advances — were thriving.

TLPI is the company's property syndication arm, 70% owned by Timelife and 30% by Time Properties. Timelife Assured Advances lends money to policyholders for investment in syndicated properties, using Timelife 10-year endowmment policies as collateral.

Haslam said he looked to the future with confidence.

33,6% reward for investors in unit trust

SYFRETS Growth Fund achieved an all-in return of 33,66% in the year to March — double the inflation rate of 15,6% and placing Syfrets among the front-runners in the unit trust industry. (58) (2383)

But the investment team has turned cautious on the Johannesburg Stock Exchange. B/Day 9/4/92

The managers said yesterday they had increased cash and liquid assets to 20% of the portfolio, compared with 13,5% in September last year and 15% in December.

Much of Syfrets' concern centres on the US and Japanese markets.

Syfrets Growth Fund manager Tony Gibson said the US stock market continued to lead the pack after the sharply easier monetary policy instituted at the end of December 1991.

He added local shares could not remain isolated from the US and Japanese markets — especially given high current ratings.

The Syfrets Growth Fund income distribution of 3,21c makes 11,66c for the past year.

The one-year return has been 33,66%.

Average compound rate of return for the three years to March was 27,03% a year, the fund managers reported.

Syfrets Trustee Fund's income distribution for the past quarter amounts to 1,44c a unit.

Syfrets Income Fund's income distribution of 4,19c for the past quarter results in a total distribution of 16,20c for the past 12 months. — Sapa.

Doubts over dividend depress Rentbel price

BDay 9/4/92

58

WILLIAM GILFILLAN

THE share price of Rentmeesterbeleggings (Rentbel), which holds a 44% stake in Trek Airways — operator of Luxavia and fledgling local airline Flitestar — has dropped to a 12-month low of 415c.

Analysts said the price, currently trading at a 64% discount to net asset value, reflected the market's pessimism over when next a dividend would be paid, as well as its concern about gearing which jumped to 78% at the end of December.

Underperforming operations and a large rationalisation programme resulted in Rentbel becoming almost solely reliant on its life assurance subsidiary in the six months to end December, with bottom line losses of R737 000 in this period.

Rentmeester Versekeraars, a niche life assurer in which Rentbel has a 70% interest, and Flitestar were the only two operations to record attributable earnings in the six-month period.

However, as Flitestar's start-up costs had a negative impact on Trek, the equity accounted contribution from the associate dropped to R157 000 (1990: R2,1m).

Rentbel's remaining principle operation, 78% held netting operation Alnet, made a bottom line loss of R1,2m.

In the past year the group sold off its steel and short-term insurance interests and rationalised the Alnet operation.

Although this helped stem losses, bottom line results remained in the red.

Rentmeester Versekeraars, constituting R18m of the R42m total turnover in the half-year period, and Alnet, constituting the remaining R24m, comprise Rentbel's two principle subsidiary operations.

Although Rentbel made an operating profit of R2,3m against the previous year's loss of R8m, an interest payment of R2,6m meant the group had negative interest cover and a taxable loss of R281 000.

Rentbel's poor results were exacerbated by its inability to offset losses in Alnet against profits. As a result tax of R433 000 was paid despite the R281 000 taxable loss.

MD Johan Vermooten said the contribution from the airline operation was lower as Trek had written off most of the start-up costs in the six months to December.

The costs would be capitalised and amortised over the initial lease period of the aircraft when final start-up costs were calculated during the second half year.

Banks ain't the same anymore

By MONDLI MAKHANYA

PEOPLE still think of banks were places you put your money away for safekeeping.

But banking isn't that simple. The traditional function of keeping money now forms a minute part of banks' business. Services provided by these institutions now range from providing start-up finance for businesses to the negotiation of life cover. Increased competition between banks has also ensured that they trip over each to diversify the services they can offer to their clients.

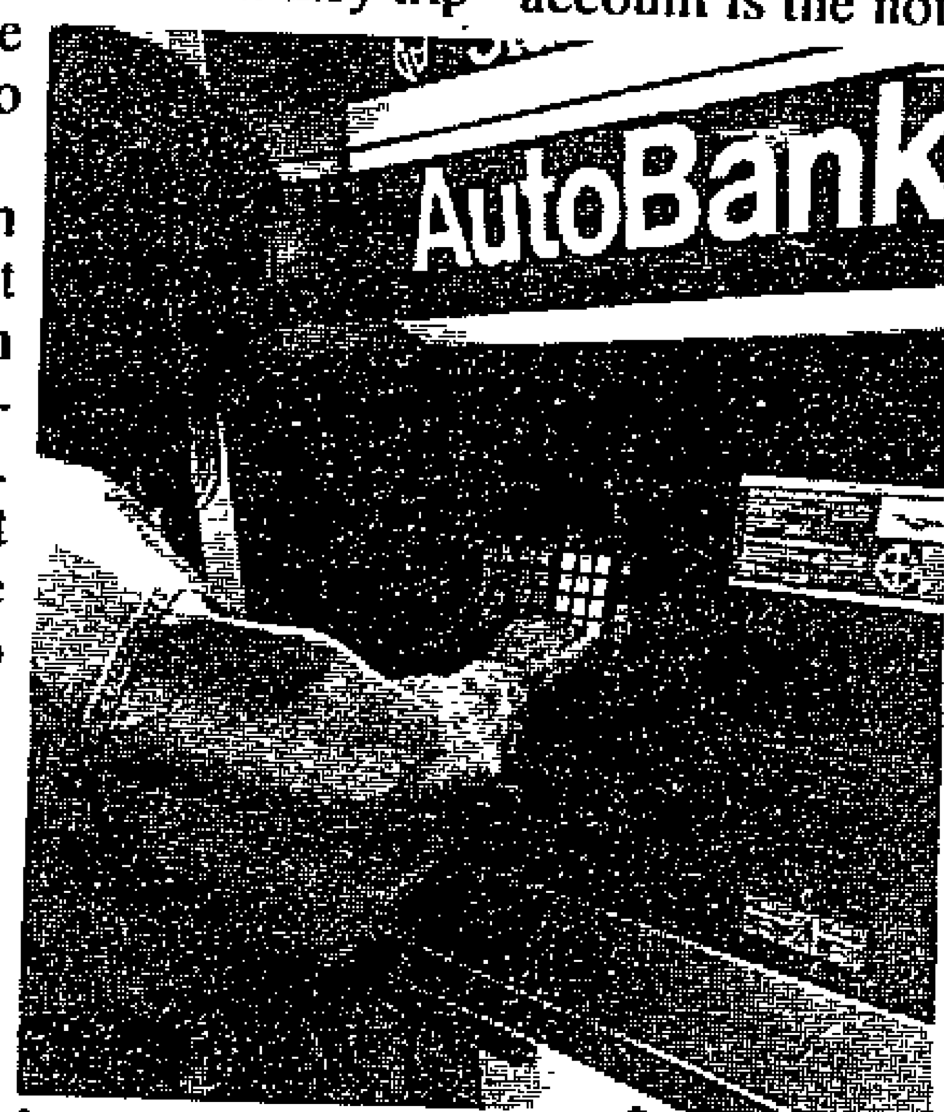
The most basic function banks perform is the oldest one and the one for which they were initially established: deposit taking. Interest paid on deposit accounts ranges from one particular product to another and also from bank to bank.

A simple savings account, for instance, earns very little interest. With most banks this amounts to less than five percent for savings of more than R500 but less than R1 000. For amounts of more than R100 000 the average interest paid by local banks is about 14 percent. Since this interest is usually paid on the balance at the end of the month — when your balance is at its lowest — it's obvious very few people earn much interest on an ordinary savings account.

Banks earn most of their income by extending credit, so they have developed certain products to encourage customers to keep money with them on a long-term basis so they can lend it to those who want it.

Fixed deposit accounts are one such mechanism. For a fixed period, ranging from six months to five years, the bank keeps your money and pays interest — at the moment around 15 percent. The minimum amount you can keep in fixed deposits is R500.

Slightly more flexible than the fixed deposit account is the notice account. With notice accounts you inform the bank as to whether you wish your money to be locked up for a period of 32 days, 60 days or 88 days. As with fixed deposit accounts, the minimum amount you can save in a notice account is R500. When you want your money all you have to do is give the bank as many days' notice as you have predetermined.



Innovations ... Instant cash from ATMs

A banking service more familiar to most people is the credit card. This service — while it is good when used with caution — has often been the ordinary man's financial quicksand. Financial institutions charge anything between the prime rate and 32 percent on their credit card facilities, depending on how your manager assesses you.

What most credit card holders are unaware if however, is that you earn quite high interest rate if you use your credit card account as a deposit account.

The interest on these is about 13 percent with most banks.

Weekly Mail 10-15/95 (58)

Lonrho ditched at high cost

BDay 10/4/92

58

WILLIAM GILFILLAN, LINDA ENSOR and MEREDITH JENSEN

PORTFOLIO managers who climbed into Lonrho for its rand-hedge attributes are nursing burned fingers and trading losses.

Several have sold their investments for far less than they paid for them. Some have shuffled their shareholdings into different portfolios or into nominee companies, which are often a last resting place before a sale. Others, peeved at being landed with large chunks of a tumbling stock, have removed their business from the independent portfolio managers who landed them with it.

Basil Read is a case in point.

Its pension fund, advised by Allan Grey, found itself with an uncomfortable holding in Lonrho acquired at an average of more than R15 a share.

It has severed ties with Allan Grey for other reasons and taken its business to Liberty, where it feels more secure.

Grey's drive for rand hedges has worn thin, says a competitor. He believes Grey targeted rand hedges to provide better than average portfolio performances, but came short with Lonrho.

Jack Mitchell, Grey's manager in Cape Town, was reluctant to discuss his company's trading strategy.

Sage's unit trusts ditched their Lonrho holdings in the March quarter, Sage Capital Managers MD Theo Greeff reported. The general equity and resource funds sold 360 000 and 68 000 shares respectively.

Greeff said the shares had been purchased between March and December 1990. In the early part of that buying programme, Lonrho's share price moved from R15 to R22, subsequently fell to R13 and ended the period at R15. At an average price of R16, the unit trusts would have shelled out about R5,75m and R1m.

As the shares had dropped to an average of R7 in the March quarter, approximate losses of R3,2m and R600 000 would have been taken by the general and resource funds.

The asset bases of the general and resource funds were R990m and R58m respectively at end March.

"It was an investment decision which didn't work out," Greeff said. More attractive alternatives had become available. The funds invested in a range of gold and mineral shares — including Freegolds, Harties, Driefontein, Western Deep Levels, Samancor, PPRust, and Gencor — during the quarter.

Greeff noted the trusts had sold the shares "ahead of the bottom".

Old Mutual's mining fund, which held 403 000 Lonrho shares in the quarter to end December, is expected to report its March quarter results next week. Lonrho itself reported recently that Old Mutual owned 3,4% of its equity.

Unit trusts managed by Liberty and Sanlam had not held Lonrho shares recently, spokesmen for the two groups said yesterday.

Nevertheless, Sanlam held 1,88% of Lonrho's equity until late January, when it transferred it to Central Merchant Bank Nominees (CMBN), a division of Bankorp.

McGregor's Online showed 10 445 929 shares were transferred from Sanlam to a CMBN account by February 7. Sanlam no longer appears as a direct shareholder in Lonrho, according to McGregor's.

Sanlam had bought the shares throughout 1991. At times, they were priced at more than R15. But in January the Lonrho shares plunged from a month high of R10 to 690c.

Independent actuaries believe Sanlam paid between R18 and R15 for the shares, which are currently trading at about 485c.

Sanlam portfolio management GM Dries du Toit said: "A lot of our shares have been reorganised into our subsidiaries to save interest."

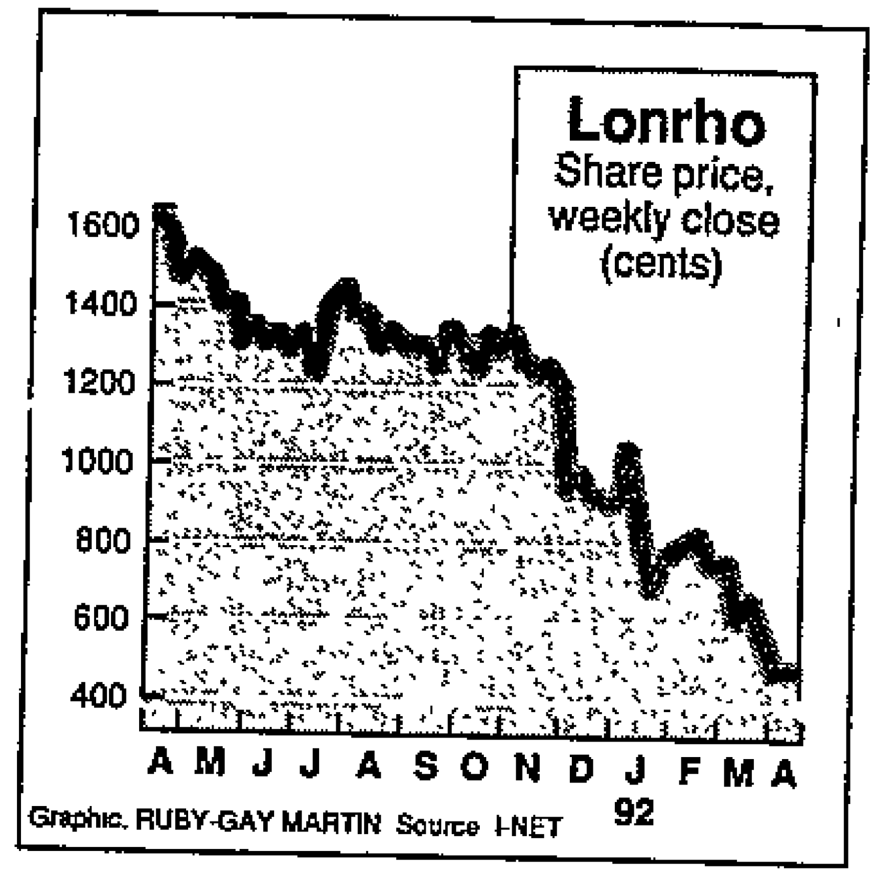
Sanlam had "transferred scrip from Cape Town to Johannesburg".

Du Toit confirmed the Lonrho shares were still controlled by Sanlam, not Bankorp.

A fund manager from a competing insurance company said it was common practice for insurers to transfer shares out of portfolios into the name of nominee companies without transferring beneficial ownership. This was often done as a prelude to selling without disturbing the market. Sometimes, Sanlam's competitor added, it was done to avoid the embarrassment of having to disclose ownership of an investment that had turned sour.

Du Toit said: "We haven't sold shares to Bankorp. CMBN is our nominee company. The shares are still ours. We have the voting power." Sanlam controlled CMBN, he said.

CMBN portfolio management assistant GM Steve Meintjes contradicted Du Toit, saying Absa controlled CMBN. However, Sanlam had chosen "to use the services of CMBN as a client", he said.



Graphic. RUBY-GAY MARTIN Source I-NET

Sanlam had signed a contract with Central Security Services — a division of Bankorp — making it custodian of its scrip.

Anaylsts estimate Sanlam paid close to R50 000 in transfer fees to reorganise its Lonrho shares.

The Board of Executors Growth Fund was another of the institutions which baled out of Lonrho, selling its entire stake of 78 000 shares during the quarter to end-March.

Senior portfolio manager Ryk de Klerk said the collapse of the Robert Maxwell empire sent shivers through the stock market, which feared a repetition in the Lonrho empire, also controlled by a single entrepreneur, Tiny Rowland.

This had initiated a wave of selling from London, in spite of the fact that the Lonrho group was fundamentally sound.

"We considered that the risk in the company was too high and sold out altogether," De Klerk said, adding that a deal with Libya — Lonrho sold a 33% stake in its UK Metropole Hotel chain to Libya for £177,5m — had enhanced the riskiness of the share.

The question to be asked was who had accumulated all the shares in the wave of selling.

De Klerk said Gencor had an option to purchase Lonrho's platinum interests. He believed it likely that the conglomerate would consider whether to act on this option.

LETTERS

SA EAGLE

FM 10/4/92 (58)

Underwriting loss falls sharply

Activities: *Short-term insurance.*
Control: *Eagle Star Insurance Plc (58,4%).*
Chairman: *Fred Haslett; MD: Peter Martin.*
Capital structure: *12,2m ords. Market capitalisation: R426m.*
Share market: *Price: R35. Yields: 4,7% on dividend; 11,2% on earnings; p:e ratio, 8,9; cover, 1,7. 12-month high, R35; low, R18,50. Trading volume last quarter, 33 000 shares.*

Year to Dec 31	'88	'89	'90	'91
Total assets (Rbn) ...	0,56	0,94	0,95	1,17
Solvency margin (%) .	59,6	93,4	82,6	90,1
Net prem inc (Rm) ..	451	506	589	725
Underwriting pft (Rm)	38,0	20,6	(36,8)	(0,8)
Investment inc (Rm)	44,3	52,5	52,4	54,7
Taxed profit (Rm)	50,0	47,0	24,0	34,9
Earnings (c)	417,4	392,0	198,5	287,2
Dividends (c)	180	190	150	165
Net worth (c)	1 084	1 325	4 000	5 366

While maybe not yet soaring, SA Eagle has managed to lift itself out of the underwriting trough which cost local short-term insurers an estimated R250m in 1990. Results to December show a small underwriting loss, but that loss is down by R36m after largely crime-related claims caught the industry on the wing two years ago.

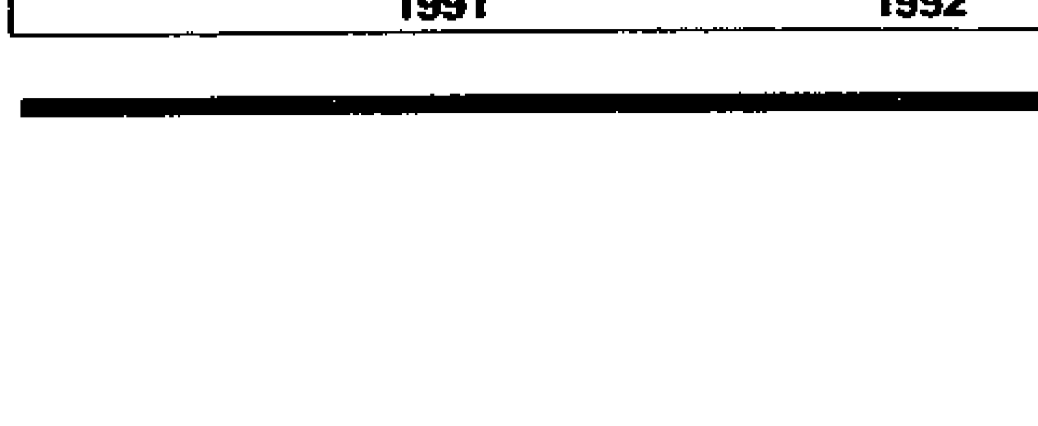
The improved performance is partly by design and partly plain good luck in that there were no natural disasters. Deputy MD Brian Wilkinson admits the absence of catastrophe claims "makes a big difference."

What also helped was the "corrective action" referred to by chairman Fred Haslett: premium increases of between 25% and 30% by the industry last February and October.

Haslett notes that SA Eagle's policy of eliminating unprofitable business and ensuring rating was "on acceptable terms" cost some business. How much, says Wilkinson, is impossible to estimate, given the soft market. But prospects for large gains in new premiums don't look good. "There is very little new business at the moment; it's old business moving around," he says.

Haslett warns that further rate increases "are inevitable unless immediate action is taken to curb serious violence and unrest."

Thankfully, many insurers have noted crime claims levelling off — but they are still at a high level. Still, there seems little justification for an increase in rates similar to last year's, and Wilkinson believes premiums will be adjusted only for inflation. With results from most of the top short-term insurers still coming through, the public will be relieved if this applies across the board.



Eagle's Haslett ... *proud of his solvency margin*

SA Eagle has shown good growth in asset base (23%) and EPS (45%). Shareholders, while pleased with the raised dividend, may be a little disappointed that investment income only increased by 4,4%, after remaining static in 1990. The company emphasises its solvency margin, at 90,1% among the highest in the industry, but for investors the amount of capital finding its way into the investment portfolio is equally important.

There is not much SA Eagle can do about this while it has an underwriting loss. It could pull back into the black soon, possibly by year-end. Wilkinson won't hazard a prediction. He observes that the trend is looking better but he is cautious about the effects of inflation and recession. If the political outcome and its effect on the economy are positive, he says, there should be an underwriting surplus.

What should cut costs is the Eagle 2 000 computer system, technology which cost R33m over the past three years. Most of the system should be in place this year, but it comes with a threat to up to 350 jobs.

Wilkinson says the company has been looking at softening the effect of lay-offs for some time, keeping staff past retirement age and employing temporary staff, to absorb the brunt. But, while it is planned to keep as many current staff as possible, some positions will be lost.

What has been soaring is the share price, up by 46% to R35, admittedly on thin volumes, since the financial year-end. That's after growing 33% last year.

This robust performance is surprising seeing that the share is tied up by UK parent Eagle Star (58,4%) and Anglo American (25%), giving other institutions little chance of picking up blocks. At a 53% discount to NAV, with the undemanding yield of 4,7%, the share is worth pursuing. *Shaun Harris*

DELTA ELECTRICAL

FM 10/4/92

Star of the sector

Activities: *Makes electrical products, including electrical repair engineering, insulation and conductors, cables and accessories, industrial products and electrolytic manganese dioxide.*
Control: *Delta Plc 49,9%.*
Chairman: *N A Bury; MD: E W van Zyl.*
Capital structure: *41,1m ords. Market capitalisation: R390m.*
Share market: *Price: 950c. Yields: 2,9% on dividend; 6,6% on earnings; p:e ratio, 15,1; cover, 2,3. 12-month high, 960c; low, 520c. Trading volume last quarter, 166 000 shares.*

Year to Dec	'88	'89	'90	'91
ST debt (Rm)	0,2	6,8	3,8	11,7
Debt:equity ratio	—	0,11	0,06	0,14
Shareholders' interest	0,53	0,48	0,48	0,50
Int & leasing cover	—	23,5	33,5	48,4
Return on cap (%)	25	29	35	29
Turnover Index (1986 = 100)	182	212	247	256
Pre-int profit (Rm)	22,5	27,2	48,0	47,6
Earnings (c)	32,3	42,9	55,2	62,8
Dividends (c)	12,5	19	24,5	27,5
Net worth (c)	125	129	146	168

Performance continues to be strong in an otherwise pedestrian electronics and electrical sector. Delta has deliberately avoided the cyclical capital goods sector while concentrating on consumable parts and services.

Chairman Alex Bury notes that recession and weak precious metal prices hit the company, limiting the turnover rise to 3,8% (actual turnover is not disclosed). Return on equity was down from 41% to 38% — still well ahead of almost all companies in its sector — but EPS still gained 14% to 62,8c.

Pre-interest profit was almost unchanged at about R48m but interest paid fell by 31% to just under R1m. The effective tax rate was down from 45% to 39%.

The balance sheet has been strengthened. Gearing increased from 6% to 14%, but since year-end Delta has agreed to sell its 21% stake in Valhold, which makes equipment and spare parts, to Hudaco, as part of the latter's scheme of arrangement to acquire Valhold and its operating subsidiary Valard.

Electrolytic Manganese Dioxide, which

Cont →

INSURANCE FM 10/4/92 (58)

Creeping costs

The insurance aspects of gradual pollution or environmental impairment — a potential cost to the industry — have been analysed by broker MIB. Local legislation is not yet as onerous as the laws in the US and the ones planned for western Europe, but it may be heading in a similar direction.

The need for cover is emphasised by the trend towards making responsibility "joint and several," so that a polluter who has deposited only a small proportion of hazardous waste can be called upon to clean up the entire problem.

There is also a tendency to make legislation retroactive so that a property-owner can be held responsible for problems created prior to the new legislation.

Gradual pollution makes risk assessment highly specialised. The current spirit, MIB says, is to enhance legislation — "for example, the President's Council reported in October on the need for environmental legislation on an holistic basic; CSIR has done a report; the ANC states that people have a right to a healthy environment and the duty to defend it."

Most conventional covers bought by employers do not provide for creeping pollution that may be unintentional, but still renders the company liable to substantial fines and clean-up costs.

Public and products liability is intended to cover only incidents that are sudden, unintended and unforeseen. There would be no cover against even a sudden incident if it resulted from a process that had been devel-

Continue →

 FM 10/4/92 (58)

oping over a long time.

Employers' liability cover is limited, MIB says. It does not, for instance, recognise health impairment at work over time. Asbestosis is an obvious problem here, but new ones include exposure to electronic screens.

So cover is being refined, but, the broker insists, it will not be designed for the negligent polluter and it cannot become a convenient way to pass pollution problems from industry to insurer.

However, insurers make expert assessments before issuing cover and simply commissioning such a survey will stand the industrialist in good stead if he ever faces prosecution.

Cover applies for specific sites and periods. Pollution claims must be made accordingly. Clauses stabilise cover so that an insurer cannot easily remove it where he sees problems but has not received claims. ■

Bringing blacks into the banks

FM 10/4/92 (58)

Nico Czypionka is group economist of Standard Bank Investment Corp

Though local banks are regarded as serving the low-income population just as well as their counterparts in other countries, extra-parliamentary groups have subjected the financial sector to much criticism. This typically includes that:

☐ There is a low level of participation in projects in black communities;

☐ Institutions are run by whites who do little to advance blacks, especially in management; and

☐ Financial products and services are not available to most blacks, either as consumers or entrepreneurs.

Such perceptions must be taken seriously because it is our shared goal to see a more prosperous SA. Just levelling the playing field, however, will not be sufficient; the financial community must come up with appropriate responses. If it doesn't, the alternative is likely to be prescriptions by a government motivated more by political than commercial imperatives.

In the case of housing loans, for example, a bank could make a mortgage loan to several mortgagees instead of only one. In the extreme, it could mean small, short-term loans to hawkers at high interest rates, but against no security. Some of these products already exist and are being tested.

Some basic facts must, however, be recognised if the financial sector is to remain sound:

☐ Financial institutions can expand their operations to lower-income segments only in a stable environment where legal obligations are respected;

☐ In the lower-income market, the need for innovative, affordable approaches is paramount, but should be achieved by developing new frameworks instead of forcing people into existing procedures and structures; and

☐ Serving this market must be a business initiative and not a social imperative.

Bankers and other lenders in the formal economy expect their return to reflect the high cost of doing business in marginal areas of the economy and the potentially high risk.

Comparatively low legal maximum interest rates, prescribed under the Usury Act, effectively prevent this. Hence, borrowers are denied access to credit from the formal banking sector.

Instead, they are often forced to find funds in the informal sector, usually at truly usurious rates. In practice, the main concern of borrowers is not the level of interest rates but the inability to get finance. This is hardly peculiar to SA; it is a feature of banking in most of the developing world.

The populist argument for limiting interest rates is often taken beyond the mere prevention of usurious practices. The State-directed requirement of "affordable" — low-cost — finance is set in its place.

Direct interventions by the State in the lending decisions of the financial sector must be avoided. But this does not mean there is no appropriate role for the State to play.

In areas where private financial institutions simply cannot operate, such as in the lower ends of the sub-economic housing market or in the building up of small-scale peasant agriculture, the State should step in.

Politicians must accept that banks are not a money machine that, if cranked up appropriately, will deliver prosperity. Specifically, an efficient financial sector must use a flexible and market-related interest rate structure to do this.

Intervention in the market workings of the financial sector would be an invisible cost to the economy. We do not have to look far for examples of what damage a "social banking policy" can do.

The current government practised one for a long time. The results include a distorted, underperforming economy, a high capital intensity in most sectors, and an inappropriately structured agricultural sector, where farmers at times made money not on their production but on land value appreciation.

A productive economy requires an efficient financial sector. Without this, the country will be unable to mobilise international resources for development because it will become increasingly difficult to tap world capital markets. And, irrespective of the political and economic system, the most important requirements are sound financial and accounting practices.

Within these parameters, attempts to develop the population held back by apartheid require new financial institutions to carry out affirmative action programmes. These could include:

☐ A rural development bank, possibly using basic structures of the Land Bank. This could cater for the needs of developing small-to-medium-scale agriculture and other rural enterprises. It should be funded jointly by the State and private financial sector, and it could take deposits through a rural network provided, possibly, by the Post Office.

☐ A small business bank, to cater for small-scale lending to the informal sector in urban areas. Again, existing structures, such as those of the Small Business Development Corp, could be used; and

☐ A national building society, to generate funds for informal and sub-economic housing, again presumably in the form of a partnership involving the financial services sector, corporations and the State. Here, too, existing structures such as the National Housing Trust could provide a basis for the new entity. It could at least partially fund itself from the communities it serves.

Clearly, the policy framework and regulation of the financial system would need to be pragmatic. SA must have a financial system modelled on structures that have been tested in the rest of the world.

The trends in successful nations are towards an international banking system, multiple banks and removing indirect subsidies for specific areas through the banking system.

Above all, if a future government wants to foster specific areas of the economy, it should use open subsidies through the fiscal mechanism or partnerships with the private banking system for special-purpose lending. This does not distort the entire monetary structure but imposes political discipline because the cost of subsidising is measurable and open to scrutiny.

The new institutions should be an integral part of the financial system, with no funding or interest rate preferences. They will be able to raise a substantial portion of funding from the insurance and pension segment, which is also an integral part of any country's financial system. Any State-directed attempts to influence coercively investment decisions, artificially control rates of return, or offer extremely preferential tax treatment should be resisted. Finally, but crucially, government should not attempt to fund itself cheaply, through coercion in a captive market via any system of prescribed assets. ■

LIFE OFFICES/ANC FM 10/4/92 (58)

A premium on harmony

Life assurers are close to striking a deal to put about R5bn a year into "socially desirable" projects such as low-cost housing and education. The mechanics are still being discussed. The Life Offices Association (LOA) has informally discussed an arrangement with the ANC, the PAC and Inkatha Freedom Party. It now wants to involve trade unions.

The LOA's disposition to invest socially has been frustrated so far by the lack of a suitable agency considered legitimate by all parties. A totally new agency, possibly with banking status, is being considered.

The ANC and LOA confirm the talks took place and that a tentative proposal was tabled. Neither will comment on the record but the ANC's reaction to the LOA will probably form part of its broad economic strategy. The sensitivities are obvious: while every effort will be made to soften the impact on policyholders and holders of pension rights (many of them ANC supporters), it will appear that the life offices have acted now to pre-empt arbitrary action by a future government.

An ANC source says the proposal would be debated in its economic working committee. He indicates that the ANC is considering a social levy of 10%-15% on total income

from premiums and investment. The LOA is willing to accommodate social development as long as this does not mean a return to prescribed assets.

Dorian Wharton-Hood, a member of the association's executive, made an off-the-cuff comment to the media last week that the industry could "live with 15%." He is adamant that prescription should be avoided and the industry must come up with innovative ways to invest its cash flow so that policyholders and pension fund members are not prejudiced.

The LOA stresses that "no such proposal (the diversion of 15% of cash flow) has been put forward by any political party, as far as the LOA is aware. The LOA is opposed to any form of prescribed asset requirement. It amounts to a form of indirect taxation on pension fund members and policyholders."

The LOA adds that it "recognises the need to assist in socio-economic development ... this does not mean that policyholders' and pension fund members' savings will be exposed to sub-economic investments; it simply means that everyone will have to be more imaginative about meeting sound investment goals while, at the same time, investing in such a manner that society's development needs are served."

The association adds that a major initiative, to confirm the industry's willingness to invest in this type of project, will be announced soon.

The LOA's dilemma — and its need for caution in talking about projects before the costs have been established — is obvious. Opposed to prescription, it appears to have initiated voluntary prescription in another guise. It is propelled by the trustee principle, which compels a life assurer to maximise savings in a manner consistent with safety, yet it is now proffering funds for developments where market-related returns appear unlikely. Wharton-Hood is emphatic that any funds diverted to social projects will be government guaranteed and capable of producing market returns.

If that is to be achieved, government's obligation would, presumably, also include subsidising the rate of interest paid to the life offices, in cases where investments cannot produce market-related yields. That, an ANC official tacitly confirms, will remove part of the dilemma. The subsidy burden would be spread among all taxpayers, "not just those who have contributed to the nation's savings."

The life industry already observes "prudential" investment guidelines, in place of the old prescribed assets. If a new investment outlet is added to that — a virtual LOA Merchant Bank to research and tackle projects that ensure savers get financial returns but resources are allocated for social upliftment — the industry will have succeeded in fending off direct intervention. The ANC indicates that the LOA initiative is likely to find favour.

Bryan Deans

METAL PRICES FM 10/4/92

Signs of life

Firming world prices, mainly anticipating US recovery, could still help Samancor to get stainless steel mills to accept the 5,8% price rise for ferrochrome it wants for the second quarter of 1992. This is after a 6,1% hike in the first three months.

Led by aluminium, the bellwether at both ends of the economic cycle, the *Economist*

FM 10/4/92 (58)

in the reshuffle, overlap between Absa subsidiaries and divisions will be eliminated.

Absa Merchant Bank will continue as at present but will, presumably, lose business to the new corporate entity though it will gain Senbank's merchant banking operations. But if the rationalisation is carried to its logical conclusion, the merchant bank will lose an important part of its business — lending. Funding is likely to come from other parts of the group to finance structures which the merchant bank devises. So it is likely Absa Merchant Bank will end up smaller in terms of assets. ■

Diedericks

LIFE ASSURANCE —1

Mine benefits

After a century of operating as a specialised short-term insurer, Rand Mutual Assurance has formed a life company, RMA Life.

Though RMA is a powerful insurer, at one stage ranking fourth in the *FM*'s Top Companies survey of short-term companies, it deals almost exclusively with the mining industry. The life subsidiary was formed largely for administrative reasons, says GM Andy May.

RMA, a mutual, pioneered workmen's compensation cover from 1894, long before there was an Act to cover workers in industry. It offers certain other forms of personal cover, some of which are available in the commercial market, but its core business is providing statutory benefits payable under the Workmen's Compensation Act (under Act cover) and similar compensation to employees whose earnings place them outside the Act (outside Act cover). The RMA outside Act cover is an insurance product peculiar to SA.

May explains that where an employee is less than 30% permanently disabled, the claim is settled by lump sum, which is strictly short-term business. However, if the disability is more than 30%, the worker qualifies for a pension. In a fatality, the pension is paid to the dependants. By regulating this aspect of the business in a life company, RMA is able to design better annuity benefits for its members' employees. ■

ABSA (58)

More reshuffling FM 10/4/92

Further rationalisation is to take place at Amalgamated Banks of SA (Absa), which recently merged with Bankorp and earlier emerged from the fusion of United, Volkskas and the Allied Group. By the end of the year there will be one head office for Volkskas and TrustBank.

As in the case of the earlier rationalisation of the Allied Bank and United head offices, the trade names of Volkskas Bank and TrustBank will not be affected.

Hennie Diedericks, deputy operating executive of Volkskas, will take over as operating executive of the TrustBank division of Absa and succeeds Johan Howell, who will retire. Koot van Vuuren, operating executive of Volkskas, who was due to retire at the end of June, will retain his position until the rationalisation of the two head offices is completed towards the end of this year.

Also in the pipeline is a new corporate bank. Plans are still under discussion, says Absa GM, communications, Jan Snyman. Core of the corporate bank will be the old Senbank. All the group's corporate business will be placed under one roof. It appears that

LIFE ASSURANCE — 2 FM. 10/4/92

Heady growth (58)

Demutualising has been profitable for policyholders of Norwich Life. In the five years since changing to company status, earnings have risen from 10,7c a share to 70c, a compounded annual growth of almost 60%.

Ordinary shareholders own 30,4% of the

FM 10/4/92 (58) ECONOMY & FINANCE

shares. The rest is held in the policyholders' trust and management incentive schemes.

Consolidated net assets of the group grew last year by 26,9% to R1,963bn, from R1,546bn. Recurring premiums in the life company improved by 24,6% to R390m. Investment income was unchanged at R123m, reflecting a significant switch of assets from fixed-interest securities to equities.

Timelife, the smallest of the life offices, also produced its 1991 results this week. Off a small base, it posted a 70% growth in premium income to R17,7m. The life fund soared from R8,6m to R24,7m.

Though tiny in industry terms, Timelife has grown quickly since it was formed four years ago. The group now has a 70%-owned property syndication arm. Timelife Assured Advances lends money to policyholders to invest in syndicated properties using 10-year endowment policies as collateral. ■

STAR 10/4/92

Southern pays out R3 million

(58)

Southern Life Unit Trust had a 35 percent annualised return to the end of March. STAR

The fund has achieved a 26 percent compound return, beating inflation by more than 11 percent over the 30-month period since its inception.

The Mining Fund returned 14,6 percent.

A total income distribution of R3 million was declared during the quarter, with a dividend of 4,34c a unit on the general equity fund and 3,4c on the specialist mining fund.

Liquidity levels, as a percentage of total assets, were increased in both funds — from 5,4 per cent to 11,4 percent in the Mining Fund and from 13,3 percent to 14,1 percent in the Equity Fund.— Sapa.

Police deny Masterbond cover-up

STAR 11/4/92

(58)

BRENDAN TEMPLETON

POLICE are ignoring the role played by banks in the R500 million Masterbond fiasco, says Masterbond Victims Trust spokesman Ray Netto.

The company went bottom-up last year.

More than 20 000 investors, most of them pensioners, were told their money was either lost or would be frozen for months.

Many had invested their life's savings through their banks or building societies which were acting as agents for Masterbond.

Netto this week called on Masterbond victims to lay criminal charges against their banks. He believes banks and building societies contravened the Deposit Taking Institutions Act if they accepted clients' money on Masterbond's behalf. A clause in the Act states: "A deposit taking institution (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."

Police could not deal with the torrent of calls which followed Netto's appeal. When the head of the Masterbond investigation, Captain Roy Melnick, asked people not to call because they were hindering inquiries, Netto accused police of not doing their job.

The police were obliged to investigate any breach of the law and it was clear the DTI Act had been broken by banks, he said.

"These institutions can go on contravening this Act and no action is taken against them.

"They should be investigated and, if these institutions are found guilty, they should have to refund all the money plus the interest."

Netto laid a charge against his building society in February and said this week he was concerned that nothing was being done.

But police spokesman Lieutenant Wikus Weber said police would follow up any complaint.

Captain Melnick denied that police were trying to dodge doing their duty by asking people not to call them. Most of the complaints following Netto's call had been of a civil, not a criminal, nature, he said.

He denied allegations by Netto that police would "cover up" any criminal activities they might discover.

"Fears of a cover-up are unfounded and are being made because of the large amounts of money involved."

No specific charges were being investigated against Masterbond, but the police had encountered several "matters of concern", he added.

Arbitrator needed for short-term insurance claims

STAR 11/4/92.

FINANCE STAFF

S8

AN Arbitration Committee should be set up to deal with insurance claims as recent statistics from the Consumer Council indicate that next to the time-share industry, "the short term insurance industry is the source of most complaints".

This is the view expressed by Mike Gaines, managing director of Public Adjusters, a consultancy geared to preparing accurate insurance claims for the insured rather than the insurance companies.

Speaking at the opening last week of a new Public Adjusters branch office in Randburg, Mr Gaines said it wasn't long ago that there was a huge outcry about the time-share industry and as a result legislation was introduced to protect the public. He said he felt something similar should be set up for the short-term insurance industry.

"Very few industries will make an overall net profit and at the same time increase their net worth in what they claim to be their worst year ever. This must surely indicate something is wrong.

Moral injustice

"One should examine the source of the short-term insurance industry profit and the source of the Consumer Council's complaints — and they really stem from the same thing which is that the insurance industry derives its profits from collecting premiums and paying as little as possible on claims.

"There is moral injustice in this because the object of insurance should be that the minimal premium of the many should pay for the losses of the few. This is not the case today when in fact short-term insurance is often beyond the reach of the people who need it most."

Mr Gaines suggested the following:

- The short-term insurance industry should spend a substantial amount of money educating the staff, particularly in the claims division, that the insured who makes a claim is not an enemy and should not be treated as such. He or she is, after all, their client and their source of business.
- An arbitration committee should be set up to deal with insurance claims and it should be funded by a levy on all policies. Procedures should be similar to those in the Small Claims Court.

"I feel it is high time an inquiry took place because there is obviously something wrong and it must be addressed," added Mr Gaines.

INSURANCE: *For most ordinary people, premiums have become unaffordable*

As crime soars, cover goes through ceiling

STAR 11/4/92 (58)

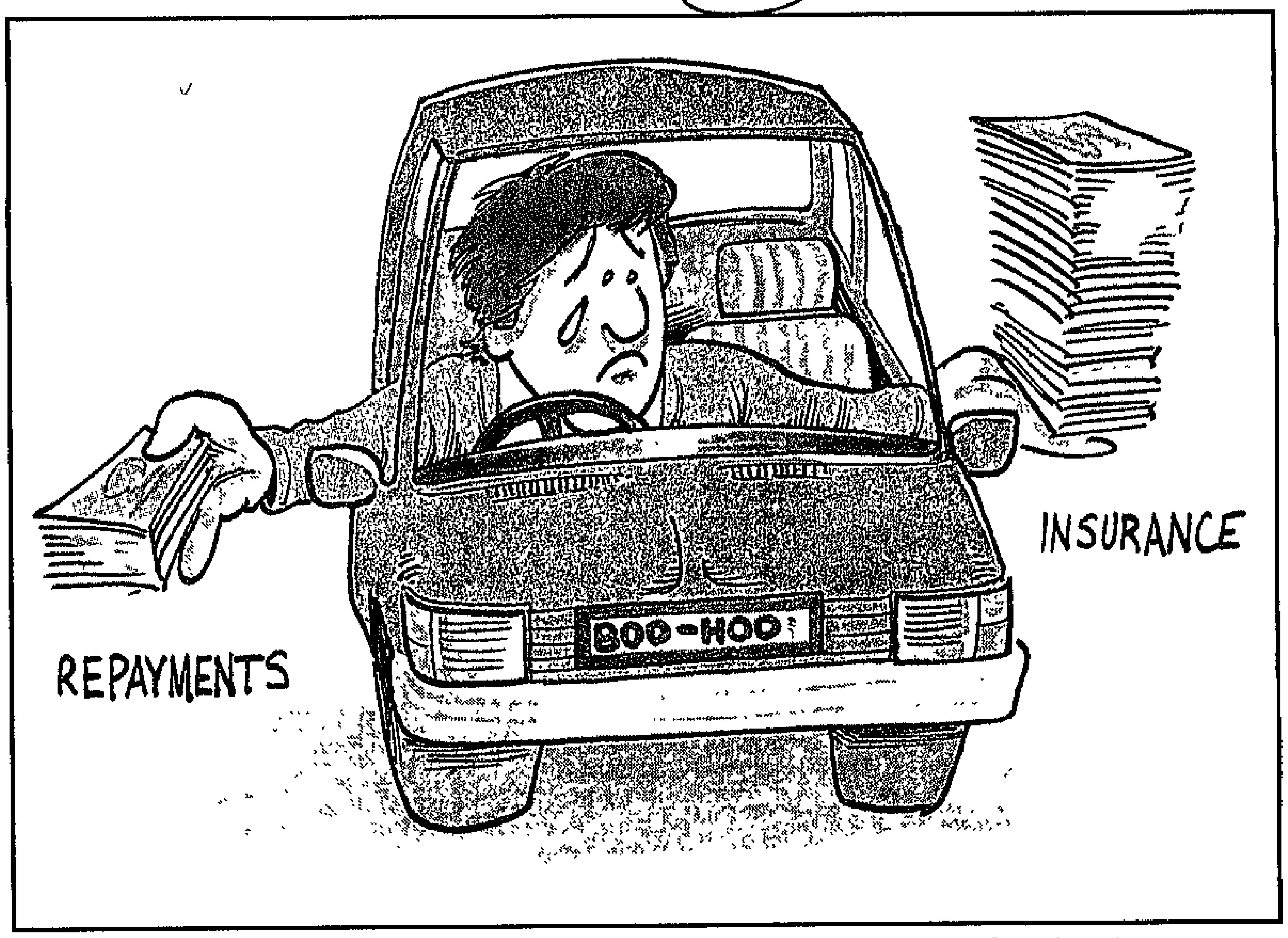
MAGNUS HEYSTEK

THERE seems to be no end to the soaring cost of short-term insurance. Insurance for most ordinary people has now become an unaffordable luxury.

As insurance premiums increase, more and more people are forced to forego insurance cover; a situation that could ruin them.

And, according to experts, this unhappy trend will continue.

A study done by Your Money has revealed that insurance premiums for motor vehicles and household possessions at the country's major insurance companies since January last year have increased by 33 percent and 29 percent respectively on average (see tables).



FOR SMALL INVESTOR: A property syndicate is one way to reap the benefits of income.

Complain

These tables have been compiled by comparing similar quotes provided by Cape Town-based Compuquote in January last year and early this week.

But even at these increased levels many insurance companies still complain that they are not making profits on their underwriting business and have to rely on investment income to do so.

By pushing up premiums in order to remain solvent, they are placing insurance beyond the reach of even more people — thereby undermining their own market.

According to industry estimates the average household (if it still can afford it) spends up to 8 percent of its disposable income on insuring the contents of the house and car(s).

This is four times the relative level estimated in 1980.

For instance, the annual insurance premiums on the Toyota Corolla 1,3 GL, used in the example, in most cases exceeds 10 percent of the insured value of the car.

Many factors have contributed to this sorry state of affairs.

Alongside the normal cost-push factors associated with inflation and a declining rand, the sharp surge in crime has contributed mightily to the sharp increase in premiums.

Crime is now costing law-abiding citizens in South Africa billions of rands each year.

A part of these costs is reflected in substantially higher insurance premiums.

The latest annual report from Santam says the following on this score: "Crime and crime-related insurance claims continue to be a feature and it is clear that the police cannot concentrate sufficiently on crime prevention.

"The extent (of crime) is perhaps not really grasped by the general public.

"There is a burglary in South Africa every three minutes; a car is stolen every nine minutes; there is a robbery every 10 minutes and a rape every 20 minutes.

"In white suburban areas there are 243 burglaries every day. These crimes can be ascribed to unemployment, declining moral standards, delinquency and similar causes.

Burden

"The fact that more houses are left unattended because women have to go out to work is also a contributing factor," managing director Oosie Oosthuizen says in the annual report.

The massive surge in car thefts continues to be a major headache for all insurers. In 1989 more than 50 000 motor cars were stolen and only two years later, in 1991, the level had soared to 90 000.

With car prices also running well ahead of the inflation rate, due both to the weak rand and the higher cost of technology, this added a further burden on to the shoulders of the already buckling motorist.

More and more car owners are opting for the cheaper alternative of balance of third party, and where they cannot afford this, no insurance at all.

According to insurance broker Jan Erasmus more than half of all motor cars on our roads do not carry any insurance at all.

And the outlook for both the inflation and crime rates is certainly not promising.

A decline in crime levels cannot be expected overnight. In fact, in line with the worsening economy, crime can be expected to increase.

Unemployment remains the biggest cause of crime as only about 7 percent of the workforce entering the market are finding jobs in the formal sector.

With personal incomes under increasing pressure, more and more people are forced to do without insurance cover

COMPARATIVE ANNUAL PREMIUMS FOR MOTOR VEHICLES

(Toyota Corolla 1,3L 1988, private and limited business, male aged 35)

COMPANY	QUOTE JAN 91	QUOTE APRIL 92	INCREASE %
M and F	R2 858,42	R3 073,42	7,5%
Genera	R2 686,50	R2 463,75	(8,3%)
Allianz	R2 448,60	R3 619,00	47%
SA Eagle	R2 356,00	R2 824,00	19%
G National	R2 322,11	R3 362,48	44%
Fedgen	R2 101,06	R2 775,99	32%
C Union	R1 891,00	R2 447,00	29%
Protea	R1 848,80	R2 430,00	31%
Santam	R1 951,00	R3 216,00	65%
President	R1 827,00	R2 541,00	39%
Multiplex	R1 764,00	R1 953,00	10%
Aegis	R1 689,50	R3 624 00	97%
Average	R2 145,00	R2 860 00	33%

COMPARATIVE MONTHLY PREMIUMS FOR HOUSEHOLD INSURANCE

(A standard quote for an adult living in Johannesburg. Total sum insured R55 000 with all risks of R12 000 and unspecified items of R4 000).

COMPANY	QUOTE JAN 91	QUOTE APRIL 92	INCREASE %
Aegis	R233,84	R300,14	28%
M and F	R225,65	R247,15	9,5%
Allianz	R206,56	R274,03	32%
Multiplex	R182,50	R291,20	59%
C Union	R179,21	R218,53	21%
Fedgen	R179,21	R234,90	31%
G Accident	R164,54	R231,46	40%
Protea	R163,17	R196,85	20%
SA Eagle	R158,35	R191,83	21%
Average	R188,11	R242,89	29%

Time for SA to join forward gold sellers

STimes [BUSS] 12/4/92

BY rejecting forward selling of gold, directors of SA mines must firmly believe that the spot price will be higher than that which could be received from forward sales.

Gold bulls have been wrong for more than four years now.

Lower gold prices mean rising pay limits and mine planning can no longer be undertaken with confidence.

Willo Stear and Andy Clay of mine management consultancy Venmyn Rand say pay limits have risen because costs have climbed and spot gold prices have declined in real terms.

Higher-grade reserves are being depleted and the crunch comes when the paylimit exceeds the average grade of the mine. At that point, closure is imminent.

Venmyn believes the answer is a structured risk management programme. SA's mining-house directors might be wrong about a higher gold price in the future and steps should be considered to soften the impact of lower revenue.

Closures at Gencor's St Helena mine this week because of the shortage of payable reserves underline the problems facing gold mines. In trying to stay in the black they have cut costs until nothing more can be trimmed.

To maintain profit margins, they must consider what can be done to the revenue side of the equation.

H Monro published a paper two months ago about forward sales of gold. It is believed to have been commissioned by a mining house that vigorously opposes forward sales.

Data for the calculations used price elasticity factors on both supply and demand for gold. The paper specified that mine production, gold loans and industrial demand were all inelastic to price.

The mine production argument was shot down this week by Gencor, which said that St Helena's No 10 shaft would be placed on care and maintenance until the gold price exceeded $400 an ounce.

The fact is that there are several shafts both here and elsewhere in a similar state of readiness. If the price rises, so will primary production.

By means of debatable assumptions and calculations, Mr Monro showed that every ton of gold sold forward reduces the price by about $0,20/oz. He claims that revenue lost as a result of forward selling of gold was $2,55-billion in 1990.

"It should now be clear that forward selling is counter-productive and should be stopped at once," says Mr Monro.

Perhaps there is a certain amount of petulance. SA's gold producers have generally shunned forward sales while the rest of the world's mines have made hay. There comes a time when, if you cannot beat them, you have to join them.

Shareholders in SA's mines might be more interested in the theoretical calculation of the dividends they might have earned had the directors sold gold forward at better prices instead of stamping their feet about the rest of the world spoiling it for them.

Sean Llewelyn of Rand Merchant Bank differs with Mr Monro's findings. Mr Llewelyn worked in foreign-exchange risk management and commodities markets, specialising in gold, in Australia and America before coming to SA two years ago.

He has been bemused by the comparatively negative attitude of the industry to securing more control over its revenue.

Mr Llewelyn says the forward price of gold, in rand terms, is a function of the difference between the rand interest rate to the forward date and the gold lease rate to that date.

Because there is so much gold around, having been hoarded for thousands of years, it is readily available for lending. Consequently, the gold lease rate is low — below 2% a year — and the forward price in rands is significantly greater than the spot one.

Therefore, he says, a mine must have a compelling reason not to sell a large quantity of gold forward or otherwise to derive benefit from the forward price structure, such as by granting or buying options.

If it is both sensible and responsible to sell gold forward, who is fool enough to buy it? This question probably lies at the heart of the SA gold-mining industry's suspicions about hedging.

Mr Llewelyn provides the reason for it.

"No rational seller will sell forward at less than the actual forward price, nor will he write or buy his options valued off less than the forward price.

"This is because the seller always has the alternative course of borrowing the gold, selling it on the spot market and investing the cash in the money market.

"He repays the gold from future production and the net result after paying the gold lease rate will be to achieve the forward price. Otherwise, there would be risk-free arbitrage.

"Because the forward price is the 'fair' value, buyers will deal at this price. For every seller there must be a buyer."

Mr Llewelyn contends that not all forward selling affects the spot price adversely. For example, there is the time fallacy: gold sold forward might affect the spot price in the year in which the contract was established, but it does not affect it in the year in which delivery takes place because that metal is already spoken for.

He says the spot price is actually benefiting from repayments of gold loans taken out in earlier years.

Another factor is the extent of trading in the paper markets, such as Comex, where the volume of gold traded can be 50 times SA's annual output.

There is no doubt that much trading which would otherwise affect the spot market is taken off in these paper markets by investors and speculators.

The gold price might go up, but the mines at least should consider steps to hedge themselves in the event that the bullishness is unfounded.

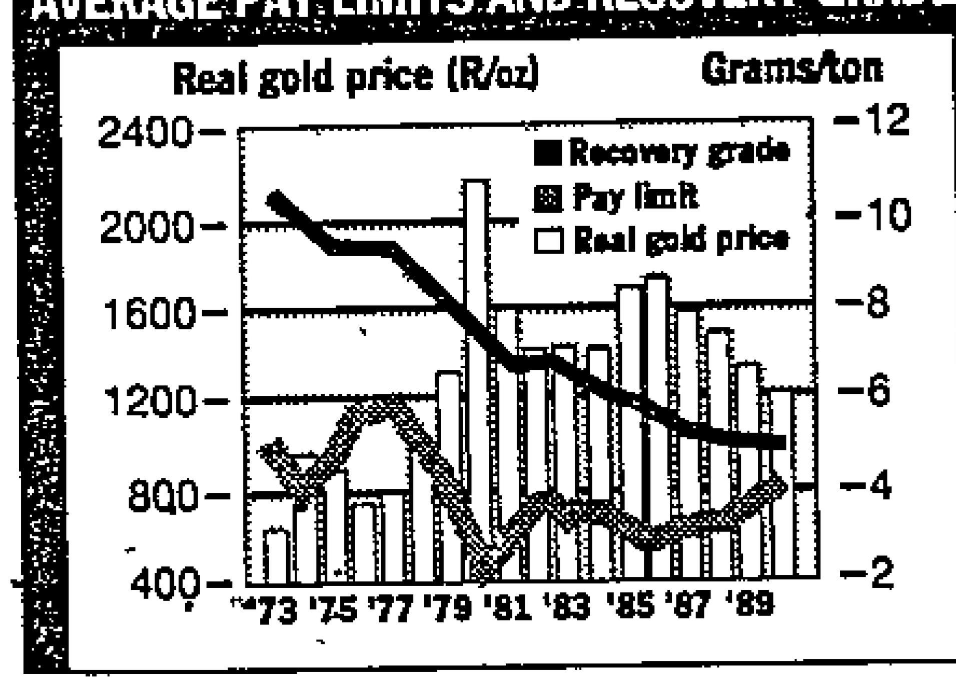
The current attitude is to hang fire, close the shafts and wait for gold to go better while options such as hedging are never tested.

A mine that hedges could reduce its pay limit, extend its life, pay dividends and keep jobs.

In their mine valuations, Venmyn Rand and Rand Merchant Bank have developed a method which measures the effects of changing pay limits with changing gold prices on mining profits and mine life.

A structured risk-management programme is crucial if mines are to survive a likely flat gold-price scenario for the rest of the century.

RELATIONSHIP BETWEEN REAL GOLD PRICES AND SA GOLD INDUSTRY AVERAGE PAY LIMITS AND RECOVERY GRADES



DIAGONAL STREET by Julie Walker

Oc... warns ...

THIS week's drop on the JSE and other equity markets was arrested before the damage was too severe.

But it served to remind that share prices have run far ahead of the recovery in the economy.

South Africa does not warrant a mention yet in the International Bank Credit Analyst (IBCA), a respected independent publication aimed at identifying major investment oppo... risks.

Wednesday's share-... slide underlines to SA that ... will not be excluded from a fall in the world's equity markets if they come down like a house of cards.

Showing early foresight, last month's copy of the IBCA gave an international summary which echoed the fears of certain commentators here: the global equity markets are too high and will undergo a major bull-market correction.

... rest o...

Global ca... moving into a ... fore a major adjus... that will harmonise tr... economies with trends in m... kets.

Surprises ahead are likely to be the extent by which stock ... en... reality

IBCA pu... present diver... market prices performance ... can monetar... continues to f... kets with liqu... no indication ... ing will soon e...

"In addition ... and Japan ar... of success in ... vate credit gr... ing domestic s... The public ... common sens... divergence is ... "Later this ... after the US ... tions, there ... cant and pro... realignment ... trend in capi... the bearish tr... economy."

The world ... begin to expa... major correc... market in equ...

Sanlam pair shine in a year's returns

STimes [BUSS] 12/4/92, 58

TWO Sanlam funds came tops in the 1991 unit trust survey produced by Hugo Lambrechts of the University of Pretoria's Graduate School of Management.

The survey provides facts about the performance of every unit trust. On a repurchase-to-repurchase basis, Sanlam's Dividend Trust gave an all-in return of 44,69% in 1991.

Second was Sanlam Growth Fund with 41,58%, closely followed by Syfrets Growth Fund.

The worst return among general equity trusts came from the Allegro fund, now CU Growth, which returned only 23,38%. Three funds topped returns of 40% and three were worse than 30%. But only 10 of the 18 could beat the JSE All-Share index's rise of 31%.

Sanlam's pair obviously had a good 1991, because in the longer run they are soundly beaten. Over 10 years, in which the All-Share index comparison is 23,2%, only Old Mutual Investors and Guardbank Growth were ahead.

The best 1991 return from a mining and resources fund was achieved by UAL M&R, which returned 24,46%, beating both the mining producers and the mining financial indices. It was the only such fund to do so.

The pair of pure gold funds fared far worse than the decline in the All-Gold index. But the returns on the industrial funds all exceeded 40%.

Half the high-income funds beat the consumer price index, but neither gilt fund could outpace the all-bond index.

At December 1991, there were 938 254 unitholders across the 41 funds, of which almost 300 000 were in one of the most consistent, Old Mutual Investors.

Over 15 years, the maximum for which representative statistics can be compiled, the average compound annual return from equity unit trusts is 25,2% compared with the average rate of inflation in that time of 14,3%.

Assurers play safe

S/Times (Buss) 12/4/92 (58)

By CIARAN RYAN

LIFE assurers plan to divert some of their cash flows into development projects to create jobs in housing, education and health.

They hope to forestall a reimposition of prescribed asset requirements by a future government.

The Life Offices Association (LOA) is recruiting a team to oversee the channelling of funds into social upliftment projects.

LOA executive director Richard Geary-Cooke says: "The problem is the lack of suitable investments, such as Chips (collateralised housing investment papers), which offer life offices a market-related return on investment while making funds available for housing.

"The life offices will look for a return of about 16% under present conditions. This return will need some form of guarantee."

Prescribed asset requirements were abolished in 1989, allowing life offices and other institutions to invest more funds in shares and property instead of low-yielding gilts.

Black opposition groups complain that life assurers do not invest enough in projects which meet the needs of the broader community, particularly in housing, health and education.

This has caused fears that a new government might nationalise pension and provident funds in an effort to solve the housing and education crises.

Total assets of life assurers are expected to reach R200-billion this year, with cash flows of between R35-billion and R40-billion generated each year.

It has been suggested that up to 15% of assurers' cash flows will be directed to social upliftment projects, but Mr Geary-Cooke says no limits are likely to be imposed.

New fiscal year's state spending raises liquidity

THE MONEY MARKETS
by SIMON WILLSON

LIQUIDITY remains high in the money market in spite of the authorities' redoubled efforts to drain off the cash tide.

BDay 13/4/92

The issuing of about R2bn in RSAs at the beginning of the month did not do the trick; neither did raising the weekly Treasury bill tender by R100m on Friday. The main boost to liquidity is the traditional splurge of government spending at the beginning of the new fiscal year. The market shortage topped R1bn only once during the week — on Tuesday, and then not by much at R1,05bn.

The return on BAs was still about 20 points more attractive to investors than prevailing deposit rates, and this ensured steady demand for acceptances at rates as low as 15,50% at the major commercial banks and a reputed 15,35% at some of the niche institutions.

58

Capital market players expected bond prices to benefit from the scare in the equity market. The theory was that the unsteady share market would frighten funds away from equities and into bonds. In the event, however, the bond market came under some selling pressure midweek as cash-strapped dabblers in shares sold off long-dated stock to offset equity market losses.

At the beginning of the week there were a lot of bond players long on paper in anticipation of easier rates. After a week's low of 16,03%, however, the benchmark Eskom 168 ticked up again close to 16,15% in sympathy with the soft share market, and the bulls found their positions cut by stop-loss orders.

Auditors warned on low standards

58

BDay 13/4/92 DARIUS SANAI

STANDARDS of auditing are on the decline in major industrialised nations as accounting firms sacrifice quality for size — and the malaise is set to spread to SA, says Arthur Andersen & Co (SA) CE Sam Abrahams.

Abrahams said in an interview at the weekend leading accountancy firms were concentrating on a "bigger is better" philosophy while paying less regard to standards of practice.

Arthur Andersen, the smallest of the Big Six accountancy firms worldwide, has the highest fee income growth rate and dominates some markets.

Main auditing houses have come under criticism abroad for failing to spot firms on the brink of bankruptcy.

The February 1992 edition of The Accountant, a London-based accountancy magazine, catalogues a trail of malpractice and incompetence by some international accountancy firms.

Abrahams said a similar situation could be brewing in SA.

However, sources in other big accountancy firms disagree.

Martin Shaw, senior partner at Deloitte Pim Goldby, said fraud was increasing in the business community worldwide as a result of the recession. But SA accountancy firms were not affected by fraud.

"In any case it is not the responsibility of an auditor to uncover fraud in a company being audited," he added.

KPMG deputy Aiken & Peat CE Stuart said: "Suggesting that greater size leads to lower standards disregards the strategic objectives of size. A firm needs to have adequate resources to match services offered."

Old Mutual specialist fund outperforms all

B/Day 14/4/92 (58)

WILIAM GILFILLAN

OLD Mutual Top Companies, a specialist equity fund, outperformed all other unit trusts with its rise of 11,06% in the quarter to end March.

Commenting on its performance, Old Mutual senior portfolio manager Adrian Allardice said the strategy adopted for the fund over the quarter involved "a heavy weighting in selected industrials and financials, a relatively light weighting in mining, but a small exposure to consumers".

The fund had heavy weightings in Trencor, Santam, Mutual & Federal, and Firstbank, he added.

Of the general equity funds, Syfrets Growth Fund was the best performer during the quarter with a price rise of 7,65%, followed by Senbank General Trust (6,34%) and UAL Unit Trust (5,99%).

Norwich NBS (1,5%), Southern Equity (2,35%) and Momentum (2,36%) were the three worst performers in the general equity fund category. However, as the quarterly performances were calculated 'ex-dividend', they hadnot taken account of dividends reinvested.

For the twelve month period to end March, Volkskas (now renamed ABSA) Unit Trust outperformed all other general equity trusts, rising 42,56% on a 'repurchase to repurchase' basis and including the reinvestment of any dividends.

ABSA unit trust MD Ben Solomon attributed the trust's strong performance to a number of factors including its selection of shares, the timing of the share purchases, and the fund's size.

As Volkskas Unit Trust was formed last April, it was one of the smaller funds for most of the year although it is now the 11th largest.

Although smaller funds were able to manoeuvre in and out of the market more easily, this in itself was not the reason for Volkskas strong performance, he added.

The performance of the mining and resources funds over the March quarter was unflattering, with only Sage Resources recording any growth (1,28%) in the period. The Sanlam Mining Trust dropped 3,86% during this quarter.

However, all the trusts in this sector grew over the twelve month period, with Guardbank Resources recording the highest rise of 18,64%.

Both of the gold funds unit trusts, Old Mutual Gold Fund and Standard Bank Gold Fund, reported negative growth in the March quarter.

Of the three industrial funds unit trusts, Old Mutual Industrial Fund and Senbank Industrial Trust, both at 8,41%, made the highest quarterly increases.

The Old Mutual Industrial Fund recorded the largest rise over the twelve month period of 35,48%, although this was lower than the Industrial Index rise (35,99%).

Of the high income funds, Guardbank Income recorded the largest quarterly growth of 5,07% while Standard Bank Extra Income, at 17,67%, achieved the highest growth during the year to March.

Of the two gilt funds, Metboard Income and UAL Gilt Trust, the latter was the better performer, having quarterly and annual growth rates of 4,76% and 14,56%.

Strong growth from Protea

58

MICK ELLINGHAM

PROTEA Assurance achieved strong growth in market share during 1991 in spite of hostile underwriting conditions, says group MD Andrew Tainton.

As the underwriting cycle improved the benefits to Protea would become evident, Tainton said in the group's annual report.

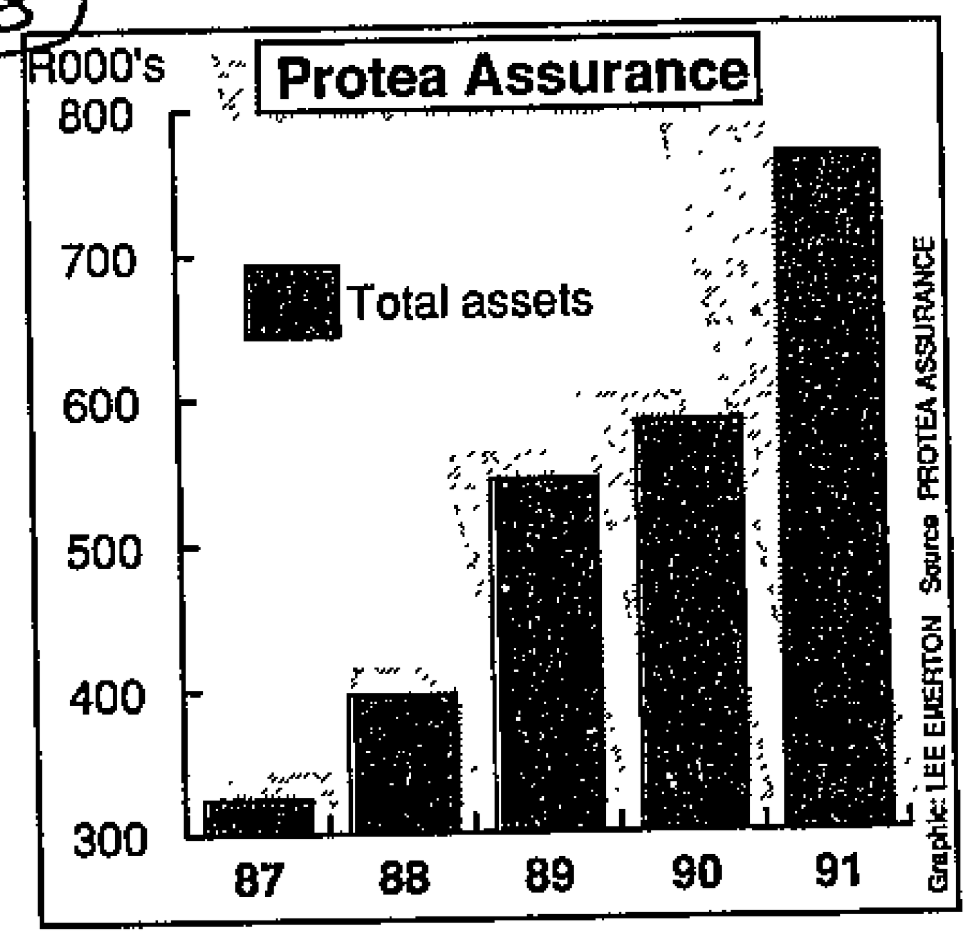
Composite insurers Protea disclosed a R9,6m loss (1990: R14,5m loss) for the year to end-December. The loss for the year amounted to 122c (184c) a share. A final unchanged dividend of 53c was declared.

Life business investment income grew 26,3% to R13,9m (R11m), while the market value of investments increased to R393,9m (R318,4m). BDay 14/4/92

The life fund rose to R264,3m (R192,5m) while life premium income climbed 33,8% to R41,9m (R31,3m). Tainton said: "The Life Division's continued focus on niche marketing should ensure that future growth is achieved as planned."

Short-term net premium income rose to R287,1m (R198,9m), while the underwriting account showed a loss of R31,1m (R39,5m loss).

The 44% increase in premiums written occurred because of "the decentralisation of authority, streamlined reporting lines, a phased investment of some R15,6m in new computer technology and the upgrading of human resource and stratgegic research functions", said Tainton.



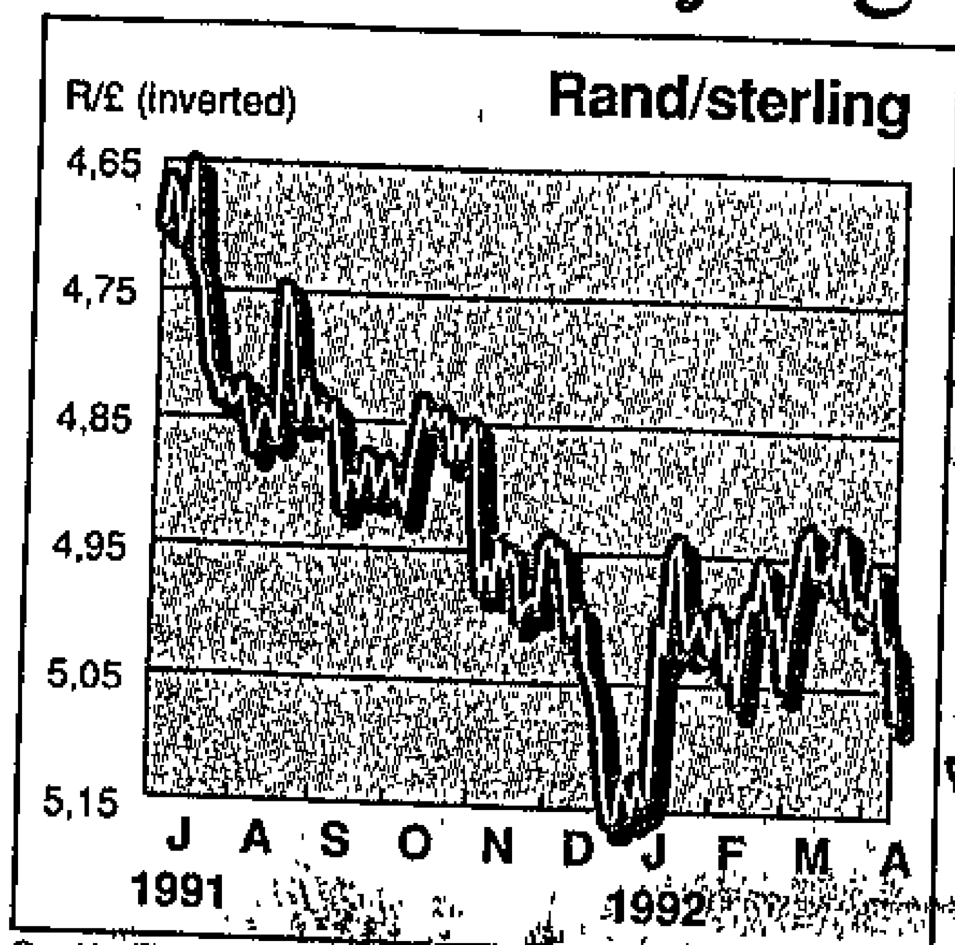
The short-term operation's investment income rose 18% to R25m (R21,1m).

Protea's policy of actively managing its investment portfilio continued to pay off, he said.

Protea would regard the continued protection of its asset base as a major objective "as JSE share prices cannot realistically be expected to contine rising as they have done for the past three years".

Rand steady against strong dollar

(58)



Graphic FIONA KRISCH

SIMON WILLSON

BDay 14/4/92

THE commercial rand resisted advances by both the dollar and sterling yesterday to recover some of the cross-rate losses it suffered late last week.

The rand held steady in the face of the stronger dollar as the US currency firmed against the Deutschmark. The rand closed at R2,8768 to the dollar — little changed from its opening level of R2,8778.

The dollar, meanwhile, had risen more than half a pfennig from the DM1,6415 level it held when the rand market opened. Dealers attributed the rand's resilience to an inflow of exporter dollars and to the petering out of a large dollar buying order

☐ To Page 2

Rand

BDay 14/4/92

(56)

☐ From Page 1

that hit the market last week.

In holding its level against the dollar, the rand was firmer overall on its principal cross rates as the major third currencies themselves yielded to the dollar surge. The rand was steady at R5,07 against the pound and firmer at DM0,5728 and Sf0,5263 from respective closes on Friday at DM0,5670 and Sf0,5215.

For the first time in four trading days, dealers said they had not noted Reserve Bank intervention to support the rand. Traders said the Bank had sold dollars into the market in the latter half of last week to offset the large dollar buying order that had the rand under pressure.

The dollar rose — despite a quarter-point cut in one of the US money market's interest rates at the end of last week — on higher hopes of US economic recovery, market fears about political instability in Russia and the gloomy outlook for the German economy.

Sterling, meanwhile, posted handsome gains as markets, relieved at last week's re-election of Britain's Conservative government, clamoured for pounds on the foreign exchanges. The pound burst through the DM2,90 level for the first time since November, and briefly topped $1,77 for the first time in six weeks.

Demand for the pound was initially whipped up on Friday. In final pre-weekend deals sterling surged more than three pfennigs to DM2,89 and forced the rand six cents lower to R5,07.

Landlords cut rates to survive

B/Day 14/4/92

PETER GALLI

LANDLORDS are having to offer lower-than-projected rentals and a variety of incentives to secure tenants and satisfy their demands because of a surplus of commercial space, Hyprop chairman Peter du Toit says in the latest annual report released yesterday.

"While there is a projected further excess of new accommodation due to come on stream in 1992, the local oversupply of space is nowhere near the levels found in the US and UK."

The oversupply of office space had been worsened by the authorities granting substantial office rights in former exclusively residential areas.

The retail industry, suffering under the worst recession since 1982, was concerned about the ability of consumers to support the new facilities.

"While prime, well established centres are well-placed to weather present difficult circumstances, new centres seeking to establish their presence may have less room for error," Du Toit said.

Hyprop does not have any commitments at present for additions to its portfolio and is currently focusing on consolidation. Suitable opportunities that would enhance the portfolio were difficult to find, he said.

"This strategy will be revised when a sustained improvement in market conditions can be identified, which is expected to be towards the end of 1992."

Hyprop reported a total distribution of 70,93c a combined unit for the year to end-December from 65,43c previously, after improved turnover at R23,786m from R21,642m.

Absa offers to buy out MLS shareholders

STAR 14/4/92

By Meg Wilson (58)

Absa, the country's largest banking group, has made an offer to buy out shareholders in real estate service organisation Multiple Listing Services (MLS).

Absa, which already owns 33 percent of MLS, has offered some 250 A-type shareholders R60 a share, putting a value of around R3,6 million on the deal.

Conditions are that the net asset value of MLS at end-March is confirmed, and that income of some R2,2 million owed to the company by its members is forthcoming.

Absa general manager Tienie van der Berg says the rationale for the deal is chiefly that the operating environment of MLS — which provides a service whereby estate agents can share market information and commissions — has changed since the introduction to the market of competitive services.

Its fee structure, he said, had been reviewed and found to be no longer competitive. Absa, however, would bring the fees into line with those of other services, as well as providing the marketing resources the company now needed.

Mini-listings

Should Absa's offer succeed, he said, MLS members would also be allowed to partake in "mini-listings", whereby certain groups of members could decide to share their data exclusively, and would also be allowed to belong to more than one service organisation.

The offer closes on April 28.

COMPANIES

Unit trust assets exceed R12bn

B Day 15/4/92

(58)

WILLIAM GILFILLAN

THE combined value of assets in the country's 41 unit trusts topped the R12bn mark in the March quarter, according to figures from the Association of Unit Trusts (AUP).

The number of unit trust account holders broke the 1-million mark to 1 005 197, of which 811 227 applied to general equity funds. The combined value, which reflects the increase in the price of shares and new inflows of funds from account holders, increased 45,6% to R12,13bn over the 12-month period and 6,5% over the quarter.

The general trusts, which consist of 81% of the industry's assets and accounts, reduced their liquidity levels during the quarter. At end-March the average liquidity for the general funds declined to 15% from 16% at end-December.

The AUP figures showed the funds earned an average annual return, including both capital appreciation and distribution, of 29,2%, compared with the 27,5% rise in the All Share Index (including dividends) over the comparable period and an inflation rate of around 15,8%.

"But investors should note there are a number of factors prevailing which would dictate a cautious attitude to the market in the short term," AUT chairman Clive Turner warned.

Bank City to allow 'upmarket' hawkers only

B Day 15/4/92 (58)

DARIUS SANAI

FIRST National Bank (FNB) is to set aside areas for informal traders' stalls in the new Bank City complex in Johannesburg, but will attempt to attract more upmarket wares.

The more unsophisticated traders, people selling individual items on soapboxes, will be prevented from trading on the covered pavements surrounding the complex.

FNB has bought the pavements from the Johannesburg City Council.

A spokesman for the bank said yesterday a square with facilities for dozens of traders would be set up at one end of the complex. The bank would also provide vendors with barrows at selected street corners. But no trading would be allowed on the covered pavements themselves, or in the complex's main piazza.

The pavements, which were narrow because half the width was occupied by flowerbeds, would become clogged if traders were allowed to operate there. And the piazza would be lined by shops, whose managers would be "understandably put out" if hawkers were allowed to operate there. "We also intend to discourage the lower end of the informal business scale from trading there," an FNB spokesman said yesterday.

FNB says its plans, which have not yet been finalised, were drawn up with the approval of the African Council for Hawkers and Informal Business (Achib). Achib president Lawrence Mavundla would not comment on the plans yesterday.

The FNB spokesman said no policy decision had been made yet on how to keep unwanted traders out — "but in the end, it is private property".

R691m flows into Old Mutual in bull market

S8

B/Day 15/4/92

LINDA ENSOR

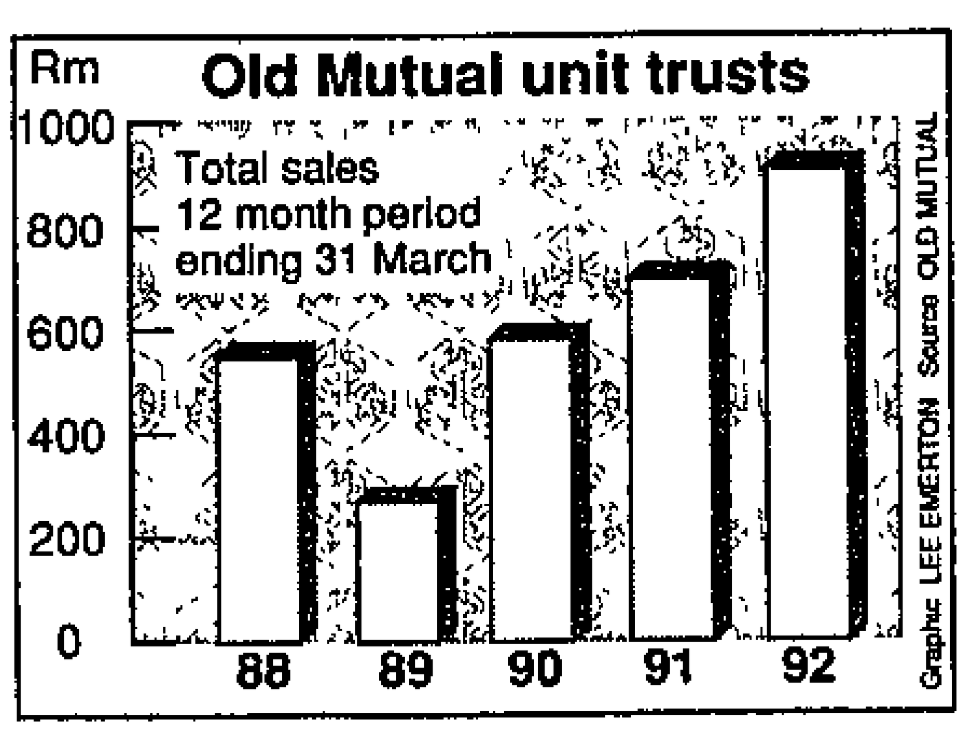
CAPE TOWN — A total of R691m flowed into Old Mutual unit trusts in the nine months to end-March, bringing the total market value of the six funds in the stable to R3,7bn.

Old Mutual unit trust manager Peter de Beyer said yesterday there were about 400 000 investors investing in unit trusts and of these 118 000 were investing on a regular monthly basis. Repurchases in the 12 months to end-March represented about 14% of total assets.

Senior portfolio manager Adrian Allardice was confident that the stock market's medium-term bull trend remained intact despite industrial stock being expensive.

Earnings of many companies had started to rise in nominal terms, and good growth was forecast for 1992/93. However, prospects for underperforming consumer shares would remain bleak for some time.

In the 12 months to end-March the Old Mutual Investors Fund with total assets of R3,3bn (R3bn at end-December), achieved a 34% return on a repurchase-to-repurchase price basis with the dividends reinvested. Over five years the annual average return of the fund was 20,9%.



The quarterly distribution of 45,8c per unit brought the total for the year to 96,61c.

Liquidity was kept at about 10%. The four largest holdings in the Old Mutual Investors Fund were Richemont (9% of the total portfolio), Anamint/De Beers (8%), Rembrandt Group (7,5%) and Safren (7%), with the remainder of the top ten being Barlows, Anglos, Gencor, Sasol, Anglovaal Industries and JCI.

The newly-formed Top Companies Fund with a portfolio valued at R96m (R59m at end-December) had a high liquidity of 27% but this would be reduced over the next few months, Allardice said. Over the last quarter the repurchase price of the funds' units rose 9,5%. The fund has invested in blue chips and prospective blue chips such as Trencor and Chemserve.

The total market value of the assets of the Industrial Fund stood at R102m (R90m) at the end of the quarter. A quarterly distribution of 7,83c brought the total for the year to end-March to 14,54c per unit.

Total assets of the Mining Fund fell during the quarter to R115m (R122m at end-December) and the repurchase price dropped 5%.

Old Mutual Gold Fund, with total assets of R46m (R46m) increased its stake in Oryx significantly. The Income Fund, with total assets of R64m (R61m) declared a quarterly distribution of 3,36c per unit, bringing the yearly total to 15,03c.

Just a stroke from a banker's pen...

W|Mail 16/4-23/4/92

(58)

Banks can sometimes hold the key to the upgrading or rapid deterioration of a suburb. **PATRICK BOND** *looks at how US activists have countered the 'redlining' phenomenon*

WHETHER you're a homeowner in Bloubosrand or a tenant in Hillbrow, you have a common problem: banks can switch off access to credit — the economic blood supply of your environment — at a moment's notice. And then, as the American slogan has it, "There goes the neighbourhood".

The catalyst might be the sudden introduction of a Zevenfontein to the veld across the highway. Or a critical mass of residential "greying". Or rising crime statistics.

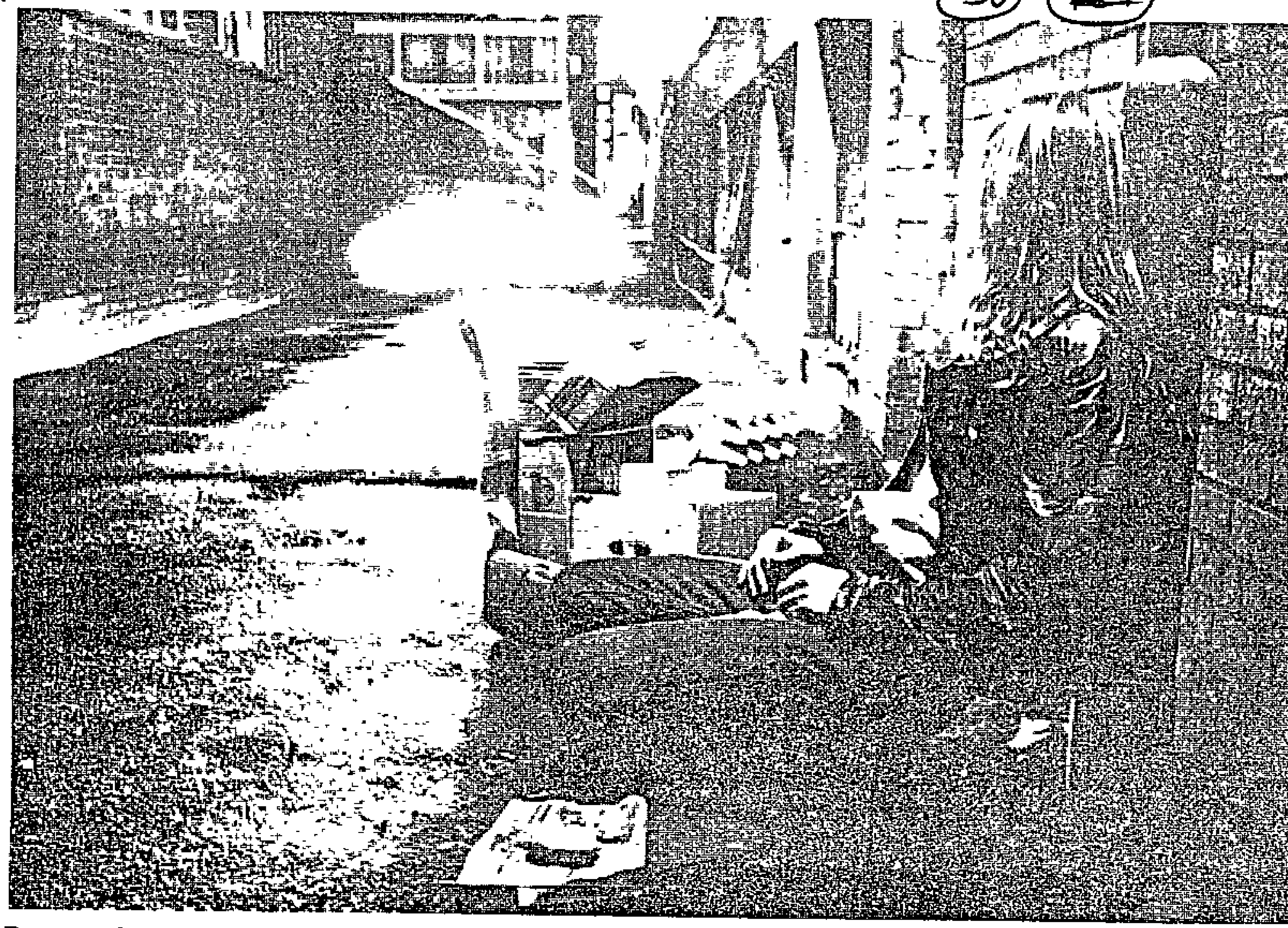
Whatever the cause, the bankers will explain their behaviour in rational terms: "The value of the housing stock in your area is declining, and with it the collateral on your bond. If you default, we the bankers lose, and then so do our shareholders and depositors. We're just protecting their interests by refusing you loans."

Hence the phenomenon of "redlining". The term originates from 1930s United States Federal Housing Administration lenders whose maps were encircled with red lines showing where to lend and where not to on the basis of (white) ethnicity.

The problem is redlining becomes a self-fulfilling prophecy. Without a hefty savings balance, you can forget major home improvements, and even sales are often transacted in cold cash. As a result, limited access to credit virtually guarantees a decline in the value of housing stock.

Hit by redlining, some outraged Bloubosrand residents reportedly dumped their bonds on the bankers' desks, and walked away from their homes (prior to TPA concessions). Hillbrow flat dwellers are equally vulnerable to the bankers' whim, with only the prospect of collective action — such as the Seven Buildings Project spearheaded by Actstop — capable of turning the situation around.

In the US, banks have long been recognised as possibly the single key player in neighbourhood change. The film *Boyz 'n the Hood* includes a scene in which an Africanist financier explains how disinvestment by white bankers is followed by gentrification.



Down and out ... Without bank support, areas like Hillbrow have no hope of improvement Photo: GUY ADAMS

Gentrifiction generally refers to the upgrading of residential areas by virtue of a yuppie "pioneer" class returning to "civilise" the inner-city "jungle". This cycle of change is common to every major city. As any visitor to the US knows, redlining leaves entire urban districts in a dilapidated state for years, and contributes to general economic deprivation. The subsequent gentrification of key precincts becomes a market-led form of forced removal.

In the early 1970s, a community civic movement emerged from Chicago to fight redlining. Inspired by the legendary organiser Saul Alinksy, National People's Action mobilised enough inner-city pressure groups across th US to force the congress to pass the Home Mortgage Disclosure Act of 1975.

For the first time, urban savers could track the progress of their deposits. They saw, through the eyes of their bankers, that inner-city areas were now the geographical equivalent of lumpen-proletarian loan applicants. Loans were denied on a blanket basis, even where creditworthy individuals attempted to buy a house or start a small business.

The next step was a year-long fight for legislation prohibiting such discrimination: the Community Reinvestment Act of 1977. The law holds that "financial institutions have continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered".

While penalties are not specified, citizens' groups across the US used that mandate to poke through bank disclosure statements with renewed zeal. Upon determining which local banks were redlining their neighbourhoods, the groups made formal pleas to the US Federal Reserve and other regulators, asking them to deny bank expansion plans until full investigations on lending policies were undertaken.

Wielding technical clout and ready for mass action protests against the bank, the community groups forced a series of negotiations. Hundreds of banks, hit by bad publicity and costly delays, began to give in. Redlining policies were dropped. Huge commitments — often in excess of $100-million — were made for below-market rate loans and other assistance in ghettoes once shunned.

During the 1980s, more than $5-billion was committed to formerly redlined urban areas by banks. Community organisations which feared extinction due to Reaganomics could now turn to the banks for support. As ghetto organisers targeted reverse capital flows as a primary barrier to development, thousands of co-operative housing projects, land trusts, people's banks and non-profit housing corporations expanded.

South Africa may need similar creative stategies to forge community-led public-private partnerships which can withstand the scourge of bank redlining.

●Patrick Bond, an economic geographer, works at Planact and lives in Hillbrow.

Bill lets assurers sell sinking fund policies

BI Day 16/4/92

(58)

LINDA ENSOR

CAPE TOWN — Long-term assurers will be able to market pure investment products in the form of sinking fund policies, in terms of the Financial Institutions Amendment Bill tabled in Parliament yesterday.

The step has been lobbied for by the industry for some time and was welcomed yesterday by Sanlam senior GM individual assurance Desmond Smith.

The memorandum to the Bill states the proposal formed part of the process of equalising the statutory requirements for financial institutions. It had been welcomed by Japie Jacobs, chairman of the committee on the advancement of equal competition in financial markets.

Smith said a sinking fund was a fund built up over a period of five years to enable institutions such as local authorities and universities to make provision for the repayment of their debt commitments. He said in the past these bodies had made use of endowment policies on the lives of their employees until financial authorities clamped down on the practice.

The banks were unhappy about the practice, which they regarded as an invasion of their territory. The five-year minimum period for sinking fund policies, provided for in the Bill, is, however, seen as a demarcation of the areas in which banks and insurers operate.

The Bill also implements the recommendations of the Melamet committee of inquiry by requiring that trading co-operatives wind up their guaranteed insurance business. They will be able to continue with their insurance activities until a termination date is promulgated in the Government Gazette.

Farmers or agricultural co-operatives have been exempt from the Insurance Act and will be able to continue to offer pool insurance in terms of which benefits are not guaranteed and the liability of the co-operative for claims is limited to the amount standing to the credit of a fund specially maintained for such claims.

The Bill is an all-encompassing one which covers amendments — mainly technical — to the Insurance Act, Pensions Funds Act, Unit Trusts Control Act, Co-operatives Act, Inspection of Financial Institutions Act, Stock Exchanges Control Act and Financial Markets Control Act.

Dramatic Bank City opening

58

13 | Bus 16/4/92

SHARON WOOD

THE official opening of Bank City next weekend will go off with a bang with the simultaneous implosion of former FNB building Aiken House.

President F W de Klerk will officially open the two completed eight-storey high office blocks, which will house about 2 400 FNB staff members. Construction of the two blocks cost R160m.

Shortly after De Klerk's address, Aiken House will be imploded to make way for the construction of the fourth block of the Bank City project. This block is expected to be completed by 1995.

Bank City senior manager Anne Jacquet said the third block had been completed up to roof height and was scheduled to open in mid-1993.

This would be the head office of FNB and general management, corporate banking, personnel and other major finance divisions would be situated there, she said.

The staff in the international and treasury divisions moved out of Aiken House and into Bank City during the past few months.

When the four city block project was completed in 1995, over 6 000 staff would have moved from 28 buildings around the city centre into Bank City.

Security was a top priority in the project and a satellite police station was one of the tenants in Bank City, said Jacquet.

Insurers 'should target blacks' 58

THEO RAWANA

THE life assurance industry should tap into the vast black market, the fastest growing sector in population and potential spending power, Charter Life senior manager (legal services) Martin Sweet said yesterday.

He was addressing an Institute of Marketing Management seminar in Johannesburg.

Sweet said the white population's share of total disposable income fell from 69,2% to 53,4% between 1960 and 1987.

Disposable income of blacks rose from 23,11% to 34% in the same period. BlDay

Of the total SA population, only 20% were policyholders.

In spite of blacks making up more than 70% of the population, only 8,2% held policies, Sweet said. 16/4/92

Blacks accounted for only 28,9% of policies issued in SA.

Sweet told the seminar that rapid urbanisation and westernisation had presented insurers with an emerging market of 2,5-million households.

"A market on a massive scale, but one which is yet poorly provided for."

It was therefore up to insurers to cater for that market, said Sweet.

Remote banking proving a hit as service gets slick

B/Day 16/4/92

58

Information Technology
by MELANIE SERGEANT

REMOTE banking is taking off in SA, with new and existing services attracting increasing numbers of users.

Banking by phone, Beltel terminals or PCs is becoming big business, providing bank clients with freedom to carry out transactions from their offices and homes, or even phone booths. The latest service is Volkskas Bank's Banktel 200, which allows home banking or cash management via Telkom's Beltel system.

Clients using Beltel-linked services can transfer funds between linked accounts, pay bills, make balance inquiries, draw statements and call up lists of linked beneficiaries.

But some services are more entrenched. There is Standard Bank's CATS system for corporate clients, Toni for banking by phone, and BEST, which is also Beltel-linked and used by about 5 500 SA companies.

CATS allows clients to dial through to Standard Bank's mainframe from their PCs to access their full range of accounts, to transfer funds, receive statements, forex details and Reuters information, among other functions.

Standard Bank's GM (operations) Rod Hyde said the system also allowed clients to effect direct payment for staff payrolls and was being used by more than 2 000 companies. "BEST is for smaller companies and because it works through Beltel it is less interactive than CATS, but allows similar services."

Toni, which has about 60 000 users, fits on phone handsets and allows account payments, fund transfers between accounts and balance inquiries. New phones with touch dial frequency modulation do not require the Toni unit. "Toni now also has a fax facility so clients can call for a faxed statement," Hyde said.

Looking at the security aspects, Hyde said clients had codes and pre-arrangements had to be made to pay accounts, for example.

"With CATS, users request the levels of control they require, with authority levels being given to certain staff members. Codes, access cards, and the ability to move funds only between pre-arranged accounts are some of the security features available."

Hyde said banks were making their remote systems more slick in terms of their interaction with users. "Apart from being convenient, benefits include the fact that most transactions cost less than traditional ones."

Banks were also moving another step into trading cycles of companies with electronic data interchange (EDI). This involved value added network services through which clients could transfer all their trading documents.

Low-cost housing: Banks fear boycotts

Sowetan 16/4/92

58

By JOSHUA RABOROKO

LEADING construction companies have accused financial institutions of being reluctant to give poor families loans for low-cost housing.

The chairman of the Mortgate Lenders' Association, Mr Tim Hart, yesterday said that new designs for low-cost housing would not solve the housing crisis as long as organisations continued to place financial institutions' loans at risk by supporting rent boycotts.

However, he said that banks had to be careful of advancing funds without high certainty of repayment, because they were dealing with trust money.

It was not the function of banks to solve the social problems, he said, adding that that was the responsibility of the State and the private sector.

The Urban Foundation and the association launched the loan guarantee fund in July 1990 and started lending money in October 1990, according to the latest survey of the South African Institute of Race Relations.

The survey says by August 25 1991, 1 996 loans had been processed through this fund. Amounts lent were as low as R12 500 but were not to exceed R35 000.

The objective of the loan guarantee fund was to address two constraints on lending in the low income housing market - the risk of not recovering funds loaned and the non-profitability of small loans.

It also aimed to make housing finance available to an additional 30 percent of the population by lowering the normal lending threshold and the deposit required.

Stanprop lays out R37-m

STAR 16/4/92

By Frank Jeans (58)

Since the beginning of the year Standard Bank Property Fund has spent R37 million in securing commercial properties.

This follows an injection of almost R33 million last year in the acquisition of five properties along with a R13 million outlay on new developments.

In his statement in the Stanprop annual report, Mr Eddie Theron says the highlight of the year was the disposal of the 964-unit residential spread Bedford Gardens for R90 million, resulting in a non-distributable profit of almost R53 million.

This took the proportion of cash in the fund to 23 percent which has since been reduced to 11 percent due to recent acquisitions.

Another feature of the report is the decision by the Southern Sun group not to renew its lease of Johannesburg's Downtown Inn which expires next year.

"Management is now actively seeking a new operator to take over from Southern Sun," says Mr Theron.

Looking ahead, the chairman is confident that prospects for Stanprop are bright.

There are no major leases due for renewal this year and consequently the majority of the group's investments should reflect growth at the underlying escalation rates built into leases.

Stanprop's after-tax profit was R697 000, compared with R491 000 in 1990.

The increase was mainly attributable to the increased service fee earned as a result of the higher market value placed on Stanprop units on the stock exchange.

The final dividend of 10c a unit compares with 7,45c previously.

BANKING

Reshuffling the pack

(58) FM 17/4/92

Over a decade in which banks and other deposit-takers battled to build their balance sheets, a number of deals were proposed to reduce competitive pressures and achieve economies of scale.

Those eventually concluded have transformed the local banking sector. Among those that failed to come to fruition, at least two are still potentially on the drawing board — though the pressures that inspired them have changed.

In the early and mid-Eighties, technology was revolutionising the industry, making huge demands on capital. And deregulation of the financial services industry was changing its shape. Building societies, formerly one-product companies, were demutualising and starting to compete with banks over a range of products. At a time when volumes were essential for economies of scale, growth was inhibited by prohibitive costs: the cost of buying market share and the cost imposed by new banking legislation in terms of liquidity and capital requirements.

The solution lay in merging resources and reducing competition.

So Nedbank bought the assets and liabilities of the Perm in 1988, creating an enlarged Nedcor; UBS Holdings took over Volkskas and the Allied group in 1991 and Bankorp in 1992, placing all the companies under the umbrella of Amalgamated Banks of SA (Absa). And now all that remains of the five major banking groups and five major building societies that competed so fiercely for business only five years ago are four huge banking groups and two small former building societies, NBS and Saambou.

Now there is consensus that the big deposit-takers have achieved the critical mass needed to compete with one another and remain cost-effective. But further rationalisation may well take place.

An idea — floated in the early Eighties when competitive pressures first began to erode profits — was a merging of Nedbank and First National Bank (FNB), which was then Barclays. The benefits lay in putting together FNB's huge national network of retail outlets, and its instalment finance strengths, with Nedcor's corporate banking base and its innovative merchant bank UAL. FNB has since built up a strong corporate banking division and acquired the former Citibank, now Firstcorp; and Nedcor has the Perm outlets.

But comparative advantages remain, as statutory returns to the Deposit-Taking Institutions Office record. An analysis of January figures show FNB reported:

- ☐ Instalment sales worth R4,2bn, compared with Nedcor's R2,2bn;
- ☐ Leasing transactions of R3,6bn, compared with R2bn; and
- ☐ Credit card accounts of R4,7bn, compared with R552m.

What Nedcor would bring to a union, apart from its corporate base, would be R13,9bn worth of mortgage loans, more than double FNB's R6bn. This would be a substantial dowry, given the cost of attracting business in this market.

Nedcor is now investigating an investment in technology. Though a decision is still months away, it is expected to move from

continue

 FM

Unisys to IBM, which will make it technologically compatible with FNB. Those close to the industry say a merger would substantially reduce the costs of the changeover. Though this in itself would not be enough of an incentive to prompt a merger, it would certainly make it simpler.

There are, of course, other permutations. In 1988, when Nedbank absorbed The Perm, there was talk of taking rationalisation to a logical conclusion and joining up with what was then UBS Holdings. It is interesting that the protagonists involved are now together in Absa. Piet Liebenberg, who left Nedcor for Bankorp, is now a deputy to CE Piet Badenhorst.

FNB and Standard Bank could save huge sums purely by rationalising branch networks. And their similar profiles and cultures would simplify bedding down together.

With Standard a mirror image of FNB, it too would dovetail with Nedcor.

Standard, of course, has other options. With major shareholder Liberty already investing offshore, it may prefer to spread its wings abroad, possibly through an alliance with former parent Standard Chartered.

Under the Deposit-Taking Institutions Act, permission must be given for any change in shareholding by the DTI Registrar if the holding changing hands exceeds 15% or 24% — and of the Minister of Finance if it exceeds 49% or 74%. And objections may well come from the Competition Board. A merger would create an organisation with total assets of around R79bn (on January figures) — less than Absa's. But, where Bankorp's ills left little alternative to a merger, this argument would not apply to FNB and Nedcor, both in good health.

This raises the controversial issue of concentration of control, which has been encouraged, in recent years, by sanctions and exchange control. Control of three of the big four is effectively held by giant life offices: FNB by Southern Life, Nedcor by Old Mutual, Standard by Liberty. And Sanlam has a major stake in Absa.

As long as exchange control remains, it will limit the freedom of these big institutions to invest outside the country. But the lifting of sanctions will allow the entry of new money that may shift the balance of power within the banking sector.

Meanwhile, political developments are not only putting pressure on life offices but on those institutions seen to dominate the economy. Behind Southern, for instance, is Anglo American, which, according to McGregor's On-Line Information, holds 22,5% directly in FNB and indirect stakes through Southern and De Beers.

Anglo has been the target of much ANC rhetoric. It may now find it politically expedient to divest itself of its stake in the controversial area of banking — though such a move would have been unthinkable a few years ago.

The most desirable purchaser from all points of view would be foreign. But the disincentive of exchange control remains and

7/4/92 (58)

if Anglo did want to unbundle, it may have to find a domestic buyer for Southern's stake in FNB. Surprisingly, a possible candidate could be Old Mutual, which "godfathered" the Nedbank-Perm merger.

A hurdle would be the cross-shareholding between FNB and Southern. According to McGregor's, FNB holds 35% of Southern. To avoid a conflict of interest, this would have to be disposed of — probably to Anglo.

What of the political implications? As it holds 52% of Nedcor, Old Mutual could be expected to figure prominently in the populist demonology of capitalism. But what it has in its favour is that it is a mutual. Moreover, life offices are discussing ways of channelling funds into socially desirable projects with the ANC, among others (*Economy & Finance* April 10). So Old Mutual may be seen by a future government as a more acceptable repository of control than Anglo. ■

FM 17/4/92 (58)

GUARDIAN NATIONAL

FM 17/4/92

Back in the black

(58)

Activities: *Short-term insurance.*
Control: *Guardian Royal Exchange Plc 50,9%, Liberty Holdings 45,5%.*
Chairman: *D Gordon; MD: K Nilsson.*
Capital structure: *10m ords. Market capitalisation: R281m.*
Share market: *Price: R28. Yields: 5,5% on dividend; 14,1% on earnings; p:e ratio, 7,1; cover, 2,6. 12-month high, R28; low, R16,50. Trading volume last quarter, 5 000 shares.*

Year to Dec 31	'88	'89	'90	'91
Total assets (Rm)	412	518	589	718
Solvency margin (%) .	75,4	72,7	66,0	73,6
Net prem inc (Rm) ..	188	270	327	398
Underwriting pft (Rm)	16,9	9,2	(14,0)	1,6
Investment inc (Rm)	24,7	36,2	44,9	49,3
Taxed profit (Rm)	25,2	30,1	26,7	39,7
Earnings (c)	251,6	301,2	266,4	395,2
Dividends (c)	90	110	130	155
Net worth (c)	1 419	1 962	2 154	2 916

Simply to show an underwriting surplus is not a bad achievement for a short-term insurer, considering the problems the industry went through two years ago.

More impressive is the rapid return to the black. An underwriting loss of R4,7m at the interim was turned into a profit in the second half. Results would have been much better but for nine major fire claims in the last quarter, which knocked the commercial property account into a loss.

GM operations Andy Jack says this had a significant effect on underwriting profits, probably slashing a few million off.

Still, a R15,5m turnaround in underwriting results, together with the more modest 9,8% increase in investment income, allow chairman Donald Gordon to claim a record pre-tax profit of R50,9m. Jack feels with interest rates easing the investment income increase is good, but of other short-term results already through at least one shows an increase of 13,6% in investment income.

Taxed profit was smoothed by the tax-deductible transfer of R10,2m to contingency reserve, which together with an R8m increased holding of preference shares dropped the effective tax rate to 22,6%.

God was kind to the industry last year, sparing groups like Guardian any natural disasters and this, together with sharp rate increases, has seen the traditionally volatile sector on the up. Boosted reserves — contingency up 68% to R25,2m, non-distributable 49% to R160,8m and distributable 22% to R77,8m — should help the group through future down cycles, which must surely come.

Jack says rate increases at the beginning of this month were negligible and doesn't expect big increases in domestic premiums this year. But he feels that commercial rates are still underpriced and should harden, though he can't estimate by how much.

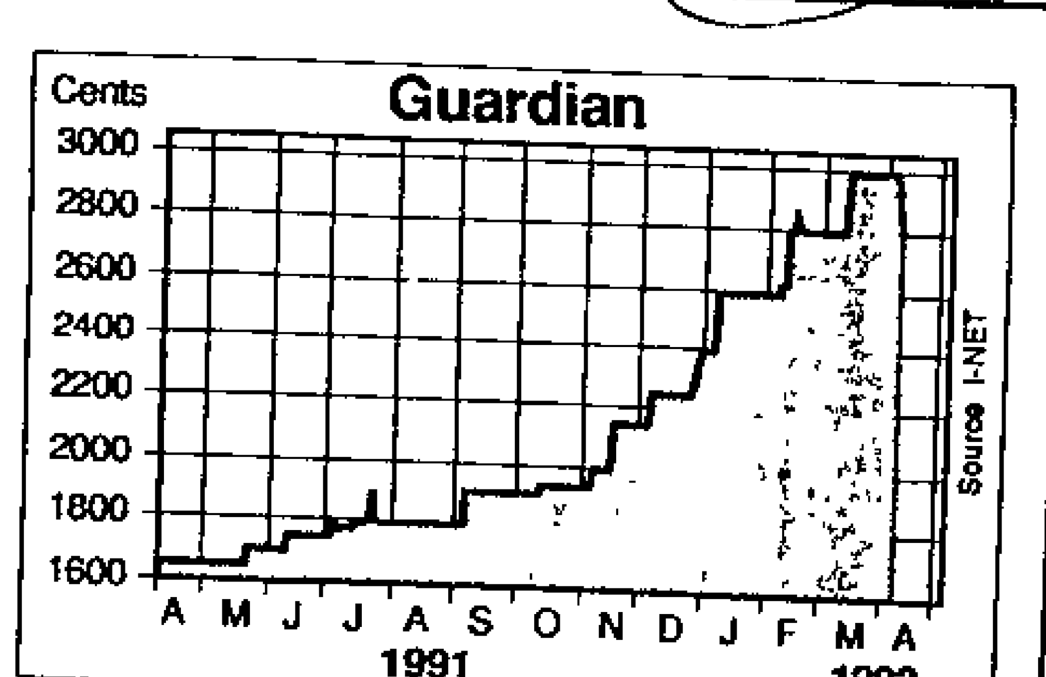
With the capacity to take on big risks, Guardian is trying to retain more of its own business instead of diluting it through re-insurance. While re-insurance is still taking R202,3m off gross premium income (1990: R174,3m), the margin is better than the late Eighties, when more than 40% of business was offlaid. Last year, gross premium income grew by 19,8% to R600m, while net income of R398m represented an increase of 21,7%.

Guardian is favourably rated. The leading short-term groups have all seen tremendous share price increases over the past year. On a yield of 5,5% Guardian still offers good value in spite of climbing 70% in a year.

Less exciting is tradeability, with shares

cont →

FM 17/4/92 (58)



almost entirely wrapped up by parent GRE and Liberty Holdings. Seldom available in quantity, it is not an institutional stock.

Private investors may be able to pick up small parcels now and again, but would have done better buying earlier in the sector's rerating. Some analysts feel short-term insurance shares may be due for a downward correction.

Shaun Harris

COMPANIES

UK acquisition by Kreditinform

EDWARD WEST 58

SA CORPORATE credit and business information organisation Kreditinform has acquired 50% of UK-based credit information company Status International.

In addition, said Kreditinform's operations director, Peter Sullivan, the company had extended activities into trade risk insurance through a commercial Union/Hollandia Reinsurance joint venture called Credit Underwriting Agency.

The company had also extended operations into direct marketing through a subsidiary and had extended its industrial product manufacturing data services through an association with the publisher of Ezee-dex. There has also been an extension of listed company information services through McGregors, publisher of "Who Owns Whom". BDay 8/4/92

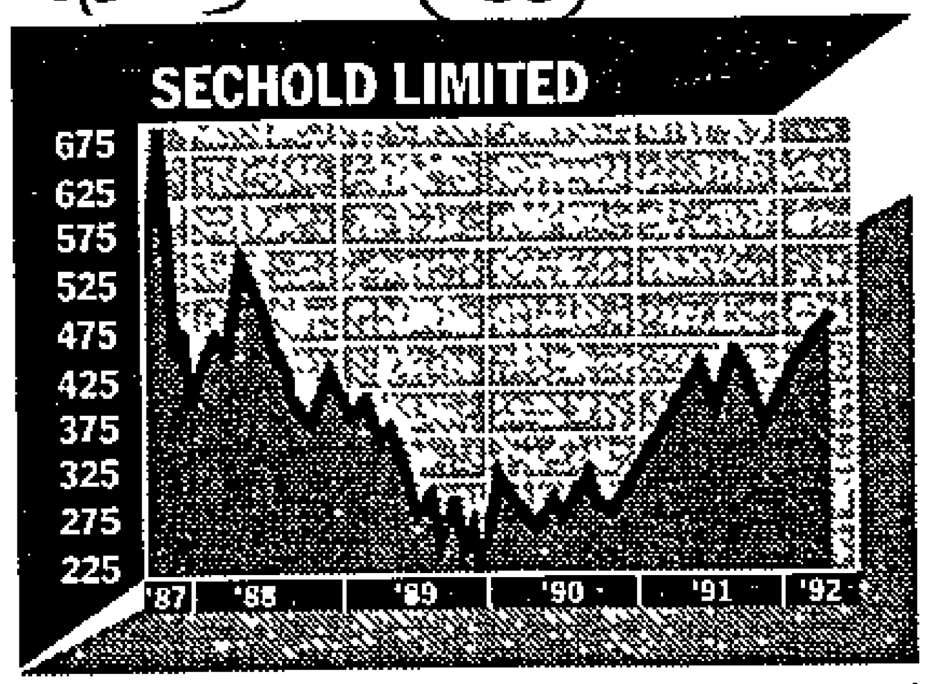
Sullivan would not say what Kreditinform had paid for Status International, one of the ten largest credit information companies in the UK. He said, however, that the greatest cost of the acquisition had been sending Kreditinform's director, Jack Brownrigg, to the UK to head operations.

Kreditinform bought the UK-based company to gain a foothold for the further development of its markets in Europe. The acquisition would allow Kreditinform to launch three new products in the UK while the information technology exchange would enable it to launch some of Status' products in SA, said Sullivan.

Brownrigg said in a statement that credit managers and financial analysts in the UK had access to — and placed a strong emphasis on — balance sheets. Unfortunately, in SA this information was not readily available.

Low-profile Sechold makes light of omens

S|Times (BUSS) (58) 19|4|92



A FRIDAY 13th appointment in 1984 with the late Gerhard de Kock, Governer of the Reserve Bank, gave Arthur Kelly and a clutch of financial specialists the green light to establish a discount house.

The licence was granted on the Ides of March the following year and Sechold opened for business on April Fool's Day 1985 with share capital of R2-million.

In spite of the low profile — I am the first journalist in those seven years to interview Mr Kelly, who modestly declined to be photographed — Sechold has been a sterling performer

Mr Kelly is managing director of today's listed group, the holding company of four deposit-taking institutions and a portfolio management company

Its main operation is trading in the money, capital and derivatives markets.

Only Secfin Bank, formerly Interbank, lends conventionally, having lately entered the upper-bracket mortgage market and granting customers a preferential rate.

Mr Kelly estimates the asset base of the group at R7,5-billion. This large-sounding figure for such a little-known name is due partly to the nature of its business. Capital coefficients for trading Government stocks are lower than for many other types of banking.

"They are virtually non-risk areas," says Mr Kelly. "It allows us to run a much bigger book. The margins are small and turnover large. Our aim is to provide the best return on shareholders' funds.

"They are all you really have at the end of the day You do not have market capitalisation to play with, only a finite number of rands. You have to ask yourself what you have actually done with them."

[redacted]

There is of course a vested interest. Management and staff own 34% of the group Sechold's return on shareholders' funds is among the highest in the business in recent years and its portfolio management company has outperformed many better-known names.

Sechold's other shareholders are a solid bunch themselves. Old Mutual has 20%, Sanlam about 8% — some by virtue of having sold the struggling Interbank to Sechold Absa has 15% and, perhaps surprisingly, competitor Rand Merchant Bank has 10%

Sechold bought National Discount House from holding company NDH (itself taken over by CIB) "while it was struggling. The introduction of our management style reversed its fortunes", says Mr Kelly

In partnership with Boland Bank it formed District Securities Bank a year ago, adding to the core securities trading business in the Cape.

I asked Mr Kelly what was bought when another company was taken over He admitted that there was some overlap, although each bank was carving a niche.

"It is a licence essentially A discount house is basically a cash shell. So if it can be bought at a discount, there is an immediate advantage Many of these names are of long standing and have had their respectability restored with a new lease of life under Sechold management.

"They are only equity-accounted in Sechold, no value is placed on each bank licence. If we wished ever to list one or all of them separately, there would be significant immediate capital appreciation to Sechold.

"There are no immediate plans to do so. We are merely laying the foundations should future officers of the company wish to unbundle Sechold."

When Sechold itself was listed in 1987, it raised R9-million. At last June, disclosed cumulative shareholders' funds were R50-million — and that was after R19-million had been paid in dividends.

This exceptional growth had its humble beginnings with Mr Kelly and company seven years ago.

[redacted]

"There were seven of us, but the Reserve Bank ruled that we could not own more than 10% of the initial discount house each, so we had to take on more partners.

"It's grown quite well," he says flatly

The share price would seem to support his view. Finely pitched at R3 in 1987, the shares shot almost to R7 before collapsing with the rest of the equity market. It stumbled along at R3, but has risen from a 12-month low of 375c to 510c since October

On a price-earnings ratio of 7,8 times, Sechold might have the largest remaining potential in a heavily punted sector

DIAGONAL STREET by Julie Walker

30% failures on the DCM

S|Times [BUSS] 19/4/92

SINCE the inception of the Development Capital Market on the JSE in 1984, 113 companies have at one time or another been listed on it.

The present tally is 23 — about a quarter of the 1987 peak. Almost half of the companies have been transferred, either through growth or acquisition, to the main board.

Some have followed the reverse path, in the case of cash shells whose new assets have failed to meet main-board requirements.

Six have been delisted for reasons other than financial difficulties, but the listings of 30 have been terminated because of money problems.

The JSE says the failure rate of 30% means there is no justification for lowering the listing requirements.

One of the problems that faced the JSE's listings department in the rush by companies to list in 1986 and 1987 was the checking of details in prospectuses.

Often, financial accounts were dressed up to show the pre-listing performance in the best possible light. This was sometimes achieved by restating figures as though the equity capital to be raised at listing had been part of the company's capital base for the previous few years.

The JSE listing requirements for the DCM are adequate. The problem lies in knowing which company directors told the whole truth in their haste to grab plentiful investment capital.

Auditors, merchant banks, corporate finance houses, public relations consultants and directors readily condoned the fairness and reasonableness of the valuations of assets sold into companies in exchange for control of listed companies to which the minority often provided most worth.

Investors who followed small share issues have been belittled and maligned by the blue-chip brigade. But no matter how diligent the ordinary person might have been in studying a prospectus, he could not reasonably have been expected to see through the carefully constructed smokescreens endorsed by so many professionals.

R174 Lyntex raised R3m from its listing

S|Times [BUSS] 19/4/92

LYNTEX Transport Exchange had a net asset value of only R174 before it raised R3-million in public and private placements in 1987 for a JSE listing.

Lyntex was liquidated in April last year and was later delisted.

The Receiver of Revenue, Johannesburg, confirms it is investigating Lyntex's affairs.

After questioning former managing director Tony Teixeira, the taxman found that at the time of the Lyntex listing, the total asset value after the deduction of loans outstanding was R174. It is claimed that no tax was paid on declared profits, but Lyntex declared a dividend of R644 000.

The Lyntex prospectus, issued on October 28, 1987, after the stock-market collapse, showed audited earnings for the 16 months to June 1987 of R596 000 before tax and said no dividend had been declared.

[redacted]

The balance sheet at June 30, 1987, reflected shareholders' funds of R940 000 as most of the R1,18-million capital employed. Share premium of R741 000 arose through the acquisition of subsidiaries for the issue of 9,94-million shares of 2c.

Unlisted investments totalled R200 000, explained as an investment in an export venture.

The auditor was Nicholas Meldau & Co, the sponsoring broker George Huyshamer and the attorney Eugene Marais, Attorneys. Mr Marais was also chairman when the group listed. Joe Berardo became chairman in August 1988 and resigned a year later.

On March 21, 1991, Mr Marais and Mr Teixeira signed the financial statements on behalf of the board for the six months to December 1990.

The results showed net income after tax of R552 000, net current liabilities of R408 000 and R4,27-million in unlisted investments.

Hardly a fortnight later, several creditors applied for the liquidation of Lyntex and it folded. The liquidation was before Mr Justice Margo, who was chairman of Joe Berardo's Johannesburg Mining & Finance Corporation.

Mr Berardo left SA abruptly three years ago and JMFC had to be rescued.

The joint liquidators of Lyntex Transport Exchange reported that only one of the directors gave them a statement of affairs, but they arrived at a figure for apparent deficit of R511 000.

Liabilities totalled R2,24-million and assets R1,7-million.

They found the company's accounting procedures to be inadequate. The books had not been written up for five months before liquidation.

All financial and banking transactions were made by means of a trust account in the legal practice of Mr Marais. Auditors had to be brought in to reconcile the books.

The liquidators said: "The available financial records of the company appear to have grossly overstated the assets and debts of the group's companies, resulting in creditors and particularly shareholders and members of the public concluding a total misapprehension of the financial position ... an inquiry should be conducted into the affairs of the company and the conduct of its directors."

The liquidators took the view that the main cause of failure of companies in Lyntex was inadequate financial management and records.

The estates of Mr Marais and of Mr Teixeira have since been sequestrated.

[redacted]

Mr Teixeira had signed personal suretyship for the obligation of Lyntex Transport Transvaal, a subsidiary of the listed company, and for other companies. The banks called in the obligations, which he could no fulfil. Mr Teixeira's liabilites of R9,5-million were nine times his assets.

The sequestrator says Mr Teixeira has not replied to his questions and recommended a formal inquiry and he will arrive at his final conclusion in May.

Debt help for farmers

S|Times (BUSS) 19/4/92

FARMGROUP, the agroforestry management company featured in Business Times last week, has proposed a debt-for-equity swop to help relieve the debt crisis facing farmers.

The scheme, accepted by the Conservative Party, involves the issue of an equity land-bond bearing an 8% tax-free coupon. The bond should be either issued or guaranteed by the Government.

The debt held by commercial banks could be converted to equity bonds and accepted as part of their liquid asset requirements.

FarmGroup says that because insurers are being urged to invest in socially desirable investments they too should be required to place some of their cash flow in bonds.

The Government could even consider some additional form of tax relief whereby the bonds could be marketed to corporates and the public.

The terms of the bonds should be linked in some way to the farmers' performance, with the proviso that they can be redeemed at any time on payment of capital and interest. Fiscal control would be imposed on farmers involved in the scheme to encourage them to redeem their bonds early.

Absa heads still rolling

STimes (BUSS) 19/4/92

By ZILLA EFRAT 58

MORE than 1 350 employees have been axed since the formation of Absa last year. At least another 292 jobs, including those at Bankorp, are due to go.

So says Absa group executive, human resources, Petrus Claassen, who dismisses reports that about 4 000 jobs will be lost by March next year.

Dr Claassen declines to say how many people will lose their jobs because it will take until June to decide on the number.

He says retrenchments are being made to eliminate inefficiencies and duplication as Absa companies, including the recently acquired Bankorp group, are brought together.

The movement of people around the group, aimed at better space use, will also have implications on the property side.

Absa general manager, property, Hannes van der Merwe confirms that some of the group's leases are likely to be ended as employees move to the group's buildings. In the longer term, some Absa buildings could be sold.

Societies

Reports of numerous retrenchments at Bankorp subsidiaries Senbank and TrustBank continued to filter through this week.

Staff members say the retrenchments started at the upper levels and have started moving downwards.

Dr Claassen says the average retrenchment package is for four months' pay. The group's replacement centre is trying to find postions for those who have been retrenched. This, however, will become more difficult if retrenchment numbers grow.

South African Society of Bank Officials (Sasbo) general secretary Ben Smith says members believe that business decisions are being taken with scant concern for the human cost.

Mr Smith says the situation results from a "notoriously autocratic" approach to industrial relations that has characterised companies that make up the Absa group.

The former building societies that now have leading roles in Absa were notoriously anti-union, he says.

Officials of other unions representing bank workers could not be reached for comment.

Alborough resigns from Absa's board

6/10 am 22/4/92 SHARON WOOD (58)

FORMER Allied chairman Norman Alborough has resigned from the Absa board.

Tucked away in a circular on April 3, under item 12, a notice advised shareholders that Absa vice-chairman Alborough, together with board members Rodney Monthe and Koot van Vuuren, had resigned from the board. No official announcement of the resignations has been made and no reasons have been given.

A source said their resignations were unusual because the two former Allied board members, Alborough and Monthe, had strongly supported United's bid for Allied, which resulted in the formation of Absa, in opposition to then MD Kevin de Villiers who supported the rival FNB offer.

Alborough and Monthe could not be reached for comment last night.

Absa's notice to shareholders said the board would be reconstituted by the appointment of Piet Liebenberg as vice-chairman and deputy CE, and D Brink, Marinus Daling, Attie du Plessis, Pierre Steyn and S van der Merwe as non-executive board members. The appointments are subject to shareholder approval at a general meeting on April 27.

It is unclear whether Alborough's resignation was linked to the controversy over the 500 000 shares allocation when he was appointed Allied non-executive chairman in June 1990. The share allocation was investigated by Witwatersrand Attorney-General Klaus von Lieres und Wilkau to determine whether it had contravened the Companies Act.

Allied and Absa offered to open their books to the attorney-general and issued a statement at the time which said the police had been invited to make an immediate and full investigation of the relevant company records.

The police investigation was completed in September last year and the docket was handed to the attorney-general.

Firms divided on market prospects

6124 22/4/92 (58)

WHILE opinions differ about the effect on the industrial market of economic and political factors, Logaro CE Gary Perlman says activity has come to a grinding halt.

"We are getting no inquiries for our own or other industrial space in Strijdom Park in Randburg, or Eastgate. Even the offer of lower rentals is not persuading people to take space," he says.

The reasons were a lack of confidence that the economy would show real growth, given the poor conditions, and high interest rates.

In addition, consumer and industrial activity is static to lower at best, with the latest retail figures 4% down, reflecting that consumers are not spending and industrialists not expanding, Perlman says.

The economy needed a "kick start", on the lines suggested in the Nedcor/Old Mutual scenario.

"Also, the Reserve Bank policy of maintaining high interest rates has gone beyond effective management of the economy. This is now having a destructive effect, and has failed to control spiralling inflation."

But Taljaard Carter director Justus van der Hoven feels Strijdom Park is showing "its true potential" as the best positioned industrial area in the country.

"This view is based on the R100m, 60 000m² industrial park we designed for Abland. The development is now 80% complete and has exceeded all expectations in both demand and rental rates, with gross rentals of R14/m² being asked."

Interest in the area was prompted by its easy access from Johannesburg's northern suburbs and the N1 freeway, as well as its good security.

H Lewis Trafalgar group MD Neville Schaefer says the demand for industrial units is "not too bad", and the sector seems to have weathered the economic storm.

The industrial market was not as sensitive to economic factors as the office space market.

H Lewis Trafalgar administers property worth about R500m.

Seeff Organisation Holdings chairman Lawrence Seeff says institutions are channelling money into the industrial market as this will reflect the first uptake of space when the economy improves.

Speculation on Momentum's future

B/Day 22/4/97

WILLIAM GILFILLAN

SEVERAL possibilities — including a management buyout — have been suggested by analysts as the reasons behind today's cautionary announcement by Momentum Life (Momentum) that it is involved in negotiations which might affect its share price.

The announcement came as a surprise to a market which had believed the R150m sale by Absa and Rembrandt's Financial Securities Limited of their 30% and 29% stakes in Momentum to Sankorp would go through.

"Although the deal was not a fait accompli technically (the offer by Sankorp is conditional on the approval of the ABSA-Bankorp merger, expected to be obtained on 27 April), for practical purposes the market believed the sale had been concluded", an analyst said.

They speculated a third party might have become interested in acquiring the Absa/Financial Securities stake after Sankorp downgraded its purchase price for Momentum from 359c to 340c a share in late February. The downgrading had occurred after Sankorp had conducted a due diligence exercise on the life assurer.

(58)

It is understood Momentum top management did not want to work for Sankorp, one analyst said.

As Momentum's management are understood to believe the life assurer has a value well above 340c a share, analysts also speculated a management buyout might be on the cards.

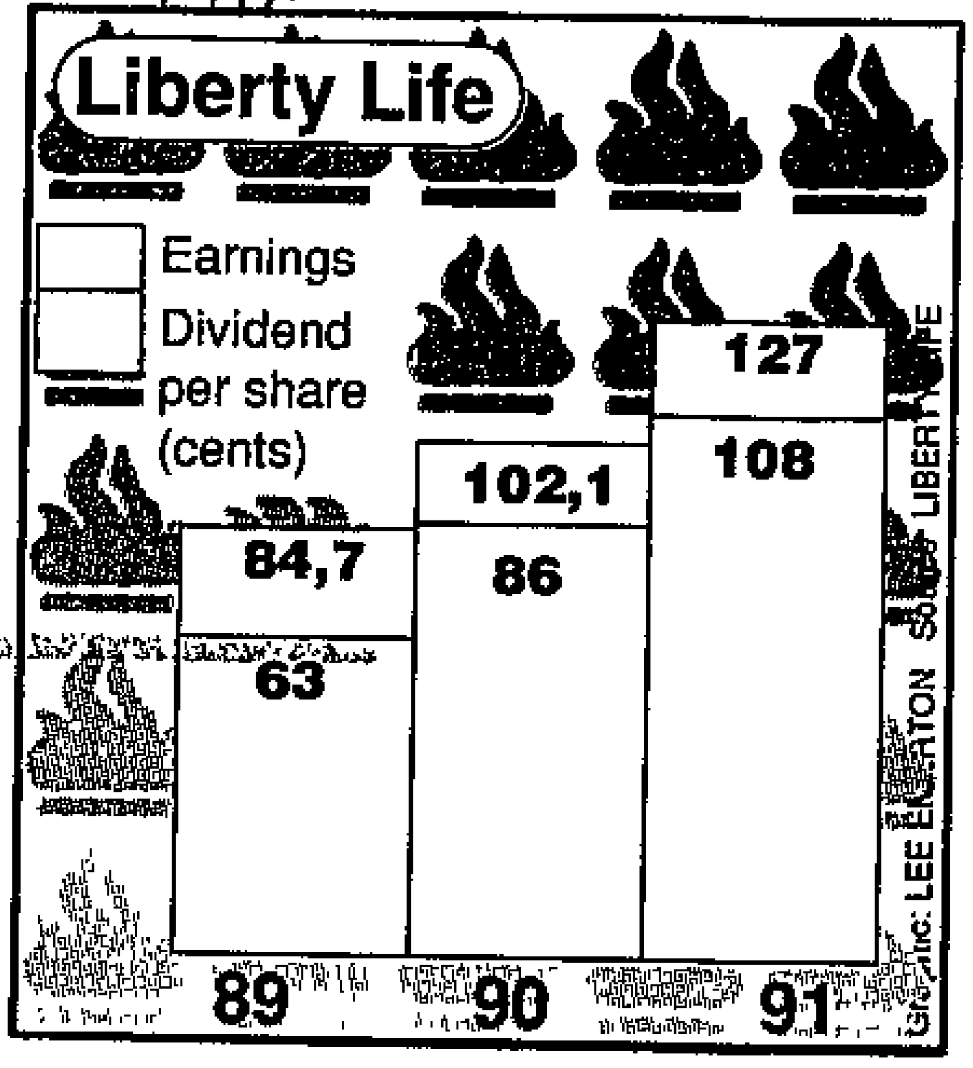
However, they doubted management had the resources to take the group over without the support of some "big brother". Further funds would be needed for a rights issue, as the life assurer was inadequately capitalised, they said.

Property slump 'may spell global stagnation'

(58)

BI Day 23/4/92

WILLIAM GILFILLAN



THE international property slump may well presage a new era of stagnation in the development of global financial markets, Liberty Life chairman Donald Gordon said in his 1991 review.

The property market has suffered around the world in the past few years as the development boom of the late 1980s, combined with a massive contraction in tenant demand, produced falling rents and plummeting property values.

Gordon said serious losses had resulted throughout the financial sector, affecting banks, insurers and property companies alike.

"The contractionary implications of this capital drain will remain with us for many years", he said.

The faltering financial and political scenarios developing in tandem, both in the United States and Japan, was a most worrying problem which was placing the weakening financial fabric of the developed world under increasing strain, he said.

"The implications of this could be devastating for themselves and the developing countries which are so dependent on their leadership and financial support."

Referring to local developments, Gordon said the fundamental need to entrench the continuation of the principles of the free enterprise system was vital.

"The free enterprise system is undoubtedly best structured to promote economic advancement and stability within the nation."

Any dispensation which underestimated the importance of SA's sophisticated and efficient business sector was likely to endanger the effective functioning of any future state in the context of a new SA and its underlying economic potential, he said.

He said Liberty Life had developed its corporate strategy against this unstable background.

As the strategy involved consolidating its activities and marshalling its financial resources, significant capital augmentations had occurred in Liberty's major listed subsidiaries in 1991, he said.

Top role for bonds linked to inflation

(58)

SHERIDAN CONNOLLY

INFLATION-linked bonds could have an important role to play in SA because of the lack of good inflation hedges and an aversion to traditional long-term, fixed-interest bonds, says Martin & Company research head Richard Jesse.

"Big name issues" of inflation-linked securities in SA could be successful in view of the concern that top equities, considered to be the prime inflation hedge, were relatively expensive, Jesse said. With high inflationary expectations, there was a fear of fixed interest instruments. B/DAY 23/4/92

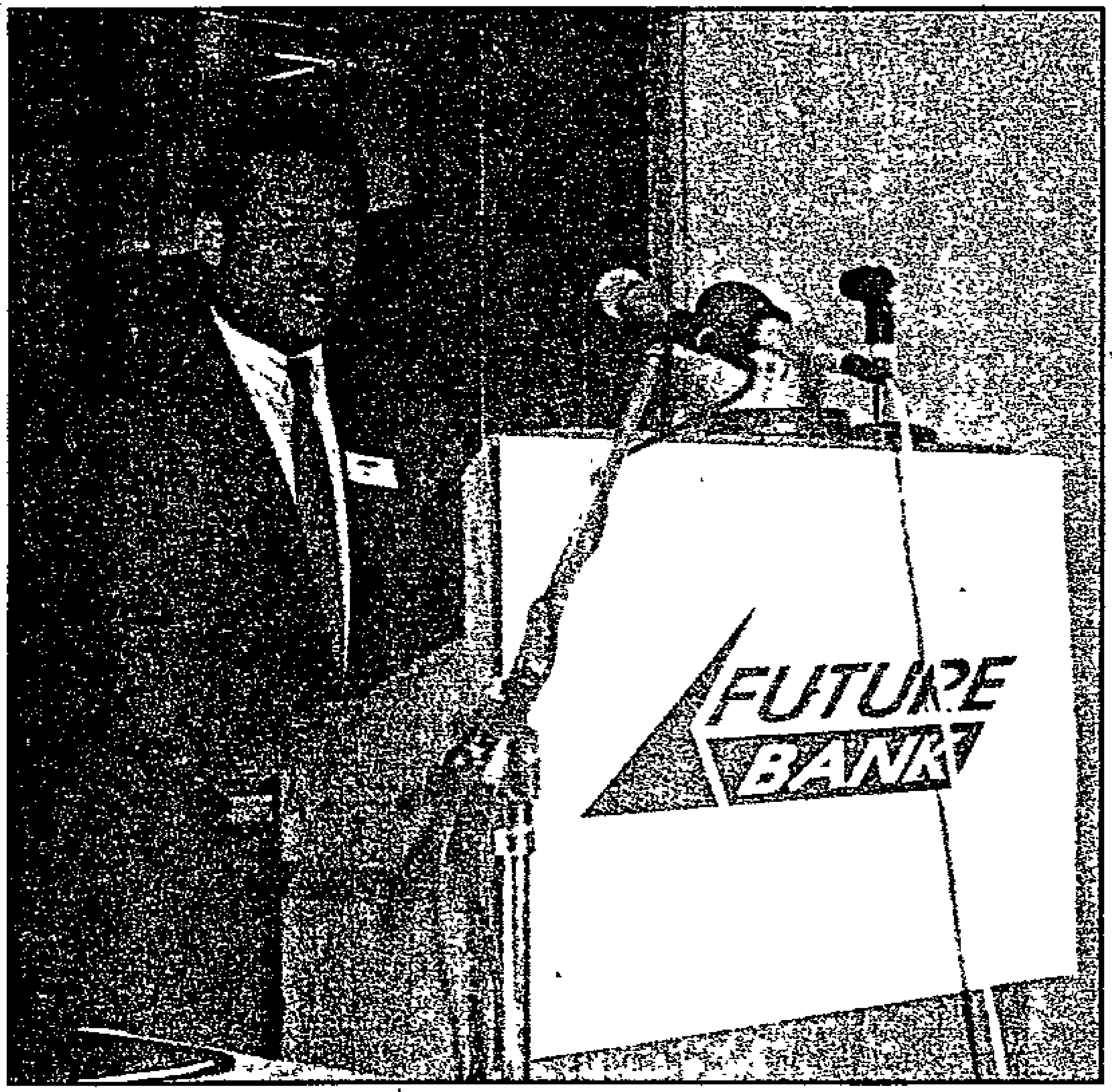
He said that since index-linked bonds would be issued as a specialised form of bond, they would fall outside the 65% prudential guideline requirement for equities, which was extremely useful in an inflationary environment.

Jesse said an index-linked bond with a starting coupon of, say 3%, could be very successful. He said these issues would go some way to solving the shortage of scrip.

He said it was striking that an increasing number of institutions today owned little or no traditional long-term gilts.

Success of Sabta scheme paved the way

STAR 23/4/92



Jabu Mabuza . . . "Only in the '80s did black taxi owners start going to the banks to seek finance."

Until recently, the only way a prospective black taxi owner could receive finance for the purchase of a new vehicle was to prove that he did not need the money.

According to Fabcos chairman Jabu Mabuza, only in the '80s did black taxi owners start going to banks to seek loan finance for their vehicles.

And, he added, it was only after intervention by the South African Black Taxi Association (Sabta) in the latter part of the decade that the finance houses began to advance loans in a big way.

The outstanding success of the Fabcos-affiliated Sabta's Foundation Scheme with Wesbank paved the way for the formation of a fully fledged black bank that would be responsive to the needs of black clients.

Mr Mabuza recalls. "From 1939, when the first taxi association was formed in the East Rand, until the late '70s black people never went to banks to help them purchase their vehicles.

"If you remember, the image of a taxi was that of a delapidated Valiant or Chev," he said.

"Taxi owners used second-hand vehicles and they did not go to the banks for finance. It was only after the introduction of minibus taxis that bank finance became widely available."

Before then, Mr Mabuza said, there was an unwritten rule that a bank manager would grant finance to a black person only after giving eight or nine loans to white people.

When a black person went to a bank, the credit application form would ask what collateral they had They would ask whether the person's father had shares.

Black people, who were not entitled to own land or property in urban areas would even be asked if they owned any properties.

When, by some miracle, the black person managed to pass through this hurdle he would be asked to put forward a 60 to 80 percent deposit on his vehicle.

The first insurance premium he had to pay was frequently half of the capital price.

After that the black customers were subjected to the highest interest rates possible.

"To get financing you had to prove that you did not need the money," Mr Mabuza says.

In the early '80s Sabta held constant discussions with the major banks and First National Bank subsidiary Wesbank was the most receptive.

After a while First National decided to try Sabta and give them the benefit of the doubt.

"They gave us R5 million. Within six months we had R25 million. A year later we had another R25 million. In 1989 the Sabta book at Wesbank was worth nearly R200 million and bad debts were less than one percent of this figure — First National realised that they were on to something," Mr Mabuza says.

The Sabta Foundation Scheme was unique because it adapted the stokvel concept of collective responsibility to the vehicle-financing area.

The scheme does not attempt to determine the creditworthiness of the client in terms of normal credit-granting criteria.

It only insists on a clean credit record and paid-up membership of Sabta.

The usual deposit required on this type of deal is not credited to the buyer's account, but to the Sabta Foundation Fund.

This has resulted in lower deposits being called for, and has enabled credit to be granted where it might otherwise have been declined.

The effects of the scheme are twofold. While the taxi owner is not faced with a prohibitive deposit, the cash which accumulates in the foundation earns interest and is used to bolster the fund which underwrites any bad debts.

The car is leased back to the group, who find a driver. The debtor is barred from obtaining another permit.

The scheme also requires comprehensive insurance and as a result of the underwriters having spread the risk, the foundation has managed a reduction in annual premiums.

After the success of the scheme, Mr Mabuza said Fabcos realised that there were two weaknesses that were hindering blacks in their endeavours to enter the mainstream.

These were lack of skills in the black community and lack of access to capital.

"We realised we had numbers on our side, but this advantage was being used to our disadvantage.

"Pension funds would use our savings to invest in shopping centres in exclusive suburbs while investments in our townships were regarded as risky.

"Black savings at the major banks were also being used to advance loans to mostly white people.

"After inviting a number of banks to make presentations to us, we decided on First National as a partner in forming our own bank.

Jabu Mabuza . . . "Only in the '80s did black taxi owners start going to the banks to seek finance."

Economic reform needed – Mabuza

STAR 23/4/92

58

The political settlement being worked out at Codesa will remain meaningless until it is underpinned by a sound and stable economy in which all population groups will take part.

This is the view of Future Bank chairman Jabu Mabuza who also observes that white South Africans are somewhat reluctant to talk about black economic empowerment although many are beginning to accept the inevitability of a dilution of their political power.

Mr Mabuza notes that black empowerment has three legs — political, social and economic.

"It is disappointing to see that the process to empower blacks politically is being overtaken by the efforts towards economic empowerment."

When talking about black economic empowerment, Mr Mabuza stresses that he is not just talking hot-dog vendors and spaza shops: "We want to enter into the mainstream of the economy.

"We also want to create our own economic giants, our own Sanlams and Old Mutuals," he says.

"To do this we need help from white South African corporations in the same way that First National helped us to set up our bank."

"More joint ventures like this one will be needed to underpin any political settlement."

Mr Mabuza says black communities need such role models. "Until this happens, the majority to whom a future government will be answerable, may not support leaders who advocate free-market economics."

"While we appreciate charity by the way of hospitals schools and so on, the business sector must make more investments in developing black businesses."

FUTURE BANK

The bank with a new attitude

A Star corporate profile

South Africa's newest bank, Future Bank, is, in terms of assets, the 16th largest bank in the country, and it is aiming at a new market: people who previously had no access to financial services. DUMA GQUBULE looks at the bank's future.

The A Team . . . Future Bank's board has 12 directors, six of whom six were appointed by First National Bank. The other six were appointed by Fabcos and Taxi SA Marketing. First National appointed managing director Neville Watchurst and the chairman, Jabu Mabuza, was appointed by Fabcos/Taxi SA Marketing. The directors are (from left) Gaby Magomola, Robin Shales, James Chapman, Joas Mogale, Jabu Mabuza, Peter Thompson, James Ngcoya, Ronnie Watson, Andrew Lukhele, J J F Meiring, Neville Watchurst and N L Nightingale (absent).

Opening th of banking

STAR 23/4/92

What is in the name?

The bank conducted extensive research on a suitable name and the name "Future Bank" stood head and shoulders above other names.

"We probably generated moe than 300 names, that is internally, from focus groups, marketing consultants and other consumers, and the name was by far the most popular," says Phillip van der Heever, general manager marketing.

"The name is aspirational and tunes in with the changes in the country, with what people are feeling and their hopes of a brighter future," he says.

The bank's slogan: "The bank with a new attitude," was also tested. "What we are trying to say in the slogan is that we will be exercising a lot more care in treating our customers.

"We are trying to create a more empathetic approach to people who have previously been barred from conventional banks ... We want to go beyond it being merely a slogan and live up to it in experience."

On March 2 this year the Future Bank opened its doors to the public, heralding a new era in the provision of banking services to South Africans from all walks of life.

The role of the country's financial sector, already under fire for not catering for the needs of South Africa's broader population, has become a political issue and calls for more intervention by the State have increased.

The country's newest bank says it will cater for all South Africans — those from the formal sector of the economy and those from the developing informal sector.

Many of the bank's clients will have little by the way of assets, cash or formal skills. People who previously had no access to banking institutions.

A joint venture between the Foundation for African Business and Consumer Services (Fabcos) and First National Bank, the black-owned bank will be walking a tight-rope trying to venture into areas which other banks regard as unprofitable.

The bank is at pains, however, to stress that providing loans to less traditional market does not mean sacrificing the generally accepted principles of granting credit.

Credit will still be given on proper credit principles. The rate of interest charged will be commensurate with the risk.

Where the bank will differ is that it have special schemes based on the principles of collective responsibility to grant loans to sectors of the population that have previously been effectively barred from financial institutions.

The joint venture was the culmination of a succesful four-year partnership between First National Bank subsidiary Wesbank and the Fabcos-affiliated South African Black Taxi Association (Sabta).

Getting finance to buy a vehicle had previously been the big problem for a would-taxi owners.

With no credit record, and no security of tenur on his home, the interested person always failed th basic tests of First World financial institutions.

The Sabta Foundation Scheme, which was nego tiated with Wesbank, introduced the stokvel con cept of collective responsibility to the vehicle-fin ancing areana.

The scheme showed that with high levels of inno vation in terms of financial engineering it was possi ble to profitably advance loans to the so-callec Third World sector.

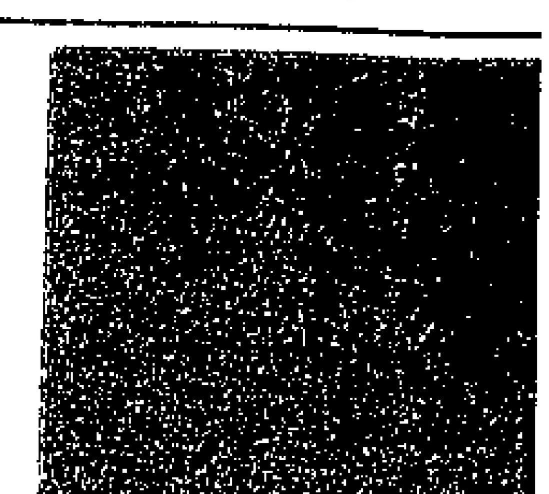
The scheme was a great success and it enabled thou sands of black entrepreneurs to get into business. It created the country's biggest black-owned industry — a role model of black success in business.

It also gave Fabcos the confidence to go to First National with their proposals for a bank.

Explaining his company's decision to support the venture, First National Bank senior general manager Norman Axten says. "Our substantial investment in Future Bank indicates our confidence in this sector of the market and our belief that our investment will grow and develop our business in this direction.

"We will also be contributing to raising skills in the developing informal and formal sectors of the market. It is essential that blacks have a role to play in the financial services industry."

Fabcos chairman Jabu Mabuza believes such joint ventures are the way forward in giving black people a stake in the mainstream of the economy. He is



e doors

58

to all

urging white businesses to invest more in developing black businesses.

The Future Bank has three branches, in Johannesburg, Pretoria and Bloemfontein, and expects to open at least three more branches in the next six months.

Managing director Neville Watchurst says: "The only thing that is preventing more branches opening sooner is the need to recruit competent staff.

"When you have branches further away from the hub it is more difficult to exercise control.

"Management at these branches will need to that extra bit of competence to operate with less supervision from the head office in Johannesburg," he says.

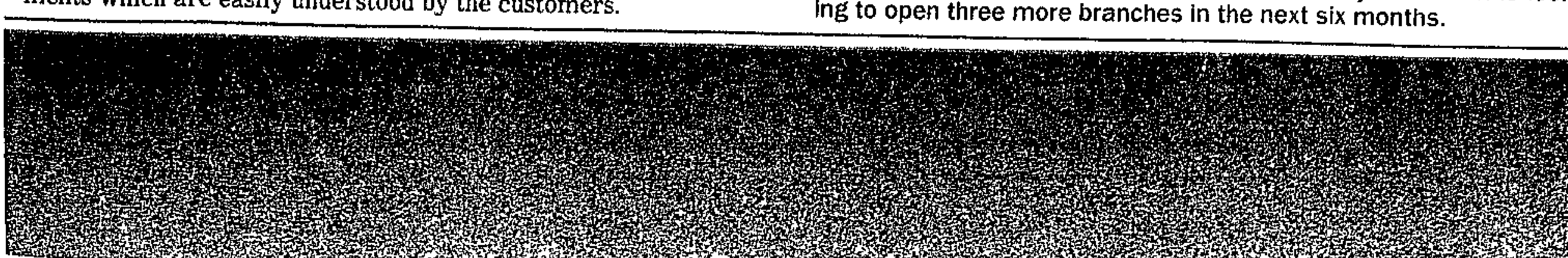
Management says the bank will achieve levels of growth and profit above the industry average by providing high quality loan and investment services to individuals as well as the developing informal and formal business sector.

Although it will cater for small to medium-sized businesses it will be largely a retail bank providing instalment credit and fixed-deposit facilities.

The bank sees tremendous opportunities for growth in the emerging black middle class which will require loans for private transport, home improvements, education and so on.

These requirements and aspirations are likely to be met by the provision of unique financial instruments which are easily understood by the customers.

Watch us grow . . . Managing director Neville Watchurst says the bank is looking to open three more branches in the next six months.



Three years of thinking paid off

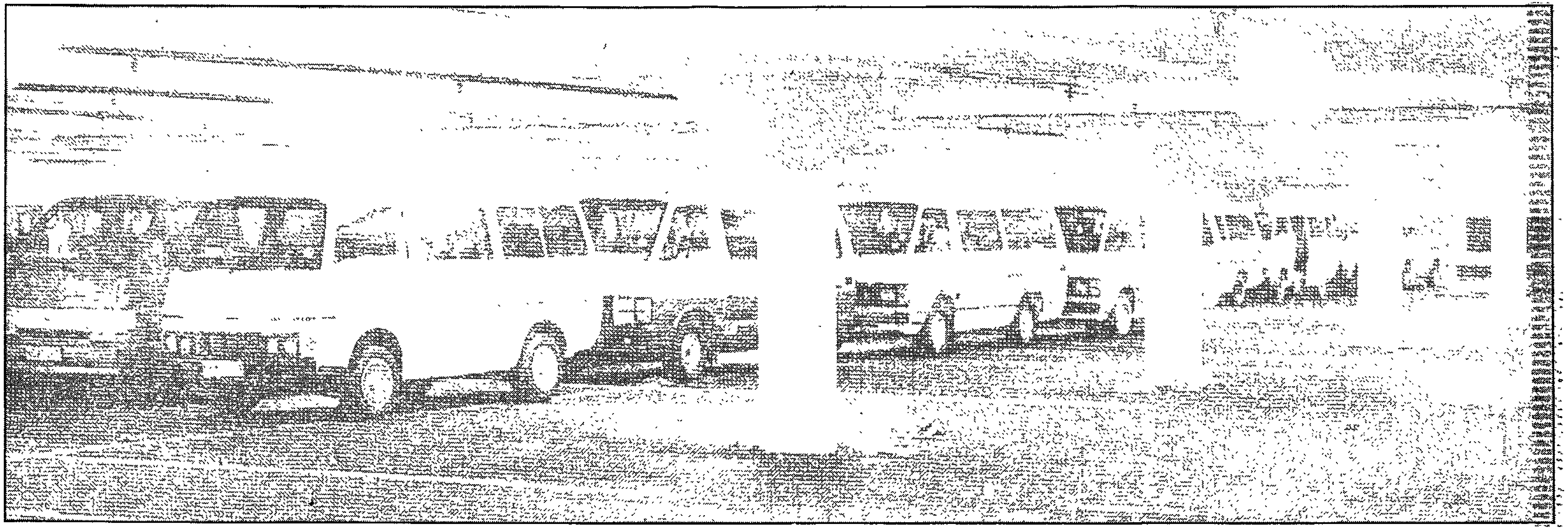
Fabcos had been toying with the idea of starting a bank for about three years.

Lack of finance has always been the bane of black business and it was for this reason that Fabcos believed it was essential to go into the area of finance. But it was only after the accomplishments of the Sabta Foundation Scheme became evident that Fabcos began to seriously pursue the idea.

Future Bank M Neville Watchurst recalls: "We saw a news report that Fabcos was interested in starting a bank. Having worked with them (our involvement in the Sabta Foundation Scheme), we went to speak to them.

"Fabcos invited a number of banks to make presentations. They decided First National and its subsidiary Wesbank werepartners with whom they would like to be associated.

Chairman Jabu Mabuza says: "We told First National we were not a bad credit risk. Because we had done business with them before, they knew this was the case."



Vehicles for success . . . The accomplishments of the SabtaFoundation Scheme convinced Fabcos start its own bank.

Bank with a difference

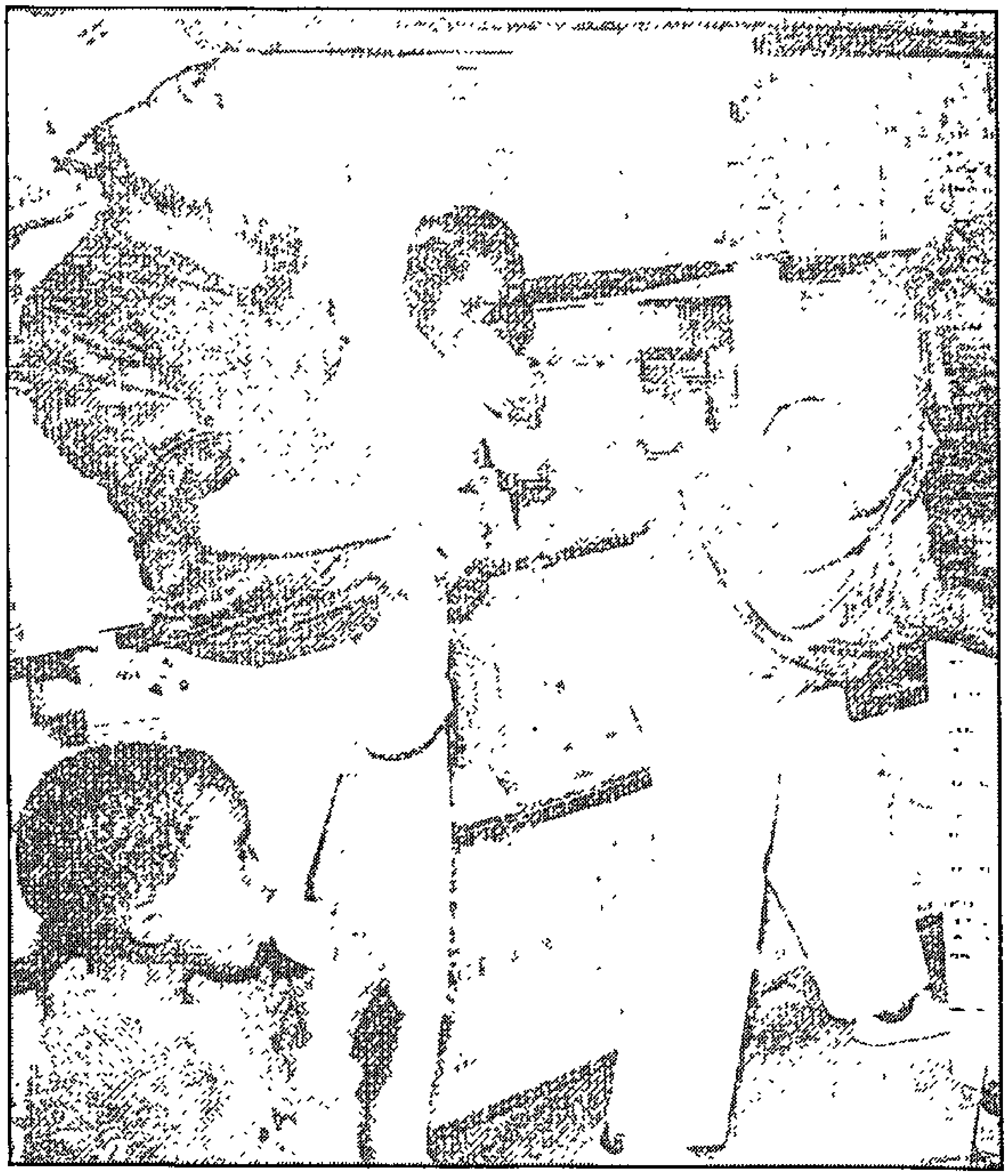
STAR 23/4/92

"The Future Bank is not a white bank, nor is it a black bank or a poverty bank' managing director Neville Watchurst says. (58)

Phillip van der Heever, general manager (marketing) says: "We are in some ways an ordinary bank in that we will be advancing commercial loans with the same approach to lending as the other banks.

"Where we are different is that we will be constantly trying to find ways of granting credit to people who have previously been denied access to the mainstream of the economy. Many of our loans will be made to people with little assets, cash or formal skills.

"These schemes will use the group responsibility/peer pressure principles already in use in black communities in schemes such as stokvels. We believe we can make use of these principles and grant credit successfully."



Unique idea . . . Future Bank will use the group responsibilty principles — in use in schemes such as stokvels.

Limited services on offer initially

STAR 23/4/92 (58).

The Future Bank's initial range of services will be relatively simple in that it will be concentrating on instalment credit and fixed deposit facilities.

Savings and current accounts will not be catered for, as the bank does not have the infrastructure to offer a countrywide service, and there will be some bias towards the black market.

There will, however, be investment facilities for customers who wish to have term deposits.

It will also be possible to purchase unit trusts from the bank's outlets.

The instalment credit side is already well developed as the bank has taken over Wesbank's taxi loan finance book worth nearly R200 million.

The bank is financing about 4 500 taxis and they have a major slice of the market.

This side of the business will be expanded to include all types of credit with a repayment period up to five years.

Examples are general motor vehicle, home improvement and education loans.

Wesbank will be the most aggressive competitor in the field of vehicle and taxi finance.

It will continue to operate in this market and will be a formidable opponent because of its positioning on the motor dealer floors.

Stannic, Nedfin and Nedperm, in the field of low cost housing finance, will be other competitors. But the black-owned African Bank is not regarded as a direct competitor.

Homeloan facilities will not be available, but there will be other services for low-cost housing.

The bank is currently working on a scheme with the IDC Finance Corporation that will enable employed people to have access to loans in the R3 000 to R12 500 range to help build low-cost homes.

There are no details as yet, but the scheme will involve suppliers, employers and the homeowner.

Most financial institutions do not cater for any home loans below R35 000, but the Future Bank believes the market could be enormous.

Because of it size and limited services' range, the bank will be unable to cater for the very sophisticated corporate client.

"We can, however, handle small to medium-sized companies. We are hoping to carve niches in some areas of the black market where people currently have difficulty raising finance," managing director Neville Watchurst says.

Still on the drawing board is a scheme to provide finance for the establishment of home salons in the townships with the help of the Fabcos-affiliated Afro Hairdressing and Beauty Association of South Africa. These loans will be in the R10 000 to R12 500 range.

The bank is working on a scheme to help taverners improve their distribution networks and there will also be facilities for micro loans of less then R5 000 for small township entrepreneurs.

Assets make bank 16th largest in SA

S8

STAR 23/4/92

Although the Future Bank is not yet a giant, it could be a bank of considerable size by the end of the decade.

With assets of nearly R200 million it is already the country's 16th largest bank, and managing director Neville Watchurst says: "In a few years time we will no longer be regarded as a small bank. We will aim to achieve levels of growth and profit well above the industry norm."

The bank is capitalised at R18 million and there is an undertaking from First National Bank to subscribe for a further R7 million.

Of the two million ordinary shares of R1 each, Fabcos holds 49 percent and the black-owned Get Ahead Foundation holds another 2 percent, making it a black-owned bank.

The reason for the Get Ahead Foundation's involvement is that under present law no non-banking shareholders together with any associate may hold more than 49 percent of the share capital of a bank. Another black shareholder had to be found for two percent of the shareholding.

The balance of ordinary shares is held First National Bank which will also manage the bank for 12 years.

In addition First National Bank holds another R16 million in preference shares on condition that Fabcos and the Get Ahead Foundation will over a period of time acquire First National's preference shares (from dividend income) which will then be converted into ordinary shares.

If this should occur before the 12-year term expires, Fabcos has the right to terminate the management agreement, although it is not obliged to do so. Finance director Frans Bernadie is confident that this will happen.

Because of the eight percent capital requirement laid down by the Reserve Bank, the bank's assets can expand to R225 on the present capital base of R18 million.

The policy of the bank, however, will be to retain all profits in the early years and this together, with the undertaking by First National (to subscribe for another R7 million), will ensure the capital base is sufficient for the expected growth.

A rapid growth in deposits, initially to the retail market, will also facilitate the expected growth in assets.

Finance director Frans Bernardie is expecting average annual asset growth of not less than three percent above the official inflation rate in the first five years.

Shareholders will be provided with an average profit before tax of not less than three percent of average assets in the first five years.

Mr Bernadie is budgeting for a small loss this year and a "reasonable profit figure next year".

From the end of the 1993 financial year, the bank will be able to boast a 20 percent return on capital and a 1.5 percent return on assets. Both ratios are well within industry norms.

Customers — the business of banking

"Starting a bank is relatively easy. More difficult is getting the customers who will make the bank work," Future Bank managing director Neville Watchurst says.

"Like going to a library to ask for a set of rules, in banking we have a document called the Deposit Taking Institutions Act.

"It spells out clearly what is expected from anyone who wants to start a bank.

"Getting all the necessary documentation together is not the difficult part. More difficult is the task of convincing the Reserve Bank there is a need for another bank.

"There are a number of recent cases of small banks that have collapsed and the Reserve Bank has to safeguard the interests of depositors who could lose money in such instances," he says.

"Once you have convinced the Reserve Bank, you have to recruit and train staff, develop computer systems and operating systems and go through all the other traumas that go with getting established.

"This is, however, still the easy part. Without a shadow of doubt the most difficult part is making the bank work, going out getting new business."

the sciences, choosing a career ...

Bank aims to train its own management

STAR 23/4/92 (58)

Although it is a black-owned bank, all the top positions at Future Bank are held by whites.

Managing director Neville Watchurst explains: "There are a number of reasons, and most important is the fact that there is little banking experience in the black community.

"Few black people have managed to achieve senior status in conventional banks."

A management agreement exists between Future Bank and First National whereby the bank will be managed for a period of 12 years.

Of the bank's 57 employees, the top 16 have been seconded from First National subsidiary Wesbank.

"We have two objectives: to find the right people and train them to be skilled bankers who will be able to take over the top management positions, including mine.

"One of these days we will not only have a black-owned but a black-managed bank as well," Mr Watchurst says.

The bank's other 41 employees in Johannesburg, Pretoria and Bloemfontein are mostly black.

"They were recruited from all walks of life. Some had banking experience, but most had zero banking experience.

"We did not restrict ourselves to people with formal banking experience. Instead we chose people we thought had the potential and could be trained."

"It is difficult to find the kind of person we are looking for because it will take a certain kind of person to succeed here.

"The big banks have large client bases and established procedures. The environment in the big banks is very comfortable and the people will behave accordingly.

"We need exciting people who will go out and market our products."

Nobody at the bank will be talking about equal opportunities. Mr Watchurst says: "To me it is an old, somewhat trite phrase.

"It also smacks of tokenism. If it is fashionable to have a lady, you go and get one, and the same if it is fashionable to have a black person.

"What we are saying is that no matter whether you are black, white, male or female, the opportunities for advancement will be exactly the same.

"We are a brand new company and everyone has started at the same time. It is up to the staff to prove themselves."

New agency clinches account

STAR 23/4/92

Seven advertising agencies were allowed to pitch for the Future Bank account, and it was newly established all-black agency Herdbuoys' approach that impressed the most.

"We did not just choose them because they were black. They truly understood the bank's mission more clearly than the other competitors," general manager, marketing, Phillip van der Heever says.

The modest advertising budget will restrict to some extent the ability to go over the top in terms of TV advertising.

The strategy is to concentrate on Radio and print. Slots have already been flighted on Radio Metro, Bop and 702 and the intention is to attract "the influentials" in the hope that benefits will cascade down to the broader public.

Herdbuoys MD Peter Vundla believes his company clinched the account because of the creative work they gave the bank.

"In addition our strategic positioning of the bank came from a deep and clear understanding of the bank's main markets."

"We understood the frustrations black people encounter at the major banks and our research backed our views, hence the decision on the slogan: 'The bank with a new attitude.'"

Loans that depend on peer-pressure principles

STAR 23/4/92 (58)

Granting loans to less traditional markets — an area that conventional banks tend to shy away from — has never been an easy task.

The Grameen Bank in Bangladesh is, perhaps, the most successful and well-known such venture in the world.

Future Bank managing director Neville Watchurst spent some time in Bangladesh with the Grameen Bank's founder, Mohammed Yunus, last year.

Mr Watchurst came back with some useful ideas to implement here.

The most important lesson he learnt in Bangladesh is that "credit with discipline is nothing but charity".

The Grameen Bank has served 900 000 clients since 1975, all of them borrowing small amounts to start their businesses — the maximum loan is $400 and the minimum $50.

It has also managed to attract a large savings base.

All the loans are group loans.

The bank has a strict code of conduct and stipulates that each group must:

- Have a maximum of five members.
- Be self-regulating, with its own chairman.
- Have a meeting every week.

If someone in the group does not meet a payment the other members are obliged to help.

If they cannot do this it is not only the debtor who is blacklisted, but the entire group.

Such peer-pressure principles are already widespread in South Africa's township stokvels.

The Grameen Bank has, however, had generous sponsors, like the Ford Foundation.

It has always just managed to break even and has never declared a dividend, raising the question whether such ventures can be truly profitable.

Mr Watchurst, however, points out that the bank has a huge infrastructure of people and branches.

There are no computers, fax machines or telexes which results in a very high level of human intervention and costs.

"We hope to make significant savings from our advanced technology and state-of-the-art systems.

"There are principles we can use, but we can't take the whole system and transplant it here," Mr Watchurst said.

Absa stays mum on resignations

B/Day 23/4/92

SHARON WOOD

(58)

ABSA yesterday refused to comment on the reason for vice-chairman Norman Alborough's resignation from its board earlier this month or on why there had been no official announcement.

And Business Day was told Alborough could not be reached for comment as he was on holiday until May 7. Another board member who resigned, Rodney Monthe, would be contactable only early next week, a source said.

A circular to shareholders on April 3 provided notification that Alborough, Monthe and Koot van Vuuren had resigned and the board would be reconstituted next Monday subject to shareholder approval at a general meeting.

Rationalisation pays dividends for Barprop

BDay 24/4/92

(58)

MARCIA KLEIN

BARLOW Rand Properties (Barprop), which has been focusing on disposing of decentralised and low-growth properties and reinvesting in prime facilities, has declared a 6,3% higher interim dividend of 6,11c (5,75c) a share for the six months to end-March.

An interim loan stock interest payment of 62,7c per unit of 700c was declared. This was 6,3% higher than for the same period last year.

Chairman Evert Groeneweg expects full-year dividends to total about 12,2c a share taking into account loan stock interest of 125,7c a unit.

He said the results were in line with those forecast. At the time he expected that interest on loan stock and dividends a share would increase to about 17,9% and 12,2c a share respectively.

Turnover growth for the six months was "restricted to 7,7%" by the sale of investment properties during the last financial year and in the first six months of financial 1992

Groeneweg said these sales were in line with "the company's strategy of disposing of low-growth decentralised properties and reinvesting in the acquisition and development of prime facilities".

This turnover growth to R26,4m (R24,5m), together with effective control of administrative expenses saw operating profit increase by 9,2% from R21,8m to R23,9m.

But an 11,9% reduction in income from investments to R5,2m, resulting from less cash held on short-term deposit and lower interest rates, saw income before loan stock interest rise by 4,8% from R27,7m to R29,0m.

After loan stock interest and a lower company tax rate, income after tax was 4,1% up at R5,6m (R5,4m).

New policies help Aflife enjoy 33% surplus hike

BDay 24/4/92

58

WILLIAM GILFILLAN

AFRICAN Life's (Aflife) disclosed surplus jumped 33% in the year ended March 31 due to 56 000 new policies written and one of the lowest administration to sales ratios in the industry.

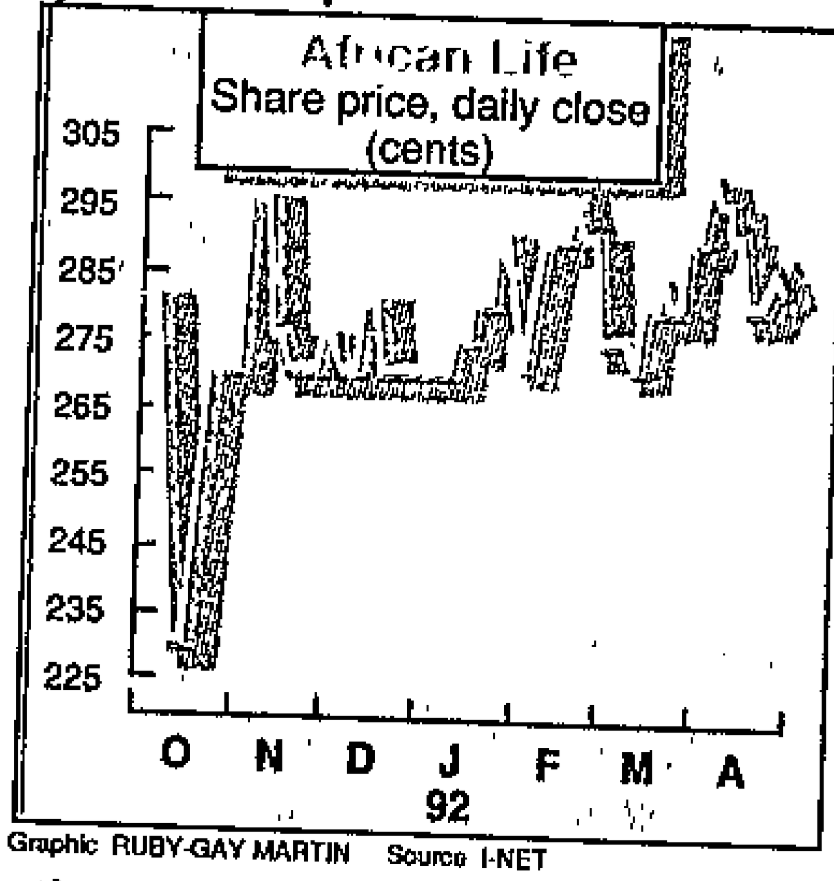
Speaking to the investment community in Johannesburg yesterday, MD Bill Jack attributed the low premium niche assurer's success to ensuring the increase in operating expenses was lower than the growth in recurring premiums.

"Our administration to sales ratio of one to 3,5 is probably the lowest in the country," he said.

Jack said Aflife was a low premium operator "leaving little room for fat", and benefited from having a narrow range of products.

On the back of the 33% increase in recurring premiums to R75,5m (1991:R56,5m) and the 18% rise in operating expenses to R18,3m, Aflife's disclosed surplus rose to R11m (R8,2m).

Earnings a share rose 22,2% to 18,7c (15,3c) on the marginally higher number of shares in issue. In line with



Graphic RUBY-GAY MARTIN Source I-NET

the company's policy, shareholders would be offered the option of taking additional shares in lieu of the dividend of 12c a share (9,8c), Jack said.

Referring to the profile of the new business policyholders, Jack estimated blacks accounted for 60%, Indians 24% and coloureds 10% of last year's customer profilie. He said this discounted the investment community's perception that Aflife was exposed only to the black market.

Although conceding lapse rates rose last year as a result of the economic climate he noted they had remained lower than in some previous periods.

On AIDS, he said the group had taken precautions through reducing its exposure in life cover to about 50% of what it was under the previous product range. Aflife had also created substantial AIDS reserves and the mortality charge had been increased.

He was critical of those who believed the life assurers were more vulnerable than other industries to AIDS.

"To the extent that AIDS sufferers will stop working, the whole economy will be effected," he said.

Referring to the market's criticism that shares in Aflife were tightly held (Southern Life has a 78% stake), he noted the number of shareholders had increased to 3 070 from the 2 359 at the time the company was listed in November 1990.

He said the fact that Aflife owned its own distribution channels and customer base and marketed a simple product augered well for the future. He added the cash collection business, unique to Aflife, held great potential.

COMPANIES

Bank's general activities strong

SHARON WOOD

DIFFICULT trading conditions failed to dent Port Elizabeth-based Fidelity Bank's earnings, which rose 25% to 37,6c a share in the six months ended March this year from 30,1c a share. BDay 24/4/92

"The main success factor in what has been a difficult but rewarding trading period is the strength of Fidelity's general banking activities," a statement released by the board said yesterday.

Provision for bad and doubtful debts climbed 40%, but the board said this was lower than the experience recorded by the banking industry as a whole.

Income attributable to shareholders was lifted 75,2% to R3,7m during the period from R2,1m previously.

A dividend of 8,9c a share was declared, 20% higher than the previous interim dividend of 7,1%. (58)

The bank retained R2,7m of its income, compared with R1,6m previously.

Growth in assets, profits, quality and bad debts had met in-house targets, MD Jules Langenberg said.

Management was confident that current performance trends would extend to the next year.

Langenberg said Fidelity was well placed, with a capital-to-asset ratio well above the capital requirements needed by 1995. The-capital-to asset ratio currently stands at about 10% compared with the 1995 requirement of 8%.

New party in Momentum Life talks

WILLIAM GILFILLAN

ABSA and Financial Securities Ltd are negotiating the sale of their controlling interest in Momentum Life with a new party, the banking group says in an announcement today.

Before this development, Sankorp was to have acquired Absa's and Financial Securities' 30% and 29% stakes in Momentum for 340c a share in a transaction related to Sankorp's sale to Absa of its 86% interest in Bankorp.

Sankorp had previously downgraded its offer price from 359c. This came on the back of Absa lowering its offer price for Bankorp by R100m to R1,2bn.

The announcement noted Sankorp's acquisition of Momentum had now been cancelled; this was, however, conditional on the remainder of the transaction between Absa and Sankorp relating to Bankorp "remaining of full force and effect".

If this condition was not fulfilled, the arrangement whereby Sankorp would acquire a controlling interest in Momentum at 340c a share would go ahead.

Although the new party is anonymous, analysts speculated Momentum top management might attempt a buyout as it was said to believe the assurer had a value well above 340c a share. But they doubted management had the resources for a takeover without a "big brother's" support.

(58)

B/Day 24/4/92

Govt spending defeats Bank's efforts

BTDay 24/4/92 (58)

SHERIDAN CONNOLLY

HIGH levels of government spending continued to promote market liquidity despite a gallant effort by the Reserve Bank to drain the market through its continuing issues of special Treasury bills.

The Bank has been active with cash-siphoning operations this week in an attempt to tap excess cash from the system. Market analysts said yesterday the usual cash-outflow towards month-end had not yet materialised and, instead, there had not been any significant outflow of funds.

Analysts attributed excess liquidity to the substantial amounts channelled into the market through government spending since the beginning of the new fiscal year. "Custom union payments and spending on new state projects such as housing developments and poverty relief are the main reason behind the market not turning," a senior analyst said.

The Bank followed up two earlier special Treasury bill tenders this week with a five-day tender of R500m yesterday. Dealers said the tender was well received with subscriptions totalling R1,13bn at an average rate of 15,48%.

The Reserve Bank yesterday quoted the money market shortage — the market's debt to the Bank — lower at R1,05bn on Wednesday from R1,09bn on Tuesday.

FM 24/4/92 (58)

DISA DEVELOPMENT

Litany of woes

Activities: *Property project managers.*
Control: *Directors 82%.*
Chairman and MD: *T Stergianos.*
Capital structure: *30m ords. Market capitalisation: R6m.*
Share market: *Price: 20c. 12-month high, 25c; low, 20c. Trading volume last quarter, nil shares.*

Year to Aug	**'88**	**'89**	**'90**	**'91**
ST debt (Rm)	1,0	0,3	5,9	7,5
Debt:equity ratio	0,1	—	0,6	1,2
Shareholders' interest	0,5	0,5	0,6	0,4
Return on cap (%) ..	42	29	5,4	nil
Pre-int profit (Rm) ...	5,0	4,6	1,1	(2,9)
Earnings (c)	13,4	14,8	5,9	(11,5)
Dividends (c)	4,0	4,5	2,0	—
Net worth (c)	20,8	26,1	32,0	20,5

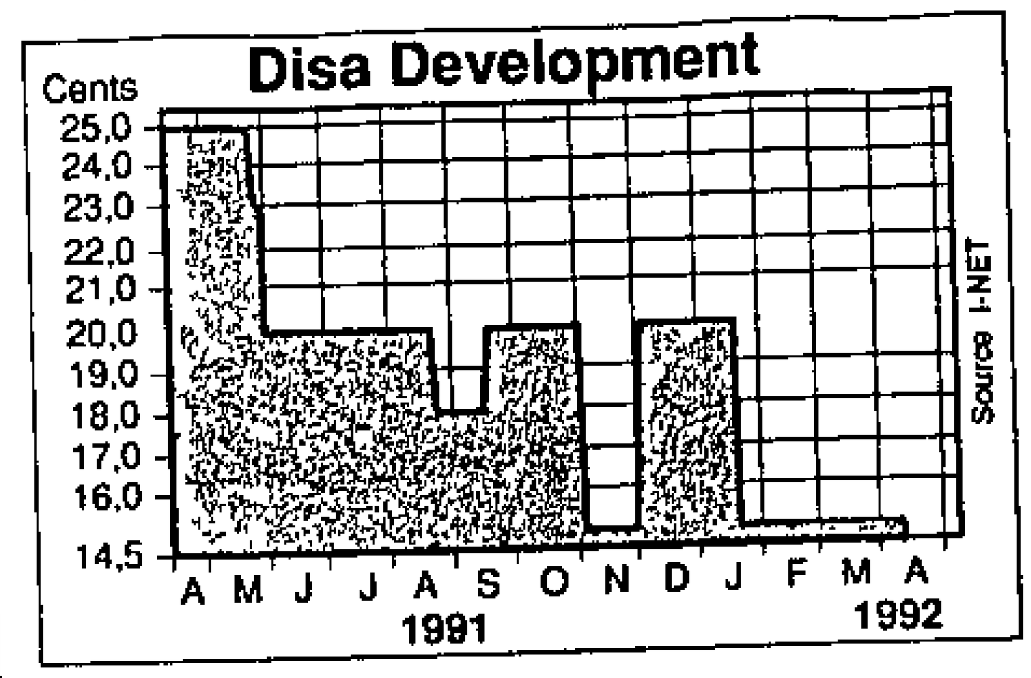
As chairman and major shareholder, Theo Stergianos has every justification for feeling disgruntled about the poor results. Many factors beyond his control contributed.

High interest rates, disappearance of the first-time home-buyer, the effect of VAT on the property market, consequences of black township rent boycotts, politically motivated riots and the consequent reluctance of building societies and other lenders to advance funds for further property developments, all pulled down results.

In short, 1991 was a rotten year. It is a bad time to be a property developer in the lower end of the market — where Disa is positioned. Had it not diversified and established a division to perform and finance installation services in housing developments, results would have been even worse.

As it was, in a year which ended as long ago as August 31 — reporting performance could also do with improvement — the company produced a net loss of R3,5m, *after* the services division's operating profit of R700 000. This represents a 36% reduction in shareholders' permanent capital — as opposed to shareholders' funds.

The balance sheet includes a R900 000 shareholders' loan created by the directors who, in 1989, declared a special dividend which was not paid out. The R1,5m involved was to be retained until the directors felt it propitious to pay it. At the time, the *FM* was uncomfortable about the matter (*Companies*, February 2 1990) and its fears have now been realised.



The first tranche of 40% was paid in 1990 when there was a measure of liquidity. This left a balance of R900 000. But after the poor 1991, and a substantial increase in interest costs since 1989, which will have to be exceeded by operating profits before the shareholders can expect a payout, heaven knows when the balance will be repaid.

Prospects for property development appear no better than in 1991. However, Stergianos seems confident that two new projects begun in January, together with delays in other projects that have now been resolved, could result in the company returning to profitability and the loan payout at the rate of 40% of EPS could then be resumed.

But the cost of the increased debt burden will again weigh heavily. Strategies for survival rather than growth objectives now seem appropriate. If Stergianos can pull Disa through the recession, opportunities should abound in township property development, the area in which his expertise lies. Diversification now into the "international leisure market," whatever that may mean, seems an undesirable digression. *Gerald Hirshon*

FM 24/4/92 (58)

ASSURANCE FM 24/4/92

Taxing life (58)

The funds of life offices may have to be allocated through four channels, not the proposed three, for life assurers to be rid of the sixth schedule of the Income Tax Act.

Revenue, the Financial Services Board and the Life Offices Association (LOA) say the schedule must go. But it cannot be erased before the basis on which life offices are to be taxed in future has been laid down (*Economy*, April 3). That means apportioning the life assurers' funds and deciding which should attract tax at what point.

Originally, this seemed simple: earnings on shareholders' funds would attract tax at normal company rates, there would be no tax on yields in retirement savings and ordinary policyholders' earnings would be taxed at a notional average rate, probably around 32%.

It is the notional rate which causes trouble. Revenue correctly believes that company-owned savings policies would be ceded to natural persons to attract the 32% rate instead of the company rate — an attractive tax shelter. So the fiscus has proposed a complicated set of rules. These retained the key provisions of the sixth schedule for certain company-owned policies only, with the added provision that a taxable accrual will take place every 10 years. This would have increased the administrative burden in the life offices.

At a recent discussion between Revenue and the LOA standing committee on taxation of policyholders, it was suggested that the policyholders' taxable fund should be divided into one for natural persons and the other for company-owned investments.

Old Mutual's Abri Meiring, who chairs the committee, says this would allow the sixth schedule, to be eliminated, with great cost and systems benefits. There would no longer be a need to distinguish between "standard", "non-standard" and "deemed standard" policies. There would be no need to track events, such as premium history or loans on policies, for tax. Compliance with tax liability would be handled more efficiently by the life offices. Meiring believes this approach would also entrench the trustee principle.

There are complications. There is resistance to creating four funds, instead of three. It would also affect the tax paid by a life office on company-owned policies such as deferred compensation and keyman, though Revenue seems ready to accept changes to the Act which would offset the increased tax.

The proposals now go to another LOA standing committee — on taxation of life offices. Its chairman, Theo Hartwig, points out a number of difficulties with the new suggestions. He says that if a policy is ceded between a company and a natural person, or if there is an agreement between two such parties, there is no obligation for the cession or agreement to be registered with the life assurer. So the problem of allocating the policy to the correct tax bracket is not solved.

Both Meiring and Hartwig believe, however, that a solution is only weeks away. The negotiations are propelled by the need to eliminate a tax schedule which, by common consent, has outlived its purpose, collects little revenue, makes new product design cumbersome, is understood by only a few specialists and is ignored for practical purposes by some life offices. ■

PENSIONS

Muddling with retirement

(58)

FM 24|4|92

A think tank of pension specialists is expected to come up with ideas on how best to restructure government's tax take from the pensions industry. A meeting, called by the Financial Services Board and chaired by State actuary Piet Robbertze, will be held this Friday.

It is a sequel to a passage in Finance Minister Barend du Plessis' March Budget speech: "The Mouton Committee, whose investigation into and report on a retirement provision system for SA will be completed later this year, has as yet not formally studied the question of alternative means of financing full social pensions parity. Government has asked the committee to investigate the viability of various financing options that have surfaced in the course of the committee's activities and to report on them as quickly as possible.

"The pension fund industry is one of our country's greatest assets. If an acceptable method can be proposed whereby additional revenue can be found without harming this industry or causing uncertainty on the part of individuals over the value of their retirement provision, it may be possible to take parity still further in the course of this financial year."

Taken literally, Du Plessis seems to have added two and two and made three. There is no reason why parity in social pensions should be funded by the formal retirement industry, that is maintained by people who have consciously made some effort to provide for their old age. To tax those savings to attain so-called parity must be the essence of demotivation.

If that piece of obfuscation is removed, it may well be time to review how the pensions industry is taxed and, most participants agree, it is unlikely this week's meeting will achieve more than that. In practice, pensions are hardly taxed at all.

Within limits, employer and employee contributions to funds are tax-deductible. While the retirement fund accumulates, there is no tax on the gains. When, on retirement, the fund is paid out, up to one-third (again, within limits) becomes available free of tax. The two-thirds buys an annuity which is taxable in theory, though the threshold for tax by pensioners over age 65 is fairly high.

An industry estimate suggests that the system, intended to defer tax, has deferred it out of sight. Only about 25 000 pensioners actually pay any tax and that at an average rate of 5%. Of lump sum payments, these provide the Exchequer with an average of 6%. For practical purposes, the retirement industry goes almost tax-free.

But there is another side. Largely because of job-hopping and the non-preservation of pension rights, only 6%-8% of South Africans retire with sufficient means to maintain their former lifestyles. Inducing more to save has been the reasoning behind the apparent generosity of the fiscus.

Since Du Plessis' Budget remark, the Retirement Institute and the Life Offices Association (LOA) have been studying how the pension industry is taxed elsewhere. In most countries, the tax burden is kept as light as possible. Among models studied are those in New Zealand (described by the LOA as "a disaster which almost killed the industry") and Australia. The Australian model is taken seriously both by the LOA and by the board.

Broadly, it provides for a tax at the accrual level in a fund, so that accumulated gains are taxed on a regular valuation. It has the effect of providing government with a predictable cash flow and, when the fund pays out, the proceeds have already been taxed.

Some Old Mutual sources believe that, if the tax rate applied to the accrual were sufficiently low, a useful tax could be generated without doing major damage to the pension industry. Also, some specialists invited to this week's meeting considered whether a tax could be offset, perhaps by government conceding permission for pension funds to invest some of their assets offshore. With the prospect of government's own pension funds being introduced to the Johannesburg Stock Exchange, they fear the indices will be forced to unrealistic levels; offshoring some pension moneys would take off the pressure on share prices.

The meeting is exploratory only. A board source says the Australian model is of interest but emphasises a tax on pension accruals "is not on the table." The two statements cancel each other.

Also underlining the tentative nature of the meeting, it includes representatives of the Actuarial Society, the LOA, the Retirement Institute and Mouton. Conspicuously absent are representatives of organised labour. The short-term outcome could be a chapter for Du Plessis' special adviser Japie Jacobs to include in his report on the taxation of financial institutions. A long-term proposal, all invitees agree, will not be practical without reference to an Economic Codesa. Even after that, politically, the issue is likely to be divisive.

Bryan Deans

INSOLVENCY LAW

FM 24|4|92

Unsettling judgment

A long-standing commercial practice has been overturned by a recent judgment in the Witwatersrand Local Division of the Supreme Court. The judgment, delivered by Judge Michael Stegmann, has created an untenable state of affairs in the Transvaal for many companies that are technically insolvent but potentially viable with backing from shareholders.

In the past, says Oshy Tugendhaft, a senior partner in Moss-Morris Mendelow Browde, "subordination agreements" between a company and its shareholders gave concurrent creditors preference over shareholders. This was generally considered as a restoration of solvency provided the company's assets exceeded liabilities minus shareholders' claims. This interpretation had the strong support of accountants.

The judgment holds that subordination agreements are invalid in terms of insolvency law. This brings the Transvaal courts, yet again, into conflict with the Cape and Natal courts — which continue to accept the validity of subordinations in relation to corporate solvency.

The issue arose in the case of De Villiers and Carbon Developments (Pty). The liquidators of the company applied for leave to convene meetings of creditors to consider a scheme of arrangement. Concurrent creditors were informed that they would receive nothing if the company were wound up as insolvent, while the proposed scheme would give them a small dividend.

It was also argued that creditors could not recover from the directors personally on the ground that the company had been trading

continue →

FM 24/4/92 (58)

PROTEA ASSURANCE FM 24/4/92

Costs of independence (58)

Like most in the insurance industry, Prosure has stemmed losses incurred over the past two years by surging crime-related claims and cut-throat rates in the fight for market share. But the group is still in the red and has not pulled back as strongly as competitors whose results have been published.

This follows a lengthy and poor underwrit-

Activities: *Composite insurer.*
Control: *Sun Alliance Plc (79%).*
Chairman: *D T Fletcher; MD: A L Tainton.*
Capital structure: *7,9m ords. Market capitalisation: R110m.*
Share market: *Price· R14. Yields: 3,8% on dividend. 12-month high, R15; low, R11,75. Trading volume last quarter, 1 000 shares.*

Year to Dec	**'88**	**'89**	**'90**	**'91**
Total assets (Rm) .	396,5	543,6	583,4	766,8
Solvency ratio (%) ..	110,7	140,5	98,5	90
Underwriting pft (Rm)	2,6	(0,8)	(39,5)	(31,1)
Invest income (Rm)	14,3	19,6	21,2	25,1
Pre-tax profit (Rm) ..	17,2	18,3	(18,7)	(9,0)
Earnings (c)	149	172	(184)	(122)
Dividends (c)	46	53	53	53
Net worth (c)	1 791	2 692	2 492	3 299

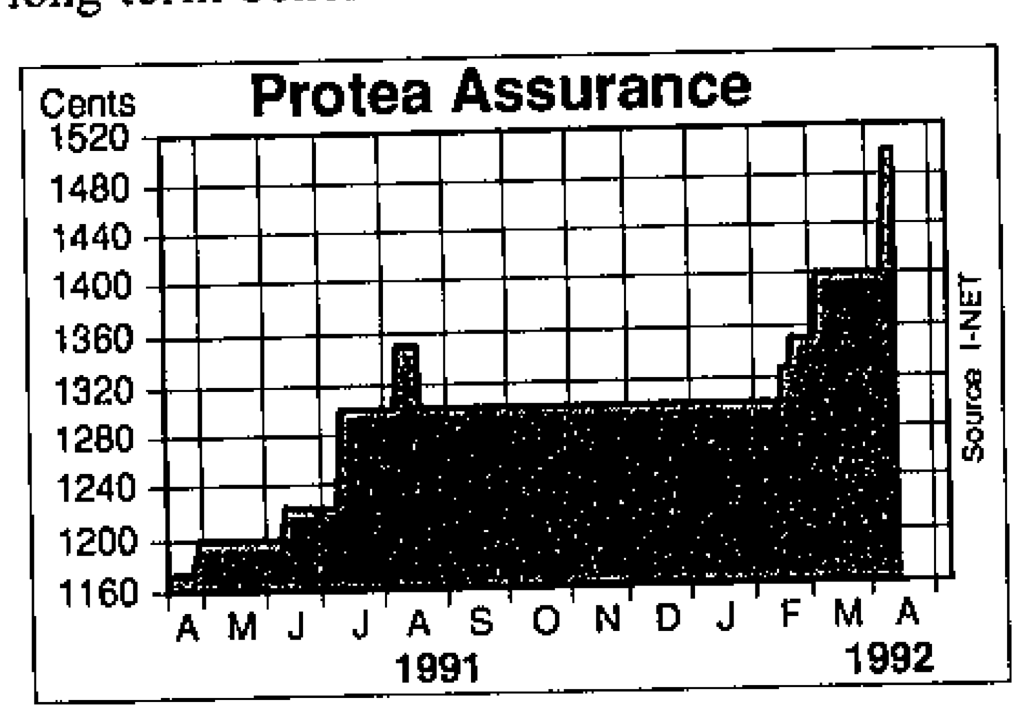
ing performance relative to the industry, which puzzles analysts who feel Prosure is not achieving its potential. The asset base is strong and grew by 31% last year, yet even with considerable new business only R8,4m was knocked off the underwriting loss.

Apart from a higher expenses ratio, about 30% against the industry norm of about 23%, part of the answer may be Prosure's independence. With control held in the UK, the group has no formal links with the SA financial sector, unlike many competitors.

Independence has distinct advantages but the downside is not having a ready supply of tame business. MD Andrew Tainton says that not being connected to a conglomerate means the group sits in the middle and has to go out and get its own business.

"We don't go along with the conglomerate situation, and concentrate on the low-growth type of business. It means we don't have the advantage of sourced business and, therefore, movements in the underwriting cycle are more strongly pronounced for us," he says.

While it's all very well to see this as having long-term benefits to shareholders, one won-



ders how long the dividend can be maintained. Obviously, Prosure could afford last year's 53c despite the losses, but it's not a reflection of earnings performance.

The benefits of independence are less tangible at this stage, but no doubt anti-conglomerate arguments could prove important in the future. Chairman Denis Fletcher says the group is well equipped "to meet the wave of corporate unbundling that is likely to accompany economic and political change" — music, no doubt, to the ears of the ANC.

More immediately, Tainton notes that Prosure is free to build trading alliances that cut across traditional power blocs. An example is a product marketed with FNB, despite having no financial connection with that bank, which in turn is connected to one of the bigger life offices.

The group needs to jack up underwriting results. Tainton believes the turning point in the underwriting cycle has been passed and that Prosure's increased market share — of the 44% increase in short-term premiums written he believes about half represents new business — will show results this year.

The market seems to support his view, with the share price creeping up steadily from R11 to R13 through the financial year, and jumping nearly 8% to its present level since results were published.

The 3,8% yield compares favourably with the sector. The share should be a long-term growth stock, though perhaps a bit too long-term for small investors. Not that they would have much chance of picking up parcels anyway — what's left after Sun Alliance's holding is mainly tied up by pension funds, and seldom trades. *Shaun Harris*

COMMERCIAL FINANCE CORP (58)
FM 24/4/92

Operating let-down

Activities: *Property and engineering subsidiaries and a portfolio of listed investments.*
Chairman: *C van der Pol; MD: W J Swain.*
Capital structure: *9,92m ords. Market capitalisation: R69,4m.*
Share market: *Price: 700c. Yields: 3,1% on dividend; 5,0% on earnings; p:e ratio, 19,8; cover, 1,6. 12-month high, 750c; low, 600c. Trading volume last quarter, 28 000 shares.*

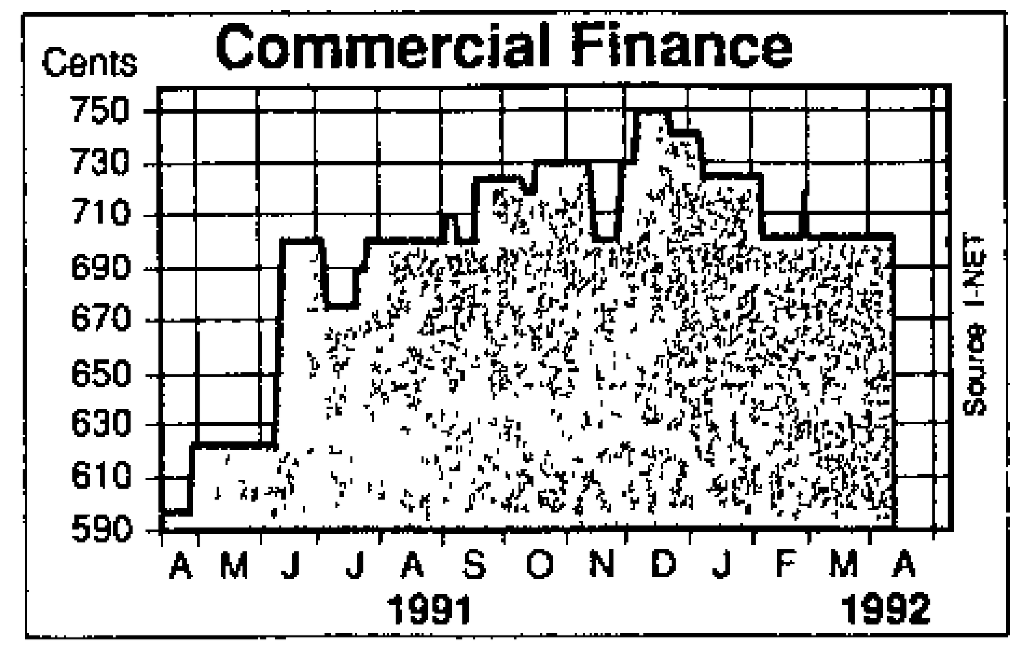
Year to Dec 31	'88	'89	'90	'91
ST debt (Rm)	1,8	1,4	1,9	5,4
LT debt (Rm)	1,2	3,9	2,4	5,7
Invest income (R000)	2 470	2 920	3 512	3 128
Trading pft (R000)	2 515	3 416	1 449	1 249
Pre-tax profit (R000) .	4 555	6 065	5 782	5 183
Net profit (R000) ...	2 584	4 069	4 095	3 497
Earnings (c)	25,9	40,9	41,3	35,3
Dividends (c)	17	21	22	22
Net worth (c)	657	904	891	1 030

Chairman Kees van der Pol's hope of an improvement in operating profits turned out to be even more vain than a similar hope the previous year. Even worse, the expectation of increased annual earnings expressed in the interim report in September was not fulfilled, so there was clearly a sharp downturn in the second half.

With the non-recurrence of a special dividend of R560 000 received in 1990, investment earnings could not compensate. There were few changes in the portfolio. Only property — largely held through 72%-owned subsidiary **Congella Federation** — was a bright spot. But, with Congella following a conservative dividend policy, presumably to finance its own expansion, CFC's own cash flow did not benefit to the full extent.

The need to finance the trading operations presumably explains the increase in loans. These are still small in relation to the asset base, but, given the gap between current rates of interest and yields on ordinary shares, the borrowings must dilute earnings.

FM 24/4/92 (58)



Van der Pol says that, after an intensive study, the operations division's management was restructured and overheads were cut. He again hopes for "a modest profit" this year.

Investment and property earnings are expected to show little change, though Congella is forecasting higher profits and dividends of 80c. On balance, Van der Pol says though 1991 was disappointing, he is confident that, under the new management structure, 1992 results will improve.

CONGELLA FEDERATION

	'88	'89	'90	'91
Net pft (R000)	1 013	1 207	1 258	1 726
Eps (c)	119,6	142,5	148,5	203,7
Dividends (c) ..	44	49	57	65

The directors say an open market valuation of properties is R20,5m above book value, though about R13,5m of this relates to Congella. After allowing for minority interests in Congella, this would add about 167c a share to CFC's reported NAV. On this basis, the current price is a discount of just over 40% to NAV, which reflects market disenchantment with the operating interests.

TRADING DEPRESSED

Taxed profits as % of total

	'88	'89	'90	'91
Investments ..	85	64	84	87
Property	40	29	29	54
Operating ...	(25)	7	(13)	(41)

CFC, one of only four DCM companies with a market cap in excess of R10m, is more than twice the size of the second-biggest. The asset base should limit the downside and if operating interests can be put right, there is ample scope for a re-rating Congella could offer better short-term growth but is even more difficult to deal in.

Michael Coulson

(58)

INSURERS

Leaving the fold

One of the big four risk management and insurance broking groups, MIB, is relocating from Doornfontein, Johannesburg, to Randburg. This is the first time a major broker has moved out of the insurance belt of Johannesburg CBD, Parktown and Braamfontein — and will no doubt be watched for its efficacy.

One underwriter has criticised the move, saying brokers and underwriters need to have eyeball contact — as in the City of London. He also points out that Concord Insurance has decided not to move to Rosebank, Johannesburg, and will stay in Parktown, nearer the city centre.

From August, MIB will occupy all six floors of a building owned by Sasol Pension Fund, under construction on the corner of Kent Avenue and Harley Street.

MIB group MD David Harpur says attractions include getting all the operating divisions under one roof. MIB is now in two Doornfontein buildings and a building it recently sold to the Sasol fund.

A further attraction, says Harpur, is that many personnel live in the northern suburbs; so there will be savings in executive hours. But cynics argue that executives will find it easier to leave work earlier.

Harpur acknowledges that some staff will have to travel longer distances to work — and the brokers are removing themselves from the financial quarter where most underwriters still have their main offices. But, with decent communications, Harpur believes that should not become an issue.

MIB was the subject of a management buyout two years ago when Harpur and colleagues acquired shares previously held by Syfrets in Minet Insurance Brokers. ■

N

WHAT COULD MOMENTUM'S NEW DEAL BE?

FM 24/4/92 (58)

When Momentum Life unavoidably found itself coming under effective Sanlam control as part of the Absa/Bankorp takeover, it was clear that this was an untenable long-term situation *(Economy & Finance* January 31).

The structural problem was not addressed by the proposed 340c-a-share bid from Sankorp, and many suspected that once the company was taken off-market, the Sanlam group might proceed with drastic surgery.

Momentum's management would hardly have been looking forward to this, so may well be relieved by this week's announcement that "other negotiations" are now in progress.

If this means another bid, the interesting point will be the identity of the potential bidder. The fact that no counter-announcement was made suggests that any alternative potential partner must either be unlisted, or so big that Momentum (with a market cap of only about R230m) would be relatively minor to it.

One possibility would be the Anglovaal group, whose ambitions in life assurance can hardly have been satisfied either qualitatively or quantitatively by what it has picked up so far. *Michael Coulson*

Absa will finalise staffing needs by June

58

STAR 24/4/92

By Roy Cokayne

Absa (Amalgamated Banks of South Africa) has retrenched 1 300 employees since the giant financial institution was formed but a final retrenchment figure has not yet been determined.

Dr Petrus Claassen, Absa group executive (human resources), admitted the group — formed from the merger last year of the United, Allied, Volkskas and Sage Financial Services, with another merger with Bankorp being finalised this year — was top heavy.

But he described newspaper reports of 4 000 employees ultimately being retrenched as "pure speculation".

He said the rationalisation programme was not focused only on TrustBank but on all divisions within the group.

It was not focused on senior employees alone, but was being conducted from the top down, with senior managers the first to be retrenched.

A study of all the divisions, function by function, was being conducted to determine staff requirements.

Because three individual groups had been brought together, it could be expected that Absa would be top heavy and that there would be duplication.

Absa's middle management was "a little over developed" and it would also be thinned out.

The main part of the study of the group's staff requirements would be completed by the end of June and the rationalisation would be completed within the following six to 12 months.

Absa had a well developed retrenchment policy, cleared by all the unions involved.

Where possible, employees were put on early retirement.

On hearing of their retrenchment employees were allowed to go home. This saved them any embarrassment in facing their colleagues, and protected the morale of the rest of the group.

Dr Claassen said of the 1 300 people retrenched since the formation of Absa, only one retrenchment case had gone to the Industrial Court.

Aflife lifts dividend

58

STAR 24/4/92

The African Life Assurance Company Limited, has announced a 22,2 per cent increase in earnings per share to 18,7 cents for the year ended March 31, 1992 against the previous year's 15,3 cents.

The dividend has been increased by 22,4 percent to 12 cents (9,8 cents) and shareholders will be offered the option of taking additional shares in lieu.

Recurring premium income rose 33,5 percent to R75,5 million (R57,2 million), while total income increased 30 percent to R92,4 million (R71 million).

Total new business increased by 78 percent. — Sapa.

Promising start to '92 bodes well for profits

BDay 27/4/92 58 ~~100~~

CORPORATE buyers of insurance may expect fewer and smaller hikes in their premiums if the recovery in the short-term industry is any indication.

Major insurers, which suffered losses in 1990, are expected to return to profitability.

SA Insurance Association chairman Brian Seach says this is a factor that should prevent large hikes in premium rates.

"After suffering mostly losses in 1990, the large risks segment of the market is expected to perform reasonably profitably for the year 1991."

This is partly due to there being few major catastrophes in 1991, with weather-related claims down to about 25% of the norm.

Determined

"After suffering mostly losses in 1990, some leading insurance companies are expected to report a return to profitability when 1991 figures are known," Seach says.

Willis Faber Enthoven director (special services) Ian Ross says insurers are determined to improve their results and are carefully examining their prices and exposures.

"What is remarkable is that this turnaround has come about at a time of massive socio-political change and in a very shaky economic climate," says Ross.

While viewing the short term with some optimism, Seach, who is MD of Aegis, cautions that much will depend on this year being free of major catastrophes.

BRIAN SEACH

Better results will stem from the growing awareness among insurers and brokers of efficiency and costs, the avoidance of duplication of effort and impending improvements governing insurance.

Still, he says, there is a sector of the market finding it difficult to correct problems prior to the disastrous 1990 year.

"But I have no doubt that they, through addressing the individual areas of concern intelligently, will see a return to profitability in 1992.

"Moreover, the recent traumatic down cycle has hopefully made better insurance men of many and probably will produce a more logical and composed attitude in future."

He says this optimistic situation should not be viewed with complacency; insurers and insureds alike must accept the market is "extremely volatile".

Being in a business based on possibilities and probabilities, many insurers expect some losses due to fires and weather disasters.

He says this should be borne in mind when looking for improvements in results and rates.

Forecasts of continuing and perhaps dramatic socio-political change could herald a new and expanded area of crime this year, as well as the possibilityof politically motivated destruction.

However, a gratifying factor of late is the growing awareness among the whole insurance delivery system of improving efficiency and curbing costs.

"This bodes well for the consumer and I believe insurers and brokers will not be allowed to have excessively high cost ratios which the consumer has to bear."

Currently, about 40% of insurers have relative expenses of 10% of income, with 25% up to 14% and 35% between 14% and 20%.

Reduce

Some brokers will need to reduce their share of customers' premiums to survive — unless they provide specialist cover, he says.

The new Insurance Act, which should be in place within a year or two, will bring new dimensions of efficiency, morality and competition to the market.

Most important will be changes to the rules governing the premium collection system, including its speeding up and ensuring brokers do not delay handing over premium monies.

Analysis of insurers' expenses as a % of gross premium

INSURER	1986	1990
Aegis	9,6%	8,3%
A.I.I.	9,9%	14,3%
Allianz	15,4%	20,7%
A.C.A.	24,3%	28,4%
Auto & General	16,3%	16%
Commercial Union	6,5%	7,8%
Concord	4,5%	10,2%
Fedgen	20,2%	17,3%
General Accident	10,4%	17,3%
Guardian National	9,9%	5,5%
Hollard	4,6%	6%
I.G.I.	17,3%	19,2%
Mutual & Federal	11,3%	9,4%
President	16,1%	19,6%
Protea	12,4%	14,7%
Santam	11,4%	11,9%
Sentraboer	17%	20%
SA Eagle	8,1%	10,7%
Stangen	10,2%	9,8%
Average (gross)	10,8%	11,5%

Graphic: FIONA KRISCH Source: QUEST

Most insurers have been taking a larger slice of the premium cake to maintain their businesses. This is revealed in a Quest Insurance Advisory Services analysis of expenses as a percentage of gross premiums, though after expenses the situation is marginally better comparing 1986 with 1990. However, it is of concern that large differences exist in the operational costs of some insurance companies. The SA Insurance Association says some insurers and brokers need to cut their share of customers' premiums if they are to maintain market share — unless they happen to provide specialist cover.

MONEY MARKETS by Sheridan Connolly

High liquidity persists despite draining bid

B Day 27/4/92.

(58) (49)

PERSISTENT draining operations by the Reserve Bank last week were the key features in a fairly quiet but easy money market with the Bank issuing four consecutive special Treasury bill (TB) tenders in the four-day week.

Despite the Bank's valiant and continuing attempts, high liquidity conditions prevailed, allowing more scope for rates to move downwards. The key 90-day liquid BA rate drifted down to a 15,30%-15,45% range last week from the previous week's 15,35%-15,55% range, and the market seems to be comfortable with the rate at this level.

The usual outflow of cash from the system, common towards month-end, failed to materialise because of the large amounts channelled into the market through quarterly government spending which got under way in April. Treasury spending earmarked for payments to the self-governing homelands and to members of the Southern African Customs Union swamped the market with cash and could not be siphoned off, regardless of the Bank's draining efforts via the numerous special TBs.

In the weekly TB tender, rates continued falling in all three issues. Since their introduction in March, the rate on the six-month tender has fallen steadily from 14,88% to 14,46% last week. The rate on the nine-month tender has also dropped — from an initial 14,33% to last week's level of 14,05%.

Good investor interest in short-term paper was reflected in applications for the three-month TB tender which saw the Bank receive R6,05bn in subscriptions for the R100m tender on offer at an average rate of 14,98% — sharply down from the previous week's 15,19%. The Bank received R258,8m and R300m respectively for the R100m six- and nine-month tenders.

The market shortage, which reflects the amount of accommodation extended by the Bank to the market, dipped towards the end of the week, largely ignoring the Bank's attempts to tap the market. The Bank quoted the shortage lower at R828m from a previous R1,05bn.

The capital market recovered from its recent lethargy with renewed bullish sentiment giving rates some much-needed direction in the second half of the week. Bullish investor expectations for a downward move in the consumer inflation index, due out early this week, seemed to lift the market and saw rates ease sharply, with the benchmark Eskom 168 down to a 10-month low of 16% late on Friday.

With some of the more important economic indicators coming up this week, sentiment in the market is expected to pick up after the last few weeks' apathy. The options close-out on May 7 encouraged players to start squaring up and this has also helped rates escape their recent sideways range.

The 16% level reached by the E168 on Friday was the lowest recorded since June last year. Late on Friday, government's RSA 150 bond eased to 16,20% from previous levels of around 16,33%.

Export ventures are also new ways to lose money

B/Day 27/4/92

EXPORTERS should take care when embarking on new ventures in Africa and Eastern Europe, particularly in countries short of forex or that are bankrupt.

Local businesses should obtain corporate protection against credit losses amid mounting trade risks worldwide. Credit Guarantee Insurance Corporation of Africa strongly advises this in the case of goods to be delivered to lesser developed countries and those countries where businesses have no legal redress.

Also recommended is insurance against high risk in the UK, US and Europe where business failures have reached alarmingly levels or where illegal trade is taking place.

Many businesses are not fully aware of new and mounting risks as they take advantage of new trading prospects arising from the lifting of sanctions.

Credit Guarantee senior GM Mike Truter says businessmen should seriously consider the various forms of export credit insurance as the global recession worsens and as they deal increasingly with new trading partners in former communist countries "which have no commercial and insolvency laws".

He cautions that many businesses in Africa and overseas do not have access to forex to pay for their imports.

(580)

Commercial risks are very much on the rise due to the world recession and other factors.

For instance, few realise that 50% more businesses failed in the US in the first half of last year compared with the same period in 1990.

In the UK, one in 50 active businesses was liquidated last year, while the number has increased sharply this year to 1200 businesses a week — a sharp rise of 50% on the 1991 UK average.

Advantage

While the US has lifted sanctions, many US cities and states have not done so and importers there are thus able to take unfair advantage of unwary SA businessmen who have no recourse as long as sanctions are maintained.

Risk is greater on the domestic front as well where only about 11 500 — or 5% — of companies are insured against debtor losses.

Truter expects a continued escalation of business failures as the recession bites deeper.

Default judgments for the first quarter are already one-third up on last year, while business failures are up 15%.

Money supply hits target

(58)

SIMON WILLSON

GROWTH in the broad money supply dropped into its 1992 target range for the first time in March, according to figures released yesterday by the Reserve Bank.

The data show that M3, the broad monetary aggregate which consists of cash in circulation and all deposits with banks, grew by a preliminary 10,5% in the year to March. The growth rate in the 12 months to February was 10,6% — a downward revision to the preliminary February growth rate of 10,8%.

The growth measurement of M3 that entered the Bank's new growth guidelines for the current calendar year was the rolling increase based on the fourth quarter of 1991. This dropped steeply to 9,8% in March from February's 15,5%, and thus fell into the 7%-10% guideline for monetary growth from the end-1991 base set by the Bank when it cut discount rate last month. B/Day 28/4/92

Absa senior economist Nick Barnardt said the March money supply data were the first in the past 12 months that were reliable, because they were free of the distortions of the February 1991 introduction of the Deposit-Taking Institutions Act. The Act temporarily boosted the monetary aggregates by bringing on to bank balance sheets facilities that had previously been off-balance sheet.

"Now that it is free from the DTI effect,

☐ To Page 2

Money supply

B/Day 28/4/92 (58)

☐ From Page 1

the annualised growth in March from the guideline base represents the true, underlying trend of M3 growth. We expect the year-on-year M3 growth rate also to fall to single digits over the next few months as demand for credit is still very low."

Barnardt added that the decline in the growth rate of the broad monetary aggregates also heralded a period of relatively subdued inflation over the next two years.

"With consumer inflation running at 15,7% and broad money growth at just over 10%, it means the money supply is contracting in real terms by about 5%. This is positive for inflation because, given a time lag of 18 months between money supply expansion and inflation, we could see restrained inflation going into 1994."

Bankorp offer is accepted

Business Day Reporter

THE MAJORITY of Bankorp ordinary shareholders have opted for the offer of bonus shares made in the wake of Absa's takeover of the company.

Shareholders, holding 365-million or 87% of the issued ordinary share capital of the company, have opted to receive the bonus shares, credited as fully paid out of share premium.

Senbank Merchant Bank said in a statement yesterday that the 6,3-million bonus shares were alloted to shareholders and listed on the JSE yesterday morning.

Bankorp stock rose 2c or 0,7% to close at 277c on the day.

Absa shares were traded but finished the day unchanged at 960c.

B Day 28/4/92

(58)

Good rise expected at First National

BI Day 28/4/92

FIRST National Bank Holdings was expected to report a 17%-18% first half earnings rise, and to raise its interim dividend at least 5c a share to 50c, analysts said.

Results for the six months ended March 31 1992 were due for release tomorrow and should show earnings benefiting from wider interest rate margins, they said.

"A lack of credit demand because of the recession and high interest rates has seen liquidity levels build up, resulting in a widening of interest rate margins," said Graham Baillie of stockbroker Davis Borkum Hare.

The group would not have felt the impact of a cut in its prime rate in late March to 19,25% from 20,25%, he said.

Baillie forecast a rise in earnings to 252c a share for the half year, from 214,1c in the first half last year.

The provision for bad and doubtful debt is likely to be a feature of the results

(58)

Some analysts expected ~~this~~ is to exceed the R131,8m in the first half of the previous year, but differed on the extent.

Its bad and doubtful debt provision in the full 1990/1 financial year was R262,9m — 10,7 % down on 1988/89 as a result of intensified credit-risk management.

Baillie did not expect a significant rise in the bad debt charge.

But David Southey from Edey Rogers forecast a 30%-40% jump over the first half of the 1990/1 year.

"The bad debt chickens are coming home to roost. The recession has intensified and has been significantly longer than anyone originally expected," he said.

Baillie said First National was exhausting cost-cutting options, and operating expenditure could be close to R900m, compared with R862m in the first half.

Operating income was expected to rise by about 15% to R587m in the first half, compared with the year ago period.

A new subsidiary, Firstnet, was established two months ago which offers an electronic data exchange network directly linking SA businesses to their international trading partners.

Firstnet MD Mike Van Den Bergh, said: "We've been run off our feet in terms of inquiries and we're running a fair number of pilot projects. We are also under evaluation by several group industries wanting to use us." — Reuter.

Arrears a problem, says NBS chairman

BDay 28/4/92

Business Day Reporter

CAPE TOWN — Until borrowers were permitted to show greater responsibility in meeting their bond repayment obligations, banks were unlikely to provide substantial financing to alleviate the drastic shortage of housing for blacks, said NBS chairman Gordon Chapman.

(58)

Speaking in Cape Town yesterday, Chapman rebutted "criticism levelled at all banks from some quarters" for not providing adequate finance for black housing.

Chapman said NBS had been a pioneer in the financing of black home ownership, but at present was granting loans on a selective basis because of the high arrears in some areas.

He said some people could not afford their repayments, which was understandable and acceptable. However, often the failure to repay "has been politically inspired — and this is not in the best interests of those for whom assistance is sought".

Bond-plan runs a close second to unit trusts

STAR 28/4/92 (58)

FOOTSTEPS TO FORTUNE

25/4/92

RICHARD *Cluver*

READERS frequently quiz me about the advantages of investing in their household bond

So let us take the case of Mr R N, a 32-year-old professional man who has a monthly income surplus of R250 that he would like to invest

He is, he believes, well covered by a number of different assurance policies but has no other investments except his house, over which he has a R149 000 bond that necessitates a monthly R2 624,97 repayment.

Would it, he asks, be best to increase his bond repayment or would some other form of investment promise greater returns?

Investing in your own household bond offers the twin benefits of very high rates of interest combined with tax deductability. But just how well does it compare with other types of investment?

Turning first to the accelerated bond repayment opportunity and taking an example of a 20 percent mortgage rate, if one invests surplus income by increasing one's rate of repayments, one would be effectively receiving a 20 percent return on the investment.

Furthermore, if one were to put that money into most alternative forms of interest-bearing investments, one would be taxed at one's marginal income tax rate on all interest greater than the R2 000 that the Receiver of Revenue allows one to receive tax-free.

In Mr R N's case, at the 20 percent he is currently paying on his bond, his monthly surplus of R250 would not yield sufficient for taxation until his third year of saving.

However, over time the tax benefit would add up significantly.

Surplus

Were bond rates to remain static in future and Mr R N to simply continue his present monthly instalment, it would take him 14 years and nine months to clear his bond.

Were he simultaneously to save his R250 a month surplus income in an investment paying 20 percent he would, by the time 14 years and nine months were up, be receiving R52 941 a year in interest on his accumulated capital and would undoubtedly by then find himself in a top marginal tax bracket, paying 43 percent on most, if not all, his interest income.

Thus, by investing in his bond he would in his 14th year not only be receiving an extremely high 20 percent return, he would be receiving an effective 43 percent subsidy from the Receiver of Revenue.

To match that in any alternative taxable investment he would need to find one yielding a 28,59 percent rate of interest.

Were he to add the R250 to his existing bond repayment he would, at present interest rates, have paid off the amount owing in just 10 years.

The effective saving — or, if you like, the return on his investment — would be a third of his present total payments or a total amount of R146 998.

Furthermore, the flexibility now offered by the modern access type of mortgage means one has most of the advantages of a savings account as well as the high interest rates that I have just illustrated.

Tax

If Mr R N needs his accumulated surplus income in a hurry, it is easy to get the money back.

Clearly, too, there is contained within this scheme the possibility to keep on avoiding tax for one would, within a comparatively short time, have accumulated sufficient capital within the mortgage repayment to provide the deposit on a second house.

This could in turn be let to tenants whose rent payments would, in present circumstances, be somewhat less than the interest owing on the second house and thus be entirely tax-deductible.

Indeed, depending upon his personal circumstances, it might be that any losses incurred in the difference between rent income and the costs of the second house could be offset against Mr R N's primary income to reduce his overall tax burden.

Were the latter tax benefit a possibility in Mr R N's case it would be difficult to envisage any alternative investment offering a better overall return, particularly when one considers the multiplier effect that would become possible with successive purchases and mortgages as his capital grew over time.

Taking, however, my calculation of the tax-effective 28,59 percent annual return he would be receiving from investing in his bond, it is worth noting that three unit trusts have long-term average growth rates that better that figure.

My latest calculation of long-term unit trust returns has the Old Mutual Investors Fund showing an annual average of 31,41 percent, Guardbank 30,6 percent and Sage Fund 28,9 percent.

The basis of the calculation takes R1 000 invested on the last day of December, 1977 with all dividends reinvested

What this latter calculation does not take into account is the fact that a portion of unit trust income is interest-sourced and is, accordingly, taxable.

My own unit trust database does not include the relative percentages, but on the face of it one might conclude that the best unit trust return would presently be approximately equal to the effective return one would get from investing in one's own mortgage.

Close

But be carefu, mortgage rates are at historic highs and have, over the past 14 years — the period of comparison with unit trusts — usually been at considerably lower rates

In conclusion then, provided you choose the right one, unit trusts remain the better investment but the motgage route runs it very close indeed

Bearing in mind the cyclical nature of the stock market and the difficulty one reguarly faces if one needs to realise capital at times when the market is down, it thus makes sense to spread one's money between the two different types of investment

I would accordingly advise Mr R N to put R125 a month into a unit trust and R125 into his mortgage.

● "Footsteps to Fortune" is a serialisation of Richard Cluver's latest book "How To Make a Million" which, together with his other titles, "Making Money With The Mutuals", "Investment Without Tears" and "Advertising For Free" is available from The Promotions Department, The Daily News, PO Box 47549, Greyville 4023 They are R40 each inclusive of postage and VAT

Decreased tax bill gives NBS a boost

BDay 29/4/92 (58)

SHARON WOOD

A LOWER tax bill enabled Durban-based NBS holdings to lift attributable earnings by 30% to R73,2m in the year to March from R56,3m in 1991.

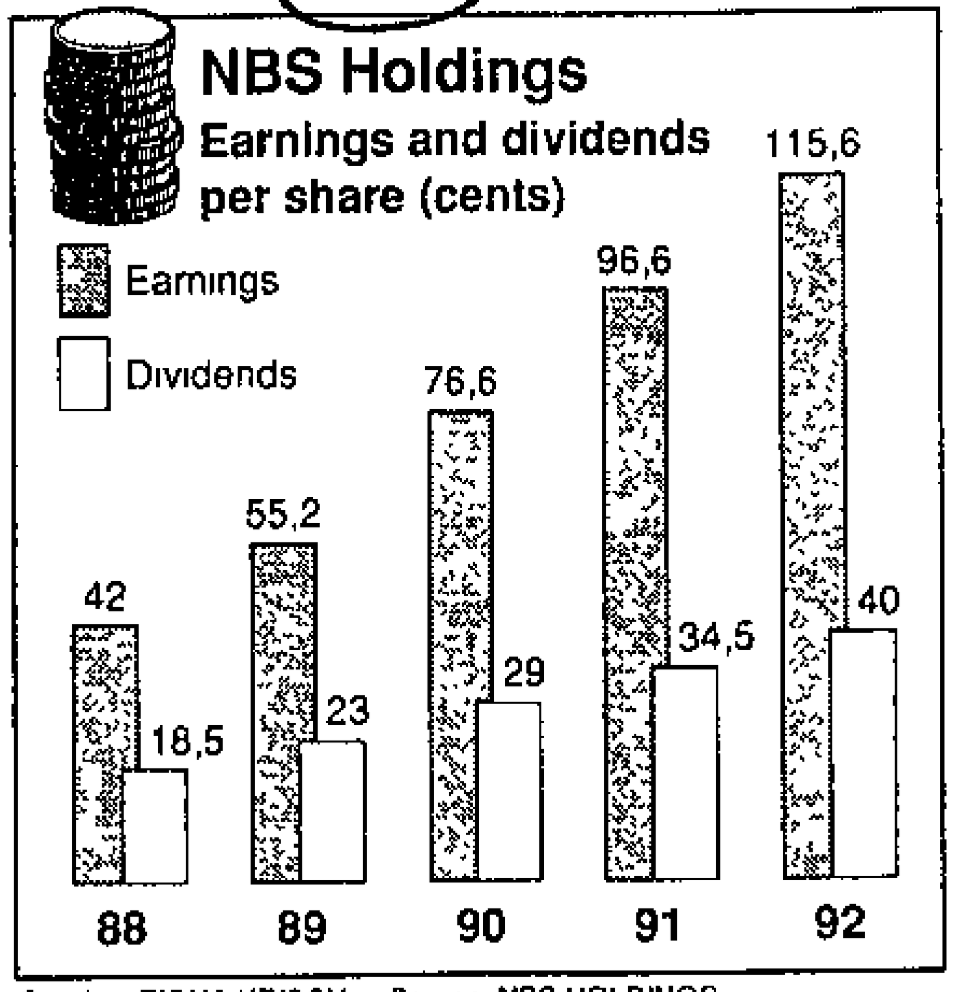
MD John Gafney said the group's income increasingly came from dividends, and was boosted by the benefits of restructuring programmes undertaken by its subsidiaries. This had lowered NBS's tax bill which fell 21% to R23,6m from R29,8m.

Earnings increased by 20% to 115c a share (96,6c) and dividends by 16% to 25c a share (21c), bringing the total dividend for the year to 40c a share. Dividend cover increased to 2,9 from 2,8, which is in line with the bank's objective of reaching a three times cover.

Gafney said income before tax had been affected by a higher charge for bad debts brought about largely by the combination of the weak economy and sustained high interest rates.

Income before tax edged up by 7,6% to R89,9m from R83,6m the previous year. "The Group has maintained adequate provision to cover potential losses that may arise in its advances portfolio," he said.

The plight of the borrower had been severe during the year under review, Gafney said. Rising unemployment, inflation and taxation had adversely impacted on individuals' ability to meet commitments.



Graphic FIONA KRISCH Source NBS HOLDINGS

In the year ahead, Gafney said the impact of declining interest rates would place net interest income under pressure.

"However, this should be offset to an extent by a lesser impact from non-performing debt.

"When interest rates decrease home ownership will become more affordable and repossessions should reduce."

Gafney expected earnings growth next year to be modest.

"At present, it is difficult to forecast performance since so much depends on economic recovery and relief for individuals in the form of improved disposable incomes," he added.

Sycom declares interim payout

MICK ELLINGHAM

SYFRETS and Commercial Union Property Fund (Sycom) has declared an interim distribution of 38,45c a unit for the six months ended March 1992 (1991: 38,20c).

Income was up to R26,2m (R21,6m), following the rights issue in the second half of 1991. BDay 29/4/92

UAL Property Fund MD John Peters said no changes were made in the portfolio during the six months under review.

The vacancy level remained constant at 5,5%. A shortfall against budget resulted from significant provision being made for bad debts. 58

Peters said he did ~~not~~ expect trading conditions to improve in the second six months.

The company does, however, expect total distributable income a unit for the current financial year to exceed that for 1991.

(ii) The present framework for tariff protection has been instituted with effect from 1 July 1989

(b) During the 1989/90 financial year the total value for tariff protection for Sasol amounted to R478 million.

For the hon member's information, for the 1990-91 financial year the figure dropped to R216 million owing to the higher international oil prices and also finished product prices. It is estimated that for the current year, 1991-92, the tariff protection will increase to an estimated R400 million, but our projections, based on the views of international experts in the field of oil prices, are that in the coming year, 1992-93, oil prices will rise again, and then we expect the tariff protection to drop once again.

Petronet: profits

*8. Mr R R HULLEY asked the Minister for Public Enterprises:

(a) What total amount in profits did Petronet realize from the movement of petroleum products during the 1990-91 financial year or the latest specified 12-month period for which information is available and (b) what is this amount as a contribution to the total profits of Transnet?

B537E

†The MINISTER OF TRANSPORT AND OF POSTS AND TELECOMMUNICATIONS (for the Minister of Public Enterprises):

The Managing Director of TRANSNET LIMITED replied as follows to the hon member's question:

(a) and (b)

The results of the various divisions of TRANSNET LIMITED can only be reflected accurately once the divisions are properly structured and internal transfer pricing is sorted out. TRANSNET LIMITED is of the opinion that until such time as this has been finalized, reporting of meaningful financial results for the individual divisions cannot be achieved.

Members will note that the Annual Report of TRANSNET LIMITED for 1990-91 does indeed disclose a profit-figure of R128,4 million for Petronet This is however due to an oversight as it should not have been disclosed for the reasons mentioned above. The profit-figure should therefore be evaluated in light hereof.

For various reasons it is of the greatest importance for the State, as shareholder, that the different divisions of TRANSNET LIMITED be ringfenced from a financial perspective. One of the reasons which makes the matter compelling, is to judge the conduct of the different divisions in a competitive market. In the light of this, as representative of the State as shareholder, I have requested the Chairman of the Board of Directors to ensure that the accounting system be so implemented for TRANSNET LIMITED so as to be in a position to determine the real profit or loss of each respective division.

†Mr J CHIOLÉ: Mr Speaker, arising out of the hon the Minister's reply, was it meaningful to publish the profits separately when Transnet was still the South African Transport Services?

†The MINISTER: Mr Speaker, I think the hon member should have this question placed on the Question Paper so that the Minister concerned can reply to it himself.

Contravention of Banks Act

*9. Mr D H M GIBSON asked the Minister of Finance: 58

Whether, with reference to (a) the report of the Registrar of Banks for the year ended 31 December 1990 and (b) the 19 institutions and persons suspected of having contravened the Banks Act, No 23 of 1965, any action was taken by the Attorney-General; if so, what action?

B538E

The DEPUTY MINISTER OF FINANCE (Dr T G Alant):

Of the 19 matters referred to in the report of the Registrar of Banks for the year ended 31 December 1990, eight were referred to the Attorney-General for further action.

In the case of four of those eight matters prosecutions were instituted or admission of guilt fines were imposed.

In the case of four of those eight matters the Attorney-General declined to prosecute.

Dropping of pipeline charge: Petronet

*10. Mr E K MOORCROFT asked the Minister of Mineral and Energy Affairs:

(1) Whether a calculation has been made of the effect on the profitability of a certain organization, the name of which has been furnished to the Minister's Department for the purpose of his reply, in the event of Petronet dropping its pipeline charge by two-thirds from nine cents a litre to three cents a litre in the PWV area; if so, (a) what would be this effect and (b) what is the name of the organization concerned;

(2) whether he will make a statement on the matter?

B547E

The MINISTER OF MINERAL AND ENERGY AFFAIRS:

(1) No, none of which Sasol or the Department of Mineral and Energy Affairs is aware of. It is important to note that Petronet competes in a free market and that its tariffs are, therefore, subject to normal market forces As an inland producer situated close to its markets, Sasol enjoys a location advantage over a producer at the coast which has to transport its products over a longer distance to the market. This very important factor was specifically considered when the decision on where to locate the factories was taken

(a) A decrease or an increase in fuel transport tariffs impacts directly on Sasol's profitability. The effect thereof is confidential commercial information of Sasol

(b) Falls away.

(2) No.

Extension of toll-road network

*11. Mr W U NEL asked the Minister of Transport:

(1) Whether his Department is considering the extension of the toll-road network and/or the erection of any additional toll plazas; if so, (a) (i) where and (ii) when is it envisaged that additional toll plazas will be erected and (b) what other extensions to the toll-road network are envisaged;

(2) whether he will make a statement on the matter?

B545E

†The MINISTER OF TRANSPORT:

(1) Yes, the Department of Transport is considering extensions to the toll-road network and the erection of additional toll plazas.

(a) (i) and (ii) The following toll plazas are envisaged to be opened at the times indicated:

(aa) A toll plaza at Mtunzini on the N2 North Coast Road, Natal, which will be opened on 1 June 1992;

(bb) a further toll plaza at Stanger on the N2 North Coast Road, Natal, which is currently being planned and for which no date for opening has yet been set;

(cc) a toll plaza near Danville, Pretoria, on the N4 West which will open late 1992/early 1993; and

(dd) toll plazas on the

- N1 Transvaal: Middelfontein to Pietersburg;
- N2 Natal. South Coast;
- N3 Orange Free State: Harrismith Bypass;
- N3 Transvaal Villiers to Heidelberg; and
- N17 Transvaal: Krugersdorp to Rand Airport

for which no definite locations or time schedules have been set.

(b) The Department of Transport is considering the feasibility of a number of projects but no firm conclusions have been reached other than in respect of those roads mentioned in the reply to question (1)(a).

(2) Yes, last week I made a statement in the House of Delegates regarding the future of the toll road network and will issue press statements whenever decisions are taken in this regard in future.

Bank rate cut on the cards

STAR 29/4/92

Finance Staff (58)

The Board of Executors is forecasting a further one percent cut in the Bank rate in July/August and a second similar reduction by year-end.

"Indeed a cut sooner than July cannot be ruled out, if Reserve Bank Governor Dr Chris Stals is convinced that the underlying inflation rate is much lower than the 15,7 percent recorded in March, BOE economist Rob Lee writes in the group's latest Executive Summary.

He bases his optimism on what he describes as "good news on the inflation front.

"Consumer price inflation has risen at an annualised rate of 12,5 prcent in the five months since VAT was introduced, and at 11,3 percent over the past three months.

"The producer price inflation rate in the year to February was only 6,7 percent, the lowest recorded in 20 years."

Mr Lee remains confident that the underlying inflation rate is no more than 12 percent and that by year-end the "headline" annual consumer price inflation rate will be 12 percent or less.

DP raises query over Du Plessis

B/Day 30/4/92 Political Staff

CAPE TOWN — The DP yesterday demanded to know whether Barend du Plessis had resigned as Finance Minister because of the issues arising from the collapse of the Cape Investment Bank.

Robin Carlisle (DP Wynberg) said during an interpellation in Parliament the Rail Commuter Corporation had lost between R249m and R270m.

Rail Commuter chairman Bart Grove and MD Kobus Nel had been demoted in the wake of the losses.

Carlisle said the amount of the deposits and their authorisation was "in conflict with Cabinet instructions".

The affair had the potential to be "the most serious financial scandal in SA's history" and the DP was demanding a full public inquiry, Carlisle said.

It was also learnt yesterday government was likely to announce a public inquiry into the collapse of the Masterbond group of companies next week. Among the issues that could be raised are whether government, and the Finance Department in particular, could have acted sooner and whether the relevant financial control measures were applied adequately.

As the political head of the department, Du Plessis may have felt responsible for government's role in the débâcles.

Carlisle said Cape Investment Bank had been placed in provisional liquidation on April 11 last year. Before this the Reserve Bank had advised the Rail Commuter not to remove its deposits with the bank, although the bank itself had done so. He said within four weeks of the release of a report to the Cabinet into the affair Du Plessis had resigned.

Further, he said, while all transactions

☐ To Page 2

Du Plessis

B/Day 30/4/92 (58)

☐ From Page 1

were classified secret in terms of the Reserve Bank Act, there had been allegations of "collusion" between the bank and the Rail Commuter's board controlled by Prima Bank, which had since acquired Cape Investment Bank. This had been linked to accusations that the bank's "assets had been stripped by Prima before it was placed in provisional liquidation — an act which caused its insolvency".

Carlisle said there were concerns that the Bank may have "pumped millions into other banks in similar questionable deals.

"What is clear, is that suspect, if not criminal, activity has occurred and that the government owed the public answers to all of the questions raised."

Carlisle said this applied particularly to the question: "Did Mr Barend du Plessis resign as Minister of Finance as a result of these matters?"

Transport Minister Piet Welgemoed said the transactions had nothing to do with Du Plessis in his official capacity and his official relationship to the bank.

Short-term insurers target black market

WMail 30/4 – 7/5/92 (58)

By MONDLI MAKHANYA

SHORT-TERM insurers are increasingly targeting the black market — but it is proving well-nigh impenetrable.

This new-found vigour is in line with the discovery by marketing surveys that the black consumer market is where growth lies. A black middle class is emerging and white population figures are declining at a steady rate. Until just over a decade ago the black market virtually did not exist for many businesses. Guardian National marketing manager Laurie Nattersson estimates that only 15 percent of the potential black market has been exploited.

But unlike other businesses, short-term insurers are up against a market generally unfamiliar with their products and they face an uphill struggle to educate them about the necessity of short-term cover.

Companies wanting to get a slice of this market have now embarked on educational drives: IGI, for instance, has sponsored TV programmes on the subject. As a result IGI has shot ahead of other insurers and is now the market leader with about 40 percent of black business.

The biggest market thus far has been through products bought on hire purchase, which financial institutions and creditors insisted be insured until they were fully paid off.

Even within the black middle class, which marketeers have termed the "emerging market" — knowledge of short-term insurance is low. Built into this is the belief among black people that blacks will only steal from whites.

"It's very difficult to to convince our people that their house may be burgled and they will lose all their possessions. Even businessmen share this view and say it is very rare for black businesses to get robbed, so there is no need to pour your money into a something that will not show any return in the long run," says Moss Nxumalo chairman of black insurance broking firm XB brokers.

Nattersson says studies have indeed shown that in older black areas this certainly was the case — and people are accustomed to leaving their doors unlocked. But with increasing stratification of black society the incidence of theft within black communities has increased as people in middle class areas get burgled by lower-income people.

The risk evaluation of the market was also a factor in the black market being left untouched.

"White companies have been reluctant to get involved in the black market because it was perceived as being too risky. But now that is changing as companies realise that there is an educated black class which has a significant asset base. The black businessman is also a market that needs to be educated about insurance," reckons Nattersson.

The dearth of black insurance brokers dealing in the black short-term market has also been a hindrance to growth. There are presently only three black-run insurance brokerages in the country and the proportion of blacks in white insurances companies and brokerages is small — a legacy of apartheid.

The black brokerages that exist are one-man operations and mainly deal in life assurance. According to a insurance executive: "Life cover makes more sense to people because they will reap the benefits at a later stage."

But there is another reason why black brokers shy away from short-term insurance.

Says Nxumalo: "There are few doing short-term insurance because black consumers are not interested."

Stanprop hit by depressed market

BDay 30/4/92 (58)

ANDREW KRUMM

PROSPECTS for growth in Standard Bank Property Fund earnings remain good, but given the poor economic climate its rate of growth in 1992 is unlikely to match that of last year, says chairman Eddie Theron.

In Stanprop's 1991 annual report to unit holders, he said the property market was depressed, with vacancies rising and rentals falling. "This situation is expected to persist in 1992."

He said earnings prospects were good this year as Stanprop had no major leases due for renewal in 1992.

Net distributable income in 1991 rose 12% to 19,25c a unit from 17,19c in 1990. Theron said interest income, at 38% of net distributable income, had contributed substantially to earnings in 1991.

"This was the result of higher cash balances in the portfolio during the year."

He warned of short-term distortions in earnings in 1992 as the portfolio rationalisation strategy continued, selling selected properties for cash yielding higher short-term returns, and then initially lower returns when the cash was ploughed back into prime property.

During 1991 Stanprop's residential property portfolio was reduced from 25,1% to 11,7% of portfolio net book value, while retail/office and industrial property share of portfolio net book value rose.

The highlight of the year, Theron said, was the sale disposal of Stanprop's 964-unit Bedford Gardens residential complex at a cash price of R90m.

Looking to commercial sites, Stanprop bought five properties in 1991 at a total cost of R32,7m, and two developments worth R12,9m were started due for completion in the first half of 1992. The fund also acquired four commercial properties for R37m after year end.

Perk for Ovbel shareholders

BD 30/4/92 LINDA ENSOR (58)

CAPE TOWN — Ovbel Holdings is to offer ~~its~~ shareholders a special dividend in the form of loan stock in its wholly owned property development Ovland Group.

The scheme was devised to offer tax advantages to shareholders.

Ovbel proposes to distribute R14,8m of its R15,3m unsecured-loan claim against Ovland to Ovbel shareholders on the basis of one loan claim unit of 50c each for each Ovbel share held on May 29.

Ovland will pay interest on the loan stock in terms of a formula which takes into account its underlying profit.

The effect of Ovland paying interest on its loan stock would reduce the profits earned by Ovbel from its subsidiary and hence the dividend it pays in future which will be lower than otherwise.

However, the group believes the restructuring will enhance the value of shareholders' investments as they would be taxed on their interest and income at a marginal rate, whereas the dividend income accruing to Ovbel from Ovland would be taxed at the corporate rate.

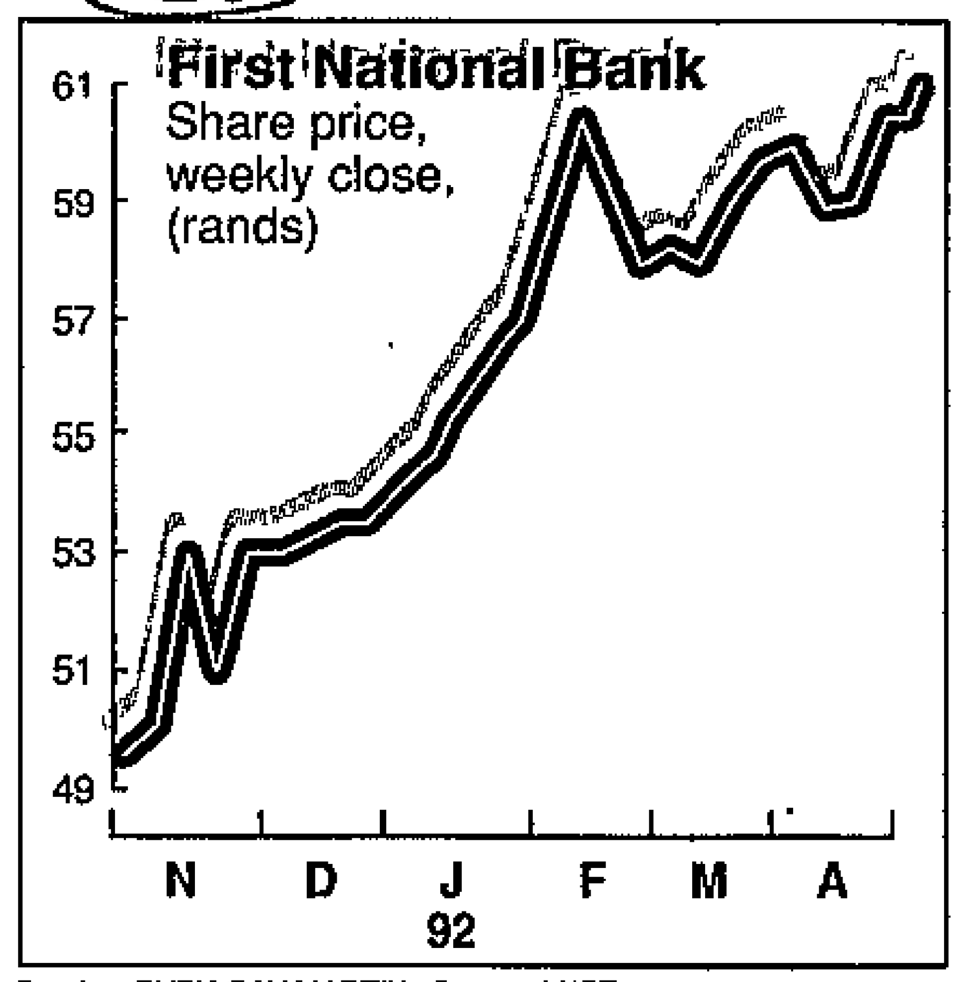
An Ovbel spokesman said the restructuring would give shareholders greater direct access to the group's underlying assets.

Bad debts fail to dent FNB results

BlDay 30/4/92

(56)

SHERIDAN CONNOLLY



Graphic: RUBY-GAY MARTIN Source I-NET

FIRST National Bank's results for the half-year ended March 1992 showed a 20,4% rise in earnings a share despite a 21,8% increase in bad debts.

Earnings a share rose to 257,7c (214,1c previously) while net income after tax-ation increased 20,5% to R187,8m (155,8m). An interim dividend of 50c a share was declared — an increase of 5c.

Income before taxation increased 30% to R344,3m. A 43,6% increase in the tax bill included the levy on financial services introduced on September 30 1991.

FNB MD Barry Swart said the results showed an improvement in profit margins. Higher profit levels showed FNB had succeeded in its intention to "do only profitable business".

A 20,6% growth in advances to R32,055m (R26,586m) contributed to profits, Swart said.

FNB's efficient handling of the asset and liability management process had also played an important role.

Senior GM Viv Bartlett said FNB's results were very satisfying, particularly in the light of recessionary conditions.

He said charges against bad and doubtful debts, which increased 21,8% to R160,5m (R131,8m), were largely attributable to the effects of the drought.

☐ To Page 2

FNB

BDay 30/4/92

(58)

☐ From Page 1

Bartlett said the bank would continue to keep a tight rein on asset and liability management and would not abandon its drive for a quality client base. Because of the Absa merger, FNB would have to be aggressive to grow its balance sheet and reclaim some of its lost market share.

Bartlett said he was confident of another interest rate cut by the end of the year and further cuts next year, but said the recession and drought could dampen overall prospects

He said he would be very pleased if FNB could secure similar profit levels in the second half of the year.

The technical changeover to the Hogan computer network system had been traumatic but necessary, and had left FNB at the top of the pack in terms of technology.

The staff move to Bank City had progressed smoothly. The final phase of the move would be completed by the end of 1995, he said "The move to Bank City was primarily a financial decision."

Commenting on FNB's recent rights issue, which raised R545m, Bartlett said funds had been partly allocated towards expanding foreign interests such as subsidiaries in London, Zurich, Switzerland and Hong Kong.

FNB's Botswana subsidiary had proved successful and had seen the first electronic banking and ATM facilities introduced into its country.

Bartlett said FNB had no plans for another rights offer yet.

He dismissed recent market rumours of a merger between FNB and Nedcor as "pure speculation that was inevitable after the Absa merger".

SA differs in its tailor-made financing

BIDay 30/4/92 (58)

BANKS have different definitions, but it is generally accepted that in SA the function of project finance has differed from the international industry.

The main reason for this is that SA businesses have been faced with high tax burdens and project finance has traditionally been cheaper than other forms of finance because it has offered tax relief to the corporates.

During the past decade the emphasis in the project finance industry has been on reducing the corporate's tax burden through innovative financing packages.

The international definition of project finance, says Standard Bank's Rob Wassenaar, is financing a stand-alone project, looking only to future cash flows emanating from the project to service the debt.

In SA this has not really been the case, he says. Project finance has been tax-based structured finance. Projects have normally been underwritten by major projects and feasibility has not been of great importance.

Project finance started in the late '70s and has developed through various phases in line with changes in domestic tax regulations, he says.

Nedbank defines project finance in its purest form as the financing of an independent project without recourse to the sponsors or promoters of the project.

The financier will evaluate the viability of the project and look to the proceeds of the project for the repayment of the loan, a spokesman says.

"There is very little scope for pure project finance in SA and therefore Nedbank includes under project finance all forms of structured finance which are in many cases asset-based lending."

Differs

Project finance differs from normal lending in that it is hardly ever a straight forward loan to a borrower with equal repayments.

The finance would be structured to maximise the benefits to the borrower while at the same time providing for the borrower's special requirements. One of these would be a repayment profile to match cash flow expectations.

It would most often involve specialised forms of lending like leasing.

"The benefits to the borrower are that a financing structure is tailor-made to suit specific financing requirements."

The financing could be structured to include a moratorium on repayments during the construction and start-up phase and an escalating repayment profile to cater for the project's expected cash flow.

The financier may pass the tax benefits on to the borrower through lower interest rates.

All of the major banks and merchant banks are involved in the industry.

Wassenaar says smaller banks operate as boutiques because they do not have the financial muscle to get involved in bigger projects and normally would have to syndicate larger projects.

"But they are possibly more flexible because they are not tied to any way of doing things."

FBSA provides advisory services

58

BDay 30/4/92

WILLIAM GILFILLAN

FBSA Corporate Finance, a subsidiary of French Bank of Southern Africa, provides clients with advisory services but not necessarily funding for projects, says MD Inus Prinsloo.

"FBSA Corporate Finance advises clients on a project's viability and its most efficient funding structure, but only advises on 'mega-projects'.

"We are currently investigating one project of over R500m and two others of over R300m."

FBSA advises on all aspects of a project's viability from the "risks through to the sensitivities", including the project's debt capacity.

Regarding a project's funding, Prinsloo says one has to ensure the funding is linked to the project's risks. "For example, if a project's revenues are dollar-related, then the project's loans should be dollar-based".

It also advises clients on an efficient tax and legal framework within which to fund a project.

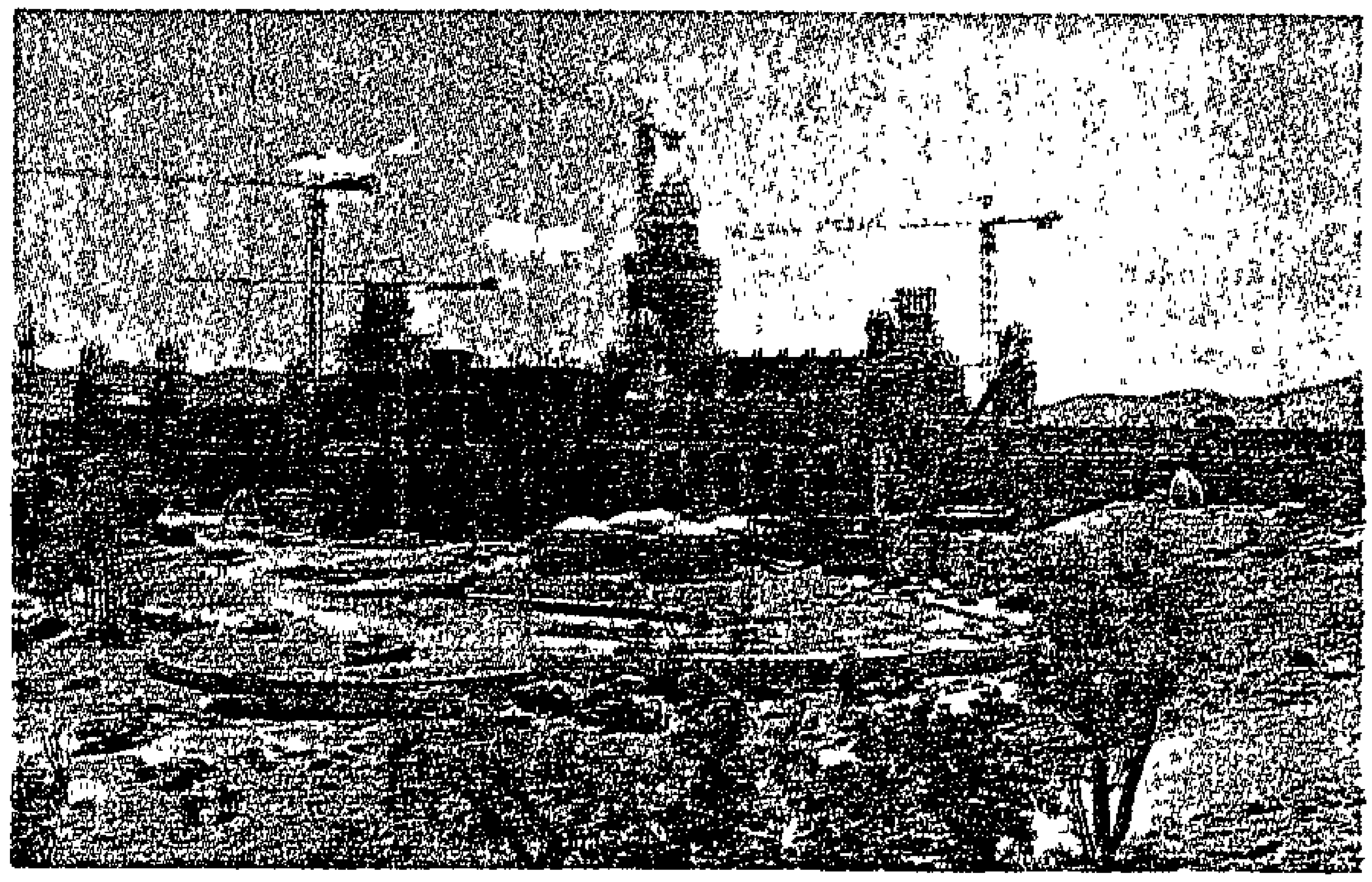
"Vast opportunities exist to reduce the project's funding costs through efficient and correct structuring."

FBSA's clients are mostly international companies in SA involved in large capex projects.

Prinsloo says FBSA Corporate Finance adds value through "oiling the wheels of projects by advising on the efficient structuring of finance packages, thereby increasing the efficiency of the projects".

Business Day SURVEY

*THE recent era of project financing in SA has seen the creation of some large economic units like Atlantis Diesel Engines and Sappi's Ngodwana mill in the early-1980s. A recent example has been Anglo American's announcement of Eastvaal. But in the future, export competitiveness is likely to become the major criteria in project financing in the industrial sector. **SHARON WOOD** reports.*



A major project financing by any standards: the Lost City addition to Sun City i Bophuthatswana, the family silver of parent Sun International. The Lost City will hav absorbed R750m when fully opened in December. Dubbed the world's largest reso construction, the project is being funded by internal cash flows, rights issues proceed borrowings and tax benefits arising from Bophuthatswana's favourable tax environmen

SA needs to tout for more small investments

BDay 30/4/92 (58)

LOW investor confidence and changing tax regulations have taken their toll on project finance during the past decade, but bankers believe the industry has a bright future.

Project financing of new plants and assets has taken a knock, says Standard Bank project finance GM Rob Wassenaar. But a number of big projects are being mooted.

Perceptions

SA primarily needs smaller investment of between R10m and R20m but there are not many projects of this size coming through, he says. Investment decisions and related project finance depend on the world economy and foreign perceptions. In order to provide the industry with a fighting chance, the authorities will have to encourage smaller types of investment.

Investment will probably be encouraged by the opening up of SA and business is now being exposed to new technologies.

There is also scope in the rest of Africa, says Wassenaar. But this does not necessarily mean that SA banking will rush off into the region.

Foreign banks will certainly be active in the project finance area but they cannot compete on the relationship side, where local banks have the advantage, he says.

"They will create a lot of competition. Local banks are not unhappy about this because they do not want to be in a stagnating market. Foreign banks will add another dimension to our activities," he says.

Wassenaar says the cost of SA capital needs to be brought in line with international costs. SA needs incentives to get investment going, he says.

"This must be done in a responsible manner and will hopefully result in viable projects with knock-on effects."

A Nedbank spokesma says project finance is a ever evolving industry where there are alway new requirements, new op portunities and new chal lenges.

"The future for the pro ject finance industry i very bright," he says.

There is a great need fo capital investment in S which will create opportu nities for project finance

Attractive

Project finance is a ver attractive business an therefore it can be expect ed that each major bank ing group will want a shar of the action.

"There is, of course, th threat of internationa competition but Nedban has geared itself to b amongst the leading play ers in SA.

"We are well entrenche in the market and we in tend to retain our pres ence," he says.

Give loans, banks urged

Sowetan 30/4/92

58

STATE President FW de Klerk has urged South African banks to help expand the informal sector by granting them loans.

By JOSHUA RABOROKO

Speaking at the official opening of the new Bankcity of the First National Bank, he said banks could not disregard the emergence and the expansion of the informal sector and the very special financial needs of its participants.

He said stokvels, for example, were already bringing the informal sector into the banking world and were already meeting needs in which the formal sector might have failed.

"It is encouraging to note, therefore, that this Bankcity complex is providing special facilities for the recognition and accommodation of informal economic activities.

"This demonstrates that the banking community is not aloof to the needs of small operators in the world of business."

He said the opening of the complex, with all its modern facilities, was not only an important event for the bank.

It was also a symbol of progress and of confidence in the future of the country - a country involved in a major programme of reform and economic development.

It was encouraging to hear that South African banks were making use of the new opportunities that were now opening up for them, by establishing their presence in major international financial centres, as well as in developing African countries.

These developments brought responsibilities with them. In many respects the foreign branches, subsidiaries and offices of South African banks were perceived to be representative of the prevailing customs and standards of the country.

It was imperative that they should carry with them the sense of discipline and the high moral ethics for which South African financial institutions had become known.

"The changing environment of banking is not confined to the international scene. Exciting challenges are also emerging in the changing domestic environment.

"Banking institutions have very special responsibilities. They are the most importance custodians of the savings of the public and they manage the cash reserves and the payments system of the market economy, he said.

"In fulfilling these functions, banks have to meet the financial needs of all the people of the country, the rich and the poor, the haves and the have-nots, the lenders and the borrowers. Any banking system that caters only to the wealthy is looking for trouble," he said.

De Klerk said that South Africa was looking to its bankers to help lead it into a new cycle of prosperity. On its part, he added, the Government accepted its responsibility to create an environment conducive to overall political and macro-economic stability, as well as sound international relationships.

However, the daunting problems of unemployment, poverty, low economic growth, the uneven distribution of wealth and income and growing expectations, even to the point of unrealistic demand, had to be faced together.

"I have no doubt that the banking sector will play a significant part in finding solutions to these problems," he said.

COMPANIES

Property syndication dip puts the brakes on BoE

BDay 30/4/92.

(58)

LINDA ENSOR

CAPE TOWN — The marked cooling down of Board of Executors' (BoE) property syndication activities in the six months to end-March contributed to a significant slowdown in the rate of profit growth of the financial services group, MD Bill McAdam said yesterday.

The group found it difficult to maintain the pace of its excellent record of profit growth — the average increase in earnings a share over the past five years has been 48% — and produced a 17% rise in attributable profit.

McAdam said that while the demand for syndications existed, buildings on offer did not meet BoE's quality requirements and had to be rejected. This had a material impact on profits.

However, while trading conditions in the property market had been particularly difficult, BoE's trust business had shown strong growth with assets under administration rising by R500m to R4,3bn. About R350m of this came in through the incorporation of new pension funds, some of which emerged from Anglovaal's takeover of 35,9% of BoE last year.

McAdam said BoE Merchant Bank performed on budget. All its banking business was now completely on balance sheet. Current assets, including loans and advances, totalled R1bn.

Pre-tax income before the interest paid on loan stock and after internal reserve transfers rose 4% to R6,7m (R6,5m). This includes operational income, dividends from short-term preference shares and interest income. Interest income increased substantially due to funds which flowed in from the sale of BoE's stakes in Storeco and Specialty Stores. BoE now has about R50m in cash.

The share of retained earnings of associated companies plummeted 60% due to the disposals. But attributable profit benefited from a significantly lower tax rate and the reduction in interest paid to loan stockholders, prompted by the conversion of loan stock into ordinary shares. Bottom-line profit rose 17% to R6,2m (R5,3m).

The tax rate fell to 16% from 40% due to the increase in dividend income.

The conversion of 3,6-million loan stock units into ordinary shares meant earnings a share were diluted, rising on a fully converted basis by 10% to 43,5c a share. An interim dividend of 14c (13c) was declared.

McAdam said BoE had adopted a conservative approach to lending, both in the banking and mortgage lending operations, and had virtually no bad debt. The group lends only to a very select clientele at the top end of the corporate market.

He said the 1992 year was one of consolidation for the group which had taken a number of costly strategic decisions and had placed an emphasis on maintaining the quality of the business. He added BoE was looking at acquisition possibilities both inside SA and abroad in related areas of activity.

in the property market had been particularly difficult, BoE's trust business had shown strong growth with assets under administration rising by R500m to R4,3bn. About R350m of 60% due to the disposals. But attributable profit benefited from a significantly lower tax rate and the reduction in interest paid to loan stockholders, prompted by the con- on maintaining the quality of the business. He added BoE was looking at acquisition possibilities both inside SA and abroad in related areas of activity

Turnover falls 70% at Bolton

BDay 30/4/92

JONO WATERS (58)

BOLTON Properties, which has been shedding its assets during the past few years, declared a final dividend of 5c a share for the year ending February 29.

Turnover sank from R1,2m in 1991 to R369 000 — a drop of nearly 70%. Turnover in 1990 was R5,39m.

The company, which has sold off a large part of its nonrevenue-producing property and other assets during the past few years, raised a further R31 000 on the sale of land and buildings. 30/4/92

Earnings for the year were 5,3c a share, slightly ahead of the predicted 4,5c a share.

The directors forecast a dividend for the coming year of 3c a share, which would be distributed fully in the form of a single dividend after the year-end.

Double results from Italtile

BDay 30/4/92

MARCIA KLEIN

RECENTLY restructured ceramic tile and sanitaryware group Italtile significantly increased earnings — on a pro forma basis and off a low base — during the year to end-February.

The group, which separated the listing of its retail and manufacturing operations, has issued actual and pro forma results for the year.

Chairman Gianni Ravazzotti says the pro forma figures reflect trading results for the group's combined manufacturing and retailing operations as if it had it not restructured in order to allow comparison with the previous year's results.

Pro forma earnings grew 31,4% from 76,1c to 100c a share while actual earnings were 65,9c. A final dividend of 6c a share was declared.

This, with the 8c a share interim dividend and the 7c a share declared by manufacturing operation Ceramic Industries, brought the full year's dividends up 17% to 21c a share.

Ravazzotti said growth of both the retail and manufacturing operations had been inhibited until mid-1991 as Italtile was a vertically integrated group. The group's operations were split into two separately listed companies so that each could focus on their core businesses of retail and manufacturing respectively, he said.

Earlier this year, after the acquisition of Abacus's ceramics factory and its Audiobuild listing, the manufacturing operations were renamed Ceramic Industries and housed in the Audiobuild listing.

Ravazzotti said this move had enabled the group to separate its divisions and allowed the manufacturing operations to sell products to alternative retailers. □ Turnover figures are not given, but turnwas 11,9% higher than during the previous year against 10,2% turnover growth in the year to end-February 1991.

Operating profit rose 8,8% to R23,5m. Actual operating profit of R16,3m reflected six months of the manufacturing division's trading and a year of the retail division's trading. Ravazzotti said growth in turnover and operating profit was achieved despite adverse trading conditions and increasing price competition.

The group had budgeted for no real growth in turnover and increased pressure on margins in financial 1993. Earnings for the year would be maintained "at the annualised achievement" of the second six months of financial 1992.

Park for Oxbel shareholders

Investment must suit client's needs

STAR 30/4/92

58

Beating inflation is all about putting an investor's money into the financial product which best suits his or her interests — even if the product belongs to a rival institution.

Objective investment advice of this type is, claims Syfrets, available through its successful Wealth Creator Plan, an investment planning service which has already been used in the overall investment planning of more than 2 500 individuals representing a total net worth of R625 million.

Rather than promote specific Syfrets products, Wealth Creator Plan seeks to meet clients' needs with tax efficiency and minimum risk. It therefore freely recommends that clients switch to a competitor's products if this is in their best interests. The implementation of the resulting recommendations is handled by Syfrets's own investment planning consultants.

Wealth Creator Plan uses sophisticated computer software to come up with the optimum investment mix for a given client's needs and risk profile. The overall service caters for such factors as inflation, estate duty, tax and retirement planning.

Recent enhancements enable Syfrets consultants to model elaborate investment scenarios and to extrapolate future investment values in nominal and real terms (inflation adjusted)

A Wealth Creator Plan advertising campaign has been running for most of April and highlights what the public has come to see as the product's key strength — the objectivity of its investment advice. Initial feedback based on customer response to the advertisements suggest the campaign has been a success.

"It has worked extremely well. Clients appreciate the fact that we aren't necessarily recommending our own products but are really concerned with meeting their investment objectives," says Ollie Atkins, assistant general manager, Investment Management Division.

He adds that Wealth Creator Plan has allowed Syfrets to reach a wider spectrum of clients, particularly — though not exclusively — in the high net worth category.

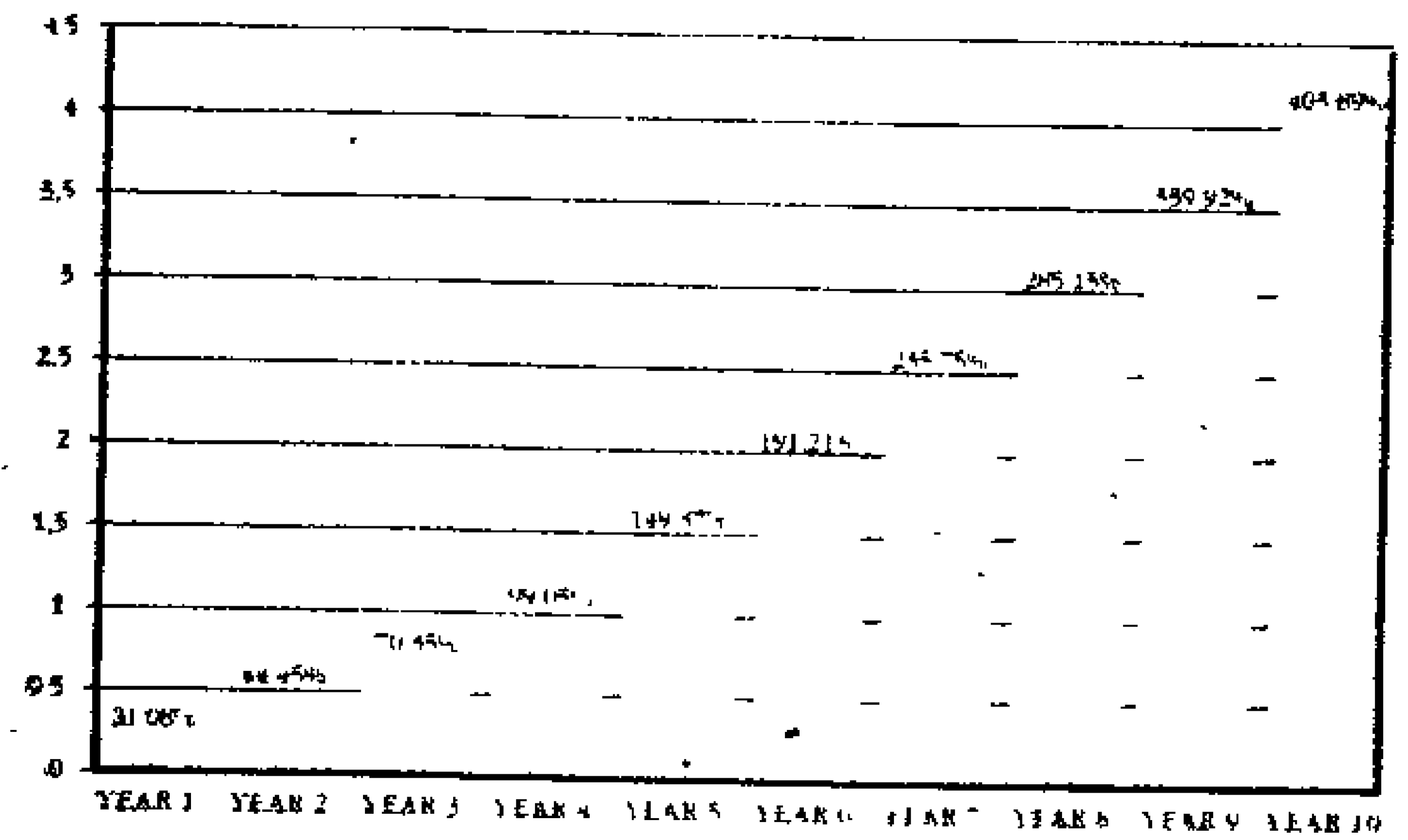
"Naturally, where our products are highly competitive — as is the case with our Syfrets Growth Fund unit trust — and the investment suits the client's overall strategy, our own products will feature. But the investment planning will also incorporate competitors' products."

At the end of the day, says Mr Atkins, Wealth Creator is but a means to an end. "It is only as good as the investment expertise behind it — and our track record shows we have that expertise."

Property schemes offer safe option – Seeff

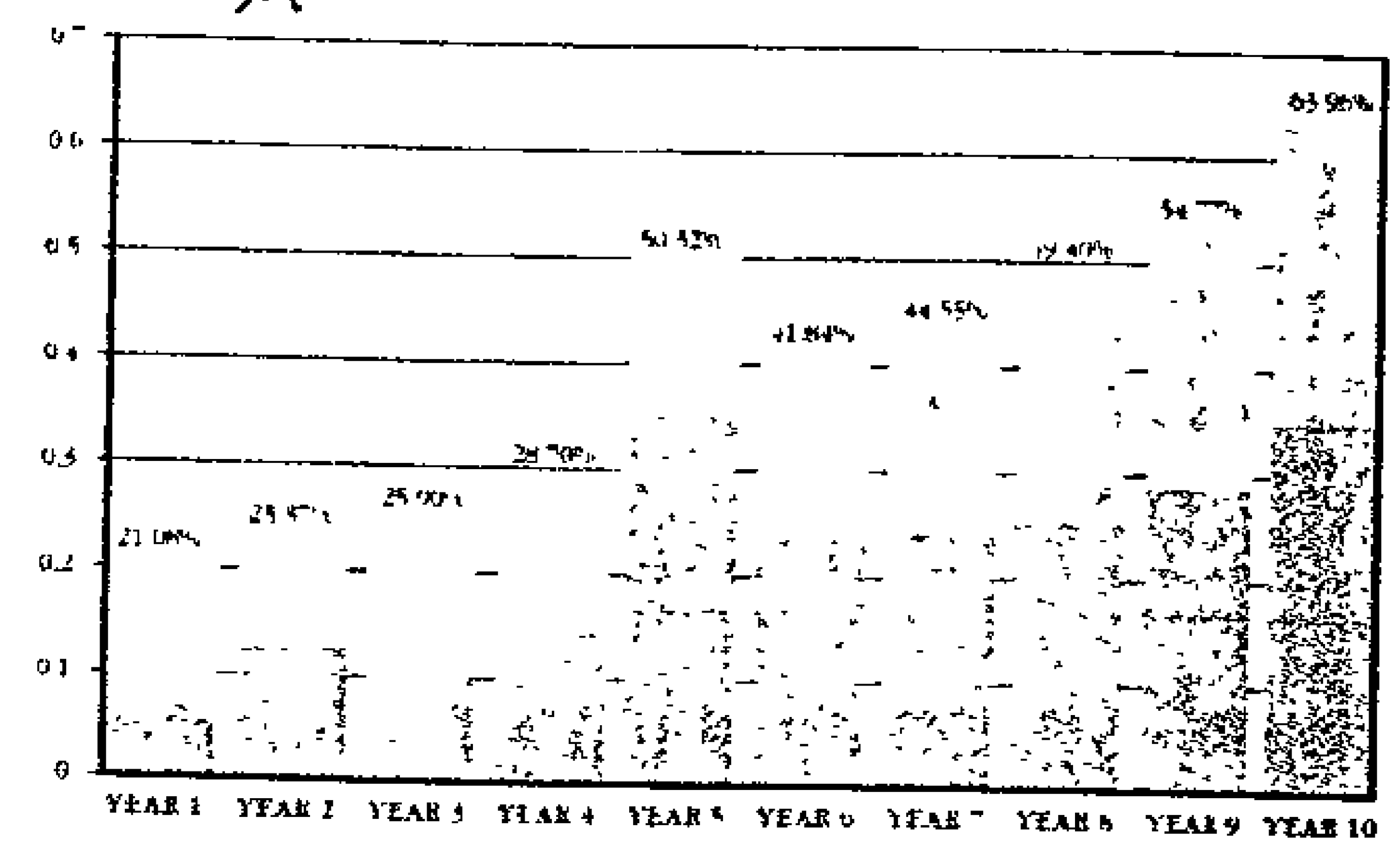
58 STAR 30/4/92

Projected % Total Cumulative Return



Total Cumulative Return

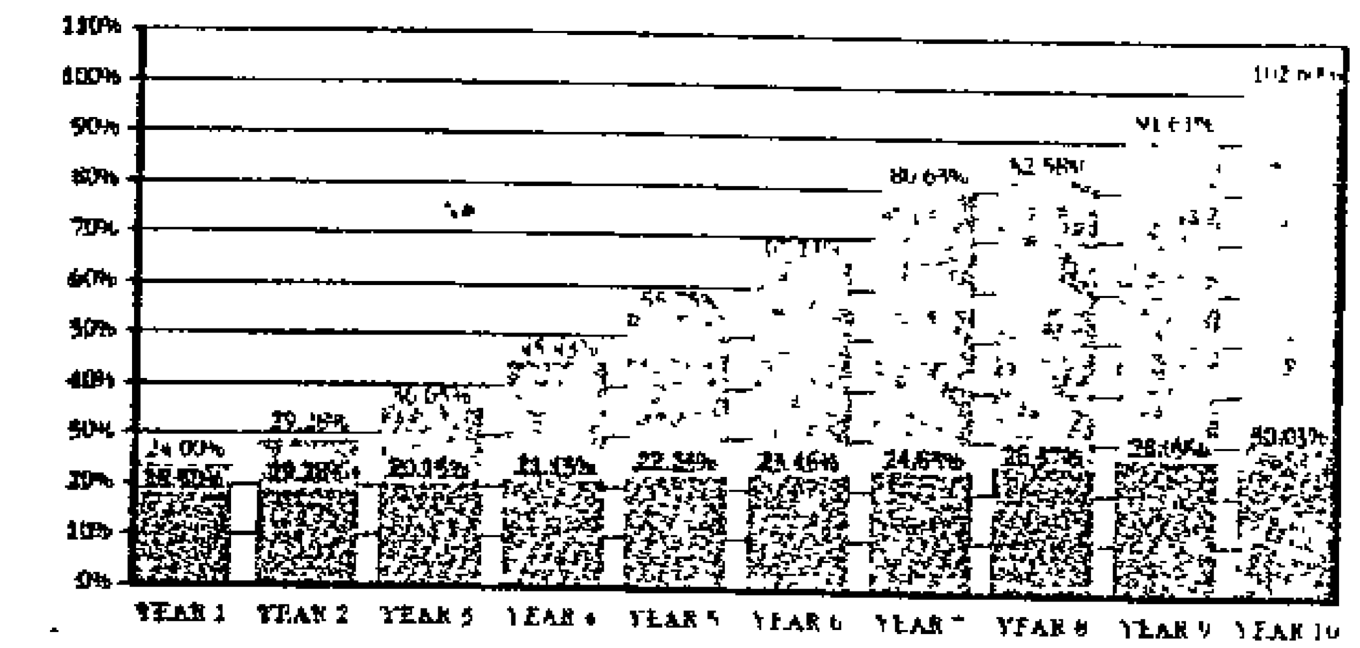
Projected % Capital Growth and Income Return



% Capital Growth

% Income Yield

Geared versus Ungeared Returns



Ungeared Return

Geared Return

Property syndication schemes offer an outstanding inflation hedge, maintains Lawrence Seeff, chairman of Seeff Organisation Holdings (SOH)

"Syndications that we've offered to the public produce internal rates of return of about 21 percent, so there's a comfortable cushion over inflation for investors"

Mr Seeff says "An investment in a property syndication represents an investment in a sound asset which appreciates over time and which yields a solid return It is one of the few means by which the small investor can obtain a stake in a substantial piece of real estate

"The risk is limited, being confined to the possibility that rental income might drop steeply in times of economic recession.

"Units should on no account be bought on a short term get-rich-quick basis. Property syndications are variably structured in such a way that the yields grow steadily over the medium term Investors should take a minimum five-year view"

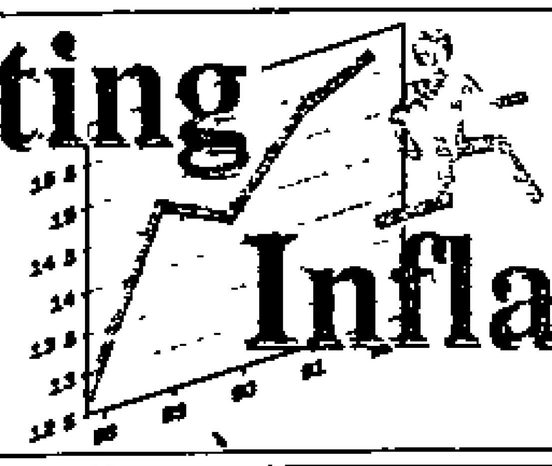
Seeff Trust, the financial services arm of SOH, has completed several successful syndications and is currently offering units in the BSE Centre in Bellville

The features of the syndication illustrate the nature of property syndication schemes

- The equity of the BSE Centre Ltd is divided into 3 600 authorised and issued shares each consisting of R1 share capital and a linked loan account of R9 999
- Syndication units are available in multiples of R10 000, with a minimum investment of R10 000.
- A full set of financial statements will be prepared annually and will be subject to audit.
- The effective date of the syndication is August 1 1992. Investors will receive interest on their investment at the call rate from date of payment until July 31 1992. This accrued interest will be paid to investors on July 31 1992
- The net income, after payment of normal operating costs, will be distributed to shareholders quarterly in areas
- Directors may not borrow money or encumber or dispose of the company's assets without a resolution passed by a 75 percent majority of votes at a fully constituted shareholder's meeting
- A gearing loan is only suitable where immediate income is not a priority

The accompanying graphs show the projected returns investors in the scheme can expect and the manner in which gearing the investment can boost that return

Beating Inflation



A Star survey

Inflation, anywhere between 15 percent and 22 percent a year, has become Enemy No 1 in South Africa. However, opportunities do exist for stability in investment and future prosperity. This survey examines some of the options, with assistance and contributions from leading business people.

Insurance schemes need reviewing for low-income groups

STAR 30/4/92

58

By Peter Atkinson (FILPA), Marketing Director IGI Life

As marketers of insurance plans extend their distribution channels to the rapidly developing lower-income segment of the market, it will become more important to review the current approach to product design in order to cater for the specific needs of the group

Legislation constraints, in particular those contained in the Sixth Schedule of the Income Tax Act, play a major role in product design, since it has always seemed wise to ensure that the products on offer meet the requirements for optimum tax efficiency

What is evident, however, is that the complex limitations of the schedule were designed with the typical white, relatively affluent insurance buyer in mind and that in many ways the current legislation does not suit the lower end of the market

The specific needs of this market broadly are as follows.

- A single policy that can cover all angles (This is important in that the minimum premium levels, coupled with policy fees and other charges levied per policy, mean that it is either impossible or, at any rate, very expensive, to own several small policies)
- The policy needs to allow for ad hoc increases in benefits (and premiums) to maintain a realistic level of cover Regular increases such as an annual inflation update are not appropriate since the policyholder is not in a position to plan financially to cover the increases Ad hoc increases, on the other hand, can be contemplated in the light of the known availability of sufficient income
- The inclusion of a choice of what type of benefit should be added in what quantity when upgrading the policy, rather that the purchase of extra benefits using a mix similar to that of the original contract
- The availability of upgrades under the policy during the last few years of working life.

Interestingly enough, in contrast to the more affluent market, where a high percentage of life assurance premium is allocated towards investment, in the lower-income groups it is the risk benefits which make up the larger proportion

From the above it seems clear that the current legislation concerning increases in premiums, limited either to a regular predetermined rate not exceeding 15 percent a year, or to a doubling in the first 10 years and a fourfold increase thereafter, is inappropriate

As a result the industry faces several inefficiencies, including the major problem of the cancellation of existing policies where the client feels that the cover afforded is no longer in tune with his needs but finds it easier and cheaper to end the old policy and start a new one

Peter Atkinson . . important to review current approach to product design

Unit trusts provide real tax advantages

STAR 30/4/92 (58)

Unit trusts provide ideal medium- to long-term investment opportunities for investors who do not have the time or expertise to manage their own investment portfolio, says Derrick Finlayson, managing director of Standard Bank Fund Managers.

One of the major advantages for the investor is that the management company is bound by law to buy back all units offered to it by investors. This means investors have ready access to their funds should the need arise.

Mr Finlayson stresses the significant tax advantages to investing in unit trusts.

"The capital gain investors enjoy should they sell their units at a profit is normally tax free. Dividend income is also tax free, while the first R2 000 of interest income from all investments is not subject to tax."

The Unit Trusts Control Act provides the legal framework within which unit trusts must operate. The Act and the relevant trust deed provide for a number of important safeguards which serve to protect the interest of investors.

South Africa's premier financial institutions are the only organisations which currently operate unit trust companies.

Mr Finlayson says the remarkable growth in unit trusts was likely to continue as investors sought sound investment opportunities which could act as a hedge against spiralling inflation.

"Unit trusts provide the man in the street with an ideal saving and investment opportunity which cannot be ignored in today's inflationary environment."

He did not foresee a decline in the industry's growth as the South African market was under-penetrated in international terms.

Derrick Finlayson . . . managing director of Standard Bank Fund Managers.

"Although unit trusts have been in existence only since 1965, which is a relatively short period in comparison to savings and investment institutions in this country, they have firmly established their position in the financial community, with assets now in excess of R11,4 billion.

"This is based on a proven long-term performance record, a sound structure, and the backing of the country's major financial institutions."

Currently just under one million people have invested in unit trusts directly, but many more have done so through pension funds and insurance companies.

The combined sales and assets of the three unit trusts administered by Standard Bank Fund Managers — the Mutual, Gold and Extra Income Funds — reached record levels last year.

Total sales for the year amounted to R381 million, which was 70 percent up on the 1990 sales figures of R233 million.

Total assets increased by 35 percent from R693 million at the end of 1990 to R938 million at the end of 1991. The number of account holders in the family of funds topped the 100 000 mark for the first time to close the year at 104 000.

FINANCE - GENERAL

1992 - MAY

FM 1|5|92 (58)

FIDELITY BANK

Found its niche

As other banking institutions continue to fight for market share in the retail market, including so-called niche players like NBS or even Nedbank, Fidelity Bank remains a genuine niche player. Once a sleepy Port Elizabeth bank, Fidelity continues to increase market share outside the standard personal account areas — principally in corporate banking — and now does 60% of its business in the Transvaal.

Company secretary Mike Newton says assets continue to be sweated. In the six months to March, income rose by 75% to R3,7m but assets by just a quarter to R518m. The rights issue at the beginning of December raised capital and reserves from R28m to more than R50m.

MD Jules Langenberg says general banking activities now have lower bad and doubtful debt levels than the industry as a whole. He expects recession to make the second half of the year harder but the bank has firmly entrenched marketing and risk management policies and tight cost control, he says.

Fedlife and Board of Executors (BOE) Acceptances are now the two major shareholders. Fidelity forms part of a loose confederation of financial institutions around Fedsure, including Investec and Saambou.

BOE MD Bill McAdam says that the various institutions do not get into each other's hair operationally and points out that Fidelity Bank's results have been excellent. Fidelity Bank is tight on credit granting and is only in asset-based lending — to borrow a rand, the customer must own a rand.

Newton agrees that Fidelity has a conservative culture — just one member of staff left last year and some client companies date back to the foundation in 1853, just 33 years after the settlers arrived in Algoa Bay. Results, at least, have been dynamic since Langenberg took over in 1984.

Fidelity Bank sits on a p:e of 10,4 and offers a dividend yield of 4,8%. This compares with an earnings yield of 9,3% and dividend yield of 3,1% on the banking index. in view of its recent track record it looks underpriced, though it is not heavily traded.-

Stephen Cranston

AFRICAN LIFE

Still growing fast

African Life (Aflife) continues to be one of the fastest growing life assurers, as measured by recurring premiums. Increases of 73% in recurring life policies and 450% in group business, admittedly off the small base of R0,6m, boosted total new business by 78% and pushed net premium income up by 33%

Such rapid growth, even for a relatively small life assurer, must risk new business strain. Aflife's marketing strategy of focusing on the low-income side of the market with a few simple products will probably ensure similar growth, at least as long as urbanisation continues at its present rate.

MD Bill Jack believes the group can finance new business as long as operating costs grow more slowly than recurring premium growth. This Aflife managed with considerable success last year, with expenses rising 18% (adjusted for listing expenses in 1990) to R18,3m.

GROWING BUSINESS

Year to Mar 31	1991	1992
Net premium inc (Rm) ..	57,2	75,9
Taxed surplus (Rm)	8,2	10,9
Earnings (c)	15,3	18,7
Dividends (c)	9,8	12,0

Jack won't detail the actuarial surplus in the life fund, that would indicate the ability to meet future growth. "I believe it's not necessary to disclose the figure in view of the company's inherent financial strength and because I don't believe it's a meaningful disclosure." He also won't specify the number of policies lapsed or surrendered, conceding that the rate increased but was not as high as in some previous periods.

Historically, Aflife's lapsed and surrendered policies are understood to be around 40%. That puts some perspective on the 56 000 new policies written last financial year.

Deputy GM John Burbidge is comfortable with the ability to meet new business strain, pointing out that the ratio of shareholders' funds to life funds, about 1:2,5, is as big as, and in some cases bigger than, the large life assurance groups.

Investment income grew a creditable 20% to R16,5m, with investments growing by the same percentage to R209m

With Aflife's sizeable share of the black market, providing bond cover could become an important business. Burbidge says the group uses its family connections (Southern Life is a 78% shareholder) and gets some direct marketing benefits from First National Bank. But it would not be surprising to see Aflife team up with one of the smaller banks, as big groups have tended to.

The share price, at its present high of 300c, has risen by 131% since Aflife listed in November 1990. Though new to the market, the group has a reasonably long record.

Parent Southern Life has long-term plans to reduce its holding. That should help tradeability, making the share attractive, particularly for the small investor who can probably pick up parcels *Shaun Harris*

FM 1|5|92 (58)

TRANSATLANTIC (58)

More Gordon cashing-up

Chairman Donald Gordon does not like debt, even when interest rates are waning He also wants a listing on the London Stock Exchange for Liberty Life's 55%-owned UK life insurance-property group TransAtlantic Holdings which is now quoted in Luxembourg. FM 1|5|92

Hence the double reason behind TAH's 1-for-4 rights issue at 250p to raise £147m net, which, incidentally, earns the distinction of being the first UK cash call since the Conservative general election victory. The discount is 23% to TAH's net asset value of 323p (depressed from 450p by two years of property slump in the UK) but only 11% to the closing Luxembourg price on the day of the announcement, when a flutter of selling in an illiquid market knocked 45p off the price.

The issue is fully underwritten by Liberty — well armed by November's European placing of 12m shares for some £80m — and backed by TAH's other main shareholders, Union des Assurances de Paris (16,8%) and Gencor group (12,5%). There is some doubt whether Liberty's First International Trust will be able to take up all its rights (43%) but French partner UAP is the probable candidate for absorbing any leftovers.

TAH has been a heavy investor in the past year. Shoring up Capital & Counties (80,7%), where the UK property collapse has knocked about 40% off asset values since end-1989, required £102m from shareholders. Then the acquisition of 100% of Sun Life in partnership with UAP absorbed £161m.

Finally, when the Pearson group exercised its put option on a tranche of Capco stock, TAH spent another £12,3m, increasing its stake to 82,6%. End-December net cash of £103m turned to £70m net borrowings.

Ex-rights TAH will have some £80m cash for itself. While Capco is still 75% geared (borrowings £490m, net assets £556m), it is more soundly funded at what appears to be the bottom of the property cycle.

As chairman of TAH, Gordon was non-committal about the kind of valuations Capco might produce at the end of this year. But the discernible, if slow, pick-up in retail sales and quality of Capco's shopping complexes should mean the worst is over.

TAH has been knocking on the London stock market door for several years, but to no avail because its assets were solely interests in companies which were already quoted (Sun Life, Capco and Continental & General Investment Trust). With hindsight, and as Gordon said in the last annual report, TAH's 1 000-plus shareholders were probably better off by not being invested in a high profile, property-dominated stock.

The *FT*-Actuaries property sector index languishes 53% below its 1989 zenith — and that is after some recovery.

But the time may now be ripe. With Sun Life and Continental delisted, Gordon is confident that a London quotation, and the acquisition opportunities that will go with it, is close. If it means buying out the 17% minority in Capco, that, at, say, 200p (178p now) will need only £45m. It will be a pleasure after the 367p TAH had to pay Pearson for its 3,3m Capco shares, and at a discount of 50% to a conservative NAV it could look clever two years hence.

With a market cap of £900m-£1bn and the bolstering growth of Sun Life, TAH would warrant automatic inclusion in the *FT*-SE 100 index and institutions' investment lists.

John Cavill

INSURANCE FM 1|5|92

(58)

Over troubled waters

Exotic insurance covers, including those arranged for non-appearance of entertainers, are becoming a specialised branch of underwriting and broking. SRU, a subsidiary of Standard General, has achieved a 123% increase in special contingencies business during 1991.

Shield Insurance Brokers has been placing sport and similar risks, mainly through Lloyd's, for the past two years.

Stangen GM Paulo Cavalieri attributes the growth of exotic business to the lowering of barriers against sporting and entertainment connections. Brian Gillespie, of PFV Group Broking Services, says widening contact with the rest of the world will result in a diverse flow of entertainers, sportspeople and businessmen attending conferences.

He says: "This influx and the activities it will engender will give rise to an increased need for specialist forms of cover not underwritten by the insurance market in general."

Exotic or contingency covers can be arranged for most circumstances, including:

- Cancellation or curtailment of exhibitions, sport meetings and other entertainment;
- Non-appearance of guest speakers; and
- Losses to sponsors' interests caused by such events as the death or disgrace of a performer.

Cover of R18m was arranged against the non-arrival of cars for the SA Grand Prix. Gillespie notes R10m cover was provided for the sponsors in the case of the non-arrival, cancellation or abandonment of the recent Paul Simon tour.

Much smaller events can be covered. An amount of R10 000 was paid recently when rain disturbed a provincial cricket match and R85 000 was paid for the abandonment of a TV commercial shoot.

Cavalieri, whose company recently wrote abscondance insurance for a leased aircraft, says companies such as StanGen, a member of the Generali group of Italy, do have capacity to undertake huge risks. This class of business was traditionally placed overseas but brokers now find it more convenient to work with local underwriters.

"You can't have a standard policy for contingency business and it's a lot easier to draw up the wording working face to face with the broker"

LANGEBERG HOLDINGS (58)
FM 1/5/92

Honouring a promise

The listing is still on track for June but will not involve the injection of new capital. According to Brian Steele, financial director of holding company C G Smith Foods, who is based at Barlow Park, the main reason for the listing is to give the farmers and managers who make up the minority shareholders an opportunity to make a capital gain.

When Barlow Rand flagship Tiger Oats entered into partnership with Langeberg Co-op back in 1988, it undertook that co-op

FM 1/5/92 (58)

members would be able to enjoy the fruits of their labour by selling into the stock market.

Steele says the listing will add little to the liquidity of the JSE, though it is believed the shares will be split four ways. Tiger Oats holds about 55% of the equity. Tiger chairman Robbie Williams and CE Clive Wolpert are on the board, along with Steele.

But it's misleading to read too much Barlow Rand grand strategy into the listing. It will make no difference to day-to-day operations outlined in last week's cover story.

Langeberg's results have been distorted to some extent by the tax shield derived from tax losses incurred by the co-op before the Tiger takeover. Brown estimates that Langeberg's tax rate will settle at about 25% but earnings will increase in the year to September 30 and look like increasing again the following year.

Stephen Cranston

continued from p16

Ironically, then, while we will see a decline in the number of existing parties, smaller parties could well arise in future which are geared to local, regional or other special issues. Furthermore, it is quite possible that such parties will hold the balance of power either in certain regions, or nationally.

An example is the Greens of Germany, which has been a very effective pressure group for environmental protection which the major parties, formed from alliances, found they could not ignore. In this way, smaller parties can succeed in getting particular issues on to the national agenda.

An example of this phenomenon here may well be the CP, which could well be a force to be taken into account in a national settlement — certainly in the northern Transvaal. Inkatha, similarly, might be an important player in the Natal region. The prospect of elections has somewhat clipped Buthelezi's wings on the national stage, making real the possibility that he might dig in in KwaZulu.

So, while the ANC might emerge the biggest party on a national level, it's conceivable that the NP (or a party built round it) may emerge as the most significant one regionally. Hence the importance of wooing voters across the spectrum in a PR system. Whichever party gets the most votes, it will, in all probability, need the co-operation of other parties to govern effectively.

At present, the realignment process is at an early, conceptualising stage as parties consider their options.

In the NP's case, it knows that it will not attract younger black potential voters especially given its present symbols and organisation. However, the idea of a moderate alliance formed around De Klerk, especially after his personal triumph in the white referendum, is seen as something that can be built on, given effective media and big business support for him.

The party is aware of the difference between support for De Klerk and support for the NP. Market research conducted by the HSRC among coloureds, Indians and Africans evokes quite different responses when it comes to support for De Klerk as opposed to his party It's no wonder that government recently announced yet another transitional government proposal — this time for a directly elected, rotational interim executive of three to five leaders.

For the NP, however, establishing a new party immediately is not considered the best

Mandela

De Klerk

option strategically. (This could also be the ANC's reason for not at this stage formally transforming its "broad church" into a party proper.) Given the nature of an heterogenous SA, it will wait until alliance-forming gains momentum, allowing each potential party ally time to consolidate and "deliver" its own constituency when the need for formal electoral pacts draws nearer.

Therefore, some experts reckon, the NP will move in three phases:

- Into black, coloured and Indian areas under the umbrella of the NP;
- Seeking out loose alliances — a confederation of parties in which each retains its identity; and finally
- Establishing a more formal coalition — like the DTA in Namibia — essentially to fight an election.

Theoretically, the ANC must be considered best placed from the point of view of campaigning on a nonracial basis, having all along emphasised colour-free policies. Aside from scant white support, however, there is evidence to suggest that the ANC cannot automatically count on support from the important local-level civic organisations which were formed under the aegis of the old United Democratic Front. It has work to do at this level.

And for all the ANC's nonracialism, Mandela, addressing a meeting in Natal over Easter, made a pitch for the Inkatha Freedom Party to join him by reportedly appealing to the interests of "black solidarity.". Competition between Inkatha and the ANC has long loomed large and will be a significant feature of any election campaign in future. It is a key issue in the violence that could destabilise any settlement.

The ANC, despite its rancorous relationship with the Pan Africanist Congress (PAC), is keen at least to neutralise the threat on its left flank. Hence the importance it continues to attach to the Patriotic Front alliance which includes mainly the PAC.

Bilateral talks between the ANC and PAC continue. Yet they remain far apart on basic issues that would seem to make drawing up a common election manifesto almost impossible at this stage.

Running in tandem with competition over who will govern the country, however, are the critical Codesa negotiations. The need for achieving consensus on basic principles at Codesa in practice means applying the brakes on alliance-formation at this stage in order not to give the impression of ganging-up If the NP, say, began at this stage to openly form alliances with other parties which favour federalism and maximum devolution of power, this might cause the ANC to dig in, putting agreement on federal features even further out of reach.

It could well be that both the ANC and the NP now have no wish to push the alliance-forming process further because — occupying central positions of power — they can wait while the smaller parties splinter, to their benefit. The ANC has gained five comrades from the DP so far — the Democratic leadership must be wondering who else will jump ship and to which party. ■

FEDSURE-INVESTEC

FM 1|5|92 (58)

Putting heads together

The partners in the alliance look to synergies — but cherish independence

Tough times can spur the finest economic performances. This applies in particular now to SA's banking and long-term assurance sectors. Both have been significantly rerated in the past year as climbing share prices were underpinned by a belief in their value as recession-hedge stock.

Performance has been pronounced among the top second-tier groups, which usually have more latitude to take on risk and are flexible enough to react quickly to changing market conditions.

A long recession like the present one tends to show a trend towards mergers and takeovers. That is the obvious route for a business that needs to boost its capital base to maintain growth. But there may be more creative ways, which is why the cross-industry share swap link between Fedsure and Investec Holdings (Inhold), together with 76%-subsidiary Investec Bank, will be interesting to follow.

The deal is intricate: Fedsure has a 27% holding in Inhold and 22% of Investec, while Investec has increased its stake in Fedsure to about 24%, though respective interests could move up a few percentage points after the current rights offers by both groups. The outcome will be the formation of a broad financial services group; but it is still being put to bed and it may be a while before direct benefits become apparent.

Both parties are enthusiastic about the alliance and say it offers a long-awaited entry into each other's industries.

Does Investec want to be a long-term

cont.

assurer and would Fedsure like to be a merchant bank? Some feel Fedsure has been playing the role of a merchant bank in recent years. Group CE Arnold Basserabie denies it. What remains important to both is to keep the fierce independence which characterised them in the past and, ultimately, attracted the groups to each other.

Cross holdings between banks and assurers are nothing new. Having started in Australia and the UK a few years ago, with a few casualties along the way, they are becoming increasingly common in SA. The difference is that Basserabie and Investec MD Stephen Koseff say they are comfortable with the level of cross holdings and do not plan to increase their interests in each other now.

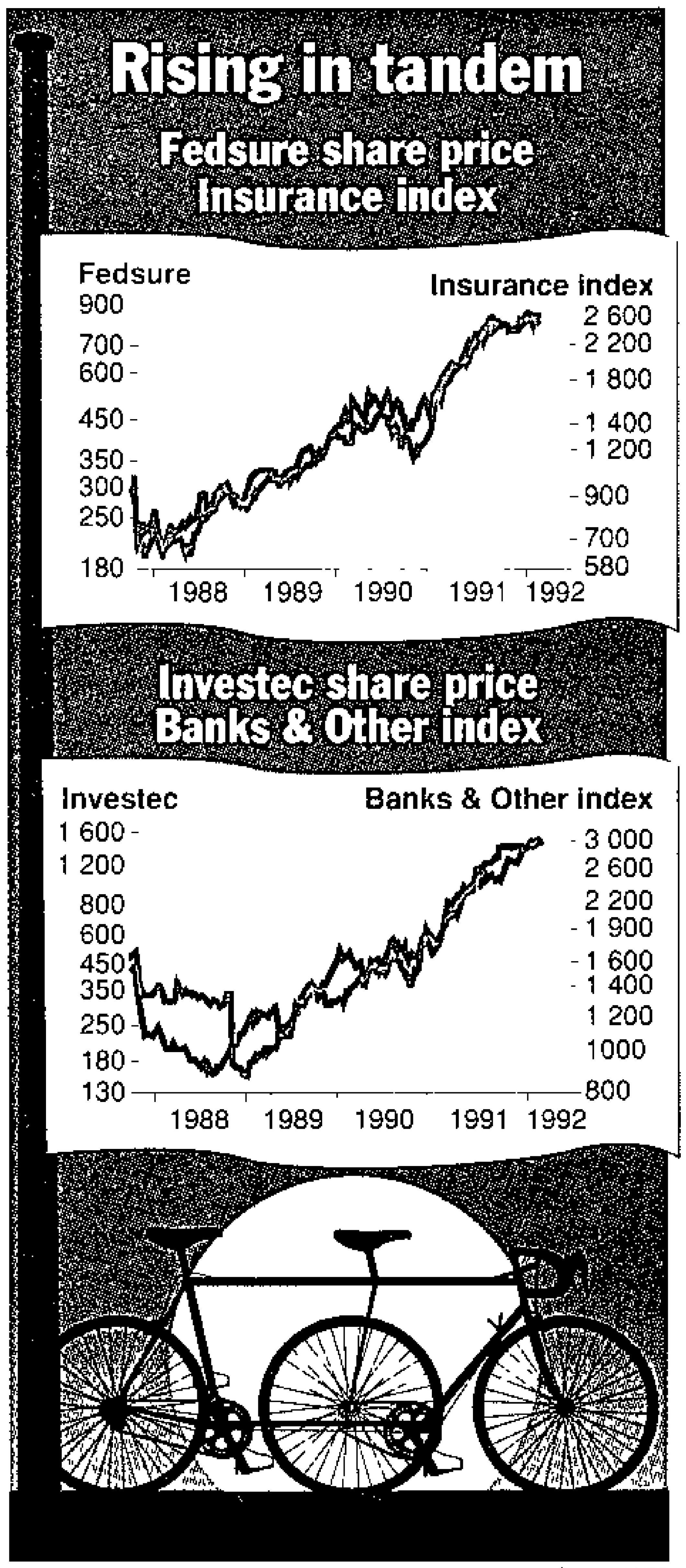
While some other bank/assurance mergers have tended to blur the lines between the partners — Liberty chairman Donald Gordon readily refers to the Liberty/Standard axis as a single entity — Fedsure and Investec, say their respective heads, will continue to concentrate on core business and treat excursions into each other's industries as peripheral.

A commitment to independence and remaining a single organisation is part of Investec's mission statement. While that may be only as permanent as the next annual report, Koseff says independence will remain part of the group's strategy: "The cross-holding with Fedsure has not changed that. We remain an independent, they are an independent, and that's the way we plan to stay."

Then why form an alliance, considering Investec's earnings performance, an average compound growth rate of of 30,5% over the past 10 years and a record 37,1% in the past financial year? Because the reassurance of a joint asset base of around R16bn and the additional capital raised in the transaction are attractive.

"From our perspective, the alliance has given us a lot more critical mass," says Koseff. "We now have a capital base in excess of R400m and a risk-weighted capital:asset ratio of about 14%. That makes us well capitalised, probably the best-capitalised bank in the country. In terms of size,

Investec's Koseff ... *looking at critical mass*



Source I NET

that makes us the sixth-biggest banking group in SA just behind NBS."

The extra capital will help Investec to keep up its growth rate. Koseff says that, assuming a growth rate of 25% a year, Investec has adequate capital to grow its book materially to about 1997 or 1998.

The life industry also holds attractions for Investec. With the movement towards easing legislation and letting banks market assurance-related products, the Fedsure tie-up offers strategic benefits. So does the potential for increasing investment income

"We're in the investment market, attracting short-term capital," says Koseff. "Life assurers attract long-term capital. By having a strong relationship with Fedsure, we can attract both kinds of capital into a related group."

Basserabie also recognises this as one of the benefits of the alliance. But, for Fedsure, the potential to market products to banking-sector clients, in particular Investec's small, niche client base of about 50 000 A-income and corporate customers, must be attractive

Developments must still evolve, though Basserabie points to Investec's property syndication activities as an example. "We can offer products to people investing in property that repay the loan at an appropriate stage and give life and disability cover. That is one way we could work together. We're also in the property industry We can combine our brains and resources to look at investments," he says.

Like Investec, Fedsure welcomes the enhanced capital base and entry into a related industry with a new client base which flows from the deal. For it, though, tying up control of Fedsure was vital.

Basserabie says that with just under 50% of Fedsure's equity held by a controlling pool before the Investec deal, there was no need for concern. Still, elements of the market saw the group as loosely held and rumours of a takeover bid surfaced.

With the deal now in place and Investec's holding in the controlling structure strengthened, the pool's control has been raised to about 60% and it could go a few points higher with the rights offer.

Included in the controlling pool is Fedco, the vehicle formed during the share-swap transaction to represent senior management's equity participation in Fedsure. The issue of preference shares effectively comprises a claw-back offer for existing shareholders and management, and, with Fedco underwriting the rights offer, its stake in Fedsure will increase by between 4% and 6%.

With control a direct benefit of the deal with Investec, what plans are there for specific future developments? Basserabie says there is nothing specific at this stage — products and joint developments will evolve as the relationship settles down. "In the first place, our core business remains life assurance; other activities can be only beneficial. Fedsure will continue to run its own business for the benefit of policyholders, staff and shareholders, and Investec will do the same.

"What we are going to do is work with them where we see synergies and joint opportunities between the groups, ways in which we can enhance our spheres in the broader financial services industry. We can offer a better service to clients by seeking opportunities we can exploit together."

Both groups say they have shown steady growth for years and the attention they are now getting comes from raised perceptions in the market rather than any dramatic new developments. But both Fedsure and Investec have been busy in recent years making acquisitions and pushing into new areas of business.

While Koseff gives the impression that he likes to stay out of the business spotlight, the dramatic sequence of events surrounding Investec's unsuccesful bid for Board of Executors through Mercury Trust in September 1989 brought lots of attention to the group.

With hardly taking time to lick its wounds after the hostile bid failed, Investec was soon back on the acquisition track. It bought Corbank, then moved into trade finance and a stepping stone into Europe by taking over Reichmans It bought the rental assets of electronic group TR Services and, more recently, paid R11m for Natal-based Provincial Building Society, which has since be-

F M 11592

LIBERTY LIFE GROUP

(58)

International dreams take shape

Activities: *Long-term assurance and pension fund management; holds strategic investments in SA and abroad.*
Control: *Lib Life Controlling Corp (Pty), held equally by Liberty Investors and Standard Bank Investment Corp.*
Chairman: *D Gordon; MD: A Romanis.*
Capital structure: *227,8m ords. Market capitalisation: R9,28bn.*
Share market: *Price: R40,75. Yields: 2,7% on dividend; 3,1% on earnings; p:e ratio, 32,1; cover, 1,2. 12-month high, R42,75; low, R30,25. Trading volume last quarter, 4,9m shares.*

Year to Dec	'88	'89	'90	'91
Total assets (Rbn) ...	14,80	19,20	28,14	34,52
Net premium and ... annuity inc (Rbn) ...	1,46	1,78	1,93	2,27
Investment inc (Rbn)	0,89	1,19	1,52	1,66
Total income (Rbn) ..	2,37	3,0	3,47	4,01
Life funds (Rbn)	10,98	15,05	16,60	20,76
Investments (Rbn) ...	14,18	18,29	25,36	31,20
Net taxed surplus (c) ..	69,5	84,7	102,1	127,0
Dividends (c)	50,5	63	86	108†
Net worth (R)	107	117	147	195

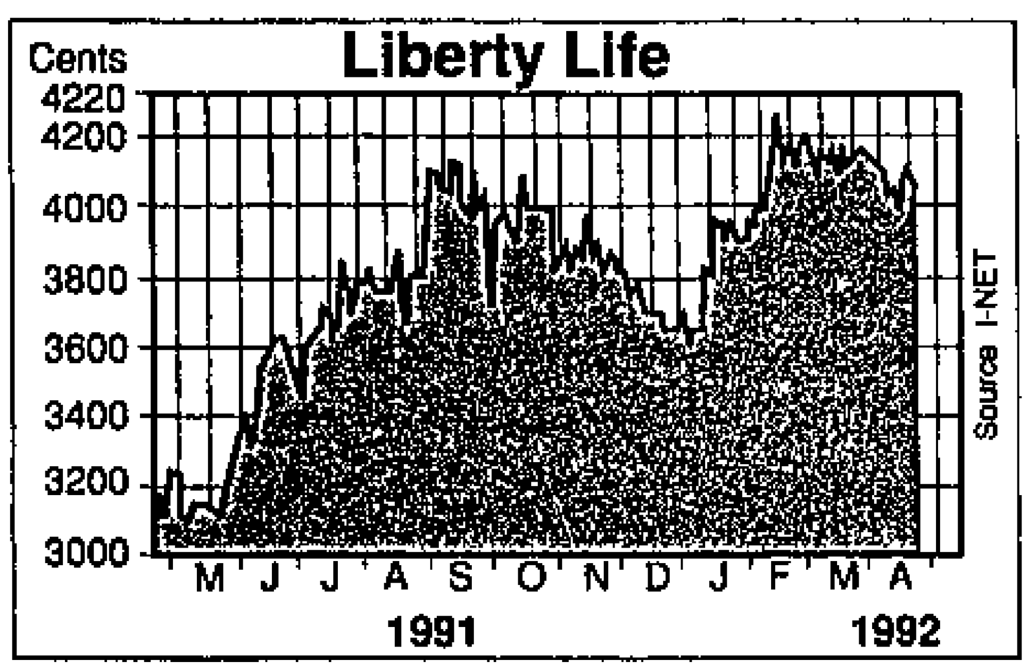
† Excludes dividend in species of 16 FIT shares per 100 ords at 199,2c per ord.

Donald Gordon's long-nurtured dream of making the Liberty Life group a genuine international insurance and investment-based financial services group began to take concrete form last financial year. It is not surprising that he says 1991 will prove the most significant in the group's 34-year history.

The £180m investment by **First International Trust's** (FIT) UK subsidiary TransAtlantic Holdings in Rockleigh, which gives it joint control of now delisted Sun Life, is a strong entry into the UK long-term insurance industry and the link with 50% partner Union des Assurances de Paris (UAP), France's largest insurance group, opens possibilities for the rest of Europe.

More recently, the £149m rights issue announced by TransAtlantic and hoped-for listing on the London Stock Exchange (see *Fox)* will further entrench the group abroad. Apart from Sun Life, TransAtlantic holds a fully diluted 77,5% of property developer Capital & Counties (Capco).

That the UK property market is going through what Gordon says is one of the most difficult years ever experienced, and with the insurance industry not looking too rosy either, probably has more to do with bad luck than a bad business decision. Capco's regional shopping centres are long-term projects, and despite being evaluated, under the UK's existing annual valuation conventions, at below cost, should remain a valuable asset to have on the books.



Liberty's Gordon ... *closer to becoming a world player*

Sun Life, with a 32% improvement in taxed surplus last year and local analysts forecasting 15% earnings growth this year, offers growth potential.

Recession abroad has hammered FIT's earnings. The dividend is held at 20c but the share price on the JSE, which climbed only 6,5% in 1990, has now dropped 26% since the beginning of that financial year.

FIT is not likely to be able to follow its full TransAtlantic rights, diluting its 42,9% holding and diminishing its role in the group's structure to a vehicle for SA investors wanting to buy directly into Liberty's UK investments.

Back home, the group's dominant profit source, **Liberty Life,** increased its contribution to overall profits by one percentage point to 79%, advancing earnings by 24% and the dividend by 26%.

Pyramid **Libhold,** as usual, did even better, with earnings up 25% to 395,7c per share and the dividend up 29% to 284c, maintaining an unbroken record of increases per ordinary share averaging more than 25% since its listing in 1968.

Libhold shareholders also benefited from a dividend in specie of FIT shares equivalent to 522,9c per ord, as did Liberty Life shareholders, who got 199,2c.

With last year's international issue of 12m new ords, Liberty Life is in a strong position to look at potential acquisitions With total assets up 23% and market capitalisation over R9,2bn, Liberty becomes the 10th-largest company listed on the JSE

The only disquieting figure on the income statement is the relatively poor growth in investment income, 9,2% compared with 27,7% in financial 1990 and an average annual 34% from 1985-1990.

Figure may deceive

New MD Alan Romanis, appointed after former joint MD Mark Winterton's retirement and Dorian Wharton-Hood's move to vice-chairman, says this figure may be deceiving as it is a net amount reflecting changes in the investment mix and net transfers to investment reserves in respect of realised surpluses.

The increased stake in Standard Bank Investment Corp (SBIC), now about 40% but likely to rise to 49% next year as Liberty takes advantage of changes in banking legislation, just about wraps up control of the group. Liberty may also be keen to increase its stake in SBIC to ensure the Liberty/SBIC snake doesn't eat its tail.

With the likelihood that banks will soon be able to move into insurance-type products, a 49% stake in SBIC would eliminate a potential competitor.

FIRST INTERNATIONAL TRUST

Year to Dec 31	'88	'89	'90	'91
Income before interest and tax (Rm) ..	55	111	87	88
Attributable inc (Rm)	39	52	66	54
Earnings (c)	41	37	48	36
Dividends (c)	30	18	20	20
Net worth (c)	756	698	1 063	859

Top performing share remains that of **Libvest,** the listed investment company which together with SBIC has joint control of the group. Its share price climbed 75% over the year (1990: 72%), and has gained 40c since to its present 740c. Libhold firmed 53% in the year and, since publication of the results, has firmed another 7% to R102, while Liberty Life, at R40,75, has shown 57% growth since the beginning of 1991.

Good local performance and interesting offshore developments should keep the shares attractive, especially those of the pyramid companies. Liberty Life must be considered undervalued, which means now is a good time to consider buying in. *Shaun Harris*

UNIT TRUSTS

Assets still rising

Unit trusts continue to increase in asset value, topping R12bn for the first time last quarter, and comfortably outpace the inflation rate, but individual portfolio performance fell on an annualised basis in the first three months of the year.

At December 31 average annual return for general equity trusts, 81% of the industry's assets and accounts, was 34,2%. By end-March the figure dropped to 29,2% All funds except UAL, which maintained a 30% return rate, fell.

The more volatile specialist equity trusts reflected a similar pattern, though naturally the divergence was greater. The only funds in this category to do better were the two specialised gold funds, Old Mutual Gold and Standard Gold. But both came off low bases, Old Mutual from a previous negative decline of eight percentage points and Standard bettering its previous almost static performance by seven percentage points.

Whether the latest results reflect a correction in equity markets is hard to gauge over such a short period, though Association of Unit Trusts executive committee member Bernard Nackan believes something of a correction is taking place

He emphasises, however, what the association continually points out — that unit trust performance must be viewed in the long term.

Liquidity for general and specialist equity remains 14%, down slightly on last year. Industrial shares continue to account for the bulk of portfolios, up in total from 44% at December (September: 43%) to the present 45% in the general category. At 29%, industrials also make up the main part of specialist equity portfolios.

Increased exposure to industrials, though small, reverses the trend seen in September when some bigger funds began to move out of industrials in anticipation of a correction. The timing of the correction seems to be causing some confusion, as can be seen in a contradictory move into recession-hedge financial shares.

The bigger slice accorded to industrial and financial shares comes, with some exceptions, at the expense of mining counters.

Repurchases, at R500m, are significantly up from the previous R403m, and could represent some profit-taking after the good performance by most funds in 1991. Nackan says this is one of the facilities provided by the industry: when markets perform well, some investors start to take profits. *Shaun Harris*

Association's Bernard Nackan ... *take a long-term view*

General Equity	Liquidity	Gold	Mining finance	Other mining	Financial	Industrial	Other assets	1 yr to Dec 91	1 yr to Mar 92	5 yrs to Mar 92	Dec 91	Mar 92
	% of Portfolio							Performance %			Mark value (Rm)	
Old Mutual	10	3	20	11	6	50	–	37	34	19	3 125	3 312
Sanlam Trust	6	7	16	11	7	51	–	34	27	17	516	560
Sanlam Index	9	8	16	15	3	49	–	31	25	18	858	906
Guardbank	13	4	14	7	20	36	6	33	26	19	1 385	1 482
Standard Mutual	40	2	12	4	12	30	–	32	27	18	517	552
UAL	23	–	16	14	19	28	–	30	30	17	585	626
Sygro	15	4	9	7	7	53	5	42	34	–	459	548
Syfrets Trustee	21	–	14	8	9	48	–	–	–	–	337	354
Sage	15	3	11	7	8	52	3	37	29	18	950	990
Momentum	9	12	11	5	9	54	–	38	27	–	53	55
Southern Equity	14	1	17	12	12	42	2	42	35	–	95	106
NBS Hallmark	8	4	16	10	8	46	8	31	24	–	31	34
Norwich NBS	8	7	23	26	8	28	–	25	20	–	21	21
Metfund	12	3	–	22	13	50	–	36	31	–	28	30
Senbank	21	2	16	5	12	44	–	–	–	–	4	7
CU Growth	13	5	13	11	16	42	–	26	25	–	26	27
Safegro	8	2	8	1	7	74	–	32	29	–	39	43
BOE Growth	6	7	9	13	4	54	7	37	31	–	53	62
Fedgro	12	3	18	7	9	40	11	28	25	–	25	31
Volkskas	17	11	13	5	6	43	5	–	43	–	28	36
Metlife	21	5	21	6	7	40	–	–	–	–	14	17
Specialist equity:												
Old Mutual Mining	6	14	40	35	–	5	–	9	7	–	122	115
Old Mutual Gold	10	71	19	–	–	–	–	(8)	6		46	46
Old Mutual Industrial	7	–	–	–	21	72	–	43	36	–	90	102
Old Mutual Top Comp	27	–	8	8	14	43	–	–	–	–	59	96
Sanlam Mining	9	22	30	35	–	4	–	17	9	6	99	93
Sanlam Dividend	12	4	12	7	9	56	–	45	35	15	72	76
Sanlam Industrial	11	–	2	–	7	80	–	45	33	20	214	215
Guardbank Resources	14	15	23	25	–	16	7	22	20	–	54	53
Standard Gold	22	50	28	–	–	–	–	1	8	(4)	224	205
UAL M & R	14	8	37	39	–	2	–	26	16	10	226	221
UAL Select	19	2	4	4	10	61	–	43	27	–	107	115
Sage Resources	14	19	26	19	–	19	3	17	15	–	57	58
Southern Mining	12	14	38	31	–	5	–	16	13	–	23	23
Senbank Industrial	25	–	–	4	15	56	–	–	–	–	2	3

come a division of Investec.

Fedsure has been equally busy, if not quite as acquisition-hungry. In the 1991 financial year it obtained a 30% interest in eastern Cape-based Fidelity Bank, an acquisition it regards as a high-return equity investment.

It added a subsidiary to its masthead last year by launching Fedgro Unit Trust and it formed the Fedlife Capital Fund, an original attempt to isolate and invest in small-to-medium-sized companies which seem to have growth potential.

Controversy surrounded Fedsure's acquisition of a 34% stake in Saambou, a disputed deal which saw Investec use its indirectly held 13% voting rights to help secure the transaction for Fedsure. That, together with an earlier joint interest in the Investec-managed Intrust — an investment trust aimed at green chips — was the nucleus of the relationship between the two independents which culminated in the share-swap alliance.

Fedsure's latest results show earnings up 22%, in line with its annual compound growth rate of 22% a year over the past eight years. Total assets swelled by 25% in the past financial year, pushing over the R5bn mark.

The share price has dipped to R7,50 off its recent high of R8,30, but this is probably ex-dividend (results were published last month) and consequently shows a share which is probably a little underrated now. The retrospective yield of 3,9% compares with Liberty's 2,6% and Southern's 3%. It would not be surprising to see Fedsure's dividend yield approaching Southern's 3% later in the year.

Fedsure's Basserabie ... *the niche market is attractive*

Investec's results to year-end March should be out soon. Koseff expects them to be in line with the group's historical earnings performance, which will not match last year's 37% growth rate.

The share remains close to its annual high of R21,50 off a generous yield of 3%. At 15,6%, the p.e ratio is the highest in the banking sector. Koseff believes this is because results from the major banks are already through, with earnings reflected at the new level.

Both groups have shown creditable growth, though in strongly rerated sectors where share prices have surged in the past year. A correction is expected, especially in the insurance sector, though a second view is that the SA market is relatively cheap compared with overseas. When the upturn finally comes, industrial shares will no doubt occupy the glamour spot again as the big groups begin to put through better results. Yet most companies in insurance and banking should retain the solid earnings growth they posted during the recession.

Fedsure has shown itself to be a steady performer and Investec is getting past the flash image accorded to it by the industry, with consistently good results coming through even before its listing in 1988.

Innovative thinking and creative business deals may not be tangible investment criteria but they have brought results for Fedsure and Investec. The formal relationship established between the two should enhance this now.

Shaun Harris

UNIT TRUSTS

Assets still rising

Unit trusts continue to increase in asset value, topping R12bn for the first time last quarter, and comfortably outpace the inflation rate, but individual portfolio performance fell on an annualised basis in the first three months of the year.

At December 31 average annual return for general equity trusts, 81% of the industry's assets and accounts, was 34,2%. By end-March the figure dropped to 29,2%. All funds except UAL, which maintained a 30% return rate, fell.

The more volatile specialist equity trusts reflected a similar pattern, though naturally the divergence was greater. The only funds in this category to do better were the two specialised gold funds, Old Mutual Gold and Standard Gold. But both came off low bases, Old Mutual from a previous negative decline of eight percentage points and Standard bettering its previous almost static performance by seven percentage points.

Whether the latest results reflect a correction in equity markets is hard to gauge over such a short period, though Association of Unit Trusts executive committee member Bernard Nackan believes something of a correction is taking place.

He emphasises, however, what the association continually points out — that unit trust performance must be viewed in the long term.

Liquidity for general and specialist equity remains 14%, down slightly on last year. Industrial shares continue to account for the bulk of portfolios, up in total from 44% at December (September: 43%) to the present 45% in the general category. At 29%, industrials also make up the main part of specialist equity portfolios.

Increased exposure to industrials, though small, reverses the trend seen in September when some bigger funds began to move out of industrials in anticipation of a correction. The timing of the correction seems to be causing some confusion, as can be seen in a contradictory move into recession-hedge financial shares.

The bigger slice accorded to industrial and financial shares comes, with some exceptions, at the expense of mining counters.

Repurchases, at R500m, are significantly up from the previous R403m, and could represent some profit-taking after the good performance by most funds in 1991. Nackan says this is one of the facilities provided by the industry: when markets perform well, some investors start to take profits. *Shaun Harris*

Association's Bernard Nackan ... *take a long-term view*

General Equity	Liquidity	Gold	Mining finance	Other mining	Financial	Industrial	Other assets	1 yr to Dec 91	1 yr to Mar 92	5 yrs to Mar 92	Dec 91	Mar 92
	% of Portfolio							Performance %			Mark value (Rm)	
Old Mutual	10	3	20	11	6	50	–	37	34	19	3 125	3 312
Sanlam Trust	6	7	16	11	7	51	–	34	27	17	516	560
Sanlam Index	9	8	16	15	3	49	–	31	25	18	858	906
Guardbank	13	4	14	7	20	36	6	33	26	19	1 385	1 482
Standard Mutual	40	2	12	4	12	30	–	32	27	18	517	552
UAL	23	–	16	14	19	28	–	30	30	17	585	626
Sygro	15	4	9	7	7	53	5	42	34	–	459	548
Syfrets Trustee	21	–	14	8	9	48	–	–	–	–	337	354
Sage	15	3	11	7	8	52	3	37	29	18	950	990
Momentum	9	12	11	5	9	54	–	38	27	–	53	55
Southern Equity	14	1	17	12	12	42	2	42	35	–	95	106
NBS Hallmark	8	4	16	10	8	46	8	31	24	–	31	34
Norwich NBS	8	7	23	26	8	28	–	25	20	–	21	21
Metfund	12	3	–	22	13	50	–	36	31	–	28	30
Senbank	21	2	16	5	12	44	–	–	–	–	4	7
CU Growth	13	5	13	11	16	42	–	26	25	–	26	27
Safegro	8	2	8	1	7	74	–	32	29	–	39	43
BOE Growth	6	7	9	13	4	54	7	37	31	–	53	62
Fedgro	12	3	18	7	9	40	11	28	25	–	25	31
Volkskas	17	11	13	5	6	43	5	–	43	–	28	36
Metlife	21	5	21	6	7	40	–	–	–	–	14	17
Specialist equity:												
Old Mutual Mining	6	14	40	35	–	5	–	9	7	–	122	115
Old Mutual Gold	10	71	19	–	–	–	–	(8)	6		46	46
Old Mutual Industrial	7	–	–	–	21	72	–	43	36	–	90	102
Old Mutual Top Comp	27	–	8	8	14	43	–	–	–	–	59	96
Sanlam Mining	9	22	30	35	–	4	–	17	9	6	99	93
Sanlam Dividend	12	4	12	7	9	56	–	45	35	15	72	76
Sanlam Industrial	11	–	2	–	7	80	–	45	33	20	214	215
Guardbank Resources	14	15	23	25	–	16	7	22	20	–	54	53
Standard Gold	22	50	28	–	–	–	–	1	8	(4)	224	205
UAL M & R	14	8	37	39	–	2	–	26	16	10	226	221
UAL Select	19	2	4	4	10	61	–	43	27	–	107	115
Sage Resources	14	19	26	19	–	19	3	17	15	–	57	58
Southern Mining	12	14	38	31	–	5	–	16	13	–	23	23
Senbank Industrial	25	–	–	4	15	56	–	–	–	–	2	3

FM 11/5/92.

PENSIONS 58

Taxation headache

Last week's meeting convened by State actuary Piet Robbertze, to consider equitable ways of taxing pension funds, was inconclusive. It was, apparently, more an effort to glean ideas than reach a verdict. By mid-May Robbertze has to have a report ready for Japie Jacobs, special adviser to the Finance Minister. It will be included in Jacobs' own analysis of the taxation of financial institutions.

Pension industry leaders invited to the discussion were close-lipped afterwards because, apparently, it was not to be public knowledge that a pensions tax was being considered. This, despite the fact that former Finance Minister Barend du Plessis referred to the issue in his March Budget speech.

Contributions to retirement schemes are, within limits, tax-deductible. There is no tax on the periodic accrual in value of the pension fund. When retirement arrives, one-third of most pensions may be taken tax-free in a lump sum, while the annuity purchased with the balance is taxed at normal rates. Effectively, the fiscus receives little in the way of tax from an amount which averages between 15% and 20% of the remuneration paid out in the formal sector. ■

MONEY MARKETS by Sheridan Connolly

Short-term paper dominates

Bday 4/5/92 (58)

INVESTOR interest in short-term paper continued to dominate money market activity last week, reflected in the market's solid response to the Reserve Bank's weekly three-month Treasury bill (TB) tender.

The Bank received R506m in subscriptions for the R100m on offer. Demand for the six and nine-month R100m tenders was not as good with offers totalling R300m for the six-month tender and R150m for the nine-month bill.

Rates on the TB issues maintained their downward trend last week. Since the introduction of the triplicate tender in March rates have fallen consistently — the average discount rate on the three-month tender was down to 14,90% from a previous 14,98%, the rate of the six-month TB fell to 14,44% from 14,46%, and the nine-month rate was lower at 14,02% from 14,05% the previous week.

Activity was quiet in a dull month-end market with players looking forward to the long weekend. With no more long weekends in store for some time, things should be back to normal from this week.

A renewed build-up of expectations for a further interest rate cut seemed to be getting under way last week with some players anticipating a further one-point cut later this month. However, last week also saw the release of the latest inflation figures which showed consumer inflation only marginally lower at 15,7% in March from 15,8% in February.

With producer inflation and money supply growth now seemingly under control, the rate of consumer inflation seems the main headache for the Reserve Bank at the moment.

The BA rate was steady last week with rates largely static. The three-month liquid BA rate traded in a 15,25%-15,45% range compared with the previous week's 15,30%-15,45%.

The Bank took a break from special liquidity-draining activities last week and failed to roll any maturing bills. The Bank was, apparently, occupied with dollar swaps which held the money market shortage relatively high for most of the week. At the end of the week, however, the shortage dipped sharply to R831m from R1,50bn at the start of the week. The shortage should pick up this week with cash inflows getting under way at the start of the new month.

Sentiment in the capital market remains fairly bullish with more interest stemming from local institutions than from foreign buyers. Neither the release of the March consumer inflation data nor the March money supply figures had much influence on rates.

The benchmark Eskom 168 drifted around its six-month low of 16,0% and at the end of the week the rate dipped under 16%, trading at levels of 15,98%. The government RSA 150 stock was steady at 16,14%.

With the upcoming options close-out on May 7, some squaring up could be expected this week. Market sentiment last week seemed to indicate that rates were on a downward trend and should shed more points in the next few weeks.

State dissaving 'hurts investment'

B| Day 4/5/92

(22/58)

LINDA ENSOR

CAPE TOWN — Future fixed investment by the private sector could be seriously threatened by state net dissavings, Old Mutual chief economist David Mohr warns in the latest issue of the life assurer's Economic Monitor.

As the level of net saving in the economy was already very low, competition between government and the private sector in attracting this limited source of financing could exert upward pressure on interest rates and compromise fixed investment.

Mohr said last year the government sector absorbed 48% of the savings of companies and individuals to finance its current expenditure. The latest Budget also pointed to state dissaving in the 1992/93 fiscal year.

"Although the general government made a small contribution to net saving in 1990 — for the first time in seven years — this situation was sharply reversed last year when no less than 8,2% of current expenditure (or R7,4bn) was financed by means of loans," he said.

Apart from being an extremely unhealthy practice, "this trend, if sustained, could have a severe impact on future fixed investment, particularly by the private sector".

Last year real fixed investment was 34% lower than the peak reached in 1981. Most of the decline was attributed to the fall-off in public sector investment.

Mohr expressed concern over the sustained curtailment of fixed investment by government.

Real fixed investment by the public sector had been declining since the mid-Seventies, reaching its lowest level since the mid-Sixties last year. He attributed the decline to state attempts to control total expenditure in a situation where current expenditure had increased sharply.

A mild international economic recovery was expected during the second half of the year. This would lead to a subdued upturn of the local economy and a modest increase in company profits towards the end of the year. Mohr said it appeared the authorities were inclined towards a more expansionary policy.

A further improvement in the balance of payments during the year would underpin the recovery and provide a major stimulus to the economy. However, there were no signs of an upturn yet, and consumers would remain under pressure for most of the year.

"Various factors, such as the deteriorating position of most consumers and the drought, clearly suggest that the prevailing risk is that the economy is slow to recover. The economy remains vulnerable and any unpleasant shock will further postpone the expected turning point."

Sluggish real economic growth and inflation in international economies were not favourable to precious metal prices and prospects on this front were unexciting.

Further weakness in the gold price during 1992 should not be discounted.

Mohr believed that a further moderate decline in short-term interest rates appeared on the cards both from the point of view of economic policy considerations and financial market conditions.

Interest rates 'not likely to drop soon'

(58)

SHARON WOOD

INTEREST rates would not come down in the next month or two because inflation was still high and government spending was adding liquidity to the markets, Reserve Bank Governor Chris Stals said yesterday. B/Day 4/5/92

"There is not much chance of interest rates coming down in the next few months but the position could change further into the year," he said.

It was impossible to predict the outlook for interest rates during the year because this depended on a number of factors. The Bank would watch developments in the markets and take account of not only inflation but also the money supply, bank credit extensions, gold and forex reserves and exchange rates.

"The Bank is happy with the present rates of change in these economic variables and would like to keep them at these levels. But inflation should still come down further, which we hope it will do."

Government deposits with the Bank were declining, adding liquidity to the system, but this could change as the fiscal year progressed.

Stals told a Sunday newspaper that the Bank was not prepared to lower interest rates artificially.

Anchor Life tops lapse list

B/Day 4/5/92

WILLIAM GILFILLAN

UNLISTED Anchor Life suffered a lapse rate of 80% in the year to December 1990, statistics calculated from the 1990 annual report of the Registrar of Insurance show.

Of the larger groups, Metropolitan Life and Fedlife both had lapse rates of 51%, Southern Life had a lapse rate of 47%, and African Life's lapse rate was 40%. Sanlam, at 24%, had the lowest ratio. The industry as a whole had a ratio of 33%. The ratio compares the number of policies lapsed in any one year against the number of new policies written during that same period.

"A case of lies, damned lies and statistics," African Life MD Bill Jack responded when asked to comment. Although he did not dispute the figures, Jack said the statistics did not compare apples with apples.

"The lapse rate used for the purposes of this ratio includes both surrenders, where a cash value is paid out when the policy is terminated, and lapses where no payment is made", he said. "As a term insurance policy has no surrender (cash) value attached to it, termination of this type of policy should be excluded from the calculation before comparisons are made.

"As there are different ways to calculate lapse ratios, analysing trends is more relevant," Jack said. He said Aflife was managing to hold the ratio constant. 58

But the lapse ratios given above included the termination of term policies, Jack said. "As a result those companies with a relatively higher exposure to term business would have compared unfavourably."

Fedlife life actuary Andrew McGinn said policies which had no surrender value were more likely to be lapsed because the policyholder lost only his cover — which could be reinstated at a later date. "The holder is not losing out on any portion of past premiums", McGinn added.

Sanlam senior GM Desmond Smith said although the ratio at Sanlam had gone up recently, it remained well below what the insurance giant had expected. Smith attributed this to the greater emphasis given by the group to the upper income market.

Metropolitan Life MD Marius Smith said its ratio had been coming down over the past half year as the group had given more attention to its client selection.

Analysts predict good performance by Nedcor

BIDay 4/5/92

(58)

THE Nedcor banking group is expected to report a healthy 16%-18% rise in first-half earnings but it could still lag behind much of the industry, analysts say.

"Nedcor does not have the same consumer retail base that the other banks have," said Graham Baillie, of stockbrokers David Borkum Hare Inc.

Nedcor, one of the big four SA banks, will release results for the six months to March 31 today.

Analysts expect the interim dividend to rise to 22c a share from 19c.

First-half results would benefit from wider margins but to some extent this would be offset by bad or doubtful debt provisions, they said.

Automation

Analysts said the impact of the longest recession and worst drought in more than 40 years would significantly influence performance in the current year, and net interest income would hinge on asset and liability management.

First-half costs would likely be significantly higher as branch automation progressed.

Nedcor's expenses in the six months to end-March 1991, were R713m, up 19% on the previous year's first half.

"Apart from Nedcor's banking division (which contributes three-quarters of total net income), there should be an overall marginal improvement in the earnings of the other subsidiaries," Baillie said.

He forecast an increase in earnings a share to 105c from 90c in the first half of 1990/91, but another analyst who declined to be identified said he expected 107c a share.

For the full financial year, Doug Ellish, of stockbrokers Anderson Wilson Partners Inc, forecast a rise in earnings a share to 211c from 185c in 1990/91. "I don't expect this rate of change to differ significantly at the interim stage," he said.

Analysts differed on the extent of an expected increase in the bad and doubtful debt provision, which was R84m in the previous comparable six months.

Ellish predicted sharply slower growth in advances as closer attention was paid to pre-empting bad debts in current recessionary conditions.

A "reasonable" increase of about 20% was expected in the home loan book of Nedperm, the group's building society arm which is believed to be second in market size to Absa.

Baillie said Nedperm was probably writing about R150m in home loans a month, but added: "The concern has always been its (significant) exposure to the black housing market."

Industry sources report problems in the black housing market as a result of the recession and house mortgage boycotts.

Ellish said net interest income should show a good increase over the R653m in the first half of 1990/91.

Discount

But this would be partly eroded by the levy on financial services introduced last September, he added.

Nedcor shares, which opened on Thursday at R17,75 each, are trading at a discount to the industry sector.

"The market still remembers the knock that Nedcor took at the time of the country's debt standstill in the mid-1980s when Nedcor was forced to immediately repay a large amount of overseas borrowings and had to be bailed out," said an analyst who declined to be identified.

He compared Nedcor's price to earnings ratio of 9:6 to the sector average of 10:8. — Reuter.

Life assurers pay out R15,7 billion

(58) STAR 5/5/92

CAPE TOWN — Benefits paid by life assurers amounted to R15,7 billion in 1991, an increase of 27 percent over the amount paid out in 1990, figures released yesterday by the Life Offices' Association (LOA) show.

Total premium income increased by almost 10 percent to amount to R26,5 billion in 1991. This includes recurring premium income of R18 billion, which increased by 19,5 percent.

Investment income increased by 16 percent and amounted to R12,4 billion.

LOA chairman Mr Louis Shill said investment income increased off a very high base in 1990.

Expenses amounted to R4,8 billion, the equivalent of 12,4 percent of total income. Between 1981 and 1991, expenses as a ratio to premium income reduced from 21,4 to 18,1 percent.

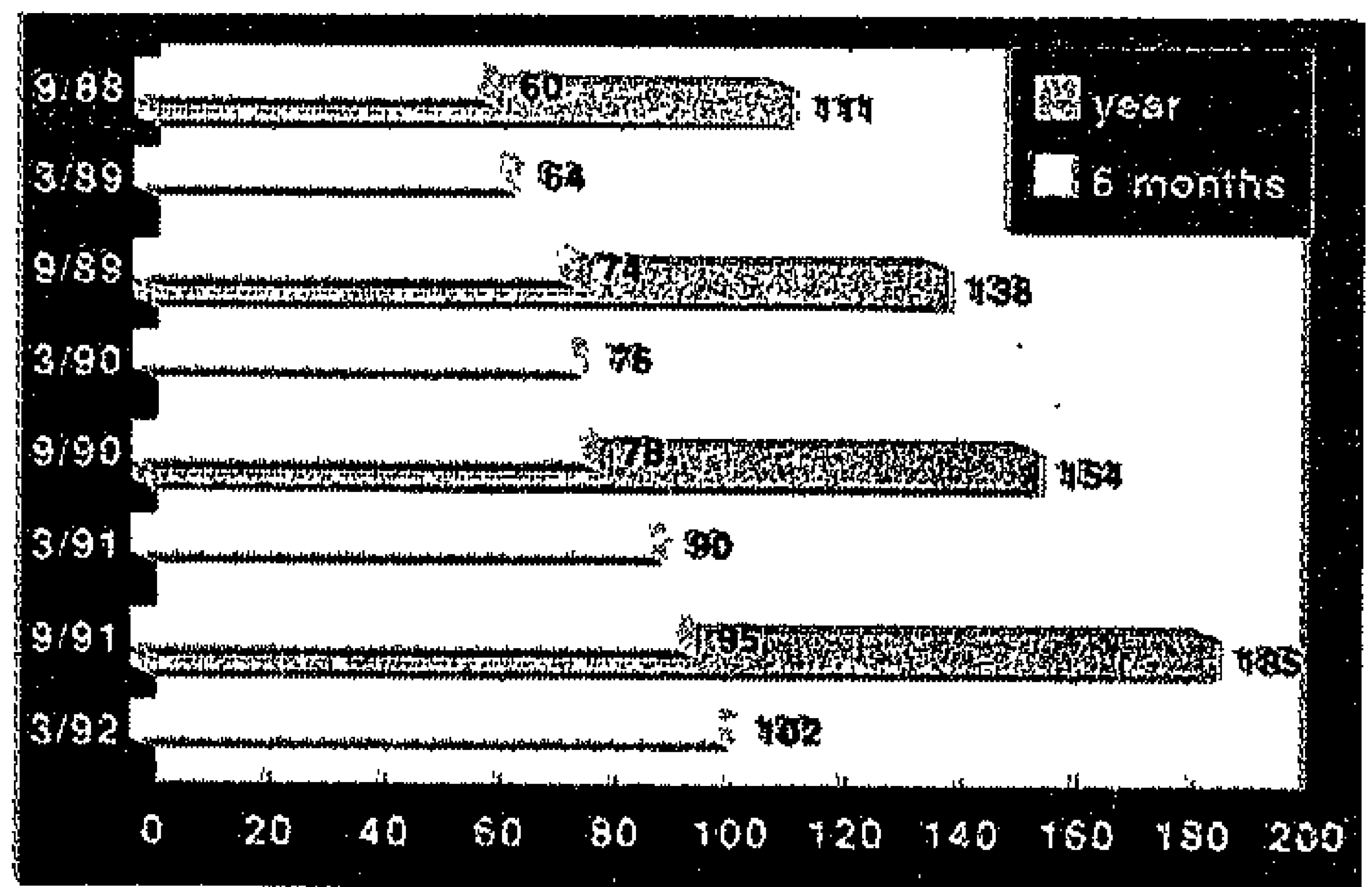
"The one aspect of the industry results that cause us concern, is very high level of policy surrenders," said Mr Shill. Amounts paid out in respect of individual policies that were surrendered, increased by 28 percent from 1990 to 1991.

Income tax paid by the industry on policyholder income increased by 20,7 percent to R606 million, excluding the significant additional burden of life assurers paying input VAT without any ability to offset that.

Over the past ten years, policyholders' direct income tax burden alone increased by an average of more than 26 percent per annum.

At the end of 1991, assets held on behalf of policyholders amounted to R171,6 billion. — Sapa.

Nedcor ready for business revival



STAR 5/5/92.

By Derek Tommey S8

Nedcor is gearing up for a business revival.

Chief executive Chris Liebenberg says Nedcor will have no difficulty financing a major increase in business when the upturn starts.

He was speaking last night when reporting a 15 percent increase attributable earnings is the six months to March.

The interim dividend has been lifted 11 percent to 21c from 19c.

Mr Liebenberg said the group had already achieved the eight percent capital requirement stipulated by the Deposit-Taking Institutions Act and could meet any increased demand for loans.

Improvement

Group operations enjoyed a further improvement.

Interest received grew 17 percent to R3,37 billion, while interest paid rose 16 percent to R2,58 billion. The overall result was that net interest received grew 20 percent to R769 million.

Other income grew 19 percent to R493 million, resulting in total income rising 20 percent to R1,28 billion.

Specific and general risk provisions rose 23 percent to R103 million.

This reflected the need for higher debtor provisions, particularly at the Perm. However, the provisions in the six months to September are not expected to match the R149 million appropriated in the same period last year.

Expenses increased 21 percent to R846 million, against 22 percent a year ago.

Net income before tax rose 18 percent to R340 million and 15 percent to R192 million after tax and the financial services levy.

Earnings rose 13 percent on the enlarged capital to 102c a share.

"Other loans, advances and debtors" rose 28 percent to R15,7 billion, while total loans and advances increased 18 percent to R33,16 billion.

Group contribution to net income rose 15 perent to R153 million, with Nedbank's contribution growing 25 percent to R96 million, Nedfin's 33 percent to R24 million and the Perm's dropping 15 percent to R33 million.

Finansbank and Cape of Good Hope's contribution grew 13 percent to R9 million, while, Syfrets' dropped 11 percent to R8 million.

UAL's contribution rose 29 percent to R22 million.

Life industry payouts rise

Business Day Reporter

BENEFITS amounting to R15,7bn were paid out by South African life assurers in 1991. This was an increase of 27% over 1990, figures released yesterday by the Life Offices' Association (LOA) showed.

But LOA chairman Louis Shill expressed concern over "the very high level of policy surrenders". B Day 5/5/92.

"Amounts paid out on individual policies that were surrendered increased by 28% from 1990 to 1991. This might be partially due to the difficult economic times but each surrender means that somebody's long-term savings plans have been discontinued or reduced, or that a breadwinner's beneficiaries have lost financial protection. This is an extremely worrying trend," said Shill.

"The life assurance industry's main purpose is to provide benefits to policyholders and their beneficiaries, and last year's figures are testimony to the industry's success," he said.

"Over the past 10 years, our benefit payments increased by an average of more than 32% per annum — an achievement of which we are justifiably proud."

Total premium income rose by almost 10% to R26,5bn for the year. This includes recurring premium income of R18bn, which went up by 19,5%. Investment income increased by 16% to R12,4bn.

Shill said investment income had risen off a very high base in 1990. "Investment income is still very high, even if it did not grow by as much as premium income did, for instance. Interest rates were high in 1991, but they were not at quite the same levels as in 1990, while the immediate returns on new equity investments dropped sharply."

(58)

Expenses amounted to R4,8bn, the equivalent of 12,4% of total income. Between 1981 and 1991, expenses as a ratio to premium income dropped from 21,4% to 18,1%.

Income tax paid by the industry on policyholder income increased by 20,7% to R606m.

At the end of 1991, assets held on behalf of policyholders amounted to R171,6bn. This was made up of R46,7bn in fixed interest securities and cash, R89,4bn in shares, R20,3bn in property and the remainder in a miscellaneous variety of assets. A year previously, total assets amounted to R132,4bn.

The increase is the result of new investments and asset growth.

Good earnings growth predicted for Investec

(58)

SHARON WOOD

BANKING analysts are confident that Investec's earnings growth will be at least 25% during 1992. The results are scheduled for release in mid-May.

Martin & Co banking analyst Richard Jesse is at the top end of the scale, predicting growth of 27% during 1991, while other analysts are looking at 25% growth.

Jesse says earnings will rise to 152c a share during 1992 from 120c the previous year.

George Huyshamer banking analyst Alta Theron is also optimistic about the future performance of the banking group and predicts growth of at least 30% in the holding company, Investec Holdings (Inhold), over the next two years. B|Day 5/5/92

"Inhold has shown an excellent performance since its listing in 1986, rewarding its shareholders with a compound earnings growth of 35% a year and a 26% growth in dividends," she says.

Theron sees Investec Bank's earnings up at 150c a share in 1992, 28% higher than 120c the previous year and dividends at 70c a share from the previous year's 56c. Earnings in Inhold are expected to rise to 100c a share from 77,8c the previous year, she says.

Some analysts are unwilling to predict the banking group's performance because they say the low level of disclosure allows the bank to achieve the growth performance it desires. This can be done by moving income to or from hidden reserves, they say.

Investec shares are not a tradable stock because they are tightly held and rarely sold, one analyst says.

"The market was initially suspicious of the group's management style, but this has now improved and Investec has shown it can repeatedly generate good numbers," one analyst said.

Theron says there has been a change in the management style largely as a result of expansion and rapid growth in the group over the past few years.

Nedcor hit by two poor performers

BDay 5/5/92 (58)

SHARON WOOD

NEDCOR interim earnings rose by a lower than expected 13% to 102c a share from 90c as a result of unfavourable economic and political conditions.

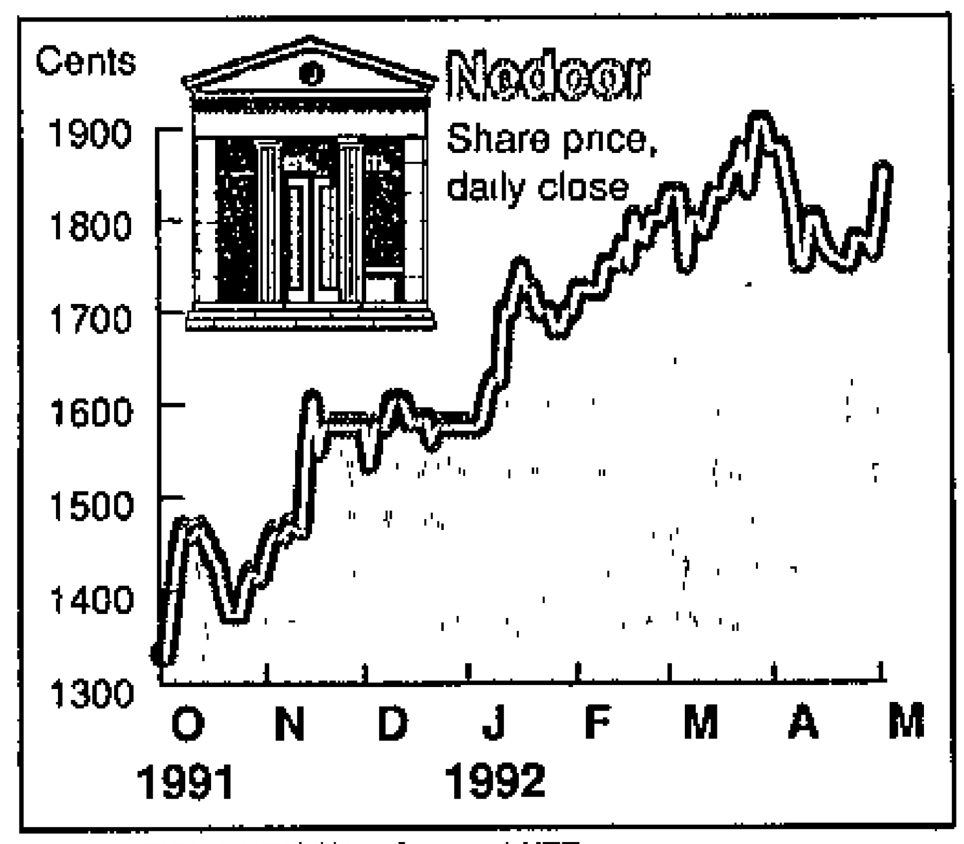
Nedcor CE Chris Liebenberg said yesterday that the six months to end-March had been much tougher than expected. Analysts had predicted 16% to 18% growth in Nedcor's earnings for the period.

A 15% drop in Nedcor's Perm division to R33m from R39m weighed on the group's income performance.

The group announced yesterday that Nedcor's net income rose by 15% to R192m in the six months to March, compared with R167m the previous year.

"Nedperm was unable to achieve its targeted volumes as the continued unfavourable socio-economic and political conditions limited opportunites for growth in quality lending," Liebenberg said.

Home loans arrears were greatest in the black community but the Perm's exposure to the black market was only 23% of the



Graphic FIONA KRISCH Source: I-NET

total R13,8m home loan book, he said. He considered a lot of the Perm's problems to be temporary.

Another poor performer in the Nedcor stable was Syfrets, which showed an 11% fall in net income to R8m from R9m.

Liebenberg said Syfrets had two under-performing property assets, De Bruyn's

☐ To Page 2

Nedcor

BDay 5/5/92. (58)

☐ From Page 1

and another which he declined to name but said it was involved in shopping and office blocks

He said the second half of the year would be very tough as a result of bad debts and the unpredictable impact of the drought But the recession was at the bottom

Performance in the second half would probably match, if not improve on, the first half "We cannot look for tremendous profit increases from the banking industry"

Interim dividends were 11% higher at 21c a share from the previous 19c. Shareholders were offered the option of receiving new ordinary shares instead of the cash dividend and the price of the scrip dividend would be determined on May 11

Bad debt provisions continued to grow by 22,6% to R103m in the six months to March from R84m

Liebenberg attributed the increase in general and specific risk provisions to the drought, political unrest and unemployment, and to the group's policy of building for a boom.

Although Nedcor's direct exposure to the agricultural sector was under 5%, the drought had indirect effects on the group's business because some of its clients were involved in the sector, he said

The biggest single increase in risk provisions was to the Perm (up R41m), with risk provisions for Nedbank up by R28m.

Sanlam supports IDT call

B/day 6/5/92 LINDA ENSOR (58)

CAPE TOWN — Sanlam has come out in support of the Independent Development Trust's (IDT's) call for the private sector to become active in social involvement.

IDT chairman Jan Steyn told the SA Institute of Chartered Accountants' congress this week that the private sector should become strategically involved in projects such as low-cost housing and job creation.

Sanlam GM responsible for corporate affairs Leon Koen said in a statement that Sanlam's social upliftment spending was concentrated on tertiary education.

It had also invested R27,5m with the IDT for low cost housing, R8,3m with the Urban Foundation and R33m with the Greater Soweto Electrification Project.

Syfin to develop R80m bulk handling facility

B/Day 6/5/92

(58)

PROPERTY developer Syfin, previously known as N1 City Holdings and developer of the N-1 City complex in Goodwood, has unveiled three new projects in the Cape worth more than R100m.

Syfin is backed by Syfrets and Investment holding company Fintrust.

The first major project involves the construction of a bulk handling facility worth more than R80m for the Post Office. The new centralised facility, to be erected on a portion of the old Goodwood showgrounds, is expected to result in substantial savings in operating costs for the Post Office, which currently sources its mail from sites scattered all over the western Cape.

The 32 000m² facility, which will boast the latest mail handling technology, will allow the Post Office to render a more efficient service to bulk and ordinary mail service clients and will include a parcel delivery service.

The second project, also on a portion of the old showgrounds, involves the redevelopment of a 25,9ha site. It involves the construction of a business park combining industrial, retail and office premises.

The third project is a R16m residential development in the Stellenbosch area of Prins Park. Construction on this "medium/upmarket project", comprising 128 sectional title units, is scheduled to start within a month. About two-thirds of the units had already been sold, the company said.

"This is further testimony to Syfin's expertise in actively supporting new property developments which not only show good growth prospects but also serve the community," MD Johan Pauw said.

One such example was the decision by M-Net to select N1 City as the regional offices for its Cape operations. The R16m complex, known as M-Net Park, represents 4 500m² of A-grade office space, he said.

M-Net, which will occupy at least 60% of the building, will be moving in shortly. Other N1 City developments highlighted were the R27m policlinic complex and a service and filling station.

Two projects on the drawing board were a hotel and a hi-tech office development complex called Technocity. "Although Syfin is predominantly a property developer, it is also active in fields of clinics, accident and medical insurance and smartcards through its subsidiary company host."

Legislation to stop excessive tracing charges

HPW 6/5/92.

ANDREW KRUMM

GOVERNMENT is introducing legislation to prevent tracing agents from charging excessive amounts for work done in connection with the state-run Guardians Fund. 58

Some agents have been accused of duping heirs, who are unaware of their inheritance in the fund, by claiming exorbitant commission for arranging payouts.

The Estate Affairs Amendment Act 1 of 1992 will allow the Justice Minister to set a regulation tracing tariff and impose a fine or imprisonment for contravention of the regulations.

Andre Roothman of Sanlam Legal Research said unscrupulous tracing agents were demanding "hefty commissions of between 30% and 40% of inheritance" for tracing beneficiaries through the Master of the Supreme Court's office.

Roothman said in terms of the Administration of Estates Act the Master had to publish an annual list of unclaimed amounts of R100 or more in the Guardians Fund.

Unclaimed amounts are forfeited to the State after a period of 50 years.

In February this year R357m remained unclaimed in the Guardians Fund.

During the Bill's second reading debate in February, House of Representatives MP A J Roper, who said he had been a victim of "unscrupulous agents", said government was not attempting to kill off an industry, but was trying to stem a "tide of malpractices".

The Amendment Act will amend the Administration of Estates Act, 66 of 1965, and the Maintenance of Surviving Spouses Act, 27 of 1990, coming into operation on a date which will be set by the State President.

Agents slam rent control

6/5/92. 58

Reports by
PETER GALLI

GOVERNMENT's recent decision to extend rent control for another year has been criticised by estate agents who say rent control is responsible for the fact that no new buildings have been developed for rental purposes over the past decade.

Camdons Group MD Scott McRae says the decision is meddlesome, ill-conceived, will discourage developers and will only cause prices to be pent up, resulting in major adjustments later.

"Rent control has been phased out of every right thinking country because of its adverse effects and distortions to the market place," he says.

Martin Charney of Martin Charney Estates agrees with this, saying rent control goes against market forces and that developers and investors will only come back into the market once rent control is abolished.

"Wherever there has been rent control, developers have stayed away. While many of these buildings are in dire need of refurbishment or demolition, the owners cannot afford to refurbish and are prevented from demolishing the building by the Act," he says.

The abolition of rent control will pave the way for these buildings to be either upgraded or demolished and rebuilt, thereby seeing new units being developed, for which there is good demand, Charney says.

Commenting on whether development is viable in areas where these buildings are located, he says there is good demand for units in the lower price range of R50 000 to R70 000 — particularly for investment for rental purposes.

"Yeoville is a good example as there are numerous old buildings that could be demolished and rebuilt. It would be possible to build standard units of about $50m^2$ in say a six-storey building, in that price range," Charney says.

Yeoville

McRae says rent control only succeeds in creating quasi-slums as landlords are unable to finance good maintenance and there is abuse by tenants who, in many cases, are able to afford more expensive accommodation.

"The net result was that existing rental accommodation was allowed to deteriorate and new rental accommodation developments were few. This sparked off a boom in conversion to sectional title sales which took even more rental space off the market," he says.

Presently, married tenants with a combined monthly income of less than R2 000 a month, single tenants with a gross income of less than R1 200 a month and people of 70 or older, regardless of their income, are protected.

"This amounts to a shifting of the responsibility for housing such individuals from the State to the private sector. The chief negative effect is that it will continue to discourage investors in rental property and thus add to the growing shortage of houses," McRae says.

Charney agrees, saying less government interference and privatisation is the buzzword for the new SA.

SA Property Owners Association (Sapoa) executive director Brian Kirchmann says the issue is a sensitive one and cogniscence must be taken of the fact that there are people in need, and an alternative must be found for them.

"The market needs to dictate what is needed. Neither the commercial nor the industrial property market are regulated and both are governed by market forces.

"Both are in an oversupply situation, which is advantageous for the tenant," he says. The abolition of rent control could see a similar pattern develop in the residential market, which could help alleviate the housing problem.

"This will hopefully result in the creation of highrise buildings that offer decent accommodation at a reasonable price."

Bank stresses need for IMF facility

Bday 6/5/92 58

SHARON WOOD

SA should urgently negotiate an IMF "precautionary stand-by facility", Standard Bank urges in its latest Economic Review released yesterday.

The current account of the balance of payments still needs to be nursed, it says.

An IMF facility would provide SA with a firm fall-back position to manage the external constraints on economic growth more easily.

"The sluggishness of global recovery, coupled with SA becoming a net importer of food this year, conspire to pressurise the current account.

"Since SA remains a net exporter of capital, the balance of payments will remain fragile under these conditions."

Standard Bank believes SA has a good case for the extension of an IMF stand-by facility.

The two pre-conditions for a successful application are structural imbalances in the economy and an inability to pursue active development policies because of a weak balance of payments position.

"There is ample precedent for the extension of the facility, even on a precautionary basis," it says.

Evidence of this is the 100 agreements since 1956 which have been negotiated with the IMF and under which no drawings were made, because in each case a serious current account deficit did not materialise.

Standard Bank says the current economic recession is only marginally short of becoming the longest downturn in the post war years and also nearly matches the most severe post-war recession in 1985/86.

Expectations of a stabilisation in the economy have not materialised, it says.

The reasons for the prolonged recession are a sluggish world economy, a poor gold price and an uncomprising anti-inflationary stance by the monetary authorities.

The extreme severity of the drought is stunting the potential for the growth rate to pick up and will also initially impact on the current account. Maize imports this year would cost about R1,8bn.

NBS takes over village development

Business Day Reporter

ZEVENWACHT farm village, a luxury housing development adjacent to the recently rescued Zevenwacht wine estate near Stellenbosch, has been taken over by NBS Developments.

This follows the recapitalisation of the wine estate — previously under provisional liquidation — by a consortium of Johannesburg investors, who now own 83% of the estate. B/Day 6/5/92.

Announcing the takeover of the village by holding company Zevenwachtdorp, NBS Developments MD David Gorven said that his company and the consortium were previously joint developers of the village.

They were anxious to foster a good relationship between the farm village and the wine estate.

To this end, they had agreed to honour the shareholding awarded to each buyer of a house in the village, and to give house owners and their families access to the estate for recreational purposes.

Gorven said this would help preserve one of the attractions of village life at Zevenwacht.

Only two of the existing houses had yet to be sold.

Construction on another 12 was scheduled to begin soon.

A further nine houses had to be built to complete the first phase of the development; another 45 homes would be built after that.

"With the entire development now under the aegis of the NBS group, the security that represents is likely to be a major attraction to buyers," said Gorven.

Norton moves to where he will be 'better used'

SHARON WOOD S8

FORMER JSE president Tony Norton said yesterday there was no question of his being "taken away" from Absa. *BDay 6/5/92*

Norton was due to begin work at Absa Merchant Bank as chairman on Monday, when it was announced that he would be released to become first director-general of the Council of SA Banks (Cosab).

"It was the feeling of both Absa and the Council of SA Banks (Cosab) that I had the particular qualifications for the job ... and that I would be better used there," he said.

It was too early to say what his plans for the future direction of Cosab were, he said.

Banking sources said Cosab had been formed early this year and it was a non-profit registered company. The founder members of the organisation were the four major commercial banks, the Eastern Province Building Society and the Natal Bank.

Members of Cosab were the Clearing Bankers Association and the Association of Mortgage Lenders.

Invitations had been sent to all deposit-taking institutions to join Cosab and negotiations were still under way with the Association of General Banks and the Merchant Bankers Association, a Clearing Bankers Association spokesman said.

Absa Resources executive director Mike de Blanche said he had no doubt these organisations would join Cosab because they had already indicated their willingness.

The organisation would play an important role in conveying the views of the banking industry to political parties, the Reserve Bank and government.

Board members are Absa MD Piet Badenhorst, FNB MD Barry Swart, new Absa Merchant Bank chairman Piet Liebenberg, Nedcor CE Chris Liebenberg and Standard Bank MD Mike Vosloo.

Commercial Union turns around

MICK ELLINGHAM

IMPROVED contributions from all areas of Commercial Union's activities contributed to the company's solid 1992 results.

Commercial Union achieved an after-tax profit of R48,8m (1991: R29,1m) and earnings of 488c (291,4c) a share.

In his annual report CE John Kinvig attributed the company's performance to "higher investment income, a record distribution to shareholders from life profits, an attributable pre-tax profit of R2,1m from Commercial Union Trade Finance in its first full year of trading and an underwriting surplus of R5,3m".

Kinvig said the surplus on short-term underwriting was particularly significant when viewed against the major deficit reported for 1990. He attributed the turnaround to "the careful but determined application of remedial rating and underwriting measures".

More than R74m was allocated to policy holders' bonuses, while shareholders' funds now stand at R365m. (58)

Commercial Union's short-term operation finished the year with a R5,3m underwriting surplus and net premium growth of 19,5% to R362,9m.

The Life Fund advanced by 26% to R2,1bn backed by assets exceeding more than R2,6bn. BDay 7/5/92

The outflow from the Life Fund amounted to R276,8m.

Investment income in the general funds rose by 16% to R44,5m (R38,3m) and to R208,2m (R171,2m) in the Life Fund.

A major reconstruction of Commercial Union was planned and organised during 1991, and became operative from the beginning of this year.

Merhold to continue with decentralisation

MICK ELLINGHAM (58)

INVESTMENT group Merhold is to ~~retain its~~ strategy of developing decentralised financial operations in niche markets after the group achieved a marginal increase in earnings for the year ended 1991.

Chairman Christopher Seabrooke said Merhold expected earnings and dividend growth to resume in 1992. BDay 7/5/92.

Merhold's 1991 income after taxation increased 6% to R13,5m (1991: R12,7m) and attributable income to R9m (R8,7m). Earnings a share were slightly up at 49,5c and dividends a share were maintained at 17c.

Seabrooke said the restructuring of the finance division was on schedule and should be completed during 1992/3. "This is expected to result in a leaner operation with a higher return on assets and a lower risk profile based on trade related primary or asset secured lending only," he said.

Merhold's investment division had been expanded and Seabrooke said further strategic investments would be made to strengthen it.

During the year the group's investment in Steelworld Corporation, Elangeni Holdings and Trabild were realised. An 18% investment in industrial holding company Log-Tek was made, but the Sure group failed during 1991.

Merhold had a 30% stake in The New Republic Bank, based in Durban. Towards the end of 1991, Merhold Kirsh Capital was formed in partnership with Kirsh Maw Holdings.

The group's trading operations continued to function satisfactorily, said Seabrooke. Merhold's participation in Mertrade had, however, been reduced from 76% to 60%.

FM 8/5/92.

FIRST NATIONAL BANK (58)

Comfortably cash-flush

FNB is probably the best capitalised major banking group. At 9,6%, total capital (of which primary capital totals 8,4%) comfortably outstrips the capital requirements of the new Deposit-Taking Institutions Act. The recent R545m rights issue helped to swell that percentage but an 18% growth in assets, together with a 20,6% increase in advances, show a healthy trend line which pleases MD Barry Swart.

"Our foray into the home loans market and increasing use of overdraft facilities are paying off," he says. Home loans, now about R6bn, rose by 50% over the year.

Net interest of R921m (26,9% more than 1991) shows interest income up by 16,1% while interest paid increased by 12,2%, a good turn relative to the other majors, thanks to the large base of cheap current account cash (see report on Nedcor, page 75).

Swart says asset growth is both organic and represents some new business, though the net increase in accounts gained is not significant. He disputes that FNB has been losing market share to Absa, saying his group is probably taking away more accounts from the amalgamated giant "than they are taking from us".

What stands out on the income statement

CAPITAL GAINS

Six months to	Mar 31 '91	Sep 30 '91	Mar 31 '92
Advances (Rbn)	26,6	29,1	32,1
Deposits (Rbn)	29,4	32,2	34,1
Net interest (Rm)	726	857	921
Net profit (Rm)	156	229	188
EPS (c)	214	315	258
Dividends (c)	45	130	50

is the R160,5m provision for bad debts, up by 21,8% on last year and much higher than a few years back when FNB generally made a lower risk provision than other banks.

Swart says that the amount is based on an early warning system, which categorises all loans according to risk. "At the end of the day it means less of a loss for us. Often we can help a client when we see warning signs."

Operating expenditure of R1,06bn rose faster than operating income but Swart says this includes upfront cash payments for software for continuing branch automation.

He is cautiously optimistic about the next six months, considering possible spill-over effects from the drought (agriculture makes up about 10% of FNB's book), recession (which Swart believes should start to turn towards year-end), and the impact of political uncertainty and violence on confidence, particularly of potential foreign investors.

The share, one of the best performers in the sector, trades at well over double NAV, but these results should justify its rating.

Shaun Harris

LIFE ASSURANCE FM 8/5/92

Too many lapses

(58)

Life offices invested 27,2% of their R171,6bn in assets in the public sector last year. A decade ago, when prescribed investments were in force, 43,7% of life savings went to government and parastatal stocks.

FM 8/5/92 (58)

Conversely, the proportion of life office assets in quoted shares has risen from 21,81% to 52%. In property, on which the life companies used to rely to offset their exposure to gilts, the proportion invested has been reduced from 15,67% to 11,85%.

According to the Life Offices Association (LOA), members paid out benefits of R15,7bn last year, a 27% increase on 1990. Over 10 years, the average annual increase in benefit payouts was 32%.

Yet the number of policy lapses is worrying, says LOA chairman Louis Shill. "Amounts paid out for individual policies surrendered increased by 28% from 1990 to 1991. This might be due in part to the slump. Each surrender means that somebody's long-term savings plans have been discontinued or reduced, or that a breadwinner's beneficiaries have lost financial protection. So this is clearly a worrying trend."

Lapse rates vary substantially through the offices. In one office, more than 50% of new contracts were surrendered in 1990.

Industry leaders say an "acceptable" lapse rate should be no more than 20% taken over

FM 8/5/92 (58)

the first two years of policy life. They consider it unlikely that the holy grail of zero lapses will ever be reached.

There is debate over why the lapse rate is so high. To some extent, it is the result of poor salesmanship, as people are pressured into taking out savings contracts they cannot maintain or ones which benefit them little.

The concept of a cool-off period in which consumers can reconsider life assurance contracts has been re-introduced in the latest draft of the Long-term Assurance Bill. Though the current drafting has worried some assurers, there is agreement that some degree of consumer protection is necessary, especially because the industry is increasingly targeting unsophisticated clients.

Sales that lead to lapses benefit neither party. In most cases, the client loses all the premiums. The life office pays commission in advance to an intermediary who could have quit the industry by the time the contract is lapsed. So there is no effective recourse for the assurer to recover costs.

Expenses increased by 19,38% last year, after going up an average annual 23,43% in the previous 10 years.

Shill, never missing an opportunity to emphasise how policyholders are overtaxed, says the tax burden for them increased by 20,7% last year to a total R606m.

In addition, life assurers paid input VAT without any compensating offsets. "Over the past 10 years, policyholders' direct income tax burden alone increased by an average of more than 26% a year" ■

BANKING FM 8/5/92

United they stand (58)

Bankers have been concerned that the absence of an umbrella body has led to fragmentation of representation and a failure to put forward a strong voice on matters of common concern. Now the industry feels threatened by the radical Left. It has decided to establish a representative body: the Council of Southern African Bankers (Cosab). Its founders, the clearing banks and mortgage lenders, hope Cosab will represent the banking industry. They also hope to draw in the general and merchant banks.

The Clearing Bankers' Association of SA and the Association of Mortgage Lenders will become divisions representing specialised interests within the broader body.

However, as yet neither the Merchant Bank Association (MBA) nor the Association of General Banks (AGB) has joined. Says MBA chairman David Lawrence: "We are in favour of an umbrella organisation but we have not yet agreed to join because we are not happy with the way Cosab is structured. We are in discussion with the sponsor banks on this issue." Says AGB executive officer Matthea Leech: "We haven't completed consultation with members yet."

Cosab's founders say the last thing they want is to create a body dominated by the large clearing banks.

Whatever the attitude of the associations, the constitution of Cosab provides for membership by individual DTIs so the reluctant institutions cannot impose a veto on membership of Cosab by their own members. Given the lines of control in the industry, many general and merchant banks could be obliged by their holding companies to join.

Tony Norton, former chairman of ABSA Merchant Bank and former executive president of the JSE, is to become director-general. The post is seen in the industry as influential and one that needs "a mover and shaker." Norton apparently fills this role. ■

FM 8/5/92 (58)

FM 8/5/92.

COMMERCIAL UNION OF SA

Pulling clear of downturn

Activities: *Composite Insurer.* 58

Control: *CU London Plc 36%, Absa 30%, GFSA 28%.*

Chairman: *A M D Gnodde; MD: J A Kinvig.*

Capital structure: *10m ords. Market capitalisation: R360m.*

Share market: *Price: R36. Yields: 3,9% on dividend; 13,6% on earnings; p:e ratio, 7,4; cover, 3,4. 12-month high, R36; low, R25. Trading volume last quarter, 12 000 shares.*

Year to Dec	'88	'89	'90	'91
Total assets (Rm)	432	572	724	971
Solvency ratio (%) ..	70,6	88,8	92,3	100,6
Underwriting pft (Rm)	21,3	11,5	(18,8)	5,3
Investment inc (Rm)	26,1	35,1	38,3	44,5
Pre-tax profit (Rm) ..	43,0	50,5	27,3	58,9
Earnings (c)	312	387	291	488
Dividends (c)	75	95	105	142
Net worth (c)	1 630	2 335	2 805	3 651

Last year the *FM* noted that, despite difficult conditions in the short-term insurance industry, Commercial Union of SA (Cusaf) provided a vintage year for shareholders. The 1991 financial year was even better, with earnings boosted by 68% to provide a dividend increase of 35% (1990: 11%).

Of more importance long-term is the 16,2% increase in investment income. Some insurance groups have posted better growth in this category, but keeping investment income ahead of inflation, and increasing it by seven percentage points over 1990, is not a bad achievement as the industry still pulls clear of its turn-of-the-decade downturn.

Cusaf's Gnodde ... *tight control of costs*

Share price gains since this time last year have been dramatic, at 47% three percentage points better than over the corresponding period in 1990, when the share was rerated.

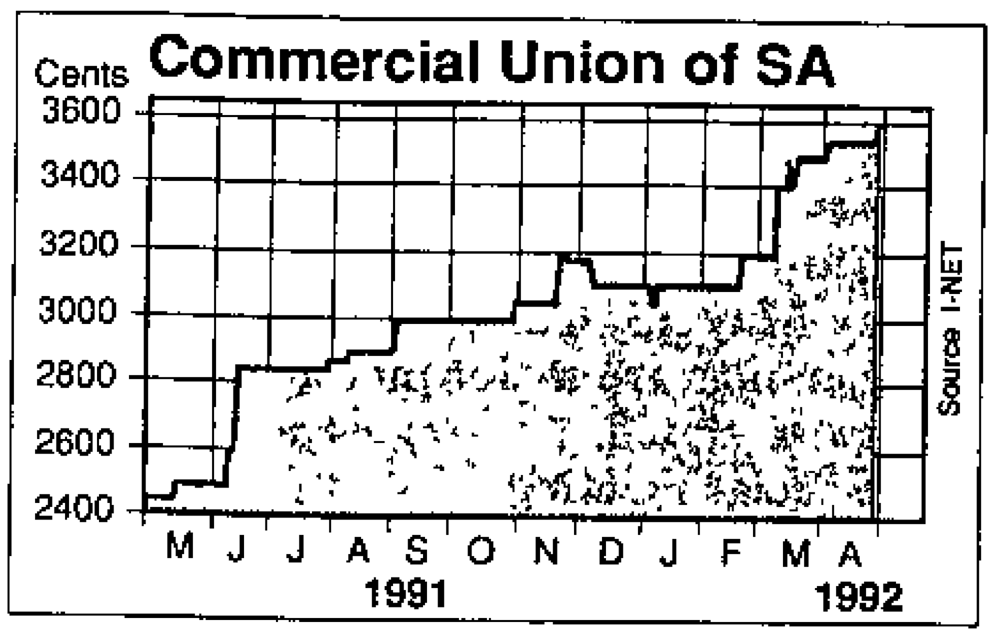
That's the good news. Performance of the group (reconstructed from the beginning of this year with short- and long-term business separated into wholly owned subsidiaries, leaving Cusaf as a holding company) might not go down as vintage for 1991 but does show a strong turnaround.

Most notable is the return of underwriting to the black after 1990's R18,8m loss. (Results for 1990 have been restated in line with a change in accounting policy, which depresses that year's results and slightly boosts a year-on-year comparison.)

The underwriting surplus of R5,3m is far short of two years ago but nonetheless a feat some insurers were not able to achieve last year and further strengthens cash flow and capital resources. The short-term business still requires investment income to support earnings growth, but at least did not have to absorb an underwriting loss.

Internal controls remain good. Short-term commission and expenses as a percentage of premiums written less reinsurance came down marginally to 20%, while the figure for life business rose marginally to 16,9%. Tight control of costs is one of Cusaf's strengths.

Policyholders get the benefit of a 26% increase in the life fund to R2,1bn, with over R74m in taxed profits allocated to bonuses. Investment income in the life fund, at R208m, showed an increase of 22%.



Of course the turnaround in short-term business comes largely from what MD John Kinvig calls "the careful but determined application of remedial rating and underwriting measures," Like all others in the industry, Cusaf studiously avoids referring to premium *increases*.

After last year's 20%-25% jump in theft premiums across the industry, Kinvig hopes crime increases will not be as steep this year, but warns that crime-related claims are still high and premiums will have to be reviewed. He adds premium increases will be required in other accounts, particularly fire, though competition makes this difficult.

It's to be hoped that the ratio of claims to earned premiums, down on average from 84% in 1990 to 77% last year, will continue to drop and contain premium increases.

The historical dividend yield of 3,9% is reasonable relative to the sector, and with the share price almost matching net worth seems fair value. The share price should grow in line with earnings in the short term, making it worth considering on these results. But like many insurance shares it is difficult to come by, tightly wrapped up by the three main holders.

Shaun Harris

No losers over Momentum deal

STAR 8/5/92

By Derek Tommey (58)

The proposed acquisition of control of Momentum Life by Rand Merchant Bank Holdings (RMBH) announced last night looks like a good deal for everyone.

The basic proposal is that Rand Merchant Bank will buy the Momentum shares held by Absa.

The only unpleasant aspect of the deal is the behaviour of the share price in the past two weeks and a half weeks.

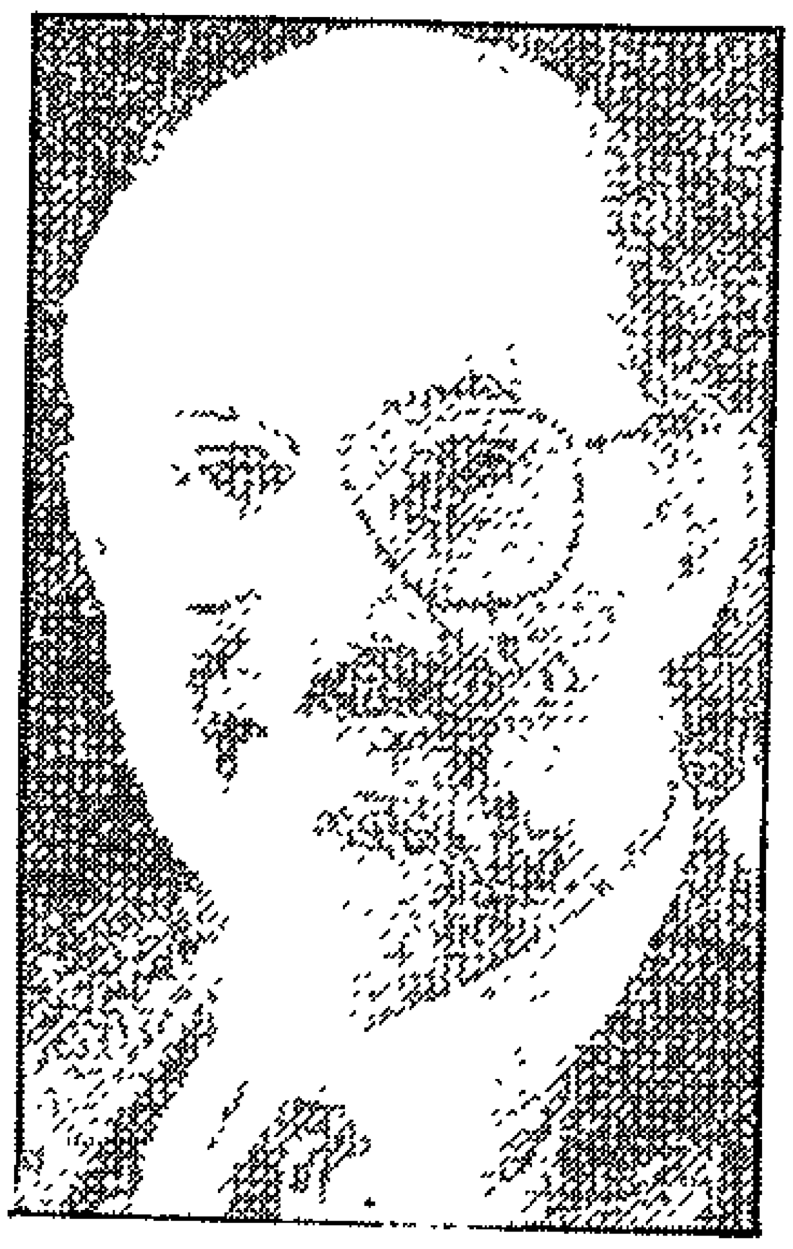
Since April 22 it has risen from 330c to 400c.

Seen against the decision by Sanlam in February to reduce its offer from 359c to 340c a Momentum share after a due-diligence exercise, it is hard not to think there has been a leak.

The first part of the transaction entails Rand Merchant Bank Holdings buying the 41,1 million Momentum shares held by Absa and the Rembrandt Group's Financial Securities Company for R4,40 a share.

This will require a cash outlay of about R181 million.

As Absa and Rembrandt will be getting R41 million more from RMBH than they would have received from Sanlam, they should be pleased with the deal.



Mr GT Ferreira . . . deputy chairman Rand Merchant Bank.

The second part entails the purchase by Momentum of Rand Merchant Bank (RMB) from its parent, RMBH, for R385,6 million, of which R154,2 million will be paid in cash and the balance by the issue of 52,6 million Momentum shares at a price of R4,40 a share.

Therefore, RMBH is in effect getting control of Momentum for a net cash outlay of R27 million, against which it will receive R130 million in Momentum shares.

Minority shareholders in Momentum also stand to gain. They can either continue to hold their Momentum shares and benefit from the expected improvement in earnings, or accept an offer from RMBH of R4,40 for their shares — which, as in the case of Absa and Rembrandt, is R1 a share more than they would have received six weeks ago.

Momentum gains through the acquisition of RMB, which is not only a new profit centre, but will increase Momentum's capital by R230 million.

This will enable it to bring its capital ratio in line with comparable life assurers and achieve its growth objectives.

The deal increases Momentum's earnings from 25,7c to 29,5c a share, and trebles the ratio of shareholders' funds to life funds from 1,6 percent to 4,8 percent.

It should also help make the public more aware of Momentum, which is SA's fifth-biggest life insurer administering assets worth R9,2 billion and with total annual income of R1,5 billion.

However, the story of the RMB-Momentum acquisition is not yet over.

Later this year RMBH is expected to be listed. At present, 47 percent of its shares are held by its directors and management, with Absa, Sage and "others" holding the balance.

De Villiers back in (58) business

Finance Staff STAR 8/5/92

Former Allied managing director Kevin de Villiers yesterday officially launched his new financial services company, Arcay Group.

He described the venture's target market as being "the entrepreneur who owns (or at least owns a substantial portion of) and runs his own business".

The group has assets of more than R7 million and currently provides services to 36 clients.

Based on current volumes, Mr de Villiers expects revenue to exceed R2 million in its first year of operation.

The medium-to-long-term aim is to obtain a banking licence and, thereafter, to apply for a JSE listing.

Arcay Group, the holding company, performs accounting, company secretarial and tax management functions on behalf of the group and its clients.

Arcay Corporate Communications specialises in financial communications; Arcay Industries invests in business ventures in which it assumes all financial control; and Arcay Merchant offers services encompassing group reorganisations and restructuring, mergers, acquisitions and listings.

"In addition to looking after those clients gained through word-of-mouth advertising and our (thus far) low-key marketing efforts, we've spent the last nine months installing computers and mastering software."

Boland beats a rise in bad debts

CAPE-based Boland Bank yesterday announced an 11,8% rise in earnings a share to 141,3c in the year to end-March from 126,4c the previous year.

MD Gert Liebenberg said an 11,8% increase in profit had been achieved in spite of an increase in bad debts and a lack of new business at acceptable risk levels.

Liebenberg said: "General recessionary conditions in the SA economy played a marked role in affecting both the extent of bad debts and the availability of new business at acceptable risk levels.

"Similarly, the levy imposed on financial services rendered by banks (to replace VAT) had an effect on the final increase in profits.

B/Day 8/5/92

SHARON WOOD

58

"Despite these negative factors the bank performed well," he said.

The final dividend rose by 7,4% to 29c from 27c previously, resulting in a dividend for the year of 52c (48c).

Net profit after taxation and tranfers to internal reserves in the period under review was R19m, compared with R17m in 1991.

The bank's total advances jumped by 16,5% to R2,7m at year-end from R2,3m last year.

The dividend is payable to registered shareholders on May 22 and dividend cheques will be posted round July 3.

Reichmans back in profit

8 Day 8/5/92. (58)

MICK ELLINGHAM

TRADE finance group Reichmans, a wholly owned Investec subsidiary, has disclosed a net profit of R14,1m for the year to end-March 1992.

Preference dividends totalling R8,1m were paid out.

In the comparative 15-month period to end-March 1991, the group incurred a loss of R3,9m due to a ruthless programme of writing off all bad debts.

CE Errol Grolman said Reichmans' improved results were partly the result of having become part of the Investec stable.

He said the group's results were gratifying in the light of prevailing economic conditions. The group had budgeted for increased earnings and was optimistic they would be achieved.

Momentum deal sets up R10bn group

SHARON WOOD (58)

MOMENTUM Life and Rand Merchant Bank Holdings (RMBH) said yesterday they would join forces as a diversified R10bn financial services group.

The deal would result in a change of control of Momentum and the acquisition of Rand Merchant Bank (RMB) by Momentum. RMBH, in turn, would hold 76,4% of Momentum. BDay 8/5/92.

Should minority shareholders not wish to stay on the board, they could accept the offer of R4,40 a share for Momentum, a 29,4% increase on the previous offer.

The first part of the transaction would involve RMBH's acquisition of Rembrandt's 28,7% and Absa's 30% interest in Momentum at R4,40 a share.

Momentum would then acquire RMB from RMBH for R385m, of which 40% (R152,22m) would be in cash and the balance in Momentum shares at R4,40 a share.

The deal would effectively increase Momentum's capital by about R230m because 60% of RMB would be sold to Momentum in exchange for shares. This provided Momentum with the capital to bring its capital ratio in line with comparable life assurers, Momentum executive director Blignaut Gouws said.

The shareholding of RMBH would remain the same, with directors and management holding 47%, Sage 26%, Absa 13% and minorities 14%.

Gouws said the transaction would give the two companies a new lease on life and new opportunities.

There would be further restructuring of the group soon and it was hoped RMBH would be listed before the end of the year, Gouws said.

There were overlaps between the two companies, because each had asset management and property companies, but no decision had been taken on how to deal with these.

No immediate rights issue was planned. "We are not looking for size but want to get the company onto a footing where earnings will be reliable . . . there will be no growth for the sake of growth," Blignaut said.

Earnings a share were expected to rise by 14,8% after the deal was concluded and dividends by 15,3%.

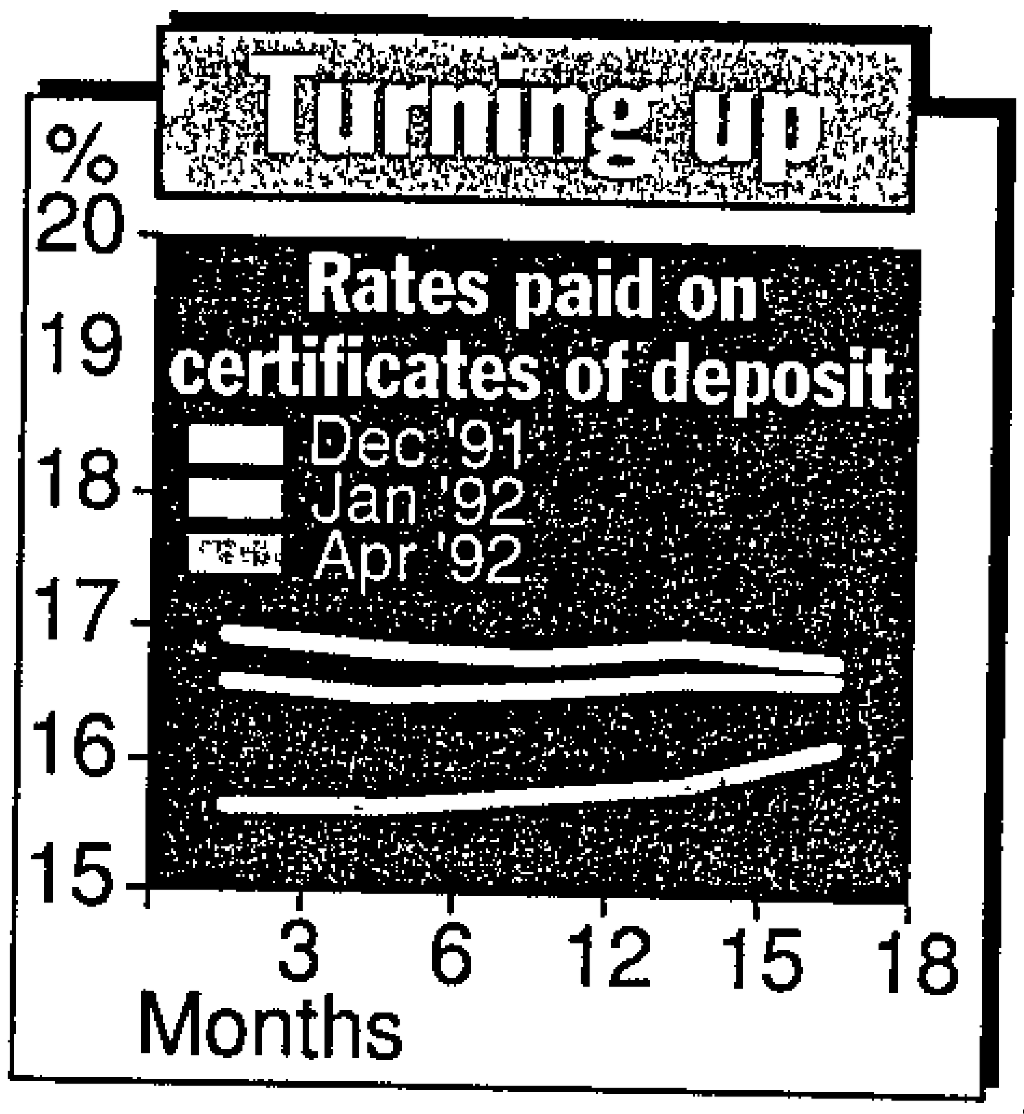
INTEREST RATES

No great expectations

FM 8/5/92

(58)

How much further will interest rates fall? The market is betting: not very far. In January the yield curve for certificates of deposit began to tip at the long end, for the first time since June 1989. By April it was clearly regaining its conventionally positive slope, as long rates fell slower than short rates.



This indicates that short-term money is more freely available and that the market has already largely discounted the expected two-percentage-point fall in the pattern of interest rates. Confirmation comes from the liquid BA, which was trading in the market on Tuesday at 15,20%, while the rate at which it can be discounted at the Reserve Bank is 17%.

In other words, rates are not generally expected to fall further.

Theoretically, a yield curve simply reflects the time value of money. Investors can expect to be compensated when they forgo liquidity. So the longer the term of an investment, the higher the returns. But this positive yield curve is vulnerable to a number of other factors — and these have been operating in SA's financial markets for some time.

A more stringent stance on monetary policy adopted in 1989 created shortages in the money market, driving up short rates. At the same time, expectations of a fall in interest rates further along the line made borrowers reluctant to lock themselves into long-term borrowing. Driven by the same expectations, investors preferred long-term opportunities. This increased the supply of and reduced demand for longer-term money, thereby pushing down rates.

Now money market shortages have subsided. Accommodation at the discount window fell from an average daily level of R2,3bn in January 1991 to R1bn in April and, on Monday, dropped to R407m as Customs Union payments and other government spending pumped money into the system.

Though the Reserve Bank has not retreated from its open-market operations, the level of funds moving out of the State Exchequer Account has kept the money market liquid since the start of the year. This has made short-term money cheaper.

Meanwhile, perceptions about future rates have changed.

The market may well reassess the situation. For instance, should inflationary expectations subside, the market would again expect interest rate cuts and the yield curve would flatten or even turn negative. On the other hand, should inflationary expectations become more acute, the curve would assume a steeply positive slope. This was the case in 1986-1987 when interest rates were kept artificially low in an attempt to stimulate economic activity.

But, at this point, expectations about interest rates are neutral and the curve has been free to find a gently positive position. In the process, it has floated down across the spectrum. ■

 FM 8/5/92 (58).

FM 8/5/92

BMA

Bond risk

The role of third-party risk managers — a bone of contention among many Bond Market Association members — is to be reassessed after its recent special general meeting. A subcommittee has been appointed to find an alternative monitoring system to be used until an application for a licence, to regulate the fixed-interest securities market, is granted by the Registrar of Financial Markets.

Members had been concerned that third-party risk managers (members of the association appointed to assess the exposure of market participants so that they are in a position to provide a guarantee of performance) would deter trading banks from the market because it would mean revealing their activities to competitors.

Members were also concerned that the cost structures attached to the proposed risk management and clearing systems would inhibit participation in the market. However, the meeting decided to continue with the clearing system.

Association CEO Graham Lund says that once the subcommittee has found a risk management system acceptable to members, application will be made for a licence, if possible by August.

A risk management system is needed to comply with the Financial Markets Control Act requirement for guarantee of performance. "We are going ahead minus one of the main pillars of our operations. The other two pillars, namely the Unex clearing system and the central scrip depository for gilts, have been all but completed," says Lund. ■

LIFE ASSURANCE FM 8/5/92

Too many lapses

Life offices invested 27,2% of their R171,6bn in assets in the public sector last year. A decade ago, when prescribed investments were in force, 43,7% of life savings went to government and parastatal stocks.

Conversely, the proportion of life office assets in quoted shares has risen from 21,81% to 52%. In property, on which the life companies used to rely to offset their exposure to gilts, the proportion invested has been reduced from 15,67% to 11,85%.

According to the Life Offices Association (LOA), members paid out benefits of R15,7bn last year, a 27% increase on 1990. Over 10 years, the average annual increase in benefit payouts was 32%.

Yet the number of policy lapses is worrying, says LOA chairman Louis Shill. "Amounts paid out for individual policies surrendered increased by 28% from 1990 to 1991. This might be due in part to the slump. Each surrender means that somebody's long-term savings plans have been discontinued or reduced, or that a breadwinner's beneficiaries have lost financial protection. So this is clearly a worrying trend."

Lapse rates vary substantially through the offices. In one office, more than 50% of new contracts were surrendered in 1990.

Industry leaders say an "acceptable" lapse rate should be no more than 20% taken over

FM 8/5/92 (58)

MONEY SUPPLY (58) FM 8/5/92

Slow March

In March, growth in the broad monetary aggregate M3 decelerated sharply to 1,17%, from February's 2,06%. This brought M3 growth, as measured from the base of the current target year (mid-November) to March, within the target range of 7%-10%.

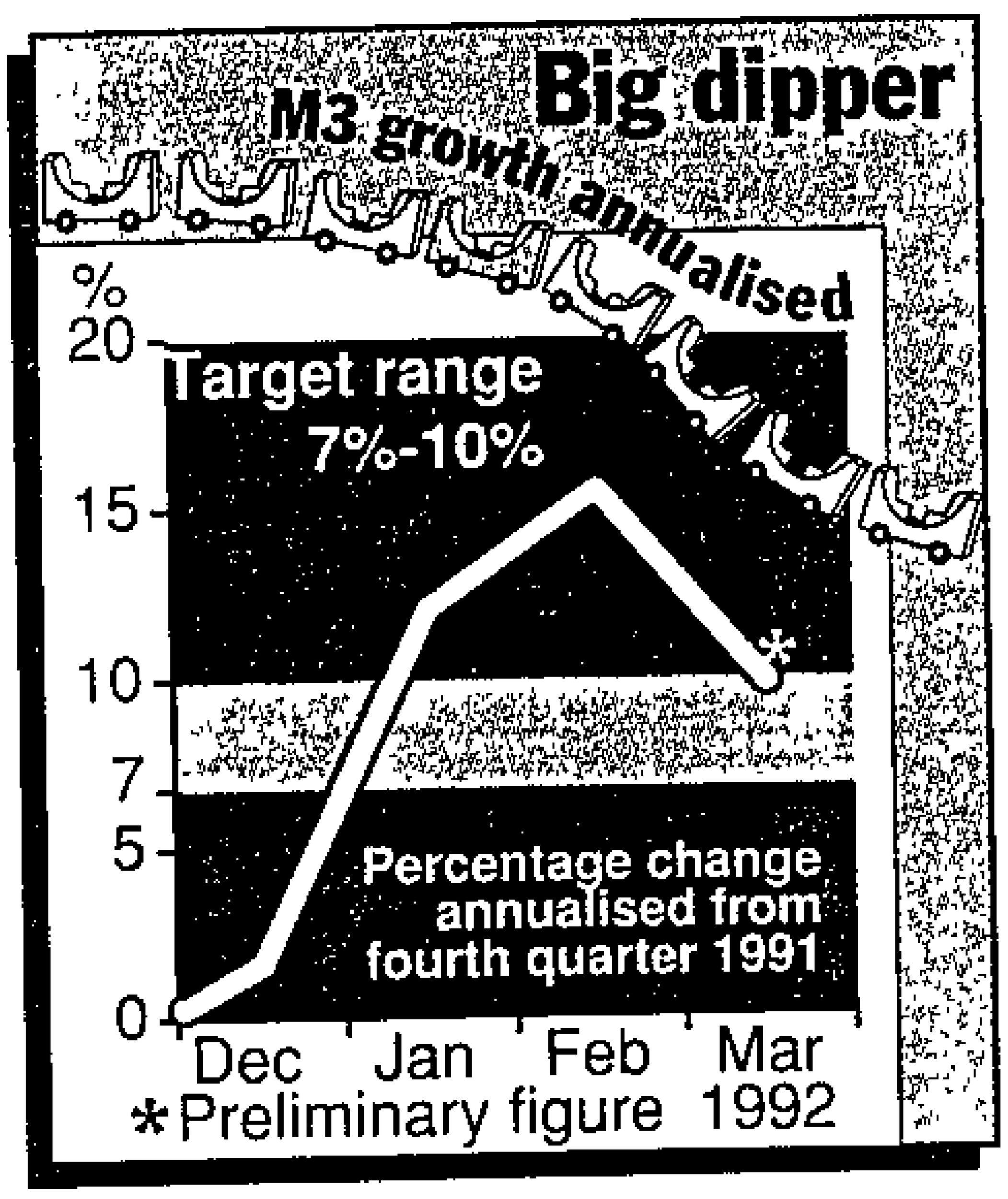
It grew an annualised 9,79% to a seasonally adjusted R187bn — a deceleration from February's rate of 15,46%.

In the 12 months to March, it rose 10,45% to R189,9bn, down from February's revised 10,59%. But February growth was unusually high, considering the trend which has been in place since December. M3 declined 0,3% in December and grew 0,72% in January.

A Reserve Bank spokesman says: "Money supply growth can fluctuate for a number of reasons.

For instance, tax remittances paid at month-end by large firms are sometimes only deposited by the Receiver of Revenue early the next month. Private-sector deposits at month-end, which form a major part of M3, then stay at an artificially high level over that month."

February figures for M3 have been revised as follows:



- ☐ Over 12 months, 10,59% (from 10,83%) to R187,7bn; and
- ☐ Annualised from mid-November, 15,46% (from 16,34%) to a seasonally adjusted R188,3bn.

In the 12 months to February:

- ☐ M2 grew 11,42% to R157,8bn;
- ☐ M1 8,79% to R61,6bn;
- ☐ M1A 16,4% to R33,8bn; and
- ☐ M0 fell 4,52% to R12bn.

The drop in M0 is largely technical. The cash reserve, held by the Reserve Bank against the liabilities of deposit-taking institutions, forms part of M0. In February 1991, this requirement was reduced, from 5% of short-term liabilities and 2% of medium-term liabilities, to 4% of short-term liabilities only. As the provision was phased in over four months, the effect will be eliminated only in May.

Credit extended to the private sector, in the 12 months to February, rose 10,89% to R195,4bn; and total credit extended rose 9,56% to R196,3bn. These are well down on January's 15,62% and 14,14% respectively. This is because February's 12-month data is free from the distortions caused by the introduction of the Deposit-Taking Institutions Act in February 1991. ■

Life assurers face a ticklish problem

S/Times (Buss) 10/5/92 (58)

IN Zimbabwe where between 20% and 30% of the population is thought to be HIV infected, about 35% of all death claims under group life-assurance schemes are AIDS-related.

The result is that premiums have doubled in the past 18 months.

A portent for SA? Perhaps.

Expectations of a dramatic rise in AIDS-related claims is causing a major change in life-assurance offices. Some write AIDS-exclusion clauses into their policies, others provide a lump-sum payout up to a certain limit.

Some life companies are moving away from lump-sum payouts to income-related benefits. But one thing is certain. The cost of cover for individuals, pension and group schemes will go up as AIDS spreads and the amount of cover provided will fall.

Although the number of AIDS-related deaths in SA is still fairly low (fewer than 500), employers — in anticipation of a rise in AIDS claims — are switching from lump-sum payouts to income-related benefits paid over about two years, says insurance broking firm Willis Faber Enthoven.

Assurers have come in for severe criticism for not providing adequately for AIDS.

Peter Dean, account executive at Willis Faber Enthoven, says: "Dread disease cover, such as that developed by Crusader Life, will pay benefits on diagnosis. Why can't the same concept be extended to cover AIDS?

"Life companies say the risk is too high, but they can always raise the premium at a later stage. By paying out early, they can relieve considerable suffering."

The AIDS problem cannot be placed on the doorstep of the life offices, says Viv Cohen, an actuary in Fedlife's industrial division.

"The disease has far wider implications in terms of a weakened economy and an increasing load on medical services. These suggest that, even if claims on life policies are contained, investment returns on life and pensions business will deteriorate."

Wider

Old Mutual's chief actuary, Theo Hartwig, says group schemes with AIDS exclusion clauses are out of favour.

Douw Kruger, senior manager of group benefits product development at Sanlam, says assurers have the right to reject a risk that is too high. But employers find it more difficult to avoid the risk.

"Large employers cannot easily contract themselves out of risk. They can do three things. First, educate the workforce. Second, move away from lump sum to instalment payments. Third, exclude job applicants who are HIV positive from group assurance schemes. The last option is more problematic."

Senior manager of employee benefits at Southern Life, Don Brown, says the cost of employee benefits could rise by as much as 50% in the next five to to years because of AIDS.

Costs can be contained by reducing benefits, excluding those who have AIDS from benefit payments and by screening recruits and rejecting those with HIV.

But these actions have unfortunate consequences and must be weighed against the political and social desirability, industrial relations and broader business strategies.

KEVIN DE VILLIERS: Big-time merchant banking is Arcay Group's aim five years down the track Picture: CATHERINE ROSS

Kevin's eye on the go-getters

STimes (Buss) 10/5/9 58

By JULIE WALKER

KEVIN de Villiers hopes his new Arcay Group will become a sizeable merchant-banking type operation within five years.

The former Allied Group chief and his wife Robyn have pooled talents and clients to form a three-pronged financial services-related group.

Mr De Villiers says: "We will offer banking services primarily to entrepreneurs. We will concentrate on mergers, acquisitions, corporate restructures and so on."

Arcay will not seek a banking licence for two years and will not be active in deposit taking.

"We aim to build a track record and there is lots of scope for fee-generating business."

The revenue forecast for the first year of business is between R1,5-million and R2,5-million — "enough to make a moderate return on investment".

Mr De Villiers defines three classes of people — wealth creators or entrepreneurs, wealth preservers, such as major corporations, and wealth reallocators, mainly politicians.

He will do business with the wealth creators.

Merchant banking will be the focus of the business. The lack of a banking licence will keep Arcay out of foreign-currency and money markets.

Arcay may undertake small lending. Mr De Villiers has "chatted to a few banks" for future reference should Arcay's clients require larger funding.

"We will also offer some of the mundane services, such as accounting and bookkeeping, secretarial and legal support, covering costs with a view to generating more business."

The second leg involves investment. Mr De Villiers says investment banking is too grand a term. Arcay is looking to invest up to 25% in entrepreneurially managed companies over which it would exercise financial control.

"We might advise our clients to invest in certain instances, but only if we had our own money in as well."

Arcay's third leg is Mrs De Villiers' existing corporate communications business with more than 30 customers.

Serious

"We have concentrated on the serious side of corporate communications. There was no point in going our separate business ways when our targeted client bases dovetail so nicely."

Annual reports, in-house magazines, organisation of financial statements and press liaison are the main activities.

"We would never recommend to our clients that we be a barrier between them and the press. The idea is to advise our clients. On the lighter side, we are not against organising the occasional party. There has to be some fun in business."

Almost nine months have been spent setting up Arcay in an old Parktown house. There are eight busy staff members and Mr De Villiers says more, some earmarked, will come aboard in the next six to 18 months.

Up to 5% growth possible, —Toyota chief

S Times (Buss)

By DON ROBERTSON

S Times (Buss) 10/5/92

POLITICAL stability could be achieved in SA in the next five years and a growth rate of between 3% and 5% is possible. 10/5/92

But it will depend on the foreign investment and SA's access to international borrowing, says Toyota SA Marketing managing director Brand Pretorius.

Accepting an honorary professorship of business economics at the University of the Free State this week, Mr Pretorius said businessmen should be aware of the social, political and economic changes taking place.

They should not adopt a wait-and-see attitude. This, he said, often translated into "corporate paralysis".

AIDS

A mixed economy was likely to develop and government intervention would take place on a wide front with the aim of achieving a more even distribution of wealth.

The government of tomorrow would be aware, however, that the key to long-term stability lay in sustained economic growth.

Mr Pretorius said urbanisation was expected to increase. By the end of the century 10-million South Africans would depend on informal housing. By the same year, 370 000 people would suffer from AIDS and the population would be 45-million.

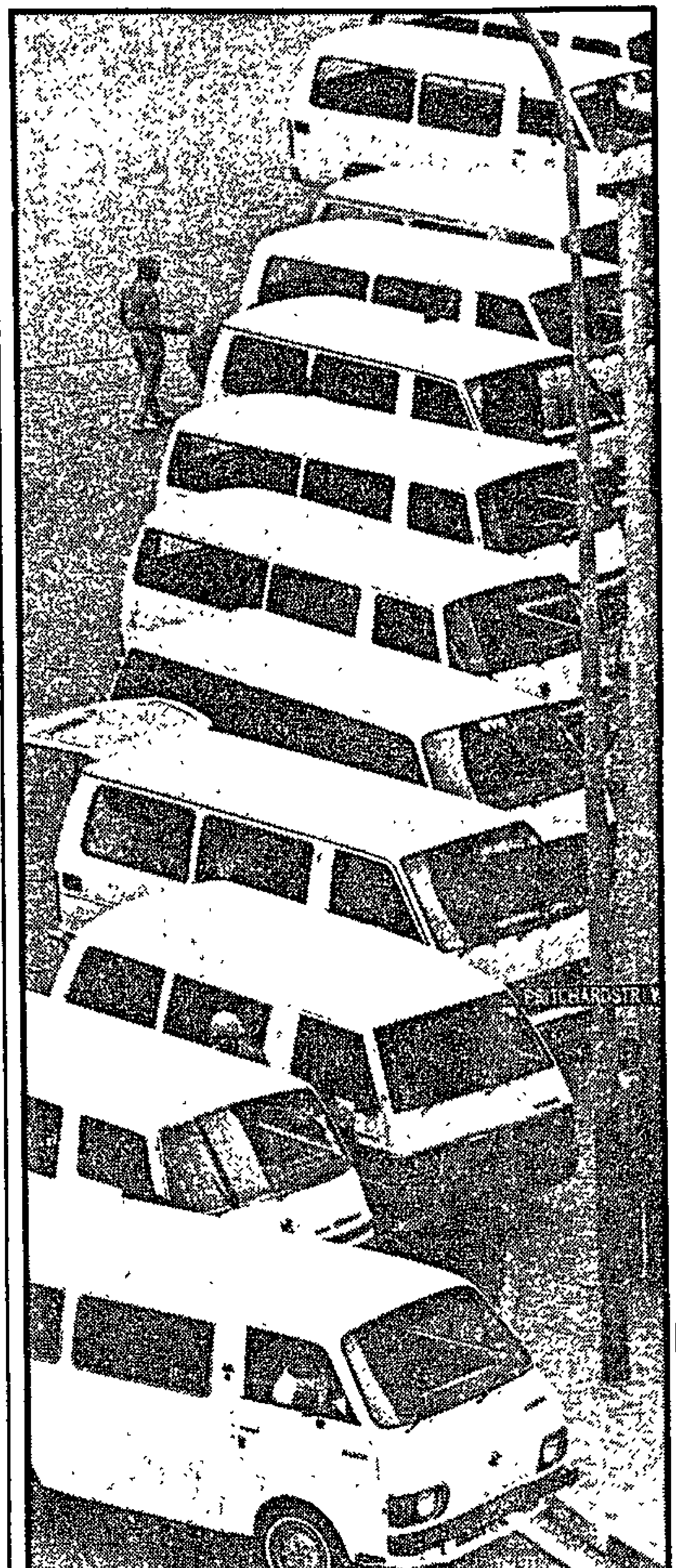
Blacks would make up 10% of the A income group and 45% of total disposable income would be in their hands. The shortage of white management skills would increase.

Blacks would make up 84% of secondary school pupils.

Taxi sales slump as bad debt rises

S Times (Buss) 10/5/92

58



OLDER AND OLDER: The taxi fleet ages and minibus costs soar

GROWTH in the black taxi industry has come to a virtual standstill because of high finance costs and an increasing incidence of bad debt.

In the past 18 months to two years, minibuses were snapped up at a rate of about 600 a month for use as taxis. Sales virtually dried up in January and February this year.

Members of taxi associations and the finance houses are not confident about the future.

Size

A spate of payment defaults has forced some institutions to demand much higher deposits than before and reduce repayment periods. This makes it extremely expensive for aspirant taxi owners to enter the business. A 16-seater minibus costs about R65 000.

The Southern African Black Taxi Association (Sabta) and the Federation of African Business and Consumer Services (Fabcos) operate the Sabta Foundation, a stokvel group to which members contribute. Traditionally, taxi operators pay about 30% of the value of the vehicles into a fund which is used to cover bad debts by members.

Philip Van den Heever, marketing director of Futurebank which administers the foundation, will not disclose the size of the fund. But sources say it has been whittled away from R60-million to about R17-milion.

Futurebank, which took

By DON ROBERTSON

over the taxi financing book of Wesbank towards the end of March, says business is dead. Most minibus purchases are now mostly for replacement.

Wesbank was by far the largest financier in the taxi market.

Sabta marketing director Cyprian Lebese says he is not confident about the future.

Because of the foundation's past success, Sabta members are able to buy minibuses with a deposit of between 15% and 20%. Non-members put down between 40% and 50%.

The decline in minibus sales has been a severe blow to motor manufacturers.

Mr Lebese says that in previous years, minibus sales to members totalled about 400 a month. This represents about two-thirds of the taxi business, he says.

Steadily

"Since January last year, purchases have fallen steadily. They dropped to about 80 in the first two months of this year."

He blames high interest rates, the cost of finance and a general decline in the economy.

Futurebank, owned 49% by First National Bank and 44% by Fabcos, has about 4 500 taxis on its books.

Although Mr Van den Heever is reluctant to appear too confident, he says sales have picked up since his organisation took over financing from Wesbank. Purchases in April rose by about 60%.

Nestle sells dairy arm

S Times (Buss) 10/5/92

NESTLE is selling its refrigerated dairy division Chambourcy.

This follows the disposal of its Lecol beverage interests to Royal Beechnut. Nestle corporate affairs manager David Upshon says the group is focusing on market areas which offer the best growth potential — confectionery, instant drinks, milk powders and condensed milk.

"Nestle has been operating in SA for 76 years and it is our intention to continue expanding our operations and seek other areas of opportunity to fit in with our overall strategy,' says Mr Upshon.

to Gulf countries.

Two top DTI officials are expected to be part of a Safto mission to the Gulf this week.

uled service to the region.

Several SA banks are establishing reciprocal relations in the region.

DAVID GRAHAM: First step in putting SA

Wheels banks wary of low-deposit deals

ST Times (Buss) 10/5/92 (58) (192)

By DON ROBERTSON

THE Government's decision to ease hire-purchase rules in an effort to boost new-car sales has put "wheels" banks in a quandary.

They hope for more business, but fear the creditworthiness of buyers who have only enough money to pay a 10% deposit.

In March, the minimum deposit was reduced to 10% from 15% and the repayment period was extended to 54 months from 42.

Some of the major institutions financing car deals say that in most cases buyers who have only a 10% deposit tend to be financially weak. Often the money put down is insufficient to cover lenders.

Motor dealers, always keen for trade, say the reduced deposit has had little effect on business. Only the longer repayment period is likely to attract business.

Sales figures for a full month under the new HP scheme are not yet available. But indications are that new-car sales in a holiday-shortened April will be below 14 000 compared with 17 390 in March.

Brian Hardie, assistant general manager, retail operations at Stannic, says there are no indications of an increase in business since the rules were eased.

"It is essential that we look carefully at an applicant offering only a 10% deposit to establish whether he can pay."

Doubtful

Wesbank marketing manager Ronnie Watson says few deals are done on a 10% deposit. These would-be borrowers tend to be "weak". The bank wants a bigger deposit from them.

"We are happy to accept a deal at 10% if the customer is creditworthy," says Mr Watson.

Joe Kirsten, general manager of the motor and trade finance division of Bankfin, says that "as a rule we support the new regulations".

"If it is an old used car, sold by a doubtful dealer, we might ask for the repayment period to be reduced to, say, 36 months. We would investigate the customer's creditworthiness."

The extended repayment period is unlikely to influence sales to any great extent because the saving amounts to only R30 for each R10 000 of vehicle value.

Dealers agree that the financial institutions need more equity in a deal at this low deposit rate, especially when VAT and insurance are taken into account.

Some believe the banks are being ultra-conservative in assessing financial risk.

A dealer says: "They generally do not approve a 10% deposit. Such a borrower must be a blue-chip person if the deal is to succeed.

"We were able to do many more deals at the previous minimum deposit of 15%. It seems that the banks have not adjusted their credit requirements to take into acount the lower figure."

Stokvel unit trust on the way

S/Times (Buss) 10/5/92

By CIARAN RYAN

THE National Stokvels Association of SA (Nasasa) is to launch a unit trust for stokvels.

Stokvels are savings clubs in the black community. Surveys suggest there are 24 000 stokvels in major metropolitan areas and as many as 800 000 countrywide with a total membership of 10-million.

Their cash flows are estimated at more than R200-million a month, most of which is placed with financial institutions.

A stokvel unit trust could provide a better return on savings and allow members greater access to formal borrowing.

Stokvel members are generally drawn from poorer sectors of the community. They are a poor credit risk in banking terms.

Better

Stokvel members complain that they are denied access to formal borrowing, but their savings are lent to relatively wealthy whites with good credit ratings.

Nasasa spokesman Stephen Japp says: "A unit trust will give stokvel members a better return on their money. They will be able to offer unit trust money as collateral against loans from the financial institutions."

But some fund managers suggest there is no need for a stokvel unit trust. Existing unit trusts can handle this business. There is nothing to stop stokvel members from collateralising their investments through unit trusts. It is estimated that 25% of unit trust holders are black.

Syfrets and Nasasa will teach stokvel members how the JSE and unit trusts operate. Together with Old Mutual, Syfrets is preparing a package to show people how to profit from shares and unit trusts.

Syfrets has agreed to administer stokvel funds at a reduced price.

● See page 4.

First National likes the look of Nedcor, but . . .

S/Times [BUSS] 10/5/92

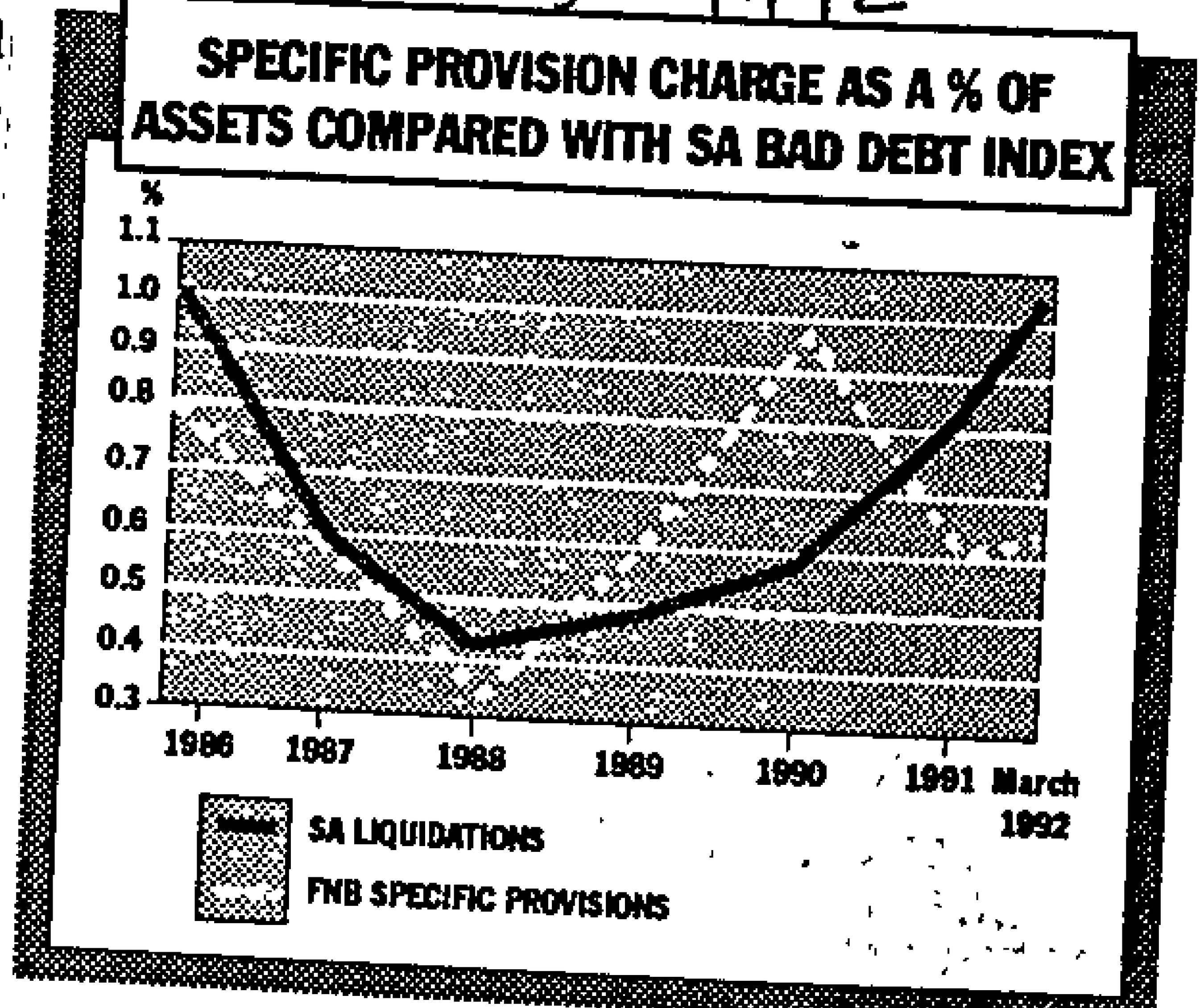
58

UNLIKE the Nedcor parties who were asked the same question, First National Bank's Barry Swart does not dismiss the notion of a deal between the two banks.

Mr Swart said at a presentation to the Investment Analysts Society this week that there had been no talks, but there would always be speculation.

He saw complementary areas, adding that Nedcor could also be a good partner for Standard Bank.

Mr Swart said there were few acquisition opportunities for First National. He liked the NBS — the bank owns 11% of it — but said it was too expensive now.



First National made a counter-offer last year for the Allied group before it finally went into the Absa fold with UBS and Volkskas. With the benefit of hindsight Mr Swart is pleased he never landed that fish.

"We would have incurred a R200-million goodwill write-off, lost forever, if we had bought Allied for its R6-billion home loans book.

"Instead, we have spent R30-million on promoting our own home loans which have grown by a quarter of that amount in two years, and the taxman paid for half. That is what I call a good equation."

Mr Swart convinced the analysts on this and many other points — witness the share's 150c climb to an all-time high of R62 the following day.

In the two years since First National last gave a presentation to the analysts, the share price has risen from R25 to more than R60, a significant rerating. The price-earnings ratio has doubled from 5,7 to 11-plus.

In contrast, the PE ratio of previously top-ranked UBS, now Absa, has climbed from 8,3 to only 9,7 in the same time after taking in the laggards Allied, Volkskas and Bankorp.

Mr Swart outlined First National's strategies as asset growth, high-quality service, sound management of human resources, sales drive, credit culture and cost containment.

"We have sought only profitable business. If we do not like it they can go to the Second National Bank across the road. Our credit culture is about lending into cash flow, not just against security."

First National Bank achieved a return on assets of 1,06% — wonderful for an inflation-free economy. But Mr Swart believes a return of 1,6% is required — given an inflation rate of 15% in SA — merely for First National to stand still on the 8% capital-to-assets ratio required by 1995.

First National is capitalised at 9,6% after a R550-million rights issue in March. Another rise in dividend cover, which has been increased from 1,8 to 3 times since 1987, is unlikely to delight shareholders.

Mr Swart says the two major shareholders — Anglo American and Southern Life with 55% in total — have indicated that as long as First National does well, they are happy to put their hands in their pockets when it needs additional capital.

He was a little embarrassed that the bad-debt provision had had to be raised from R131-million to R161-million in the six months to March.

"Our early warning system and the risk categorisation of debt alerted us to potential debt that would previously have been identified perhaps two or three years down the line."

The graph above underlines First National's success in reining in bad debts. As liquidations have jumped since early 1991, the bank's provisions have come down sharply before ticking up on the back of double-dip recession and drought.

The growth in Wesbank's book, where bad debt is a part of the business, also contributed to the increase.

Mr Swart makes a good case for BankCity — the group's new corporate headquarters covering four blocks in central Johannesburg.

The final bill will be R1,2-billion, but it will carry the bank through the next century and pull together head-office activities previously at 28 sites.

Block A is owned by Old Mutual, but the rest will be wholly owned, protecting First National from escalating rentals.

BARRY SWART: In the clover

A feasibility study undertaken in 1987 showed that nearly R600-million in 1991 money would have had to be spent on upgrading the existing 28 sites. Another R133-million would have been necessary for extra space and the estimated rental escalation to the year 2005 was more than R700-million.

On top of this, 50% of the growth in future revaluations of BankCity will qualify towards secondary capital.

The presentation touched on robots, talking systems, eyeball detectors, smartcards and other science-fiction concepts that are close to reality.

In the longer term, First National is looking to growth from the mass market, hence its involvement in FutureBank, managed by Wesbank.

The analysts came away with a positive opinion of First National Bank — a far cry from only three years ago when there was hardly a supporter in the market.

Mr Swart convinced the ... itable business. If we do not ...

Eyes on foreign partners

S/Times (Buss) 10/5/92

(58)

NEDCOR was in a dilemma: should it declare interim profits that satisfied the percentage-rise requirements of the media, especially after a rival's 20% boost the previous week, or should it keep a little back because of the political and economic climate?

Chief executive Chris Liebenberg believes the 15% improvement in net income to R192-million matched the realistic expectations of banking analysts.

Certainly the share price — steady at R18,50 — endorsed that view.

Nedcor's general reserves of R266-million are relatively larger than those of other banking groups, particularly since Nedcor is the only group to declare reserves after tax.

"We don't want to create a false impression. The drought, political and social instability and the recession are still relevant factors," says Mr Liebenberg.

In a way, Nedcor was penalised for declaring separately the Perm, in which is concentrated most of the business vulnerable to socio-political factors. Other groups are exposed, but need not quantify it.

As it happens, the Perm still kicked in R33-million — R6-million down on the 1991 interim.

Nedbank, Nedfin and UAL showed handsome improvement, Syfrets faltered on a couple of properties and the joint offering from Finansbank and Cape of Good Hope climbed R1-million to R9-million.

Chairman John Maree says Nedcor is looking at joint ventures with foreign partners, but dismisses the notion of a deal with another SA banking group. Referring to Absa's takeover of Bankorp, he says speculation always arises about who is going to do a deal with the next-smallest player.

"Taken to its ultimate conclusion there would be only one bank."

He advised me not to waste any time pursuing this line.

Mr Liebenberg is pleased by the downtrend in expenses. The rate of increase is still weighty at 21%, but has fallen incrementally from 23%.

Mr Liebenberg says: "It's heading south-east fast. We have had so many unusual and extraordinary expenses recently, including a fully paid state-of-the-art network and refurbishment of the automatic tellers. Nedbank's are so advanced that other groups are considering converting to the same kind."

He says there is a pleasant surprise ahead in the cost estimates for the balance of the computerisation. What cost a million rands last year is now half the price, and so on.

It might yet be that the group that held something up its sleeve has the last laugh.

CHRIS LIEBENBERG: Computer coup Picture: CATHERINE ROSS

OPPORTUNITY

Marriage and ...

Big savings under Unexcor umbrella

(58)

S[Times (Buss) 10/5/92

DIAGONAL STREET by Julie Walker

FOREIGN currency would be saved, risk managed better and the cost of services reduced if South Africa's three financial exchanges could be placed under one organisation

Unexcor — Universal Exchange Corporation — was established two years ago by four large banks and the Reserve Bank.

Managing director Bev Jennings, whose previous task was running Saswitch, says Unexcor aims to provide centralised exchange services to financial markets.

The trigger for the project was the Financial Markets Control Act (FMCA) of 1989. At present, the futures markets is self-regulated. The capital market will be self-regulated under the FMCA. The equity market is subject to the Stock Exchange Control Act.

Unexcor has been appointed the recognised clearing house of the Bond Market Association, whose turnover of R3 000-billion last year far outstrips trade on the JSE. Unexcor's system will get under way later this year.

The JSE was about to come aboard at the end of last year, but ducked out.

Safex, the futures exchange, rejected an approach to use Unexcor on the grounds of its being too costly for the time being. But it is likely to join in time.

Mr Jennings believes that costs can be pared if maximum use is made of existing capacity.

"We don't need every group doing its own thing, reinventing its own wheel. The goal is still for Unexcor to become the common vehicle."

In the past few years the JSE has upgraded its computers to handle enormous volume which occurs once in a blue moon. It developed the BDA (broker-dealer accounting) system, unnecessarily in the opinion of many, at great cost. It requires all its members to use it to apportion the development cost.

The FMCA requires a safe and secure market and that users must be protected.

Obviously, banks are not being philanthropic in forking out upfront for Unexcor. Their intention is to earn fee income through value-added services, such as risk management, settlement and custodian services.

A centralised exchange would allow the total exposure of traders in the three markets to be calculated. In each individual market the risk might be too high, but properly hedged portfolios would collectively reduce the exposure.

Each deal in the bond market is now settled with either the delivery of cash or scrip. Unexcor would provide a net settlement scenario.

Mr Jennings says: "We have one cheque a trade. The new Unexcor system would produce a net settlement position to be met electronically, providing cost advantages.

"The potential for fraud through dud scrip, such as the false Eskom certificates that surfaced last year, would be reduced."

A centralised depositary could accommodate all the scrip, avoiding the need for thousands of messengers. Each delivery probably costs between R80 and R120.

Electronic settlement would also remove the need for guaranteeing cheques for settlement.

The Reserve Bank's interest lies in secure financial markets as well as seeing the cost of services reduced.

A spinoff might arise in the saving of foreign currency paid to overseas electronic services.

Traders now advertise their prices on a screen, typically Reuters, but deals are still executed by telephone, fax and paper. It is a system vulnerable to misdemeanour. The global shift is to electronic trading where deals are executed through the computer. Unexcor would provide the centralised forum and the specifications of the deal. Ideally, prices could be displayed through any service and be traded by every other member.

SA competitors such as Genisys and I-Net could then break the near monopoly.

The amount of money legitimately leaving SA through subsidiaries of foreign principals runs to millions of dollars a month. Pricing services would still have to be paid for, even if the distribution network changed. But it would mean less money leaving SA.

Mr Jennings hopes the JSE will outsource its clearing systems to Unexcor.

SA's financial markets are too small to justify higher and higher costs. At the end of the day, the consumer pays for everything in a captive market.

There is little enough choice among growth investments and the players should do what they can to cut costs.

Republic Bank watches debt

S/Times/Buss/ 10/5/92

Business Times Reporter

MAC MIA: Saw the FA Cup final

NEW Republic Bank achieved good results in difficult trading conditions for the year to March 31, 1992.

The small deposit-taking institution increased net income before tax by 23% from R4,7-million to R5,8-million.

A lower tax rate boosted income attributable to shareholders by 28,1% from R2,4-million to R3,0-million.

Managing director Mac Mia was in London yesterday watching the FA Cup final.

He said before leaving: "The improved profitability is attributed mainly to having maintained the bank's policy of focusing on good-quality lending, profitable margins, increasing fee income and sound control of debt.

"The improved performance is gratifying in the light of the relatively 10,6% (R32,4-million) growth in advance balances.

58

Sound

"Although it was policy to curtail growth in the face of the tight economic climate, an increase of 15% would have been more in line with the bank's potential.

"However, as a precaution against deteriorating confidence in smaller financial institutions, the overall growth targets were reduced further to enhance the bank's overall liquidity levels."

Mr Mia said that because of the expected continuing difficult economic conditions, the provision for bad and doubtful debts was increased by 26,4% from R2,6-million to R3,3-million.

"The bad debt write-off amounted to R3,1-million, or 1% of the average advances book. A surplus of R489 321 was realised on the sale of a property. In keeping with prudent accounting practice, an equivalent amount has been charged against income and set aside as a general debt provision.

"The combined total of bad and doubtful debt and general debt provisions is equivalent to 1,1% of yearend advances and bills discounted."

Mr Mia said that because economic conditions were not expected to improve much in the current year, attention would continue to be focused on return on assets rather than growth and maintaining margins.

A final dividend of 10c will be paid in August, bringing the total for the year to 17c (last year 15c).

'US recovery slow, halting'

HOT SPRINGS — Economists from top US corporations expected a slow and uneven economic recovery, according to a report released by a leading business group.

The characterisation of the economy and outlook continued to be "relatively sluggish growth", the economists said in the business council report. BDay 11/5/92

The economists believed the economy would expand at a 3% rate between now and the end of next year. In addition, they said the expansion might not be fully enjoyed by all US industries or in all regions.

"The 3% rate is about half of the normal growth level coming out of recession, but it is far better than the meagre growth rate of the past year," the report said.

Many economists felt more upbeat than they did in a report to executives last October.

"Recent signs of increased activity may finally be sufficient to convince sceptics that a general economic recovery is truly under way," the report said.

But economists also expected overall growth would remain relatively slow and halting, with substantial variation among industries and regions of the country, the report said.

"The signs of recovery are still only fragmentary, with many industries still depressed," it said.

But lower interest rates had brightened the outlook. — Reuter.

MONEY MARKETS by Sheridan Connolly

Bank issues special Treasury bill tenders to drain liquidity

B Day 11/5/92

STRONG liquidity levels in the money market, boosted by some early government spending going through the system, saw downward pressure on rates maintained and the range for the 90-day liquid BA rate narrowed by 10 points to trade between 15,20% and 15,30%.

The Bank was kept busy with its battle against the ongoing high liquidity levels and issued a series of special Treasury bill tenders in an effort to drain the market.

The money market shortage dipped to as low as R393m last week but, by the end of the week was back up at R1,03bn — where the Bank is thought to prefer it.

Positive sentiment in a strong money market followed the recent bullish resurgence in the capital market. By the end of last week, the capital market had recovered from Thursday's options close-out lethargy and players were far less reluctant to assume new positions.

Capital market rates were easier after the close-out and there seems still more scope for lower rates.

At the end of last week, the benchmark Eskom 168 eased to a new six-month low of 15,94% from 15,98% the previous week.

The government RSA 150 bond was down at 16,10% from a previous 16,14%.

The average rate on the three-month Treasury bill continued falling last week and dipped to 14,76% in the Bank's weekly tender compared with 14,90% the previous week.

The Bank received R524m in bids for the R100m on offer. Applications for the R100m six-month tender totalled R452m while the nine-month R100m tender attracted bids worth R450m.

Stals

Downward pressure on the rate of both the six- and nine-month Treasury bill tenders continued with the six-month tender lower at 14,35% from 14,44%. The rate on the nine-month bills shed 10 points falling to 13,92% against 14,02% the previous week.

During the week Reserve Bank Governor Chris Stals quelled expectations of a further interest rate cut in the short term by saying the Bank was happy with rates at their current levels in light of the prevailing inflation climate.

Stals said a lower level of government deposits with the Bank coupled with government spending was adding liquidity to the monetary system.

Union tries to recover Masterbond million

81 Day 11/5/92

DIRK HARTFORD

THE unaffiliated National Union of Leatherworkers (NUL), with 23 000 members, stands to lose more than R1m in the Masterbond debacle.

NUL general secretary Kessie Moodley said the union had invested "reserve funds" in Masterbond for use later as bridging finance.

The funds were held by various union-linked funds — including a general benefit fund, a death benefit fund and an employee sick benefit fund which was a supplement to the Leather Industry Industrial Council's sick benefit fund.

Moodley said the union was doing all it could to try to retrieve the money, but the prospects looked bleak.

The union had made contact with Masterbond investor groups and representations had been made to the Registrar of Deposit-Taking Institutions.

He said the NUL, an old union previously linked to the now defunct Trade Union Council of SA, was in a sound financial situation despite the Masterbond losses.

He added that the union owned buildings in Port Elizabeth and Maritzburg.

Moodley, who is a brother of Azapo activist Strini Moodley, was central in an internal union struggle that eventually ousted long-time NUL general secretary Freddie Schwartz.

Schwartz is still general secretary of the small Transvaal Leatherworkers' Union.

In a pamphlet doing the rounds among leatherworkers in Port Elizabeth, Schwartz said that the NUL's funds — which had been invested over a long period in several building societies — had been "squandered."

African bank conference to focus on SA

ABIDJAN — SA's membership of the African Development Bank (AfDB) will be one of the main issues discussed at the bank's annual meeting which opens in Dakar, Senegal, today. B/Day 11/5/92

Apart from the main four-day meeting, the AfDB is hosting a special conference on SA in transition which is set to attract keen attention.

"SA will be a major, major thing," one AfDB source said.

"Pretoria can't formally be a part of the meeting because it's not a member yet, but that is clearly the way the bank sees its future going."

SA is sending Foreign Ministry officials and Southern African Development Bank acting CE André la Grange to promote contacts.

AfDB sources say they also expect SA Deputy Finance Minister Theo Alant and political groups. — Sapa-Reuter.

Bill provides for interest on levies

LINDA ENSOR (58)

CAPE TOWN — The Financial Services Board will be empowered in terms of provisions of the Financial Services Second Amendment Bill tabled in Parliament yesterday to charge interest on unpaid levies and fees. BDay 12/5/92

A memorandum to the Bill says about R1m in unpaid amounts is due but existing legislation does not empower the board to recover interest on these outstanding amounts.

The Bill provides the board with full powers to properly regulate the matter of levies. It also removes the requirement that Finance Minister Derek Keys approve the service conditions for board employees. The memorandum says this requirement was in conflict with the aim to make the board financially and managerially independent of the authorities and the financial services industry.

Investec Bank keeps its earnings growth on track

58 BDay 12/5/92

SHARON WOOD

SOARING bad and doubtful debt provisions failed to dampen Investec Bank's undiluted earnings growth, which jumped by 26,7% to 152c a share during 1992 from 120c the previous year.

The fourteenth consecutive increase in the bank's earnings was in line with analysts' forecasts, bringing the average compound growth in earnings a share for the past 10 years to 25%.

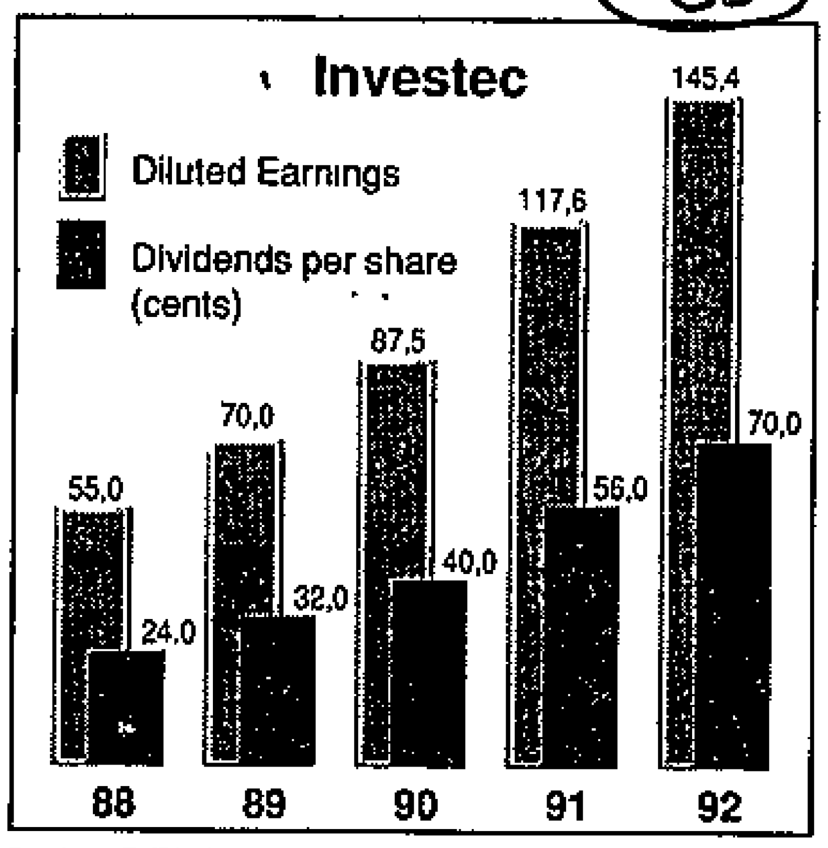
Diluted earnings rose to 145,4c a share from 117,6c in 1991.

Executive chairman Bas Kardol attributed the 116% jump in bad and doubtful debt provisions during 1992 to the present economic conditions and the inclusion of Reichmans' provisions for the first time.

"Reichmans' provisions were a good portion of the bad debts," he said.

A final dividend of 42c a share was declared, up 16,7% on 36c the previous year. The full-year dividend jumped 20% to 70c (56c).

Earnings attributable to shareholders rose by 38,3% to R33,2m from



Graphics RUBY-GAY MARTIN Source INVESTEC

R24m.

Kardol said the group's continued consistent performance was mainly due to the balance and diversity of revenue earned by its various business units, Investec Bank, Investec Merchant Bank, Metboard, Investec Property Group and Reichmans.

Net interest income leapt by 79,9% to R105,8m (R58,8m), in line with the group's aim to increase annuity income.

Several aquisitions during 1992 saw Investec assets climb by R725m to R3,607bn from R2,882bn, reflecting organic growth of R430m, R100m from the acquisition of the Provincial Building Society, R45m from T R Services' instalment sale book and R150m from the Fedsure alliance.

The Natal-based Provincial Building Society, renamed The Provincial, had become a division of Investec Bank and would bring 12 000 established accounts, experienced management and specialised bond products to the group.

Investec's share capital had increased to R436m during the year from R201m in 1991 as a result of the Fedsure and TR Services transactions.

The group's risk-weighted capital to asset ratio of about 14% was well above the Deposit-Taking Institutions Act's current requirement of 5% and the maximum requirement of 8% by 1995.

Kardol said the group would continue to look for opportunities to expand its operations internationally.

"Locally it has become increasingly important for the financial services sector to recognise and to respond to the increased entry of international competition," he said.

Apex beats rental trends

Business Day Reporter (58)

APEX Property Fund declared increased earnings for the 12 months ending March in spite of worsening trends in the office rental market. B/Day 12/5/92

Results released yesterday show that net earnings a unit totalled 30,42c against 28,6c a unit for the corresponding period last year.

The earnings for the previous year have been annualised for comparative purposes.

Fund administrators Anglo American Property Services (Ampros) report that Apex is in a satisfactory position in terms of vacancies. While it has a 9% vacancy in offices, only 38% of the fund is in office buildings, with 62% in retail. The latter section is 99,5% let.

About 15% of the space portfolio is due for renewal or reletting in the next 12 months.

Ampros financial director Lee Whitfield says taking into account current economic conditions, the forecast results for the year to end March 1993 reflect a marginal improvement over earnings for the past year.

Bid for Masterbond firms

LINDA ENSOR 58

CAPE TOWN — Citygate Corporate Finance is making a bid for management control of 11 property participation companies in the Masterbond group.

Citygate has sent a letter to the approximately 1 100 investors in the participation companies asking them to vote J H Isaacs Group (Tvl) director Peter Holling and Citygate directors Michael Addison, Cedric Greenwood and Daryl Sahli on to the board at a meeting on May 25.

Greenwood said yesterday the proposal had the support of the Masterbond provisional curators. BDay 12/5/92.

He said that as managers of the companies Citygate would aim to reconstruct the debt and would run the companies, many of which were in reasonable order, on an ongoing basis.

Citygate would review and reinstate the cashflow returns to investors at realistic levels.

To make the investments tradeable, Citygate also planned a JSE listing for the property loan stock, Greenwood said.

The companies, now under provisional curatorship, have a property portfolio amounting to R60m, R30m of which was invested by Masterbond investors.

The three biggest properties in the portfolio are the Brackenfell Shopping Centre (R18,5m), FHA House (R8,3m) and Masterbloem (R6,6m).

The properties are administered by the J H Isaacs Group.

The meeting on May 25 has been called to elect a new board of directors to replace the current board and to take control of the company. Former Masterbond MD Koos Jonker has tendered his resignation as a director.

The Masterbond provisional curators are not legally empowered to nominate persons for election.

Citygate urged investors not to vote for past Masterbond Group company directors and those formerly associated with Masterbond, as had been proposed.

Marchers dispersed

BDay 12/5/92

PRETORIA — Bophuthatswana police used teargas to disperse a crowd which had gathered to march on the GaRankuwa Magistrate's Court yesterday, police spokesman Col Dave George confirmed.

Earlier reports said the march, which took place north-west of Pretoria, was part of a day of mass action including work stayaways to protest against the homeland's refusal to be reincorporated into SA and against its labour legislation.

Industries in Rosslyn, north of Pretoria, experienced up to 100% stayaways as a result of the ANC/Cosatu/civic association-organised action.

Spoornet said trains from GaRankuwa and Mabopane near Bophuthatswana were only 40% full, while BMW in Rosslyn said management and unions had agreed that yesterday would be a nonproduction day and the units lost would be made up.

Mail deliveries were affected in some Pretoria areas. — Sapa.

PEANUTS By Charles Schulz

Absa takes over real estate network MLS

STAR 13/5/92

By Frank Jeans (58)

SA's largest banking group, Amalgamated Banks of South Africa (Absa), has taken full control of real estate network, Multi Listing Services (MLS).

More than 90 percent of the MLS membership of 1 300 estate agents supported the Absa offer to buy them out, says Mike de Blanche, the bank's executive director, resources.

Absa has had a 33,3 percent stake in the agency referral group, members of which have been users of the bank's property computer system.

MLS will now be restructured to become a flexible service company and will no longer perform an estate agency function.

"The takeover opens up exciting new business prospects," says Mr De Blanche.

"Absa has a 45 percent share of the home loan market and will now be able to offer the most comprehensive computerised services available to all agents."

Absa will, in future, offer its computerised multiple listing services to agents other than MLS members, while the latter will also be able to join other multi-listing organisations.

Mr De Blanche says that in the restructuring of MLS the bank will do away with the contentious 0,25 percent fee on the selling price of a property payable to MLS by agents who use the service.

Instead, each member office will pay a flat fee of R250 a month.

"Our computer system is the first known real-time on-line fully integrated real estate brokerage and administration package in SA and possibly worldwide," says Mr De Blanche.

"It provides agents with significant and exclusive benefits.

"The opposition has been strong on advertising, but since our system (APCS) was developed exclusively by Absa and does not have to serve masters, we have been able to focus on the product and needs of estate agents and have not needed to involve ourselves in politics.

"We will have to wait to see whether the competition has a tiger by the tail."

The cost of the MLS buy-out is unknown since the Absa offer is subject to certain conditions. Finalisation of the deal is expected at an MLS shareholders' meeting on May 29.

NBS cuts down on black home loans

SHARON WOOD 58

NBS was changing direction by moving away from the black home loans market and towards higher income group lending and corporate business, group MD John Gafney told an Investment Analysts' Society presentation in Johannesburg yesterday.

The group's exposure to the black market was R1,1bn or 12,5% of total assets, operations director John Smale said. "There have been problems because of bond boycotts," he added.

The exposure to one township had been about R80m but the bank had built up bad debt provisions and cut back on lending there.

Only 2% of new business extended was going to the black market, compared with 40% in the beginning, he said.

The commencement of an economic recovery in the last quarter of 1992 and a reduction in inflation by year end would contribute to a lower charge for bad debts, Gafney said. BDay 13/5/92

NBS's concentration on lending to higher income groups had been fairly successful last year and 75% of lending was now focused on the upper income categories.

The bank expected interest rates to fall by a percentage point in August this year and in January next year, Smale said.

Stanprop prospects 'are good'

B/Day 13/5/92 (58)

ANDREW KRUMM

PROSPECTS for growth in Standard Bank Property Fund earnings remain good, but the fund's rate of growth in 1992 is unlikely to match that of last year, chairman E P Theron says.

"The property market in general was in a depressed state with vacancies rising and rentals falling. This situation is expected to persist in 1992," he said in the latest annual report.

Earnings prospects this year were good as Stanprop had no major leases due for renewal in 1992. Consequently the majority of Stanprop's property investments should reflect growth at the underlying escalation rates built into leases, he said.

Net distributable income in 1991 rose 12% to 19,25c a unit from 17,19c in 1990. Theron said interest income, at 38% of net distributable income, had contributed substantially to earnings in 1991.

He warned of short-term distortions in earnings in 1992 as management's portfolio rationalisation strategy continued to convert selected property investments into cash to yield higher short-term returns and then initially lower returns when the cash was ploughed back into prime property.

In 1991, the residential property portfolio was reduced from 25,1% to 11,7% of portfolio net book value, while the retail/office and industrial property share rose.

"The highlight of the year was the disposal of Stanprop's 964-unit Bedford Gardens residential complex at a cash price of R90m," Theron said.

Sectional title registers were opened for the fund's remaining 824 flat units and sales of these units were expected to begin in the second half of 1992.

Stanprop bought five commercial sites in 1991 at a cost of R32,7m, and two developments worth 12,9m were initiated for completion in the first half of the year. The fund also acquired four commercial properties for R37m after the year-end.

"In the long term, once Stanprop is fully invested in prime properties, (short-term) distortions should stabilise and Stanprop should produce consistent growth in capital and income," said Theron.

Row over losses at Protea

LINDA ENSOR

CAPE TOWN — Protea Assurance's shareholders are up in arms over the huge losses made on its fire and accident account. Losses of R75m over the past three years have effectively wiped out the company's R66m investment income over that period.

At yesterday's annual meeting shareholders called for the termination of the short-term fire and accident business and called management's ability into question by suggesting that, alternatively, management with the proper expertise be appointed to manage the account. Last year the account incurred a R32m loss.

Shareholder Solly Frank said other short-term insurers' losses had not been so great and their recovery had been quicker.

Chairman Denis Fletcher said the matter would be considered, but expressed doubt whether it was practically possible for these categories of business to be excised. He blamed the losses on the social and political environment which had resulted in a sharp increase in thefts and hijackings. Profitability had been severely strained, especially in the fire and accident sector, he said. BDay 13/5/92

"Steps have been taken to turn this situation around and the first quarter results are very encouraging," Fletcher said, adding Protea would reap the benefits of its restructuring and new technology.

In his annual chairman's statement Fletcher said 79% controlling shareholder UK-based Sun Alliance plc had "been truly remarkable in its willingness to support us with international expertise".

He said the company would return to profitability, but that this would take longer than at other companies because, as an independent insurer, Protea did not derive

□ To Page 2

Protea Assurance

BDay 13/5/92 (58)

□ From Page 1

benefits from in-house business.

Despite numerous offers to buy the company, Protea remained firmly committed to its independence, Fletcher said.

Complaints were made by shareholders that there had been no increase in the dividend since 1989, but Fletcher said the dividend would be increased in line with an improvement in profitability.

The life division had done well, producing an increase in renewal premiums of about 40% in the first quarter of this financial year over the previous quarter.

A positive spin-off of the drought for short-term insurers had been the sharp decline in storm and weather-related claims in the first quarter, Fletcher noted.

He said, however, that the gains made on this account had been wiped out by the escalation in crime and the rise in claims in the personal lines, car insurance and household insurance accounts.

Fletcher said another trend had emerged in the recession, namely for premiums to be paid monthly as opposed to an annual lump sum. "This will naturally have an adverse impact on our cash flow but we cannot go against what is effectively a market trend. A balance between regular increases in rates and debit order loadings will have to be achieved in order to counter the loss of investment income."

He said Protea was adopting a more selective approach to clients. The company was financially sound, and its solvency margin was far in excess of the statutory requirements.

Absa takes over MLS

B/Day 13/5/92

SHARON WOOD (58)

ABSA announced yesterday it had taken control of estate agent service company Multi Listing Service (MLS).

The bank previously had a 33,3% stake in MLS, and more than the mandatory 90% of the 1 300 MLS estate agent members supported the recent Absa offer to buy them out, Absa resources executive director Mike de Blanche said.

MLS provides a computer link between estate agents and the bank's home loan department through Absa's Property Computer System.

Absa would offer multiple listing services to non-MLS agents, while MLS members would also be able to join other multiple listing organisations, De Blanche said.

During restructuring of MLS, Absa would do away with the 0,25% fee on the selling price of a property, payable to MLS by agents using the service. Instead, each member office would pay a monthly fee of R250.

The cost of the buyout is still unknown, because the Absa offer to MLS shareholders is subject to certain conditions.

Loans market collapses

STAR 14/5/92.

THE breakdown in law and order had led to a collapse in the normal functioning of the housing loans market and an inability to enforce the legal consequences of non-payment, the De Loor report found.

Political action such as bond boycotts had caused significant losses to mortgage lenders and undermined the functioning of the process which sustained viable housing delivery.

Bond boycotts, together with a lack of affordability and the risk of non-recovery due to dismissals and retrenchments, placed constraints on the small housing loans market.

To sustain viable housing provision, the whole process surrounding home-ownership had to be allowed to function within established systems.

The State should provide remedies for mortgage lenders. — Sapa. □

Appeal to protect consumers

STAR 14/5/92

WIDE-RANGING exploitation and malpractice by some commercial housing developers, particularly of people in low-income groups, had led certain communities to challenge the role of the private sector in housing provision, according to the De Loor Commission on Housing.

Provision had to be made for a more effective form of consumer protection.

Malpractices identified by the Urban Foundation included falsification of income information, incomplete disclosure of associated costs (eg transfer costs), brokering firms which charged a fee to secure bond finance which was not reimbursed if the application failed, excessive deposits which were not refundable, collection of deposits by non-approved estate agents, and the illegal sale of sites to squatters. — Sapa. □

Building industry probe call

STAR 14/5/92

AN IN-DEPTH investigation into monopolies and over-concentrations in the building material supply industry should be undertaken, the De Loor Commission on Housing has recommended in its report.

The commission said the Government should also relax import controls and lower tariffs on building material to promote domestic competition.

The building material supply industry was dominated by a few local conglomerates protected from foreign competition by effective trade barriers.

In many instances, building material could be imported at substantially lower cost.

A superficial analysis of the suppliers' profit records indicated that prices were adjusted upwards to allow a supplier to maintain profit margins even when demand for a product declined. — Sapa. □

Controls keep pension trustees in check

8/10 cu 14/5/92

PETER McCULLOCH

NOT TOO long ago, management control of pension and provident funds was totally in the hands of company management.

A few years ago, with the advent of negotiated provident funds, this began to change. Members of provident funds, represented by their unions, demanded representation on the boards of trustees of the negotiated funds.

In recently issued draft guidance notes, the Inland Revenue Commissioner effectively approved this development by suggesting that all funds should include member representatives on the board of trustees.

In recent negotiations, certain unions have demanded majority representation on the board of trustees, arguing that pension and provident fund contributions are deferred compensation and therefore from the time the money is invested in the fund it becomes the workers' money. The workers should therefore determine how this money is invested and control management of the fund.

Many fund members also regard the assets invested in pension and provident funds as a source of wealth for potential worker empowerment. Suggestions have been made that at least part of these assets should be invested in "socially desirable investments" which to some extent redress the wrongs of apartheid.

Are there risks that worker majorities on the boards of trustees of pension or provident funds together with the call for worker economic empowerment could lead to fiscal irresponsibility?

I would tend to think not SA legislation imposes a number of controls on trustees and their advisers.

Trustees must at all times act in the best interests of all the fund's members and they will have the Financial Services Board, the fund's auditor, and the fund's actuary looking over their shoulders.

Furthermore, the prudent investment guidelines and other investment controls limit the trustees' flexibility in investment matters

Recently a new unit trust, the Community Growth Fund (CGF), was launched. It is managed by Syfrets and has union participation on its management committee. The CGF is being marketed as a potential investment for pension funds and provident funds and will be constrained in the investments it makes. This unit trust is a nod to socially acceptable investment, but although the companies' track records in job creation, trade union relations, and environment issues will be monitored, investments made in JSE-listed companies and investment returns will be of paramount importance.

Before the advent of this unit trust, member trustees on negotiated funds were already setting constraints on investment managers. Thus, through individual provident funds, workers already have some say on the suitability of investment decisions on assets they partly control.

It has been our experience in working with member trustees on provident funds that however much they are concerned at the social inequalities existing in SA there is a keen awareness that the provident fund can only be of limited assistance in addressing these issues. However, the economic difficulties facing the country will always be on the agenda

The auth...

COMPANIES

Compass's operating profit slides

PETER GALLI

COMPASS Property Holdings has reported a 5,3% drop in operating profit to R29,461m for the year to end-March compared with R31,116m previously.

Anglo American Property Services (Ampros) financial director Lee Whitfield said yesterday operating profit had dropped because the company's financial structuring had changed. Biday 14/5/92

"When Compass was acquired in July 1990 it had some soft and interest-free loans maturing in 1991, and in the year under review it was exposed to real interest rates."

Total interest a debenture of 51,70c was reported compared with 54,33c the previous year on an increased number of shares following its October rights issue.

The final debenture interest payment of 27,50c was slightly higher than the 25,6c forecast at the time of the issue, she said.

An extraordinary item of R1,089m on the sale of investment properties boosted profit after extraordinary items to R1,622m from R286 000 previously. Total dividends of 5,50c (5,33c) a unit were declared.

Of the lettable area of 186 000m², only 3% was vacant at year-end. Compass had a total of 121 737m² of office space and 64 727m² of retail space in its portfolio.

58

Investment in housing will bring jobs and aid growth

Bday 14/5/92

BILLY PADDOCK in Cape Town

158

SOUTH Africa could satisfy two pressing needs if government and the private sector changed their views on housing and investment, and acted swiftly.

This would alleviate the desperate housing shortage and the blossoming of squatter camps caused by rapid urbanisation; and it would also give a substantial injection to economic growth.

This is one of the main findings of the De Loor task group's investigation into housing whose report was published yesterday.

Government's White Paper on Land Reform earlier acknowledged that widespread and increased urbanisation was inevitable. The task group report states that about 198 000 housing units a year have to be built in the next 10 years to deal with this.

Under the chairmanship of former auditor-general Joop de Loor, the task group of experts says it is generally accepted that a properly functioning housing sector would contribute substantially to alleviating some of SA's economic problems.

"Housing can play an important role in generating income and employment opportunities, and it can encourage people to save. Furthermore, investment in housing need not be inflationary."

Thus far the housing sector has not functioned optimally and, especially in the low-income segment, housing has often not been regarded as an economic commodity. This perception has led to a negative impact on the entire housing market and on the savings and consumption patterns of individuals, the report argues.

State expenditure and commitment to housing is also very low, which helps perpetuate this perception. Budget appropriations for housing and housing-related matters in 1990/91 totalled a mere R1,6bn or 2,1% of expenditure. In spite of rapid population growth and a high urbanisation rate the contribution of housing to the economy had remained almost constant during the '80s.

Over the entire period, investment in housing as a percentage of GDP was far lower than in other countries at the same stage of development — running at below 3% and some years as low as 2,6%, according to the World Bank — indicating there was ample scope for increased investment in this sector.

"It is consequently essential that investment, especially in low-income housing, should be substantially increased and that total investment should be normalised around 5% of GDP," the task group says. There is also a need to increase its portion of the Budget, and to make more productive use of the existing budgetary amounts.

It opposes classical development theory which assumes that industrial development leads to urbanisation, and that the market would provide for additional housing requirements.

The report says all serious students of housing accept that sustainable provision of acceptable housing creates large measures of social stability, while at the same time providing important income and employment opportunities.

"As stated by the World Bank, it is generally agreed that for the economy and for cities to function well the housing sector must function well."

Apart from the direct effect on income and job creation, construction has strong indirect effects through backward and forward linkages.

Backwards, it is linked to building material industries, to products such as stone, cement, bricks, glass, steel and processed wood. The forward linkages are less obvious, but home-owners are strongly motivated to purchase furniture, equipment and other fixtures which may have a strong effect on many industries.

The World Bank had estimated that the income multiplier for housing construction is about two. In Korea, about 14 additional jobs were created for every $10 000 invested. Similar figures prevailed in Pakistan, India and Mexico, the report states.

☐ DE LOOR

There are other, less tangible, employment benefits. Investment in housing is particularly well suited to absorbing labour resources.

Newly arrived migrants often work in construction, where a large majority of workers are unskilled, and they use this as a launching pad to other opportunities in the cities.

The task group found that the labour-absorptive capacity of SA's economy had assumed daunting proportions.

In the period 1965 to 1970, the capacity was 73,6%, from 1970 to 1975 it dropped to 62,7% and thereafter it dropped drastically to 12,5% in the period 1985 to 1989.

The construction of low-income housing on a stage-by-stage basis allows labour to be used incrementally. Countries adopting a wide range of self-help, mutual-help and hired-labour methods had benefited from the flexibility enabling houses to be built at nights and over weekends.

Another advantage of investing in low-income housing is that most of the industries it is linked to require minimal imports during the first phase and this provides potential for contibuting to development and growth that would otherwise not be possible, it states.

De Loor argues that every R1 invested in the housing sector through deficit financing would lead to an increase of about R2,70 in the GDP, whereas the increase would be 28c if it was done through increased taxation.

Using the work of the World Bank reconnaissance mission, the task group says there is a reasonably well-functioning housing market in the higher income brackets in the white segment, but not in the lower income segments. This has led to persistent housing shortages, poor quality housing, overcrowding, high home prices, a general unwillingness to spend or invest in housing, and undercutting of the revenue-generating potential of residential property in those areas.

The commission concludes that, for housing to make this substantial contribution, a change in the composition of government expenditure in favour of housing is required. This would lead to a redistribution of income and changes in demand patterns which bode well for economic growth and job creation.

To succeed in this venture, the housing sector should be integrated into the market economy and a more balanced approach adopted.

"However, housing expenditures alone could not lead to permanent long-term growth. Attention should also be given to programmes such as the promotion of small business development and the provision of education and training," the report states.

Deregulation, commercialisation and the employment of sound policies which strengthen market forces and provide access to opportunities are all strategies needing strong promotion and high priority.

In spite of the sound proposals contained in the report and the laudatory comments from politicians across the board on the report, government has not accepted it and has said it will not result in a White Paper or direct implementation.

Local Government and Housing Minister Leon Wessels yesterday said that, because the report was not a result of widespread consultation with extra-parliamentary political groups and the "main players", it will be used as input for discussion possibly going to Codesa. It will be buried along with the other 33 inquiries into housing since 1970.

FM 15/5/92 (58)

MERHOLD FM 15/5/92

Room to expand (58)

The bearish sentiment accorded the share price seems justified by 1991 results. Though earnings a share rose marginally, this is a reduction in real terms. Return on average equity and average total assets fell to 18,4% (1990: 19,9%) and 2,4% (2,5%).

Chairman Christopher Seabrooke says such comparisons are unfair because most of the increase in advances (and therefore as-

Activities: *Trade financing and factoring, export trading, investment and other related financial services.*
Control: *SA Bias Holdings 79,8%.*
Executive chairman: *C S Seabrooke.*
Capital structure: *18,3m ords. Market capitalisation: R31,1m.*
Share market: *Price: 170c. Yields: 10,0% on dividend; 29% on earnings; p:e ratio, 3,4; cover, 2,9. 12-month high, 190c; low, 140c. Trading volume last quarter, 50 000 shares.*

Year to Dec	'88	'89	'90	'91
Total assets (Rm)	268	341	359	378
Advances (Rm)	226	283	297	317
Gearing ratio	3,8	4,3	4,2	3,5
Taxed profit (Rm)	7,4	10,9	11,6	12,2
Return on assets (%) .	2,8	3,6	3,5	3,6
Return on equity (%) ..	18,8	20,6	18,8	17,5
Earnings (c)	36,5	46,4	47,7	49,5
Dividends (c)	14	17	17	17
Net worth (c)	195	226	254	283

sets) occurred in the fourth quarter. Just under 70% of net income comes from the finance division. The trading and investment divisions contribute 18% and 13%.

Net income from the finance division, involved in trade and working capital finance and receivables factoring, increased to R8,3m (R7,7m). "Factoring accounts for as little as 10% of total advances," he notes.

Restructuring of the division, resulting in a higher return on assets and a lower risk profile, is ahead of schedule and should be completed during 1992-1993. "Its decision to take a conservative approach to the expansion of business during the economic downswing has been successful," Seabrooke says in his review.

The increase in advances was again contained below the inflation rate.

The contribution from trading operations (Mertrade) dropped, largely as a result of the reduction of Merhold's interest to 60% from 76%. Seabrooke says more shares were made available to management and expects this to motivate growth further.

The export trading operation performed satisfactorily despite political disturbances in some major markets. Mertrade is not a trader in the ordinary sense. It has a number of agencies and product specialities. As a result all business is pre-sold, no inventories are held and there are no open positions.

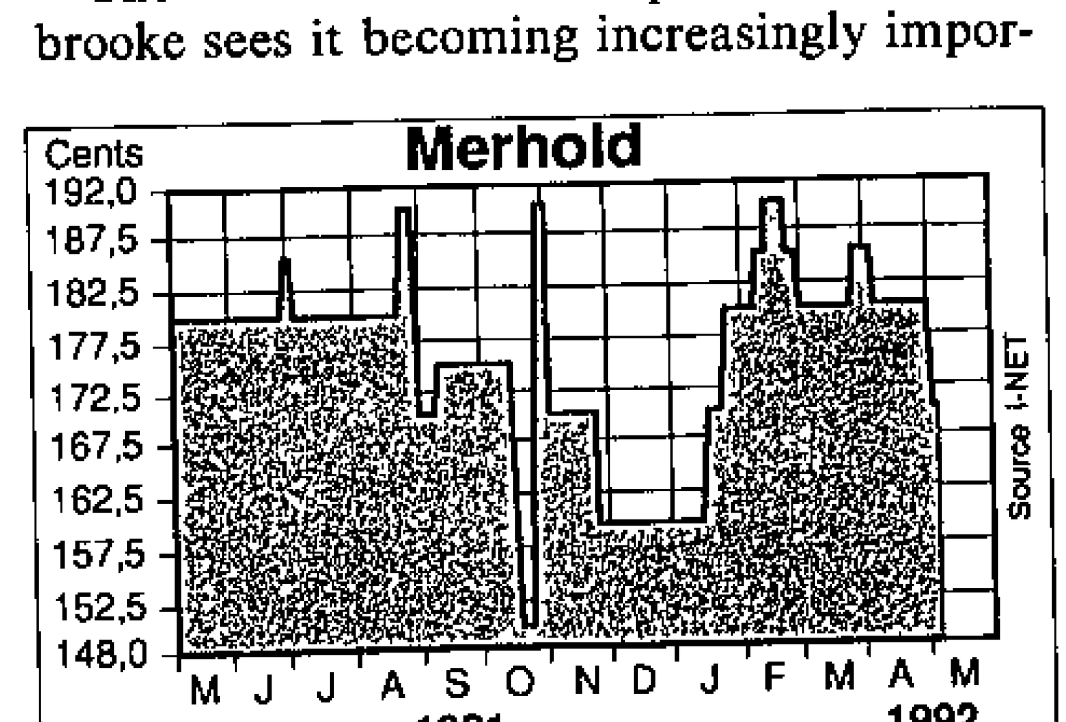
The investment division established a joint venture operation, Merhold Kirsh Capital, with initial funding of R25m, to specialise in leveraged and management buyouts, industrial and commercial investment.

The division is now cash positive and Seabrooke sees it becoming increasingly important. "Ultimately finance and investment will each contribute 40% to net income with trading making up the remainder."

The share is tightly held — especially after the increase in SA Bias's holding to 79% from 77%. "A parcel became available at a very low price," Seabrooke explains. He adds that Merhold will fund expansion through the issue of shares but only when its rating improves. He sees Bias's stake reducing to about 60% eventually.

The 10c drop in share price to 170c over the past 12 months puts the share on a p:e ratio of 3,4 while the dividend yield is a high 10%. There is a 40% discount to NAV. On the upside Merhold is undergeared. This leaves room to expand when the economy picks up. It should also benefit from any increase in foreign trade after the lifting of sanctions.

William Gilfillan



OVBEL FM 15/5/92

Novel restructuring

It could be called prudent, financial juggling, timeous, or all three. Whatever it is named Ovbel's proposed creation of a loan claim to be distributed to shareholders as a dividend *in specie* is certainly novel. The *prima facie* reason, say directors, is that Ovbel continues to trade well below net asset value. Current share price is 55c, while March 31 NAV was 113c.

Changing the capital structure is unlikely to improve either the market rating of the share or its image. What could improve marginally is the total return to an individual shareholder, from the aggregate of the ordinary dividend plus interest on the loan claim.

The scheme works like this:

Nondistributable reserves are R11,5m, relating to the premium on consolidation of subsidiaries when Ovbel was formed. Company (as opposed to group) nondistributable reserves are R1,4m — the book value at that time. It is proposed to revalue these to equal the group R11,5m, thereby raising the value of subsidiaries to R26,7m from R16,6m.

On the other side of the balance sheet, Ovbel has a loan claim of R15,6m against the subsidiaries. After revaluation, a distribution *in specie* of the loan claim, adjusted by a notional dividend receipt as at March 31, is to be made to shareholders.

The loan claim will be divided into units inextricably linked to shares in a 1:1 ratio at 50c a share. The net effect is that ordinary share capital and reserves of R33,1m become R18,4m plus a shareholders' loan claim of R14,7m (still totalling R33,1m).

There are two possible motives for the exercise. First, a simple theoretical calculation shows that net interest income from the loan claim in the hands of a shareholder who pays tax at the maximum marginal 43% is higher than that derived from a dividend payout made from the same pre-tax profits.

Secondly, there has been speculation that dividends could again be taxed in the hands of the beneficiary. Should this happen, at least Ovbel will be able to repay the loan account instead of paying taxable dividends.

Interest payable on the loan claim units will be determined by a formula but will not exceed the highest rate charged the group by its bankers.

Whatever else one may think, the scheme shows that the directors have shareholders' interests in mind. A general meeting will be held in Cape Town on May 25 to approve the scheme as well as changes to the share option scheme. *Gerald Hirshon*

LOA to review social responsibility

By Roy Cokayne (58)

STAR 15/5/92.

The life assurance industry is to launch an inititiative next month in response to socio-economic needs.

This was confirmed yesterday by Life Offices Association chairman Louis Shill, who is also chairman of the Sage Group.

He told the Institute of Life and Pension Adviser (ILPA) convention in Pretoria yesterday that the life assurance industry had to become more active in meeting the challenges and needs of the new South Africa.

The most important feature facing it was the question of social responsibility.

"In cooperation with government and other relevant bodies, the LOA has evolved a new initiative to respond to the socio-economic needs of the coun try without necessarily sacrificing sound investment criteria.

"It hopes to announce full details of this initiative within the next month."

It is believed the report will concentrate on the promotion of optimal savings and their appropriate allocation to productive investment.

Mr Shill said probably 50 percent of the new business written by the life assurance industry in the next year or two would come from blacks.

"ILPA as well as the Life Offices have to give urgent consideration to the broadening of their marketing focus, to the development of financial service products to meet specific needs and to their role in assisting in wider education needed in their industry.

Disclosure

In his address to the convention Financial Services Board (FSB) deputy executive officer Andre Swanepoel spoke out in favour of the disclosure to clients of the commission payable to life assurance intermediaries.

One of the objectives of regulation was investor protection and the two factors that played an important role in this regard were disclosure and control of intermediaries, he said.

Issues to be debated with regard to disclosure were product disclosure, commission disclosure, status disclosure and the correct database on which the recommendation was based, he said.

The special economic adviser to the Minister of Finance Dr Japie Jacobs said there were many factors which may impinge on the future growth of the long term insurance industry such as the course of the disposible income per capita, the redistribution of income and the age composition as well as life expectancy of the population.

To address these problems the industry and the authorities needed to examine a number of factors including the possible introduction of a national pension scheme.

KFC provides loans for cheap housing

B/Day. 15/5/92

HOUSING for the rapidly growing and urbanising population in the Durban Functional Region is one of the greatest challenges facing the area.

Kwazulu Finance and Investment Corporation (KFC) divisional manager: housing Angus Herselman says the formal housing shortfall estimates range between 150 000 and 200 000 units locally.

"The scale of the problem is put into perspective when it is considered that in 1990 only 35 000 houses were generated nationally.

"The KFC runs a housing finance section. It operates on a similar basis to a building society. We grant loans against security.

Focus

"The difference is that our focus is on low income and our average loan balance last year was around R21 000, whereas the traditional building society would be looking at loans of R35 000 and upwards.

"We are also a little more flexible as to the type of security we will accept. We have some loans which we accept on the basis of acknowledgement of debt rather than registering mortgage bonds.

"We also advance loans against a tribal certificates, permission to occupy rather than freehold rights," says Herselman.

KFC also has a project section which takes raw land and provides services such as water and sewage. The corporation then sells the land as would any other property developer.

Another important facet of the KFC's work is the community liaison section which aims to educate new home owners.

Orientation

Says Herselman: "The community housing information centre goes to any project on which we are working and it stays there as long as needed. It runs orientation sessions. Anyone who wants finance from the KFC is required to attend. It is a formal education process and people are taught about all the aspects of home ownership.

"If you look at the problems being suffered in the low cost housing market, many of them relate back to education and understanding of home ownership principles. People overcommit themselves as they do not realise the impact of interest.

"We regard education in this area as critical. We believe the scheme will not only limit our risk but also that of developers and other financial institutions involved. The response has been very positive."

STAR 15/5/92 (58)

Southern well above average

Southern Life's investment division has reported a return of 33,6 per cent return for pension and provident funds invested in the Southern High Opportunity Portfolio (SHOP) for the year to end March 1992.

General manager (investments), Shams Pather, compared the return with the average return of general equity unit trusts of 28 percent and the growth of the Johannesburg Stock Exchange all-share index by 27,5 percent.— Sapa.

Investec may seal foreign deal

B/Day 15/5/92

SHARON WOOD (58)

INVESTEC Bank could be set to acquire an overseas banking interest, market observers said yesterday.

They were speculating on the reason for the bank's cautionary announcement yesterday, which advised shareholders that negotiations were in progress that could affect the bank's share price.

One analyst said the deal could be done through the bank's trade financing arm, Reichmans. Reichmans has an extensive international network of offices in London, New York, Geneva and Hong Kong.

In a recent report, George Huyshamer banking analyst Alta Theron said the group had been actively involved in mergers and aquisitions since its listing in 1988.

The most recent deals conducted were the aquisition of Reichmans in early 1991, and the purchase of a 22,4% stake in Fedsure in February this year.

Investec Bank shares peaked at an all-time high of R23 this week before falling by 50c to R22,50 yesterday. Analysts said speculation of an overseas acquisition could have sparked the 12% increase in the share price to its peak on Wednesday from R20,50 on Thursday last week.

Investec recently announced a healthy 27% earnings growth during its 1992 financial year.

MD Steve Koseff was away yesterday and could not be reached for comment.

BoE move leads to rumours of rates cut

TIM MARSLAND 58

THE Board of Executors Merchant Bank yesterday cut its home loan rate by one percentage point to 17%, fuelling speculation that the Reserve Bank was set to cut interest rates. B/Day 15/5/92

BoE said the new rate would apply to selected clients from June 1.

Rumours of an imminent Bank rate cut were given further impetus after news that the Bank's governors were locked in a meeting late last night.

One dealer said it was more likely the banks would take the lead and drop their mortgage rates within the next few weeks, followed by a cut in prime.

Reserve Bank spokesmen were unavailable for comment.

Market sources said a rate cut was possible given recent sharp falls in short-term rates. Money market dealers cautioned, however, that a bullish money market always sparked off rumours of a cut.

One dealer said a rate cut was not impossible. If VAT was excluded from the CPI rate, inflation would have shown a downward trend over recent months.

Reserve Bank Governor Chris Stals said earlier this month that there was not much chance of interest rates coming down in the next few months, but the position could change later in the year.

FM 15/5/92

INTEREST RATES (58)

Facing reality

The recent easing of interest rates by some of SA's major trading partners can be interpreted as a breathing space for the monetary authorities, allowing them to lower domestic rates. But there are good reasons why SA cannot follow suit.

Firstly, SA's real interest rate, currently at 3,55%, based on the most recent CPI of 15,7% and a prime overdraft rate of 19,25%, remains lower than the rates of our major trading partners, apart from the US (see graph).

Secondly, developed countries with free

FM 15/5/92 (58)

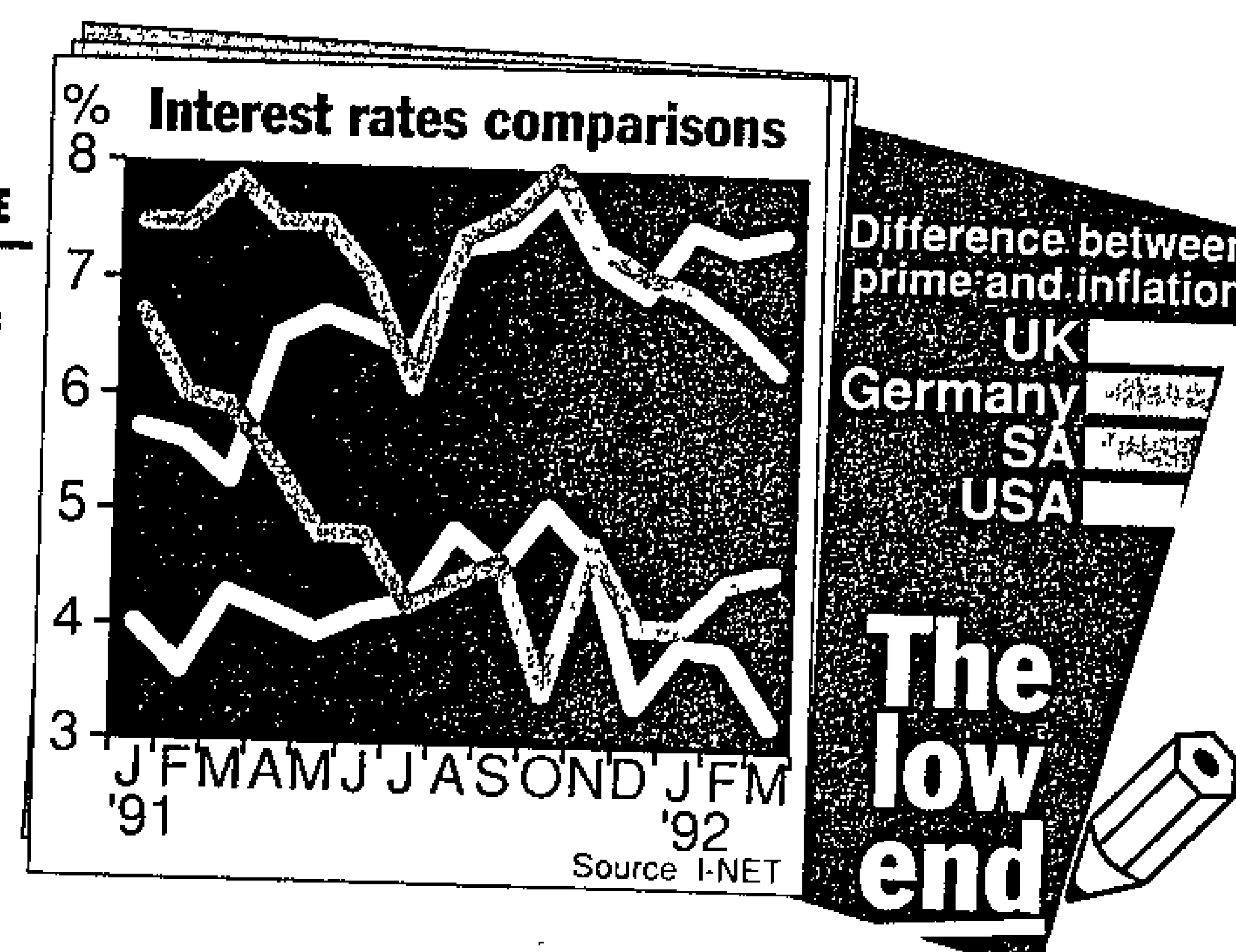
capital flows are better able to respond to interest changes in other developed countries. Thus, says Absa chief economist Hans Falkena, countries such as France and Britain have been able to respond to the recent weakness in the German mark. He adds that most developed countries have managed to curb inflation for some time, giving them room to stimulate their economies now. "France, for instance, has the lowest inflation, at 3,2%, in the European community."

Another restraint in SA, says Falkena, is expansionary fiscal policy. According to Absa's *Economic Spotlight* for May, key problem areas such as government dissaving — borrowing to fund consumption spending — and State expenditure will be inflationary.

The deceleration of the money supply growth, the improvement in the reserves and the low level of PPI — at 6,7% creating a real interest rate for producers of 12,55% — may be cited as reasons for easing rates. But Econometrix's Tony Twine says the Reserve Bank looks at consumer inflation when determining inflation control.

"Our studies show that a PPI significantly lower than CPI is not unusual in many economies," says Twine.

Nedbank chief economist Edward Osborn argues that "high real interest rates may not be relevant at this juncture. High real interest rates are usually used as a tool to reduce



cont →

FM 15/5/92 (58)

private consumption. In SA, however, consumer and investment demand are low as a result of a combination of recession, retrenchment, high interest rates and low investor confidence. Therefore, a low or even negative real interest rate can, it may be argued, be necessary for recovery."

But, Osborn says, the monetary authorities are restricted by the need to retain the surplus on the balance of payments "to deal with foreign debt obligations. The Bank doesn't want to spur growth in imports, particularly while we have to import large amounts of maize.

"Therefore, a drop in interest rates is only possible once there is a prospect of a certain underpinning of the balance of payments position through international recovery. While inflation is high, the Reserve Bank Governor has reasons to keep rates high. This will naturally fall away as inflation drops in the last quarter of the year, by which time the balance of payments position should look healthier." ■

MASTERBOND

Tying the Gordian knot

(58) FM 15/5/92

How the interests of one group of Masterbond Trust investors can best be served is the subject of a new controversy emerging from the collapsed property and investment group. The row centres on the offer by the Conservation Corporation Group (CCG) to redeem R43m in debentures. These were placed in the market by Masterbond, on behalf of CCG subsidiary Phinda, and were secured by mortgage bonds raised against the Phinda nature reserve in northern Natal.

Repayments will be made from R63m in equity, raised by CCG from a consortium of investors including AECI Pension Fund (R21m) and a number of financial institutions.

Though the transaction will give those investors almost 100c in the rand, it is being opposed by Don MacKenzie, who heads an organisation called Master Bond Victims. MacKenzie, who invested R140 000 in Mykonos Weskus Beleggings in December 1990, argues that the R43m should be shared by all investors in Masterbond.

His rationale is that Masterbond investors' money was placed in savings deposits (and investments are, therefore, indistinguishable). He received, he says, a receipt for a fixed deposit.

Unfortunately, he was the victim of Masterbond's marketing techniques. Masterbond was not registered as a deposit-taking institution and so was not allowed to raise deposits from the public. The organisation instead raised money in the market for certain companies, including Phinda which issued debentures ranging in value from R10 000 to over R1m.

This means there can be no question of pooling the R43m. It belongs to specific debenture holders. Any attempt to distribute it would violate property rights.

MacKenzie may be under the impression that his campaign against the deal can force the curators to distribute the funds. However, they are legally obliged to return the funds to the investors holding the debentures. So he will achieve nothing for the investors in other projects.

And he is doing CCG investors a great disservice because, if they refuse the offer, there will be no option but to liquidate Phinda. As a going concern, Phinda is worth about R40m, according to MD Alan Bernstein. But he says the land will realise considerably less than that if the company is liquidated. One of the three curators, Arnold Galombik, estimates that, should the deal fail, investors will not get more than 30c in the rand.

Investors will be asked to approve the offer at a meeting in Cape Town next week. MacKenzie this week called for the meeting to be postponed.

He circulated a document which contained a number of inaccuracies. The meeting, he said, was being called to ask for a vote "to sell Phinda for R63m." No exchange of equity is involved. Though Masterbond retained an equity stake of about R1m in Phinda, this is not at issue. It is loans which are being redeemed. And the R63m has no bearing on the offer to Phinda investors; it represents the amount raised by CCG to pay off investors and, among other things, develop the 15 600 ha Phinda reserve.

MacKenzie adds: "They (the curators) don't state why Hambros Bank reduced the offer since October 30 1991 from R87m to R63m." This is his interpretation of CCG's international equity placement campaign which tried to raise R83m. Subscription was closed at R63m, says CCG's Bernstein.

Galombik says he was "flabbergasted" to hear MacKenzie's view. "My advice is: 'Don't wait a minute to get this agreement confirmed.' "

The curator points out that government has appointed a commission of inquiry into all aspects of the Masterbond collapse. He says it is not for him to say if there is evidence of fraud. "Irregularities, yes, very much so, but I can't say whether they constitute a (criminal) charge."

The curators of the collapsed group remain confident that most of the 20 000 investors who have R600m tied up in development projects will recover more money if the projects are kept out of liquidation.

Most of the funds are in five developments: Club Mykonos, Marina Martinique, Phinda, Silverhurst and Fancourt. The balance is tied up in about 70 smaller projects.

Marina Martinique, an upmarket residential marina development at Aston Bay near Port Elizabeth, could not be saved and is being liquidated. Galombik says this was "the only way out." He expects the liquidation to take a long time because of many conflicting claims.

Fancourt, a golf course resort at George, is still afloat and might be saved if sales of luxury lodges, chalets and vacant plots succeed. Galombik says the security of investments in Fancourt has improved considerably since the curators took charge of Masterbond.

Silverhurst, a residential estate development at Constantia in the Cape, is being marketed overseas and locally. As with Fancourt, its future depends on the sale of plots.

Club Mykonos, the ambitious resort development on the Cape west coast near Langebaan, could be saved if it gets a casino licence. This would make it marketable to major hotel groups and Galombik believes investors will then get their money back. But a licence will not be granted before a new government policy on gambling and casinos is promulgated.

The Phinda investors are better off than the rest.

"By approving the deal," says Bernstein, "they will ensure the curators will receive full capital borrowed by Phinda on May 22."

Their main problem will be to decipher the contents of the "explanatory" documents directed to them.

The circular from the curators is couched in officialese and is largely incomprehensible.

And the release from MacKenzie is unpunctuated, incoherent and inaccurate.

□ On May 25, the shareholders of the participation property companies will meet to elect new directors. Attorney Pierre Kriel, who is acting for the curators, says: "Koos Jonker and other Masterbond directors were previously directors of these companies and they must be replaced to create new management structures. These companies do not belong to Masterbond and most of them are not indebted to Masterbond. They own properties syndicated by Masterbond in the past." ■

FEDSURE HOLDINGS

Low lapse ratio

Activities: *Composite insurer, other financial services.*
Control: *Control pool holds about 60%, including Investec (about 24%).*
Chairman: *J A Barrow; MD: A I Basserabie.*
Capital structure: *67,3m ords. Market capitalisation: R538m.*
Share market: *Price: 800c. Yields: 3,8% on dividend; 5,4% on earnings; p:e ratio, 18,7; cover, 1,4. 12-month high, 830c; low, 590c. Trading volume last quarter, 680 000 shares.*

Year to Dec 31	'88	'89	'90	'91
Total assets (Rbn) ...	2,7	3,5	4,1	5,1
Gross prem inc (Rm) ..	503	532	684	891
Invest income (Rm) .	243	332	370	452
Taxed profit (Rm)	15,4	19,1	23,6	28,8
Earnings (c)	23,0	28,6	35,1	42,8
Dividends (c)	16,5	20,2	25	30,5
Net worth (c)	124	134	148	165

The share-swap alliance with Investec has formed a group which straddles insurance, banking, building society and property activities (*Leaders* May 1). The last part of the deal came through last week with the announcement that the insurer's R81,4m rights issue was 97% subscribed.

Some of the R225m additional capital that brings will finance new business strain from the core business, life assurer Fedlife. New business recurring premiums are up by 23%, with gross premium income advancing 30%. Group CE Arnold Basserabie says this is high-quality business, with the lapse ratio for individual life and retirement annuity policies kept below 10%.

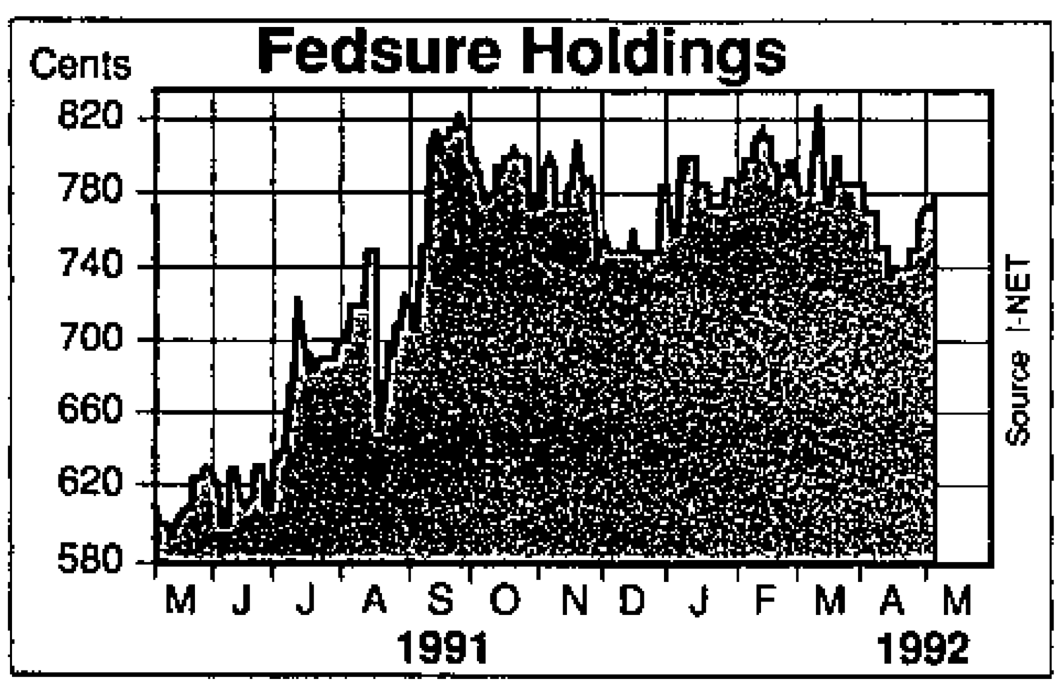
At R109,5m, expenses are up 25% on 1990 and look high, but group finance GM Dave Avnit says that relative to the increase in premium income the group is still gaining. He also points out that the strong growth last year will necessarily push up expenses.

In the holding company this translates to growth in earnings repeated at 1990's 22%; Fedlife maintains investment income growth by the same amount. Total assets, however, grew by 25%, eight percentage points higher than in 1990.

The issue of nearly 8m 13,5% cumulative prefs could retard EPS growth slightly this year, though Basserabie does not believe dilution will significantly affect the earnings potential of ordinary shares. The prefs have so far advanced R4 on the issue price of R10.

On the short-term side the picture is markedly different, though Fedgen managed to bring its underwriting loss down from 1990's R20m to R18,2m. Allowing for investment income the overall loss fell from R9m to R5,1m. Fedgen's results are included in Fedlife's investment income, so do not impact on Fedsure's earnings.

Fedsure's Basserabie ... *doffing one of his hats*



The outlook for the short-term industry is still uncertain, but Fedgen seems to be getting a grip on things, reducing its expense ratio to 21,6% (26,3%) and increasing net premium income by 50% to R92,8m.

German injection

Despite its loss Fedgen's solvency margin, at 45,7%, was close to the previous year's, thanks to a R18,9m injection from German insurer Haftpflichtverband der Deutschen Industrie VAG, which acquired nearly 30% of the company by subscribing for new shares. Chairman John Barrow says the new capital and international connection holds potential benefits for both parties.

Among changes at the top, Basserabie is relinquishing his dual role of Fedsure CE and Fedlife MD with the appointment of Morris Bernstein to head the life company.

At 800c, Fedsure is trading at nearly five times net worth and is up 38% from this time last year. But as with most life assurers, net worth is difficult to determine, with the actuarial surplus buried in the life fund. The whole sector, after the rerating it has enjoyed, looks expensive.

The dividend yield of 3,8% is generous, compared, for example, to Southern's 2,7% and Liberty Life's 2,4%. There is no obvious reason why Fedsure should not maintain strong growth this year. With benefits from the Investec alliance still to come, it could be an interesting share to follow. *Shaun Harris*

MOMENTUM LIFE/RAND MERCHANT BANK

Financially clever, but will they mesh?

As a mutually beneficial financial deal, the Momentum Life/Rand Merchant Bank (RMB) transaction is hard to fault. By collapsing RMB into Momentum under the ultimate 76% control of Rand Merchant Bank Holdings (RMBH), all parties, including the often neglected minority shareholders, should walk away happy.

Absa and Rembrandt get a combined R180,8m for their respective 30% and 28,7% holdings in Momentum, R41,1m more than they would have from Sankorp's revised but still 100c lower offer of 340c a share. In addition, they dispose of a business that represented a potential conflict of interest with Sanlam's newly acquired interest in Absa.

Momentum management seems glad to be free of the Absa/Bankorp corporate culture and at the announcement of the deal looked relieved to be out of Sanlam's clutches, though keeping a diplomatic silence.

The big benefit for Momentum, though, is the R231,3m extra capital from the issue of new shares, part of the consideration for the R385,5m purchase of RMB. This will swell the inadequate R110m capital Momentum had before the deal. Executive deputy chairman Blignault Gouws says the additional capital will be sufficient "to grow our business at a realistic and sustainable rate," at least for the time being, though he does not rule out a future rights offer.

RMBH gets access to Momentum's assets of R7,8bn effectively for R27,2m cash and transferring 23,6% of the bank. It's paying R180,8m for 58,7% of Momentum, but by selling RMB to Momentum gets R385,5m back — R154,2m cash and the rest in Momentum shares, to make the holding 76,4%.

Minority shareholders are offered 440c a share cash, R1 better than the Sankorp offer, though they will probably do better by sticking with the new group.

But, operationally the deal looks uncomfortable, with Momentum owning 100% of RMB. Besides the obvious, already listed "synergistic" benefits of the deal, one wonders what the business benefits are.

Both Gouws and RMB deputy MD Paul Harris say the structure, with RMB a wholly owned subsidiary of Momentum, may need to be changed.

"It may be better to drop the life assets into a separate company next to RMB, with both under the control of a holding company," Harris says. It seems likely Momentum will keep its listing and become the holding company, with the life business transferred into a new company.

Harris seems receptive to the idea that, should there be pressure from the investing community, RMB might seek a separate listing, though Gouws sees the structure as two unlisted operating companies under a listed holding company.

Arguably RMB listed on its own might attract more interest, though Harris says that by effectively reverse-listing RMB through Momentum the group should get a better p:e rating, expecting Momentum in its new form to be rated somewhere between a bank and the better rated insurance sector.

What is certain is that what now becomes the top pyramid, RMBH, will be listed in the second half of this year, to give existing shareholders a market. Harris says RMBH will probably apply for a listing in the insurance rather than the banking sector.

Shareholdings in RMBH — 47% held by management and directors, 26% by Sage, 13% by Absa and 14% by minorities — remain unchanged. It seems likely that Absa will offload its shares, which could conflict with its own merchant banking operation. Besides, Absa does not seem interested in companies it doesn't control.

Sage will probably stay on board. Gouws says market rumour that the new group will bid for Sage is unfounded, though if the opportunity arose it would look at it.

The obvious objective seems to be for RMB to squeeze more value out of Momentum's assets. The insurer, with a disclosed net surplus of about R18m last year, has not been performing particularly well, though Gouws says it has not done too badly considering it's had to sort out the problematic merger with Lifegro. "We have substantially reduced management expenses of the combined operation," he says.

RMB, on the other hand, made R30,2m last year, and has a creditable earnings and management record. It seems likely this profit split will continue, at least short-term.

But how will a merchant bank help Momentum in its core business of selling life policies? Gouws says this is not what his company was looking for — "we have enough to keep us busy" — but rather a solid partner with expertise to draw on, particularly on the investment side.

Harris says with the trend of banks and insurers encroaching on each others' business RMB sees the merger as an extension of what it is doing. "We compete for funds, and many of our products are similar"

With the Fedsure/Investec alliance, there are now two medium-sized joint players in the financial services industry. The deals have been very differently structured. Fedsure and Investec have been careful to maintain an arm's length relationship and only work together where there are obvious mutual advantages. It will be interesting to see which proves the more effective.

But the Momentum/RMB merger must add value to the insurer's share, and the 440c offer to minorities should underpin it. Linked to RMB's good reputation, the price will probably continue to rise

Shaun Harris

FRAME BID SUCCEEDS

After Seardel and Gregory Knitting Mills' revised 300c a share offer for Frame Group closed on Tuesday, market sources said the deal would be declared unconditional on Thursday. This suggests the consortium, called Seargreg, had won at least 30% of the voting shares.

In terms of the securities code, the offer remains open for two more weeks. But this rules out a counter-bid, which seemed unlikely anyway.

HLH/RAINBOW CHICKEN FM 15/5/92

Tarnished mix

Hunt Leuchars & Hepburn (HLH)'s exposure to food and commodities hit it hard in the past financial year, with low world prices for sugar and reduced consumer spending seeing earnings decline in real terms

The investment mix, which has proved profitable in boom times, has lost its shine. This is shown by a reasonable increase in turnover of 18% (1991: 26%) but disastrous slowdown in operating profit growth to only 4% (23,5%). Margins are obviously under extreme pressure.

Subsidiaries Robertsons and Transvaal Sugar seem to have performed as well as could be expected, particularly the former, which increased its contribution to group income to 34%. But associates Rainbow Chicken (40%) and HL&H Timber Holdings (50%) let the side down.

To make matters worse, HLH's marginal increase in earnings translates to an 11% drop in EPS because of the increased shares issued to fund its additional investment in Rainbow A year ago, HLH held a R223m

CHEAP CHICKENS

Year to March	†1991	1992
Turnover (Rbn)	0,69	1,51
Operating income (Rm)	47,1	76,3
Attributable (Rm)	55,1	48,5
Earnings (c)	20,0	13,8
Dividends (c)	4,3	4,4

† Proforma results, excluding the effects of the acquisition of Bonny Bird Farms and Epol.

Continue

Jacobs calls for fiscal discipline

Bday 15/5/92

(58)

Business Day Reporter

CONTINUED financial discipline was necessary if discretionary saving was to be increased, economic adviser to the Finance Minister Japie Jacobs said yesterday.

Addressing the Institute of Life and Pension Advisers in Pretoria, Jacobs said economic growth would for some time have to be financed largely from domestic sources of saving.

Net personal saving was, however, at a low level — a reflection of the pinch of the recession and the effects of fiscal drag on disposable incomes.

"Our aim must be, in order to increase discretionary saving, to limit the erosion of the contractual savings component of personal saving effected through consumer expenditure financed by bank and other credit facilities — which implies that financial discipline will have to be maintained," Jacobs said.

The savings industry had to mobilise and channel available domestic savings, of which contractual savings were a critical element, to the areas where they could maximise economic growth.

"The insurance industry must furthermore realise that the redistribution of income that is taking place implies that the black community will, in future, increasingly become their major customers and that assurance products will consequently have to be geared to meet their needs."

A policy option for the new SA might be extended social old-age programmes, free of means tests, financed out of current tax revenue and implemented at parity among the various population groups, he said.

"A national pension scheme will impose a severe financial burden on the economy and such a pension scheme will, in any event, be inadequate to meet the needs of the higher income groups — which means that the demand for insurance products will be little affected if such a scheme is introduced."

TPA warning on pension review

WILSON ZWANE

THE TPA yesterday threatened to discipline employees who failed to notify pensioners when to report for annual reviews held to prove that recipients were still alive.

The warning follows the TPA's decision to suspend some pension payments following mistakes made in the review system. Bday 15/5/92

TPA director general Len Dekker said the system was required in terms of the Social Pensions Act.

Dekker conceded that mistakes were inevitable in a system in which 270 000 pensioners were paid at more than 600 pay points each month.

TPA spokesman Adam Grobler admitted that in one instance letters warning of upcoming reviews and dated in August had been received by beneficiaries only in March.

Grobler said the "administrative problem" had been ironed out to prevent any reccurence.

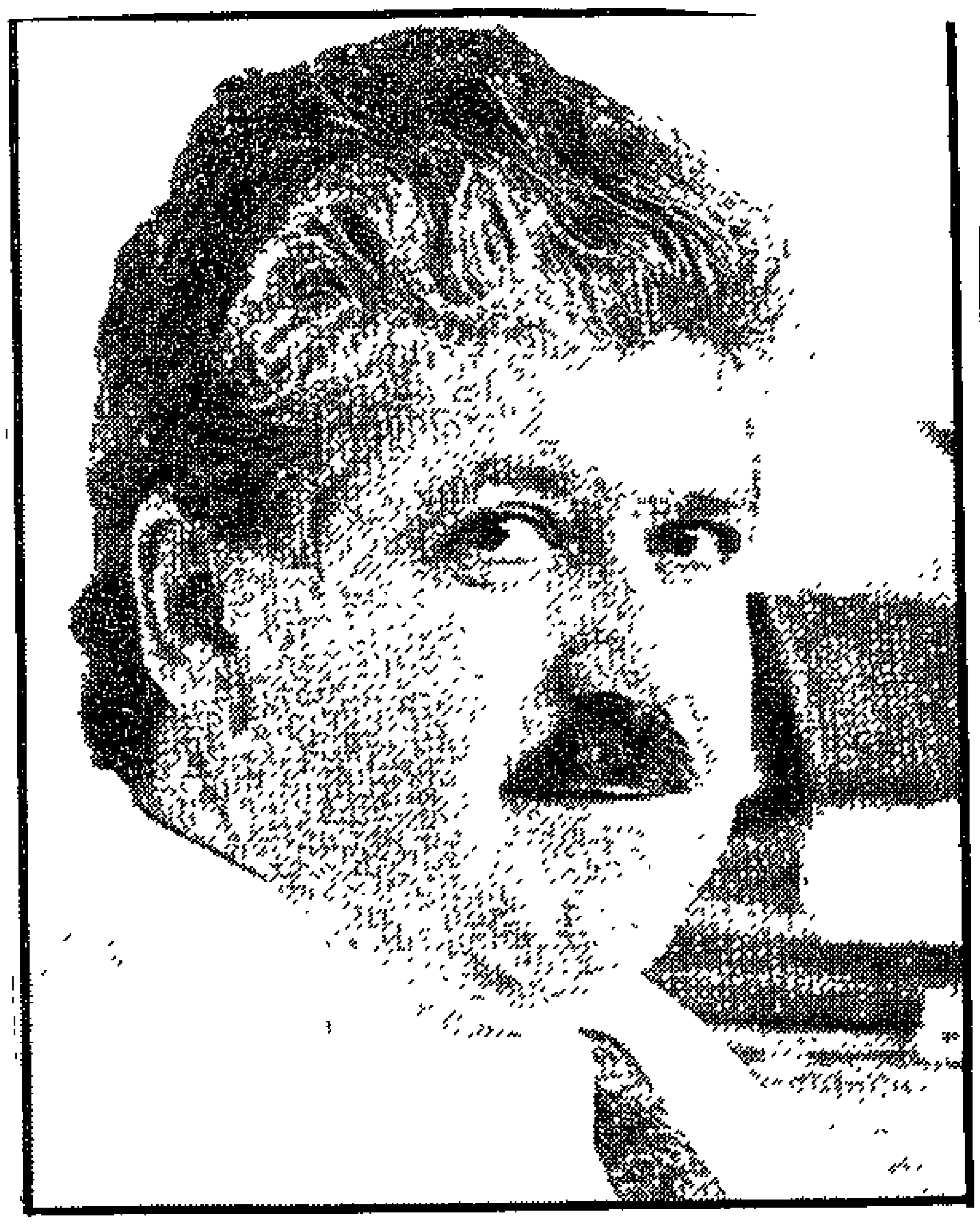
TPA Johannesburg chief Sakkie Lombard said he had told staff to notify pensioners at pay-points when their reviews should be concluded by.

"Failure to do so will result in disciplinary actions," he said.

Sapa reports the Legal Resources Centre said yesterday that the legislation under which the TPA was suspending pension payouts did not empower the TPA to do so.

The LRC has threatened to take the matter up with the Supreme Court if pension payments were not reinstated by May 18.

It said its clients were "facing starvation as a result of the TPA 'review' procedure".



BRUCE SINCLAIR: Advantages for all Picture: CATHERINE ROSS

Commercial paper deals good for SA

C Times (Buss) 17/5/92 (58)

By JULIE WALKER

A THRIVING commercial paper market in SA would give flexibility to borrowers, provide new investment opportunities to lenders and allow banks to earn fees without bearing capital risk.

But uncertainty in some clearing banks has led the Reserve Bank to attach conditions to the issue of commercial paper. There have been only two issues so far.

The Association of Corporate Treasurers of SA (Actsa) aims to convince all parties about the advantages of a strong commercial paper market.

Coupon

Actsa chairman Bruce Sinclair says: "There was initial reluctance in the UK. But co-operation has led to a large and healthy market."

Commercial paper is essentially a means of matching borrowers' and lenders' needs outside normal banking channels. The paper does not tie up banks' capital in short-term corporate borrowing

and 100% for those below that. Mr Sinclair says size is not the only risk determinant.

"UK banks turned the commercial paper market from being a loss of business into an advantage by promoting the mechanics. They still serve both parties through their administration."

Interest rates in a commercial paper market would be competitive and triple-A rated credit risks could get their money more cheaply than through traditional channels.

Mr Sinclair dismisses the idea that the Reserve Bank fears losing control over the money supply. Companies issuing paper could merely send a return to the bank.

"Don't throw the baby out with the bathwater," says Mr Sinclair. "We already submit returns and one more is no problem."

Avenues

BoE on its own

(58) (BQ)

THE Board of Executors' cut in home-loan rates to 17% is unlikely to trigger a rate war. S/Times (B4SS)

None of the bond lenders canvassed on Friday had any intention of cutting rates unless forced to do so. 17/5/92

BoE entered the home-loan market only in January and its book is worth R20-million. Bonds of a minimum R250 000 are granted on properties worth at least R500 000. Borrowers have high net worth and many are part of BoE's customer base. This low-risk profile enables BoE to cut its rate without obliging others to follow.

Standard Bank launches two new unit trusts

JSE SHARON WOOD S8

STANDARD Bank has launched two new unit trusts — an International Fund and an Industrial Fund.

The International Fund, the first of its kind in SA, invests in equities of listed companies whose operations are focused on the international markets or which operate businesses overseas.

"Most South Africans have typically concentrated their savings on investments available in the SA market," Standard Bank Fund Managers MD Derick Finlayson said in a statement released on Friday. B/Day 18/5/92

"But, we have now created the opportunity for them to broaden their investment horizons by purchasing a stake in a unit trust with an international flavour."

A unit trust specialising in companies which trade and operate in foreign economies gives scope to SA investors to participate in the diverse and significant markets available in the international sphere, he added. "Diversification is a key ingredient of any successful investment strategy and this is an ideal opportunity for investors to spread their investment risk beyond the SA business arena."

Present exchange control regulations restrict the fund to investing in companies listed on the JSE, but there should be some relaxation in these regulations, he said.

The fund was earmarked to invest in companies listed on the international stock exchanges. The fund will also provide protection against possible further declines in the value of the rand, added Finlayson.

The Industrial Fund, comprises top industrial equities and high interest-bearing investments. "Industrial shares have provided excellent returns which are among the best on the stock exchange and well ahead of the inflation rate."

The combined value of industrial shares consists of about 44% of the total value of shares in the JSE all share index.

New company set to revitalise CBD's image

STAR 18/5/92

By Louise Burgers [redacted]
Municipal Reporter [redacted] (58)

The Central Johannesburg Partnership (CJP), a company formed to revitalise and look after the interests of the city centre, will start operations on June 1.

Investigations into setting up the company were undertaken by representatives from the Johannesburg City Council, the business sector and the community after a central business district workshop last year.

Anglo American Property Services general manager Gerald Leissner, speaking at the annual general meeting of the CBD Association, said a business forum represented by all the major stakeholders in the CBD had been formed to fund the operation of the CJP.

The company would focus on the area of the city centre bounded by Braamfontein ridge, Harrow Road, the M2 and Fordsburg.

The partnership would have a non-profit director with a skeleton staff. A quarterly newsletter would be published.

Task groups had already been set up to increase security in the city, put plans into operation to allow city dwellers to buy their buildings, investigate transportation, and market the city.

Mr Leissner said long-term goals included a renewal scheme for the inner city

"Johannesburg is the commercial hub of South Africa. It hardly needs a new vision; what it needs is a champion."

Mr Leissner said it was most important that Johannesburg was not the city that people perceived it to be, but instead a clean, safe and vibrant city where many lived and worked.

● Actstop spokesman Cas Coovadia said the CJP was in the process of finalising a fund for the purchase of seven buildings in the inner-city area, as part of a pilot project. These buildings would be bought by tenants on a co-operative basis, and monies would be made available for a loan for this purpose.

He said Actstop had placed the setting up of the fund before the CJP, and that the community was optimistic that the CJP was an initiative that could be successful in addressing developmental issues in central Johannesburg.

Education crisis 'can't await new constitution'

STAR 18/5/92

By Phil Molefe
Education Reporter [redacted]

The education crisis was too urgent and desperate for South Africa to await the development and outcome of a new constitution at Codesa, human resources specialist Johan Swanepoel said yesterday.

"The time for education is now," he declared, sending a challenge to the country's politicians in the run-up to a major conference on education next week entitled Education Enrichment — a Time for Action.

Mr Swanepoel warned that in the two years it might take for a constitution to be developed, statistics showed that a million children would drop out of school and at least 250 000 black matriculants would fail.

"Laudable and desirable as the constitutional development talks at Codesa are, politicians must realise that education is a long-term process, the basis of which is long overdue.

"The structural problems facing black education cannot be solved overnight once the ink on a new constitution is dry, whenever that might be," he said.

The two-day conference, organised by corporate training organisation CTU and scheduled to begin on May 26, will examine the most urgent measures that need to be taken to break the education deadlock.

Transnet rejects rail workers[redacted] wage demands

Railway authorities have rejected requests for higher wages and shorter working hours, the SA Railway and Harbour Workers' Union (Sarhwu) announced at a report-back meeting at the Delmore hostel compound near Boksburg yesterday. STAR 18/5/92

Sarhwu regional vice-chairman Sydney Hlako said the union had, since April 30, been negotiating with Transnet for a minimum wage of R1 500 for all railway workers and a 25 percent across-the-board wage increase for graded staff members.

"There are 26 demands in all and they've all been rejected by Transnet," he said.

Aids feared, so blood oath rite wrong

Time Holdings loses R14-m

(58) STAR 18/5/92

By Frank Jeans

Low-cost housing has been a massive drain on the earnings of Time Holdings, which reports a R14 million loss for the year to December.

The operating loss of the now discontinued low-cost housing division was R11,5 million and following a re-evaluation of the remaining housing assets a below-the-line write-off of R6 million has been made.

In contrast, the operating profit of continuing operations, primarily TimeProp and Time Life, was 32 percent higher at R14,3 million.

This reflected higher profitability of the commercial property division and the group's Botswana operations.

The group's attributable loss before extraordinary items was R9,6 million (1990: R2,6 million profit), equal to a loss of 26c a share.

However the company has sold its affordable housing operations to their managements and since the continuing operations are profitable and are experiencing growth, group chairman, Colin Hibbert expects a recovery this year.

Time is the last major housebuilding company to withdraw from the low-cost market and Mr Hibbert says: "It is a sad reflection on the South African political environment that no major home builder is prepared to remain in this sector."

Bank of Athens cuts bond rate by 1%

MARCIA KLEIN (58)

THE SA Bank of Athens announced at the weekend that it would reduce its bond rate by 1% with effect from June 1. Its new interest rates will range between 17,25% and 18,75%.

The move follows Thursday's announcement by the Board of Executors Merchant Bank that it would cut its home loan rate by one percentage point to 17%. This would apply to selected clients from June 1.

The Bank of Athens move has added fuel to speculation that the Reserve Bank could cut interest rates.

However, banking sources said both banks had small exposure to the home loans market and carried exclusive-type clientele. "Until such time that one of the big players makes a move, the man in the street can expect to continue paying at current rates," one source said.

It is nearly two months since the Reserve Bank cut the Bank rate from 17% to 16%.

Market analysts have maintained that Reserve Bank Governor Chris Stals would drop the bank rate further only if there was a declining trend in CPI over some months.

● Comment: Page 10

BD 18/5/92

Necessity is the mother of the tailor-made loan

INSTITUTIONS must adjust their part bond products to market demand if borrowers' requirements are still to be met.

This is the view of Syfrets Property Finance senior GM Derek Johnston, who says while part bonds remain popular with investors, the trend away by borrowers is ascribed to their reservations rather than investor sentiment.

Times have changed and borrowers now have many options and interest rates from which to choose.

"The part bond is competing with other property-based lending opportunities. It is also a retail investment product competing for medium- to long-term investment funds," says Johnston.

Strong

Running a part bond book of R1.2bn, Syfrets has experienced strong movement away from traditional part bond finance towards customised individual financing packages tailored to a borrower's needs.

Board of Executors (Transvaal) assistant GM Hein Guse says part bonds continue to work well and are competitive provided the package is correctly structured.

Scheme managers need to be more flexible and must be able to tailor the product to suit the cash flow and capital requirements of the borrower.

He says there are many financial structuring techniques, but any innovative, flexible and tailor-made package for the borrower must conform with the rules of the Act.

"Here the BoE considers the potential benefit to the borrower with regard to the payment of interest as one of several benefits.

"An example could be interest quarterly in advance, monthly in advance or monthly in arrears, which would add flexibility to the total financial package."

DEREK JOHNSTON

Guse says that at the same time the investor enjoys a high-yielding return on his secure investment.

Having traditionally met both investor and borrower needs, part bonds continue to occupy a unique market position, being both a financing and investment vehicle.

Johnston says one of the advantages to the part bond borrower is that the company or individual property developer's cash flow benefits from delayed capital repayment.

Standard Bank Bond Investments (Stanbond) MD Vic Moll says companies with cash flow problems often opt for bond financing to raise working capital.

"At the same time they can reduce their hard-core, short-term borrowing and restructure their balance sheet."

Despite the trend away from bond borrowing, both Syfrets and the BoE report positive response to their innovative schemes.

"The growth in Syfrets Bank is evidence that Syfrets is well positioned to meet market requirements for property financing in a flexible, innovative way," says Johnston.

Competitive

Guse says: "We are tailoring the part bond not only to continue to attract the borrower, but to remain competitive with merchant and other banks."

Aside from cash flow considerations, Johnston says the borrower has little reason to become involved in a highly regulated, fixed period loan where interest is payable quarterly in advance.

Where this trend will lead not only depends on whether products satisfy the requirements of part bond investors.

"It also depends on whether borrowers will be willing to sacrifice a lower rate for the flexibility and customisation of a product such as a bank loan."

Whatever the outcome, he warns that a competitive financial services business demands market orientation and a focus on custom-driven products.

"Gone are the days when one borrowed money on bended knee," says Johnston.

Whole page (55).

Participation bonds and property syndications

(55)

...minimum risk from specialist firms

of Ironwood, says Ironwood will not make available any syndication shares to the general public when it comes to market with another one or two prime syndication opportunities.

"These investments should be on offer in anything from one to three months' time and will each be valued under R5m."

He says interested clients will be invited to invest a minimum of R20 000, but no single investor will be granted anything beyond 25% ownership of any syndicated property as this defeats the object of such an investment instrument.

Nedcor company Secured Investments administers syndication units which are to be made available to the public.

With property transfer due to take place on June 1, Secured Investments senior manager John van Greunen says the Argyl Centre comprises 7 591m² of established retailing property.

"With a base of 10 tenants, five being blue chip companies, Argyl is ideally placed to take full advantage of the boom in consumer retail demand in the northern part of Durban," he says.

Calling for a minimum investment of R10 000, the syndication will be made available from branches of Nedbank and Nedfin.

Competitive rates benefit borrowers

IT IS the thin margin between interest charged to borrowers and interest paid to investors that makes part bonds such an attractive double-edged investment.

The reason, says Secured Investments senior manager John van Greunen, is that the management company takes only a small percentage of the interest charged to borrowers

For example, investors in Securebonds offered by Secured Investments, a company in the Nedfin division of Nedbank, receive 17,5% a year while borrowers pay just 18,01%.

Being simply a property loan made up of the pooled money of a number of small investors and secured by a first mortgage bond, part bonds provide money to finance commercial and industrial buildings.

Part bonds are particularly attractive to corporations with a construction or development project, firms engaged in commercial ventures and owner-occupiers.

Rates are highly competitive and for the first five years the borower is required only to repay interest, not capital

Fidelity Bank specialised services and marketing GM Tony Bennett says interest charged is not normally fixed or linked to market-related rates

Moves

"Rather it moves with supply and demand for funds within the scheme."

Some schemes do not have a floor rate. This means the rate charged to borrowers can go as low as market trends dictate

"In addition to ensuring the borrower pays a market-related rate, it is also a built-in protection for investors knowing the borrower is not being placed under the pressures of a floor rate when interest rates start falling"

Bennett says borrowers must be wary of paying any commitment or holding fees while the bond is in the process of being registered or, in the case of a building bond, while the capital is being paid out as the project progresses.

Van Greunen says security of investors' funds is of paramount concern and the borrower and project are given a very detailed investigation before the loan is granted.

"In addition, the projects are conservatively valued and part bond companies are not permitted to lend more than two-thirds of such valuation for no-reducing bonds and three-quarters for capital reducing bonds."

All investments carry

JOHN VAN GREUNEN

some degree of risk an most reputable part bon management companie take a business decision t protect their reputatio and act accordingly.

Part bond schemes ar also ruled by Governmen Act number 55 of 1981, h says

"No participant in bond negotiated by Secured In vestments has suffered an loss of capital or interest i the company's 25 years o operation," he says.

Seeff Trust scales new heights in Bellville

INVESTMENT in property syndications is scaling new heights with two office towers, jointly valued at R36m, coming onto the market

Seeff Trust's latest syndication, the BSE Centre at Bellville in the Cape, has made history by being the largest public syndication launched in SA

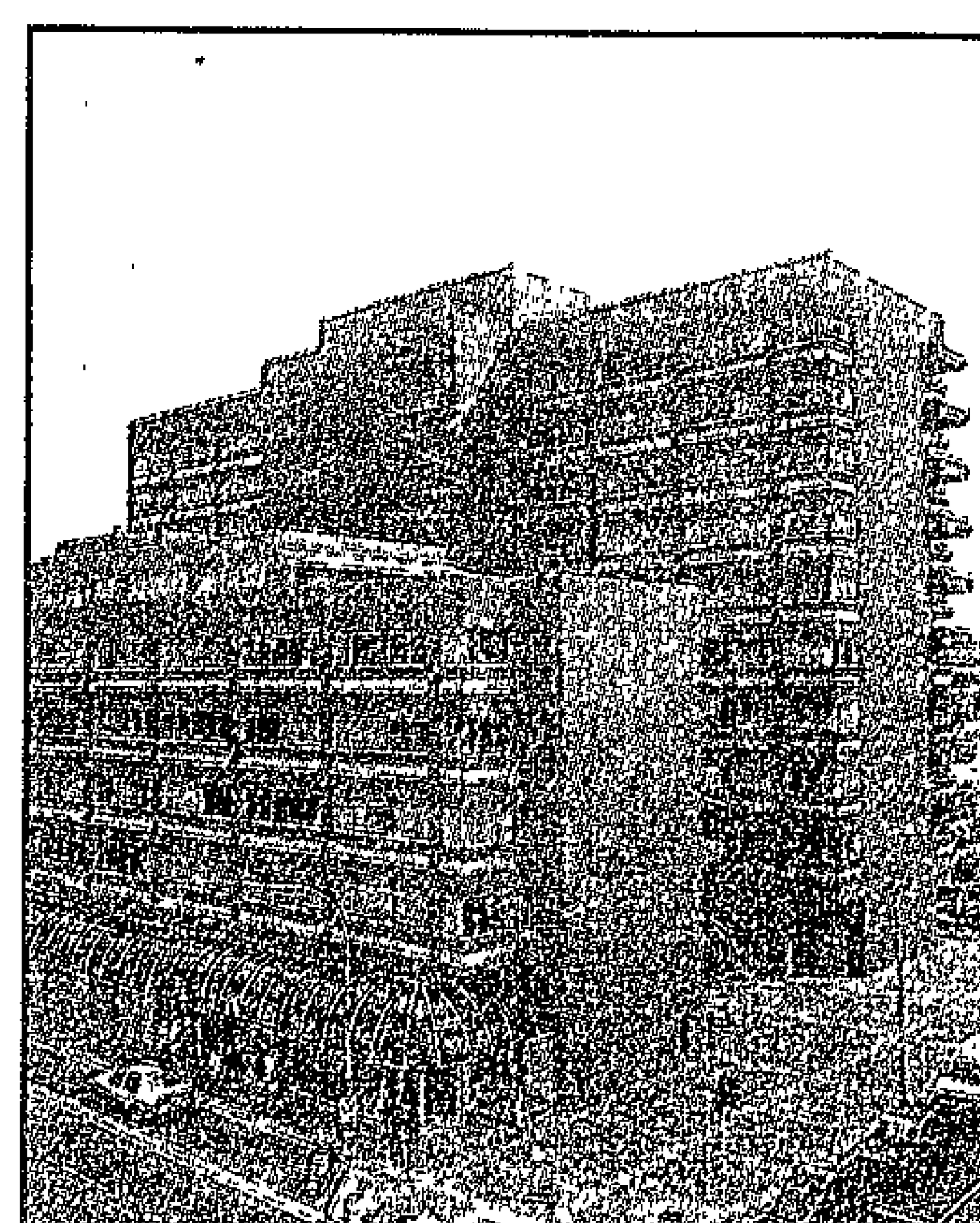
MD Mike Flax says its sheer size and modern facade make it a truly "institutional" property and one of the great landmarks of the area.

"It was certainly not our intention to break records, but this property was too attractive as an investment for our clients to pass by"

The BSE Centre houses government departments, major banks and professional practices

Bellville hit the headlines recently as being the city with the lowest office vacancy factor in the country Its figures are below 2% vacancy against a national average of close to 10% vacancy level

Flax says every property selected for syndication by Seeff Trust must adhere to four essential requirements prime location, quality buildings, financially sound tenants and excellent growth potential



BSE Centre in Bellville.

Whole page 58,

Participation bonds and property syndications

58

Full disclosure and minimum risk from specialist firms

FINANCIAL institutions are moving more towards property syndications which are either available exclusively to a client base or administered by specialist divisions for the public at large.

Both options ensure total control by professional managers in order to provide investors with full disclosure and minimum risk.

Examples of the two options are Ironwood Property Management, in the case of the former, and Secured Investment for the latter.

Ironwood, a joint venture between First National Trust and Russell Marriott & Boyd Trust (RMBT), is considering two more business properties after its first syndication — a R3,9m venture at Denver — was over-subscribed.

Having recently joined forces, two of SA's oldest institutions are offering their client base an opportunity for direct investment.

RMBT executive director Nick Harris, a director of Ironwood, says Ironwood will not make available any syndication shares to the general public when it comes to market with another one or two prime syndication opportunities.

"These investments should be on offer in anything from one to three months' time and will each be valued under R5m."

He says interested clients will be invited to invest a minimum of R20 000, but no single investor will be granted anything beyond 25% ownership of any syndicated property as this defeats the object of such an investment instrument.

Nedcor company Secured Investments administers syndication units which are to be made available to the public.

With property transfer due to take place on June 1, Secured Investments senior manager John van Greunen says the Argyl Centre comprises 7 591m² of established retailing property.

"With a base of 10 tenants, five being blue chip companies, Argyl is ideally placed to take full advantage of the boom in consumer retail demand in the northern part of Durban," he says.

Calling for a minimum investment of R10 000, the syndication will be made available from branches of Nedbank and Nedfin.

prime location, quality buildings, financially sound tenants and excellent growth potential.

BSE Centre in Bellville.

Flexible payments keep pace with changing fortunes

USING a registered part bond scheme to finance a new property development or alterations has many benefits, managers say

With more property buyers and developers having learnt that long-term projects should be secured by long-term loans, a part bond can be structured to meet such requirements.

Standard Bank Bond Investmen s (Stanbond) MD Vic Moll says among the features and benefits of part bond financing is 20-year bond financing, in terms of which the loan amount is fixed for five years and repaid over 15. The loan is at competitive rates which have generally been below the prime lending rate.

A moratorium on capital repayments for the first five years on the bond assists the borrower's cash flow.

Companies with cash flow problems are known to opt for bond financing that may be used to raise working capital, reduce short-term borrowing or restructure balance sheets, he says.

While in the past the terms of these loans have been fairly rigid, some managers, including Stanbond and Fidelity Bank, have adopted a more flexible approach.

Fidelity Bank specialised services and marketing GM Tony Bennett says a deal can be structured whereby capital is fixed for five years by the scheme manager, who undertakes not to call for any capital repayments for this period

Should the borrower wish to resume repayments in the interim, he may do so subject to three months' notice.

"Having voluntarily or in terms of the conditions of the bond, reduced the capital, the borrower may at a later stage apply to have the bond capital reinstated to its original amount without incurring costs," says Bennett

Favourable

Moll says a favourable part bond interest rate provides for lower cost financing than is available through other finance facilities.

"Flexible packaging of finance can also be structured according to the client's needs and cash flows"

With a book of 2 700 borrowers, Stanbond has been operating for 21 years and has assisted many property owners to finance their property loans.

Business Day SURVEY

In spite of a depressed commercial and industrial market in most areas, there is tremendous growth potential for the partbond industry. While the Masterbond failure has resulted in some investor resistance, this has been less than could reasonably have been expected and 1991 was a year of modest growth, with total funds of R4,366bn. ***LYNN CARLISLE*** *reports.*

Lisabond offers top interest rates

INVESTORS who rely on the interest paid from their part bond investments as a means of income are keen to get the maximum return when such money is in safe keeping.

By law they must receive interest payouts at least twice a year, but such money usually attracts about 4,75% a year interest when placed in most savings bank schemes.

Realising the limited options outside of reinvesting in more part bonds to obtain maximum interest, Lisabond has developed what is claimed to be a unique link-up with a special savings scheme.

Lisabond executive director Fernando Santos says while its scheme appears to be identical to other schemes in that the interest from a part bond is managed by another institution, Lisabond offers a higher rate of interest.

Important

Higher interest on short call is particularly important as most part bond schemes pay interest quarterly in advance and this is not re-invested in more part bonds, Santos says.

"By linking part bond interest to our savings account the investor receives the high rate of interest of 12,5%, regardless of the balance," he says.

Lisabond, a division of the Bank of Lisbon, claims the average savings account most banks pay is 4,75% a year.

Hence, from conservatively selected part bond borrowers Lisabond pays its investors 18,5% a year — or R695 every quarter in advance from a R15 000 part bond, which may be reinvested on call at 12,5% a year.

Know your rights and be careful, investors urged

WITH many new players entering the property syndication market, would-be investors are warned to be cautious about where they place their money.

JH Isaacs Group (Natal) MD Roy Alderdice says: "Since property has always been viewed as the most stable investment, people are often eager to channel their money into these organisations without doing their homework.

"Now, more than ever, the message is: investors beware."

Johannesburg attorney Raymond Blank, a partner in Fluxman Rabinowitz Raphaely Weiner, says an investment in a property syndication can be by way of the acquisition of shares and the lending of money:

☐ To a company which owns a property (a company investment);

☐ For the purchase of share blocks in a company which owns a property (share block investment);

☐ By way of participation in a consortium or partnership in which each investor has a specified obligation to invest in a defined amount and a specified right to a share of the property (consortium investment).

"None of the investment options should be entered into without first consulting a lawyer," says Blank.

The lawyer should consider and advise on the rights and exposure which the investor will enjoy and be liable for in a scheme.

He says one of the greatest risks in entering into a property syndication is the possibility that the company which owns the property, or the consortium which holds a property, has liabilities in excess of the value of the property, or will be incurring additional liabilities.

Serviced

"Such liabilities need to be serviced and if the investment is not generating an income flow sufficient to service the liabilities, then these can only be serviced by additional contributions from the investor."

Blank says the investor also needs to know the maximum amount that the company or consortium may borrow, and what his

RAYMOND BLANK

rights are to advance disclosure and to oppose such borrowings.

Alderdice says people must not be afraid to ask promoters of syndications questions before parting with money:

☐ Do they have an established record?

☐ Is there full disclosure of the facts?

☐ Are the articles of association available for inspection?

☐ What are the provisions of the share holders' agreement?

☐ What are the tax implications?

☐ Who will administer the property?

☐ Are the shares freely tradable within the syndicate?

☐ Is there any one dominant shareholder?

☐ Are all the promoters' fees and profits disclosed?

☐ Who are the auditors and lawyers?

For peace of mind choose a blue chip over a fast buck

KNOWING what to look for in a property syndication or part bond scheme is crucial for peace of mind and good return on the investment.

Metboard marketing investment manager Greg Nowitz says investors in property syndications are becoming more knowledgeable and selective due to considerable publicity over the merits of schemes.

They are looking for blue chip institutions with a proven track record, he says.

"Literally, the smart money is not going after those schemes that are offering ridiculously high rates. Investors are now taking a hard look before buying."

He says things to look for include a building that is attractive, well constructed and situated in a good location.

It must have good anchor tenants made up of JSE-listed companies or parastatal organisations on long leases, including at least five years on the main tenant.

The property must be fully completed before syndication, the bond free of debt and the landlord should be a professional.

A projection on maintenance requirements and costs must be carefully carried out before purchase, he says.

Fidelity Bank specialised services and marketing GM Tony Bennett says the prospective investor seeking a "sleep easy" part bond scheme should look for:

☐ A recognised registered scheme;

☐ A manager who is flexible in his approach to loans and the payment of interest;

☐ Full disclosure of the bond/s into which funds have been invested;

☐ Competitive rates of interest.

Elect

"Investors normally have a wide choice of bonds into which they can elect to have their funds placed. Obviously as bonds are reduced or repaid their funds will be reallocated to other bonds.

"Again they will normally be able to elect where the amount is placed," says Bennett.

Property offers stability in a world of shaky economies

THERE are many reasons why so many people worldwide seek some form of investment in property, particularly if it is held for five years or longer.

Whether it is a home, property unit trusts, part bonds or some form of property syndication, an investor can expect reasonable returns, provided he or company invests in prime buildings or land.

This is particularly so with part bonds and property syndications at times when stock markets are affected by uncertainty in major economies of the world.

Certainly, property bought at the right time and price in a good location should not fail to provide good long-term returns for the investor.

Amid the current shaky financial and monetary markets worldwide, indications are the part bond movement will continue to strengthen as demand grows, says Fidelity Bank specialised services GM Tony Bennett.

Indeed, most financial advisers say good property plays a vital role in every investment portfolio as it is a growth asset and a hedge against inflation, and it is stable.

Property investment instruments yield above-average income when compared with most other options, including listed shares, and can be used as leverage for gearing.

Although shares in property syndications and property unit trusts may be sold at any time after purchase, money invested in part bonds must be locked up for a minimum of five years.

However, part bonds are usually acceptable as security against a loan, says Secured Investment senior manager John van Greunen.

"In addition, should the investor die or suffer real financial hardship, the Registrar may permit the transfer or cession of the investment to the heirs or to another investor."

Whole page (58).

(58)

Some resistance in the wake of Masterbond

AMID signs of the recession bottoming, leading managers of participation bond schemes believe these double-edged investments are set for a great future, both as a safe investment option and as a means of financing sound property developments.

Association of Participation Mortgage Scheme Managers in SA chairman Colin Hickling says part bonds will continue to serve an investment need for private investors and provide attractive returns.

With the five largest schemes controlling some 77% of the movement, it is "most comforting" that four of the five are controlled by major banks.

Potential

Standard Bank Bond Investments (Stanbond) MD Vic Moll says that despite the depressed state of the commercial and industrial market in most metropolitan areas, there is tremendous growth potential for the partbond industry, "particularly in the refinancing of existing property developments against the security of such properties".

VIC MOLL

Hickling says the short supply of quality security resulted in some schemes not taking in new monies, or certainly taking in less than was available for investment.

"Large institutions and particularly life assurers are investing in smaller properties than was the case in the past, thus removing these properties from private ownership and also from the market financed by the part bond movement."

The Masterbond failure has probably resulted in some investor resistance to part bonds, although this was "very much less" than could reasonably have been expected.

"These factors resulted in a modest growth in the part bond movement for calendar year 1991 of 0,89% with total funds of R4,366bn."

It is interesting to observe that the Masterbond failure had an adverse effect on part bonds while these bonds represent a mere R70m of the total in excess of R400m invested in Masterbond.

"Indications are, however, that losses in respect of Masterbond will not be significant and thus the negative effect it has had was unjustified," says Hickling.

On the wider front, it is noteworthy that most property developments have been feeling the economic pinch due to difficulty in filling unoccupied space.

While this has been due to general economic conditions and many companies decentralising their operations to the suburbs, the economy should improve in the latter part of the year.

Moll says this will definitely have a positive influence on the commercial and industrial property market as a whole.

However, some other players prefer to be more selective, believing such influence will be felt mostly in the more favoured business pockets.

Although Syfrets Property Finance reports a trend away from part bonds by borrowers, senior GM Derek Johnston says the product remains popular with investors.

Emphasis

"With the traditional part bond investor placing emphasis on income over capital growth for an extended period, his need is met by this fixed-term investment product with its comparatively low risk."

Moll says that mainly because of their low risk and high interest rates, part bond investors remain assured of excellent returns.

Partbond interest rates are at least two to three percentage points higher than those obtainable on fixed deposits.

Greater exposure should avert disasters

INVESTORS in property syndications are set to receive better protection against risk and other benefits with the impending formation of a self-regulating association.

The new Public Property Syndication Association (PPSA), due to be launched later this month, represents a watershed in the property syndication industry.

It stems from the approval for such an association by the Financial Services Board (FSB) in the wake of several disasters on the general property front.

The PPSA arose when the industry opted for self-regulation in preference to government regulation — which is not in harmony with free market principles.

Teeth

Russell Marriott & Boyd Trust executive director Nick Harris says the PPSA will give the industry a controlling body with some teeth.

"Among other things, the new association aims to push for greater exposure of investment details by property syndication managing companies," he says.

Its formation has not been without some differences of opinion over what policies to adopt.

Expressing confidence in the future role of the PPSA, put together under the auspices of the SA Property Owners' Association over the past year, is working group member and Seeff Trust MD Mike Flax.

Code

He says the working group has formulated a code of practice and constitution as well as disclosure standards for all syndication promoters.

Standards deal with investor protection, the promoter's track record and detail, structure of the investment vehicle, tenant and lease detail, full property and building detail, as well as income and expense disclosures.

"It is our belief these disclosure requirements will act as an investor protection, allowing each investor or his adviser to make a clear, calculated decision based on the facts," says Flax.

It is also hoped the code of practice as it effects the prospectus and advertising of syndication schemes will eventually replace the prescriptions of the Companies or Shareblock Act, thought to be ineffective with regard to this innovative product.

Some industry players who have been critical of certain suggestions put to the FSB cite calls to limit advertising and also control on what claims can be made about investments.

Opinions not only differ over whether some syndication managers are using advertisements which contravene the provisions of the Companies Act, but whether advertising on the open market should be allowed at all.

Including

Those against advertising are not merely making reference to the few "cowboy" operations in existence, but are including property syndication retailers that buy properties, refurbish them and sell shares at a profit to the public.

Berns Block MD Arnold Berns says some of the proposed controls restrict the free market and also create confusion among investors.

"The only way to protect the investor effectively is through full disclosure of all the facts related to each investment offered to the public."

Fail

It is notable, he says, that almost all property syndication managing companies, excluding Berns Block, fail to disclose all.

Full disclosure enables an investor to make an educated decision on whether to invest, based on all the facts related to the investment being in his hands and being able to refer the prospectus to a professional adviser if necessary.

"Investing in property without knowing all the facts is like buying a house without inspecting it thoroughly," says Berns.

"Just looking at a property and reading a brochure is not enough — one must be in a position to assess what problems could arise."

Absa link adds new look to the industry

THE highly publicised problems experienced by certain property-related companies have made investors more aware of risk and more inclined to ask questions.

This is a development welcomed by Absa Trust MD Kelvin Bell, who heads the new property investment conglomerate created by the merger of Volkskas Trust, UBS Trust, Bankorp Trust and Sage Trust.

The merger of these four leading and reputable property investment companies into a giant property syndication and part bond group has added a new dimension to this industry.

Facility

Bell says that through its membership of the Absa banking group Absa Trust is able to offer investors the facility to gear their investments to further enhance their returns.

"If a rewarding property investment depends on good location, good tenants, sound managers and attractive yields then the new R6,8m Springs Property Syndicate has it all."

Situated on a prime site in the Springs CBD, the property provides banking halls and offices for Volkskas and Saambou, financial institutions that collectively occupy all the lettable space of 1 581m².

Investment, subject to a minimum of R20 000, is by way of share block. Irrespective of when an investment is made, the income yield for the first 12 months is 10,65%.

Adjusts

The entry price adjusts each month to achieve this, he says.

Both tenants have signed 10-year leases.

Rental escalations are such that the income yield to investors will grow to just over 30% in 10 years.

If one assumes that the capitalisation rate remains at 10,65%, an investment of R50 000 would yield a total income over the 10-year period of R95 210 and a capital value of R160 455.

Forum for trading shares expected to boost industry

ROWAN GARMANY

A RESALE forum has been established through which shares in syndicated property can be freely traded for the first time.

Timelife Property Investments (TLPI) GM Rowan Garmany says the Guaranteed Resale Scheme (GRS) is expected to give a big boost to the fledgling syndication market as a source of investment.

"While it is true that syndication has made commercial property ownership possible for the smaller investor, until very recently there has been no established market for the resale of syndicated property shares," says Garmany.

GRS, part of the Time Holdings Group, was established by TLPI and three major investment fund managers.

"The underwriting of GRS by Timelife and a team of some leading portfolio fund managers makes the trading of shares a simple process."

While it means investors wanting to get out of a syndication can do so with greater ease than before, Garmany says property syndication should not be seen as a quick in-and-out venture.

"Investment in a well-sited, well-managed syndicated commercial property with a strong tenant base should be embarked on with confidence.

Minimum

"It must not be regarded as a short-term affair and five years should be regarded as the minimum time," he says.

Attorney Raymond Blank, a partner in Fluxman Rabinowitz-Raphaely Weiner, says where an investor is only a minority shareholder in a company investment or in a share block scheme, he should be made aware of the rights which the majority have and of his rights as a minority.

Generally a company investment and sometimes a share block investment provide that the investor's shares must first be offered to other shareholders.

There is usually no commitment on them to purchase the investor's shares and often pre-emptive clauses allow him to sell the shares provided he has offered them for sale to existing shareholders who have refused to take them up.

"The investor then has to find a private buyer for his shares, a situation which is also found in consortium investments," says Blank.

Lower returns mean lower risks

PROSPECTIVE investors may consider many options offering apparently higher returns than part bonds, but they should take note of the old adage — "the higher the interest, the greater the risk".

This is the advice of Natal Building Society Participation Bond Managers MD Mike Maidment, who says part bonds do not provide capital growth such as unit trusts, the stock market or property syndications.

Spread

"Investors should thus spread their investment into equities, which give capital growth, part bonds, which maximise income and into liquid capital such as 32-day fixed deposits," he says.

Part bonds are generally considered safe as skilled management ensures that the risk element for investors is virtually eliminated.

"They are particularly popular with pensioners looking to maximise their income and provide good interest rates, at present at 17%," says Maidment.

Stanbond MD Vic Moll says an advantage is the convenience and flexibility of interest payments.

The extent of lending by an agent is restricted by legislation, which enhances the appeal further.

"The role of registered agents, such as Stanbond, is that they are entrusted with a fiduciary responsibility to protect the interests of their investors.

"In turn, the participation mortgage bond industry is governed by an Act of Parliament which ensures proper control and integrity, thereby maintaining a high standard within the industry," says Moll.

Property assessment is critical to protect investors and Maidment says the NBS focuses on good, well-located general purpose industrial property.

Marketable

"At least if a borrower does default the property is more marketable should it need to be resold."

NBS Participation Bond Managers has joined forces with the group's corporate divisions in Durban, Cape Town and the PWV, developing financial consultants as property specialists.

If you bet on a tortoise give it the time to win

INVESTORS in sound property syndications will get the best returns by remaining invested for five years or more.

Board of Executors (BoE) property finance GM Alan Payne also says more syndication opportunities are becoming available in line with growing demand.

Syndications of prime commercial and industrial property offer untapped potential for investment, and are growing more and more popular with smaller investors.

Established

"Well structured and professionally managed syndicated properties located in established business and industrial areas or growth points offer sound and excellent investment prospects.

"In particular, those managed by reputable institutions are among the more secure and attractive current forms of investment, especially with the industry about to be formalised."

He says the move to create a self-regulating body, the Public Property Syndication Association, will enhance the credibility of the industry.

On strategy, Payne says not only are syndications an important component of a balanced portfolio, but the longer the individual remains invested the greater the exponential increase in value.

They are a steady escalating investment medium that increase in line with rental rises and have good prospects of capital growth over the longer term.

Such an investment vehicle tends to be particularly attractive as the commercial and industrial market is not nearly as volatile as other markets, such as the stock exchange.

An added benefit is that investors stand to gain greater reward in the event of an economic upturn as this increases demand for space in office complexes as well as retail, warehousing and industrial buildings.

Although office building activity has remained fairly buoyant throughout the recession, there has been limited growth in the industrial and warehousing segments in the PWV area during the past 18 to 24 months.

"These are two property segments where there could soon be upward pressure on rentals, especially as building costs for new structures to meet future demand are so high," he says.

Upturn

While hopeful that a bottoming of the economic slump has been reached, Payne says any upturn would depend on an improvement in the unrest situation as this would encourage overseas investors to return.

"If we can control the violence and political progress is made through the Codesa initiative we stand to see a gradual but healthy inflow of foreign capital. This would boost both business and property values."

Meanwhile, the BoE aims to expand its portfolio of property syndications in the PWV, Natal and Cape regions over the next few months.

Despite having managed some industrial syndications, most of its portfolio of 29 contemporary undertakings have been commercial and retail projects.

"We regard syndications as a business to remain in and we are striving to clinch a number of industrial investment options in the Transvaal over the next few months," says Payne.

FNT has confidence in quality property

MANAGING a partbond scheme valued at more than R500m, First National Trust (FNT) forecasts a good future for this investment in the short and long term.

Confident that quality property will continue to have a place in every balanced portfolio, it has also embarked on property syndication schemes through a joint venture.

FNT MD Colin Minty says over the years partbonds have provided a secured high yielding investment for those persons with a primary focus on interest.

"This form of investment cannot combat inflation at its current levels, but will continue to play an important role as a portion of a balanced investment portfolio where high yields are required."

FNT is flexible in its approach with the borrower.

"The governing factor is obviously our ability to match the lending commitment with the terms of the investment," he says.

Until recently, FNT has not followed its competitors into the property syndication market.

"We have not had the in-house direct property expertise and have thus steered clear of this specialist segment of the market," Minty says.

MONEY MARKETS by Sheridan Connolly

Rates tumble on demand

BDay 18/5/92

MONEY market rates tumbled across the board last week as strong liquidity levels and good investor demand continued to dominate the market. (58)

Sharp falls in the three-month BA and Treasury bill (TB) rates sparked off speculation of a further cut in official interest rates, but this seems unlikely considering Reserve Bank Governor Chris Stals's determination to maintain current interest rate levels until inflation is brought firmly under control.

Even though market-related forces are driving rates lower, it does seem unlikely that Stals would lower official interest rates in the near term. Even if he did, a drop of, say, one percentage point would have little stimulatory effect on the economy and the market has already discounted a two-point drop.

Downward pressure on rates last week gave some indication of the level of investor demand. If current liquidity conditions are extended, rates could still fall further but, at some stage, a correction will have to come from either the market or the Bank.

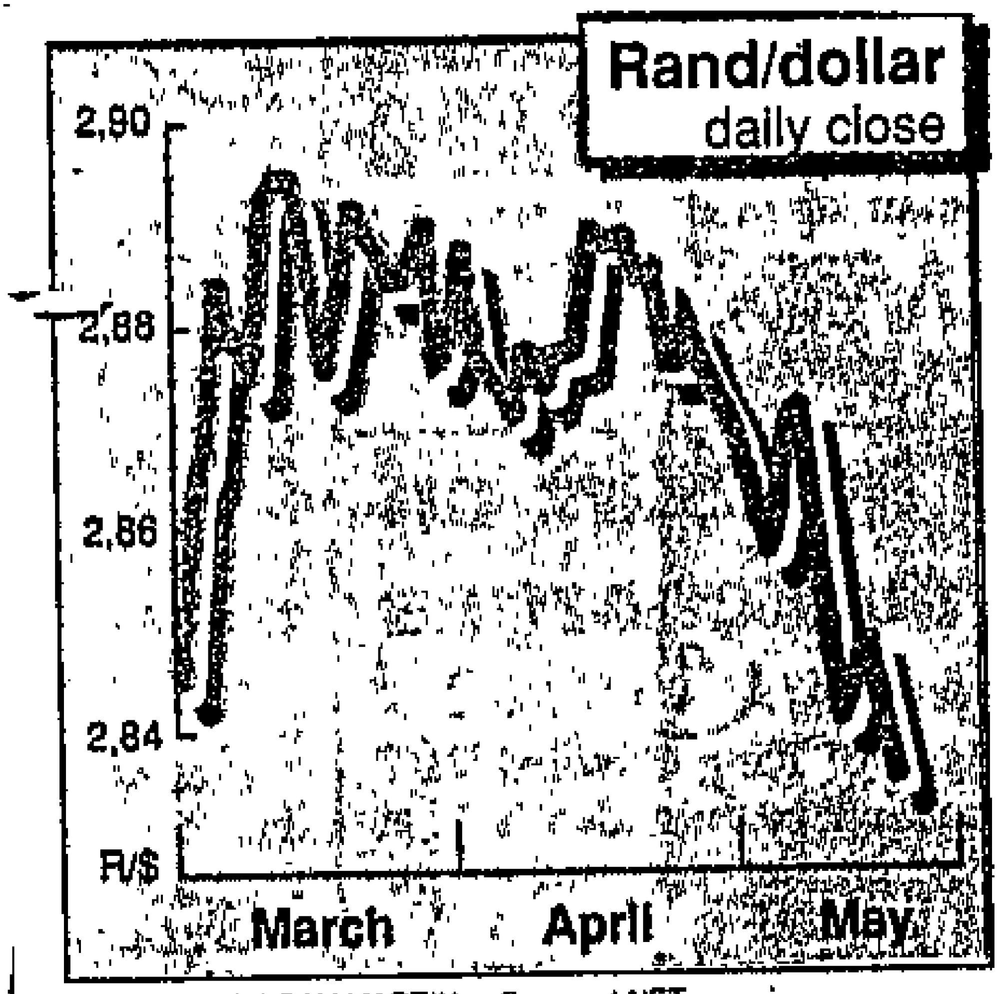
Capital market rates were largely unaffected by the data, but bullish sentiment in the market was stemmed towards the end of the week. All eyes will be on the April consumer inflation figures due out in the next 10 days — expectations are that the rate of inflation will remain around 15%.

The three-month liquid BA rate declined last week from a range of 15,20%-15,30% at the beginning of the week to a range of 14,65%-14,85% by Friday. Call rates drifted downwards to around 14% and could be down another 50 points this week.

In the Bank's weekly TB tender, the average rate on the three-month TB fell sharply to 14,20% from 14,76% the previous week. The six-month rate plunged to 13,84% from a previous 14,35% while the nine-month rate was down to 13,37% from 13,92%.

The Bank received R607,8m in bids for the three-month R100m tender. Offers for the R100m six- and nine-month tenders amounted to R655m and R550m respectively. At the end of the week the market shortage was higher at a comfortable level R1,69bn.

In the capital market, rates were easier at the end of the week with the benchmark Eskom 168 yield down to 15,73% from 15,94% at the end of the previous week. The RSA 150 yield was also lower at 15,80% from previous levels of around 16,10%.



Graphic RUBY-GAY MARTIN Source. I-NET

Rand strengthens against the dollar

SHERIDAN CONNOLLY

58

THE commercial rand strengthened further yesterday to reach an eight-week high against the dollar as the US currency continued to come under pressure against the Deutschmark.

The rand finished at R2,8342 to the dollar from R2,8490 on Friday. Analysts said the dollar dipped to a four-month low against the Deutschmark on the back of expectations of an increasing interest rate differential between Germany and the US.

They said a cut in US rates was expected to be announced by the US Federal Open Market Committee which meets today, and German rates were expected to be lifted by the Bundesbank by the end of the week.

BDay 19/5/92.

Money market rates continued falling and the three-month liquid BA rate dropped to its lowest level in more than three years. The BA rate traded in a range of 14,55-14,75% compared with Friday's range of 14,65-14,85%.

Lower money market rates coupled with mortgage rate cuts by the Board of Executors Merchant Bank and the SA Bank of Athens sparked market speculation that the Reserve Bank could lower official interest rates. Analysts said, however, the Reserve Bank would be unlikely to bow to market pressure.

Senior spokesmen from First National Bank, Standard Bank, Nedbank, Absa and NBS said yesterday their respective institutions had no plans to lower mortgage bond rates in the near future.

Provident fund popular

BD cuy 19/5/92

MICK ELLINGHAM

MANY SA companies are offering employees the option of joining provident funds as an alternative to pension schemes.

Sanlam group benefits GM Francois Marais said local companies started introducing provident funds 10 years ago, but only recently had they begun doing so willingly. 58

"Some companies are now in fact proactively encouraging the formation of provident funds," he said.

Marais expected provident funds to remain popular, but predicted that the legal differences between provident funds and pension funds would eventually disappear.

Metropolitan Life operations manager Derek Pead said: "Many of the perceived benefits of provident funds could probably be structured into pension funds."

However Fedlife employee benefits deputy GM Gerard Ehmke said: "A reassessment of the benefits of provident funds by employees may occur when they have to ensure that the investment return on a lump sum provides them with a liveable income."

African bankers seek links

B Day 19/5/92 (58)

ABUJA — West African bankers will seek ways of linking national currencies to help boost economic integration and fight poverty at talks which started in Nigeria yesterday.

"Harmonising the currencies is critical to the survival of the subregion," said Tony Nnachetta, a manager with Nigeria's Alpha Merchant Bank.

He said the region's central bank governors and officials from the West African Clearing House and the West African Bankers' Association would discuss the issue at meetings this week.

Senior bankers from the region and representatives of the World Bank, the IMF and the UN economic commission for Africa were also expected to attend.

Nnachetta said it was vital for West African nations to move quickly towards economic integration, especially in the light of an emerging single European market with a common currency.

West African nations were examining regional policies that could cushion their fragile economies from possible adverse effects of a single European market after 1992.

Bankers believe that lack of convertibility of West African currencies hinders trade between economies of the region.

The clearing house, a multilateral payment scheme formed in 1975 to promote regional trade by facilitating use of national currencies, was underused by regional businesses.

The 16-member Economic Community of West African States has also been slow in moving towards a common monetary zone.

Nnachetta said monetary co-operation would be achieved only if the region's dominant currencies took a leading role.

The CFA franc, linking 13 mainly former French colonies in a common currency zone, and the Nigerian naira are well placed to play this role.

The CFA, underwritten by France, is the region's strongest currency, exchanging at 50 to one French franc since 1948.

France indicated parity would remain after a common European currency, in spite of pressure from the World Bank and finance institutions to devalue the CFA franc.

The naira, though considerably weakened by a recent 43% devaluation against the dollar, was the currency of West Africa's dominant economy.

Nnachetta said efforts towards currency harmonisation should go beyond the subregion to embrace the whole continent, with the SA rand also playing a key role — Sapa-Reuter

Venture capital 'can create jobs'

BDay 19/5/92

JONO WATERS

56

MONEY invested in venture capital funds could create 500 000 to 2-million jobs during a period of five years, Small Business Development Corporation (SBDC) senior GM Jo Schwenke said yesterday.

Schwenke was speaking at the fifth annual conference of the International Council for Small Business of Southern Africa in Johannesburg.

If long-term insurers and pension funds could be persuaded to invest 1% of their cash flow a year (R400m) in properly constituted venture capital funds over five years, it would create 4 000 enterprises and 500 000 jobs.

Schwenke also proposed that the state put R2bn a year into properly constituted development venture capital funds every year for five years.

These funds should be invested in trusts managed by the private sector so the "chances of nonsense could be totally eliminated".

About 50 000 enterprises could be created by this investment and anything from 500 000 to 2-million people would be employed, Schwenke said.

This investment, which would constitute 2,5% of the present Budget, could be funded out of deficit or through the formation of a revolving fund. The venture capital funds would be run by "competent practioners, experts who could select wisely.

"Venture capital goes out and looks for an investment," he said.

SBDC and IDC personnel would be more suitable to run the funds than bankers.

Venture capital funds had produced healthy profits for investors in the UK and US and there was no reason this could not happen in SA, Schwenke said.

In the UK, £6,2bn had been invested since 1985. More than £2bn was available for new investment.

However, if institutions and government were unwilling to risk the funds, they should try a pilot run with modest amounts of R50m or R200m. These investments could be deposited in two separate trusts managed by the SBDC.

Approached for comment yesterday, SBDC MD Ben Vosloo said the idea of using the country's savings more constructively was not new.

For the past 10 years the corporation had recommended that savings be mobilised to create new assets rather than refinancing existing investments.

However, the idea's time had come, he said.

"Existing markets are expanding and new markets are opening up.

"We now should be using our savings properly."

Unisa senior marketing lecturer Michael Cant said the education system's inability to equip all young South Africans with the necessary work skills meant that 7,3-million half-skilled and unskilled people would be without work by the year 2005. He expected that there would be a shortage of 920 000 managers and skilled workers.

He said there was a real need for training. The problem did not lie with education offered by universities and technikons but with individuals who did not complete their school careers.

Small businessmen had to be trained to survive. Putting abundant resources to work in the economy was a way of solving unemployment

Interpreter Tatrizia Neo Colombo and Famas SAS (Italy) representative Alfredo Fava Minor, who were among delegates at the International Council for Small Business of Southern Africa conference in Johannesburg yesterday. Picture: BRIAN HENDLER

Seeff in Masterbond bid

LINDA ENSOR

CAPE TOWN — Seeff Trust is bidding for the management contract for the 11 property participation companies in the Masterbond group. A rival contender is the Johannesburg financing company, Citygate Corporate Finance.

Rumours that Realty Durr had also made a formal bid were denied yesterday by chairman Storm Durr, though he expressed interest in finding ways to assist investors who had only a few days left to send in their proxy votes before next Monday's meeting. B|Day 19/5/92

In a letter to about 1 200 investors in the companies owning properties valued at more than R60m, Seeff Trust MD Michael Flax said concerned investors had approached Seeff to take over the management of the companies.

Flax said if chosen as manager, Seeff Trust would manage the properties professionally and economically, maximise returns, and assist investors in trading their units on the secondary market. A property management fee of 5% and secretarial fees of 2% of the buildings' monthly rentals would be charged. (58)

Flax said the ~~properties~~ had not been managed properly. The properties were burdened with a lot of bad debts and needed new tenants.

The letter recommended that investors vote onto the board of directors of the participation companies Flax, Seeff Organisation chairman Lawrence Seeff, Seeff Trust director Ryan Broomberg, Seeff Commercial Properties MD Theodore Yach, Seeff Trust national marketing manager Robert Knight and Seeff Residential Properties MD Samuel Seeff.

Citygate director Michael Addison said in terms of the Citygate offer J H Isaacs would be retained as property administrators and the possible amalgamation of the companies would be investigated with a view to a JSE listing to enhance the tradeability of the units.

Medicine price rises 'outstrip CPI'

B|Day 19/5/92

KATHRYN STRACHAN

MEDICINE prices had risen 10 times during the past 15 years compared with a rise in the consumer price index of eight times, Medical Association of SA (Masa) director Reg Magennis told the Pharmaceutical Society's national conference in Somerset West yesterday.

Magennis said medical aid schemes were facing a crisis precipitated by the increase in the cost of medicines.

The average annual increase in payouts for medicines since 1975 was 26%, while payouts for general benefits rose 25%.

The volume of medicine consumed per person rose 16% between 1975 and 1982, but had dropped back to below 1975 levels by 1991, which indicated a growing resistance to price increases, Magennis said.

Decline in car thefts gives boost to Santam

B/Day 20/5/92 (58)

LINDA ENSOR

CAPE TOWN — A slowdown in the rate of car thefts, and strict underwriting disciplines, resulted in short-term insurer Santam producing a 32,5% rise in earnings a share in the six months to end-March.

A 21,4% increase in the dividend to 17c (14c) was declared on earnings of 65,2c (49,2c) a share.

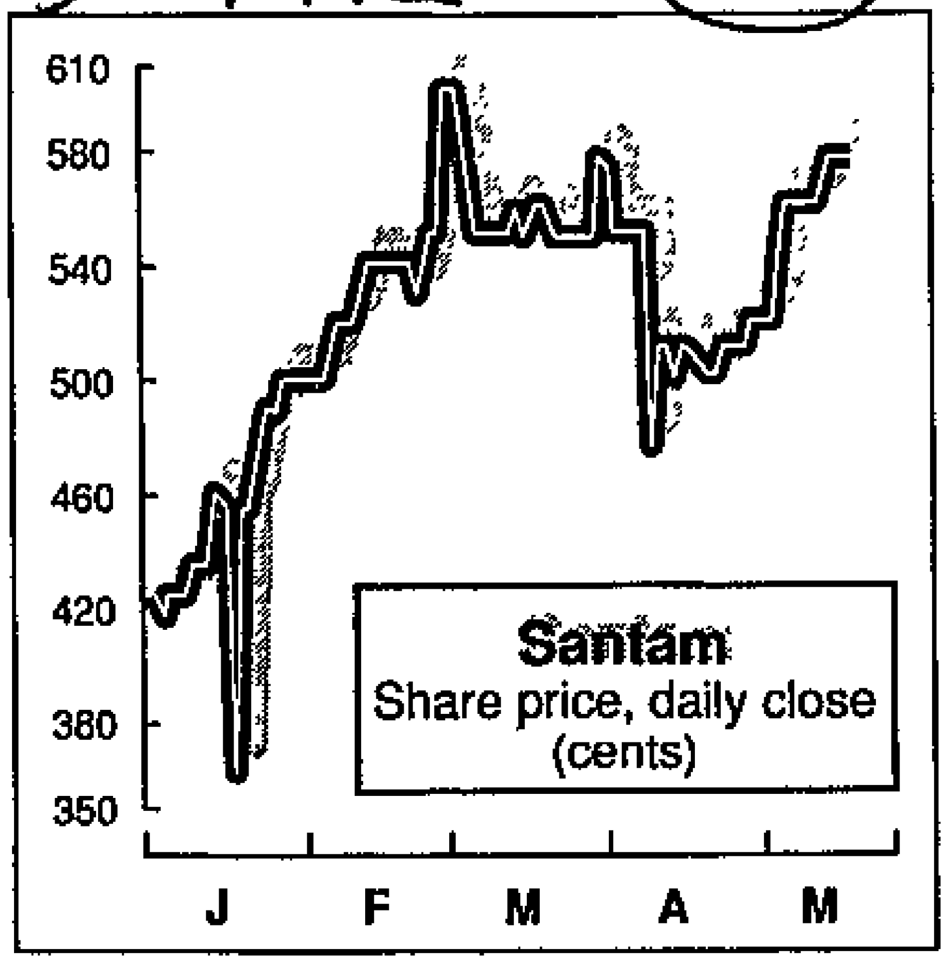
The underwriting profit soared off a very low base to R15m (R2,2) on an 18,2% increase in gross premium income to R566,2m (R479m) and a 16,3% increase in net premium income to R504,8m (R434m). Operating expenses were 24,4% of net premium income.

Santam's new MD Jurie Geldenhuys said the growth in underwriting profit was derived mainly from the improvement in the motor account, which represented about 50% of the insurer's total business. Given this exposure, even a slight improvement in the motor account had an enormous impact on the bottom line.

Geldenhuys stressed, however, that while there had been a slowdown in the rate of motor-related claims — due to heightened security on the part of policyholders and police clampdowns — motor vehicle thefts remained unacceptably high.

The absence of major natural disasters, a healthy growth of new business, and the average premium increase in personal lines of insurance of about 12% from October 1, also made a meaningful contribution to the results, Geldenhuys said. Average value of claims rose by 15%.

Geldenhuys said that Santam, in conjunction with its brokers and agents, had put a great deal of effort into identifying problem areas where the underwriting risk was not acceptable. Consequently, the insurer's underwriting position was in a much more sound position.



Graphics: RUBY-GAY MARTIN Source I-NET

The performance of the commercial and industrial portfolios was less satisfactory. Rates cutting was still taking place in the commercial and industrial sector.

Investment income rose 17,8% to R43,7m (R37m) and after tax profits by 33,3% to R46,8m (R35m). Santam's total assets rose 36,2% to reach R1,1bn (R782m) and its insurance funds increased by 27% to R551,5m (R434,3m). The company's solvency ratio has improved further to 46,6% (39,8%).

Geldenhuys said the growth achieved in the first half of the year was expected to continue in the second half, provided the industry was not hit with unforeseen catastrophes. No premium increases were planned.

EXECUTIVE CLU

Volkskas, TrustBank to retain identities

(58)
STAR 20/5/92.

By Derek Tommey

Absa has solved the problem of what to do with its two commercial banks.

It has decided against merging them. Instead it is keeping Volkskas and TrustBank as separate trading entities but has rationalised and merged their head and regional offices.

This was announced last night by Mr Hennie Diedericks, operating executive of the two banks.

Absa's problem arose earlier this year when it acquired TrustBank and joined Volkskas in the Absa stable. Mr Diedericks said the combined banks would now command assets of more than R20 billion which would put them in a far stronger position than previously.

Mr Diedericks said it would lead to better service for customers, give the staff of the two banks a positive career path and benefit the group's shareholders.

Mr Diedericks did not give details of the number of people affected by the merger of the two head offices but said that the savings in salaries and ancilliary costs to Absa would be enormous. Staff costs account for 65 percent of a bank's expenses.


Hennie Diedericks . . . selection on merit.

He said the rationalisation was started four weeks ago. It was decided that it had to be done as quickly as possible so that the staffs would not become demoralised or seek other jobs.

Since then an "A" team had been selected from the joint regional and head office staffs.

The appointments from the staff of each bank had been entirely on merit. There had been no sacred cows. The only criterion had been to select the best person for the job.

The result was that the head office of the two banks now had one of the most experienced groups in the the country.

Volkskas's credit management was strongly represented as was TrustBank's marketing side.

Of those not selected, some have taken early retirement and others had been placed elsewhere in Absa, though in less senior positions.

Those who were retrenched had been helped by Absa's support organisation which has had considerable success in placing them in new posts.

The decision to keep the two banks as separate trading entities followed an investigation to see whether they clashed in their fields of operations. Absa believed that the various parts of its organistion should not compete directly against each other.

But it was found there was little overlapping. Volkskas was primarly a Pretoria bank with great strengths in the platteland.

TrustBank was a more broadly-based urban bank with clients in all population groups.

Under the new set-up there will be one general manager for each region who will control the Volkskas and TrustBank branches in his area While each group will share the same credit, administration and manpower services, they will each have their own business development teams.

The head office would provide the support functions including risk-management, administration, personnel services and business development services.

Mr Diedericks said that staff could be moved between the banks to provide some cross-pollination.

Bank merger runs ahead of schedule

Blocuy 20/5/92

SHARON WOOD 58

RATIONALISATION of Volkskas and Trust Bank would be completed within five weeks and not the six to 12 months originally expected, Trust Bank operating executive Hennie Diedericks said yesterday.

Absa, which owns the two banks, announced the senior appointments of regional general management early in May and said the next phase of appointing regional personnel would follow.

"We soon realised we could not stretch the rationalisation process over such a long time, so we geared it to five weeks. All the management structures are now in place," he said.

The staff of the two banks' headquarters, regional offices and branches throughout the country would be cut to 800. The number of staff cut during the rationalisation process was difficult to calculate because some of staff had been relocated to Absa itself, he said.

The two head offices and 10 regional offices would be reduced by half, leaving one head office and five regional offices.

Volkskas and Trust Bank would retain their identities and brand names but head office operations for the two would be handled by a one management team.

Operations would only be split at the regional and marketing level, which Diedericks said would ensure that the needs of the client were focused on at all times.

"By managing the head office operations together we will avoid clashes and competition and will have better control.

"It will also create a strong management team out of a unique management pool and know-how," he said.

Volkskas would continue to concentrate on its conservative Afrikaans clientele, while Trust Bank would remain the bank for the more progressive and liberal Afrikaners, he said.

"There is no intent to duplicate or compete in the marketplace," Diedericks said.

PROPERTY

Absa takeover 'another squeeze for small players'

B/Day 20/5/92 (58)

Reports by PETER GALLI

THE recent takeover of Multi-Listing Services by Absa is another step towards the control of the residential property market by financial institutions, says Camdons MD Scott McRae.

"This is another nail in the coffin of the smaller players in the industry as the giants continue to create monopolies and effectively attempt to squeeze them out," he says.

However, Absa executive director of resources Mike de Blanche says this is "absolute nonsense", as the MLS system is designed and developed to assist the entire industry to offer their clients a better service.

"Absa will be able to offer Absa property computer systems (APCS) multiple listing services to agents other than MLS members, while MLS members will also be able to join other multiple listing services," he says.

This will effectively allow the smaller player to compete on the same level as the larger player, he adds.

Pam Golding Properties director Ronald Ennik says the involvement of the financial institutions in the market "upsets its entrepreneurial spirit" and is a precursor to the formation of monopolies.

"First they take an equity share. Then they start to interfere with the computer listing systems, and eventually they will try to interfere with the selling operations," he says.

Players in the real estate industry needed to compete with one another and not with financial institutions as well. The institutions should be competing with one another on their own level.

McRae says the public's perception that bigger is better is not always correct, and the bigger the monopolies become the less choice buyers have in deciding where to obtain their bond finance.

Disadvantage

"Once the estate agency has sold some of its equity to an institution, it loses its ability to change financial institutions if the best service is not provided," McRae says.

This means a buyer applying for a bond can be at a disadvantage because he may not be offered the best service available.

De Blanche says this is not the case as the buying market is very sophisticated. With the fierce competition among the financial players, it is impossible to dictate to the market.

"The only people who are influenced into taking bonds from the institution involved are those who have no preference.

"They make up a very small percentage of the whole.

"It must be remembered that the primary aim is to sell the house and the wishes of the buyer are paramount in this regard," he says.

Camdon's would like to see sellers become responsible for the payment of advertising costs for the sale of their property, as only 32% of homes put on the market are sold.

"Much of this has to do with the fact that the person who is not a serious seller bears no financial cost if the house is not sold.

"Many merely want an indication of the value of their property and have no intention of selling," McRae says. The agency has to bear the advertising costs.

If sellers paid for advertising he would be prepared to see a drop in estate agents' commission. The savings would be enormous, as about 50% of money spent on advertising was "wasted' when properties were withdrawn from the market.

In Britain, owners pay for advertising.

Ennik agrees, but says the entire industry would have to fall in line.

Southern keeps up growth record

STAR 21/5/92.

By Sven Lünsche (58)

Southern Life continued its track record of strong earnings and dividend growth in the year to end-March as total income surpassed the R3 billion level for the first time.

The company reported yesterday that attributable earnings increased by 19 percent to R165 million, from which a total dividend of 65c was declared, also a 19 percent rise on the previous year.

Since the listing of the Southern on the JSE in 1985 dividends have increased by an annual compound growth rate of 22 percent, chairman Neil Chapman says.

Total assets improved by 19 percent to R17,7 billion (R14,9 billion), "reflecting to a large extent the performance of equities during the year," Mr Chapman comments.

Total income broke the R3 billion barrier for the first time, representing premium income of R2 billion and investment income of R1,07 billion. Investment income rose by 14 percent to surpass the R1 billion mark also for the first time.

The group's new business production for the year totalled R830 million, with single premiums accounting for R433 million and recurring premium business for R397 million.

Mr Chapman says shareholders can expect continued growth in earnings and dividends as the company is well positioned for the year ahead.

Good returns

Outlining the background against which the results were achieved, managing director, Jan Calitz says for most if not all sectors of the economy, the year had been a difficult one.

Nevertheless satisfactory investment returns had been achieved, he adds. The Southern's top ten quoted equity holdings, which account for more than 60 percent of their total holding by market value, are First National Bank, De Beers, Richemont, Rembrandt, Anglos, Barlows, Gencor, SA Breweries, Sasol and Safren.

House prices unlikely to drop - expert

58

By JOSHUA RABOROKO

BOND rates are unlikely to have a significant influence in house prices despite perceptions to the contrary, says director of Real Estate Surveys Mr Erwin Rode.

Writing in the latest quarterly report on the South African property market, Rode says some experts believe that rising interest rates will create a drop in the price of homes, and that lower rates would boost house prices.

"Our research has shown that bond rates by themselves have an almost negligible effect on house prices," Rode says.

Sowetan 21/5/92

He explains that a change in interest rates heralds a change in economic activity.

"During an upswing, for example, one finds that the positive effect upon affordability generated by rising disposable income tends to be more powerful than any opposing negative effect of rising interest rates.

Academic question

"To some extent this is an academic question, since no upswing has yet occurred. In any event, nominal growth in house prices typically lags the business cycle by about three quarters," he says.

But he adds that growth in house transactions is a leading indicator with a lead of about six quarters.

"Our latest forecast for house transactions showed strong growth during 1991 and 1992, which would tie in with an upturn in the economy in the latter half of this year," Rode says.

On a national basis, the prices of homes tend to follow familiar pattern; with higher priced housing taking a knock in comparison with less expensive suburbs. It is also interesting that house prices in the middle-price class are beginning to climb again.

Meanwhile the demand for flats remains extremely good with vacancy levels around zero in most areas where surveys were undertaken.

Southern Life's earnings up 19%

B/Day 21/5/92

(58)

MICK ELLINGHAM

SOUTHERN Life has disclosed a 19% increase in attributable earnings for the year ended March, with the group's total income breaking the R3bn barrier for the first time.

Attributable earnings for the year were R165m (1991: R138m). A total dividend of 65c a share was declared for the year.

Southern Life MD Jan Calitz said he was happy with results and confident of continued growth, in spite of difficult conditions.

The group's total income represents premium income of almost R2bn and investment income of R1,07bn.

Shareholders' funds grew by R55m, with dividends again covered 1,5 times.

Premiums from new business came to R830m, with single premiums accounting for R433m and recurring premium business for R397m.

Total assets increased by 19% to R17,7bn (R14,9bn), partly reflecting the performance of assets held during the year.

Graphics RUBY-GAY MARTIN Source. SOUTHERN LIFE

Southern's top 10 equity holdings are First National Bank, De Beers, Richemont, Rembrandt, Anglo, Barlows, Gencor, SA Breweries, Sasol and Safren.

☐ To Page 2

Southern Life

B/Day 21/5/92

(58)

☐ From Page 1

Calitz said: "A noticeable trend in the marketplace has been the increasing demand for assets to be managed off balance sheet and for specialised investment." For example, he said, Southern's High Opportunity Portfolio — which yielded a 33,6% return — was designed to meet the needs of trustees of pension and provident funds where the liability structure justified a more aggressive investment profile.

The inequality of tax imposed on financial institutions had yet to be resolved, Calitz said. Life assurers were singled out for tax on dividend income, restricted to a dividend of only 55% of operational expenses for tax purposes and were liable for tax at the marginal rate for individuals.

"The introduction of the three-fund approach currently under discussion, whereby distinct funds will be created for the untaxed, taxed and corporate areas of a life office's operations, will help correct this inequitable treatment," he said.

Southern Life subsidiary AMA (formerly Affiliated Medical Administrators) was developing innovative health care products, Calitz said. The onset of AIDS was prompting Southern to investigate and redesign policy to hold premium increases to a minimum while ensuring that the most vital needs of customers were met.

Bank 'could generate foreign interest'

BDay 21/5/92

SHARON WOOD

THE Reserve Bank's new intervention policy in the financial rand market could generate new foreign interest in SA quoted bonds and equities, said Bank of Lisbon's latest Economic Focus released yesterday.

Recent volatility in the financial rand market, with movements of about 10% in a single day unexceptional, had reduced the interest of some foreigners in SA equities, particularly when combined with the other hassles facing investors using the financial rand mechanism.

The intervention policy would lead also to an appreciation in the financial rand rate and yield foreign exchange profits for the Reserve Bank, Economic Focus said.

The appreciation in the unit could be exploited by foreign investors who could buy SA shares with financial rands and hold them until the discount narrowed materially, thereby reaping capital gains.

The Reserve Bank's decision pointed to the possible ultimate discarding of this exchange control mechanism and provided the Bank with another monetary policy instrument.

"Such intervention affects domestic liquidity and, therefore, the level of interest rates."

In addition, intervention to narrow the discount would make it easier to discard the debt standstill.

"If the discount narrows, foreign banks with funds inside the net will be given an opportunity to get rid of their standstill loans at a better price." This could facilitate removal of the standstill.

However, Bank of Lisbon warned that this objective might not be fulfilled because the amount of loans converted from the standstill net into financial rands for disinvestment could be limited.

58

AFRICAN LIFE FM 22/5/92

Profitable market niche

African Life (Aflife) has a customer and operating profile markedly different to other life assurers. Of new policyholders, 94% are black, coloured or Indian, of which more than half are blue-collar or unskilled workers; 70% of that business is sold in the field, with 21% of new premiums paid in cash. Aflife has its own cash collection service.

MD Bill Jack calls this "a niche within a focused target market," and says it will continue to bring growth in market share. Post-apartheid social developments like rapid urbanisation and growing black spending power appear to support his view — Aflife seems to have tapped the market with the greatest potential for growth.

Its experience is also paying off. New

Activities: *Life assurance.*
Control: *Southern Life (78%).*
Chairman: *A H Arnott; MD: W A Jack.*
Capital structure: *60m ords. Market capitalisation: R192m.*
Share market: *Price: 320c. Yields: 3,8% on dividend; 5,8% on earnings; p:e ratio, 17,1; cover, 1,6. 12-month high, 320c; low, 210c. Trading volume last quarter, 489 000 shares.*

Year to Mar 31	'89	'90	'91	'92
Total assets (Rm)	127	188	209	259
Gross prem inc (Rm)	30,4	43,5	57,2	75,9
Invest income (Rm)	9,1	12,9	13,8	16,5
Taxed surplus (Rm)	2,0	5,1	8,2	10,6
Earnings (c)	7,8	12,3	15,3	18,7
Dividends (c)	6,3	7,9	9,8	12
Net worth (c)	64	90	97	110

business written includes R10,5m from what the report calls a community group. This is the well-supported Zion Christian Church, which so far has added about 200 000 policies to the books and should contribute significantly in future.

Results for the first full year since listing (out just three weeks after the board cleared the preliminary figures) show recurring premium income, the core business and the kind that carries new business strain, up 31%. For a small assurer growth like this should sound

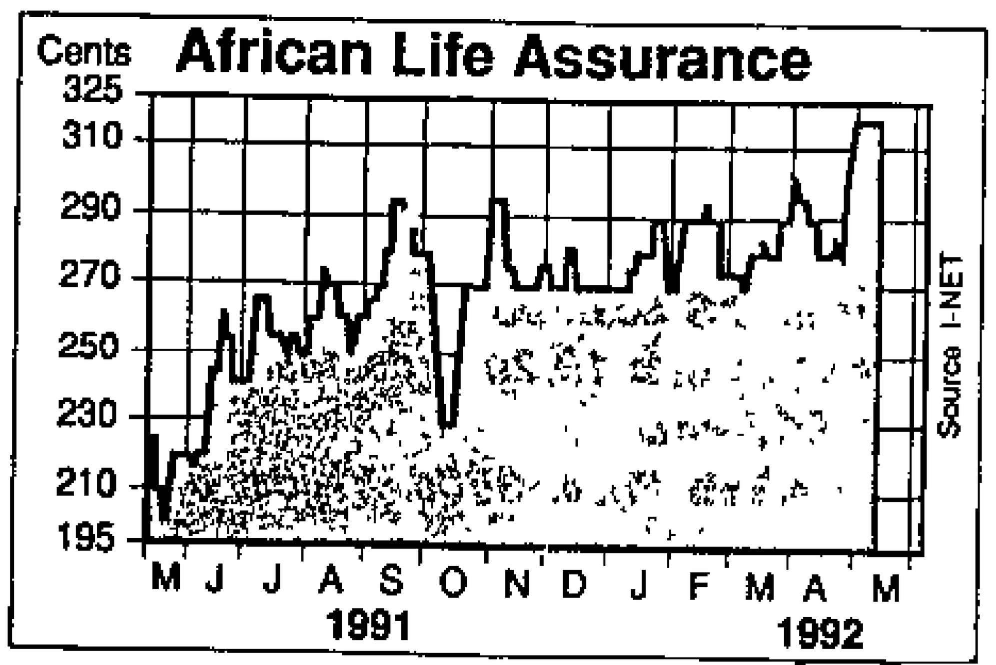
Aflife's Jack ... *not worried by new business strain*

warning bells about capital strain. But Jack says Aflife has resources, given continued growth in new business of about 35% a year, to grow until 1996 or 1997 before having to look for additional capital.

Operating costs, up 18% last year, were kept well within the increase in recurring premium growth. He says that with an administration to sales staff ratio of 1:3,5 expenses will be kept low.

The balance sheet shows a healthy ratio of shareholders' funds to life funds, at 1:2,5 better than most of the big assurers. Jack also points out that the balance sheet is continually being strengthened by most shareholders electing to receive new shares in lieu of a cash dividend. Last year more

cont



than 90% of the dividend was taken in scrip.

Boosting results below the line was the comparatively low R161 000 paid in tax. Aflife is well placed under current tax provisions (under review) for life assurers. As a relatively new and fast-growing company, expenses on new business are higher than investment income, resulting in an assessed tax loss. So the only tax charge is RSC levies and irrecoverable VAT inputs.

Growth in new business also suggests the possibility of a high lapse rate, a subject Jack finds contentious, arguing that assurers calculate lapse ratios in different ways and thus make comparisons meaningless.

So he won't disclose Aflife's absolute lapse ratio, which the market believes to be about 40%, but says the trend line for the past two years is about 15% less than Aflife allows for in premium rates. Jack is comfortable with this but notes lapses have increased in recent months and believes the main cause is township violence. "I think conditions are worse there than we realise," he says.

The share has performed strongly since the November 1990 listing, rising nearly 150% to its present high of 320c. The life sector is expensive, though Aflife seems to offer fair value and the latest results should see the price continue to climb.

Tradability remain a problem, with Southern Life holding 78% of the capital. It intends to reduce its holding but, if Aflife continues to do so well, one wonders by how much. Investors should at least be able to pick up parcels.

Shaun Harris

INVESTEC FM 22/5/92

Hello, London

58

Investec Bank is understood to be involved in negotiations that could result in its acquiring a substantial stake in a corporate finance business in London. This follows last week's cautionary announcement that unspecified negotiations are under way.

While well capitalised, with a base of more than R400m after the share-swap with Fedsure, analysts believe the group does not have enough capital to start a significant offshore operation on its own. A foreign partner, or subsidiary if Investec is going after a controlling interest, would make more sense.

It is known that the negotiations are with a small, single-branch business in London operating in similar fields to Investec. An exact price can't be established but it is understood to be a bit more than the R50m Investec paid for Reichmans early last year.

The deal is not being done through Reichmans or Investec's other offshore interest, associate Integro, though Ian Kantor, who heads Integro in Amsterdam, says he is concluding two acquisitions which won't have a direct affect on Investec. He won't comment further on the Investec negotiations. Nor will Investec MD Stephen Koseff.

Chairman Bas Kardol said when the interim results were published recently that Investec would continue to look for opportunities to expand internationally. More than 30% of after tax profits were earned in foreign currency, he said. *Shaun Harris*

FM 22/5/92 (58)

VOLKSKAS-TRUSTBANK

Trust the Volk

Hennie Diedericks, CE of the now combined Volkskas-TrustBank, has come "full circle". His career in banking started with TrustBank, he says, and he later moved into the Volkskas group, in the credit and financial fields.

So he may be uniquely qualified to deal with the new entity.

There seems little doubt that the Volkskas approach will dominate.

Credit, human resources, marketing and administration functions of the two banks will be combined at head office and regional office levels and Diedericks says quite bluntly that the "Volkskas conservatism" will be brought to bear on the credit function particularly. However, he values TrustBank's marketing orientation, so the two organisations are

cont →

FM 22/5/92 (58)

equally represented in the top management structure.

Line functions at branch level will be kept separate, however, and the brand names and identities of the banks retained. The Absa policy of minimising competition between banks in the group will be maintained and Diedericks hopes the banks will be able to recapture their traditional markets. "TrustBank will be looking to improve market share among the English-speaking and other communities," he says, "while Volkskas will be aiming to regain many of its Afrikaans-speaking customers who have drifted to other banks over the years."

Diedericks says the rationalisation will help rather than hinder the drive for increased market share. "On the one hand we are a purely commercial banking entity, able to concentrate on operational issues such as customer needs and providing competitive service and prices. On the other, the combining of support functions, such as the computer and financial services provided by Absa, will allow the development of new products."

Innovations are in the pipeline for the reciprocity of certain services between the two banks and the development of a single delivery service, possibly extending to United and Allied at a later date.

What is important, says Diedericks, is that most of the restructuring required has been completed. Only some fine-tuning at lower management levels remains. "We should be up and running by the end of May," he says. ■

SASRIA

De Loor lured by R3bn

It was inevitable that the R3bn kitty at Sasria (SA Special Risks Insurance Association) would become a target. The *FM* predicted last year it might be earmarked to boost low-cost housing. Now a formal proposal has come, via the De Loor Commission, which reported last week.

De Loor suggests Sasria funds could be used to insure financial institutions which lend to the low-cost market, then subsequently face losses arising from mortgage bond boycotts.

But Sasria chairman Oosie Oosthuizen says De Loor did not discuss the proposition with him. Though Sasria and the conventional insurers do operate on the fringes of low cost housing, to commit Sasria to the role of guarantor for lending institutions would pose some practical difficulties.

Sasria was established to assume responsibility for compensating losses caused by political riot, effectively a pool arrangement, to relieve general insurers of a risk they could not calculate. The government stands behind Sasria in a reinsurance role. But Sasria has never been called upon to pay on a mega-risk — currently, the maximum cover extended on a single risk is R250m. The result is the fund has continued to grow.

But Oosthuizen says Sasria is still underfunded, despite its R3bn reserve. According to internationally accepted guidelines, the ratio of the maximum single exposure to total reserves should not exceed 1%-1,5%. On that basis, Sasria needs reserves of between R20bn and R25bn. Agreeing there have been few calls so far much in excess of a few millions, Oosthuizen says: "That can change overnight. The IRA caused the destruction of £2,5bn of property." He also mentions the devastating cost of the Los Angeles riots.

Brian Seach, chairman of the SA Insurance Association adds: "Seeing what's going on in the townships, there's still a real need for Sasria and probably will be for the next 10 years."

Both Oosthuizen and Seach think caution is needed in applying Sasria funds in directions not originally intended. But there is no mind-set opposition to assisting in housing needs.

Already Sasria has arrangements to provide some types of cover for money advanced through the SA Housing Trust. The potential exposure is "not more than R75m." SAIA members have a pooled exposure of about R20m on guarantees related to low-cost housing loans.

But if Sasria's involvement is extended further, it raises two problems:

- The fund technically belongs to policyholders. It is unlikely government can direct the funds in any direction for which they were not intended, without their consent; and
- If Sasria (and, ultimately, the government) is seen to stand behind financial institutions to make good boycott losses, more boycotts could become a self-fulfilling prophecy. Then, having shrugged off the losses to Sasria, it would be for Sasria to pursue possibly thousands of small claims to recover its own losses. That is a task for which Sasria is not equipped. ■

INSURANCE FM 22/5/92

Damage containment (58)

Losing the proverbial arm and a leg, then claiming against insurance for their loss, is unlikely to bring wealth. A new statistical service, *The Quantum Yearbook 1992*, provides detailed analysis of how courts have decided damages in hundreds of cases involving various types of injury.

Quantum's author, advocate Robert J Koch, has inflation-adjusted the settlements made in all reported claims, some going back 40 years. The results cast doubt on suggestions by insurers that the judiciary is becoming too liberal in assessing damages. In some cases, it might have served the victim better to be injured in 1952 than in 1990.

Direct comparison of the claims is impossible without full details of the case. The classifications of injury do not necessarily denote the gravity of injury, nor can they mention other factors which influence a court, such as the earning power of the victim. Another factor which can introduce variance is the vigour with which a claim is prosecuted. However, the records provide a valuable guide to potential litigants about how courts value injury.

Loss of all four limbs (Administrator Transvaal v Esterhuizen) resulted in 1957 in R12 000. Adjusted for inflation, that would be R241 000 today by Koch's reckoning.

Sampling various categories, the highest and lowest settlements adjusted for inflation, with the original year and actual size of settlement in parentheses, are:

☐ Arm amputation, left and right: Cheney v Eagle Star Insurance, R201 000 (1957: R10 000); Guma v Royal Insurance, R19 000 (1958, R1 000);

☐ Loss of one eye: Du Toit v Northern Assurance, R76 000 (1954, R3 500); Trevason v Seaman, R14 000 (1949, R500);

☐ Loss of two eyes: Kloppers v Rondalia Assurance, R320 000 (1972, R25 000); Pooe v Rosenbach, R77 000 (1972, R6 000);

☐ Brain injury, serious permanent damage: Dunlop v West, R628 000 (1974, R60 000); Hershell v Bredenkamp, R41 000 (1981, R9 000);

☐ Facial disfigurement: Eggeling and Another v Law Union and Rock Insurance and Another, R194 000 (1958, R10 000); Van der Spuy v Rondalia, R7 000 (1964, R400);

☐ Amputation of two legs: Ehlers v SA Railways & Harbours, R269 000 (1959, R14 000); Bekwa v SA Railways & Harbours, R118 000 (1982, R30 000); and

☐ Unconscious (human vegetable): Gerke v Parity Insurance, R94 000 (1966, R5 500); Reyneke v Mutual & Federal, R69 000 (1991, R60 000).

☐ *The Quantum Yearbook 1992*, published by Robert J Koch at R22.

House prices showing 13 percent increase

STAR 22/5/92

By Meg Wilson

House prices rose by more than 13 percent in the first quarter of this year, compared with the same period in 1991.

According to Absa's latest quarterly housing review, the average price of a medium-size house (178 sq m) rose 13,2 percent to R135 000.

This was 1,4 percent more than in the previous quarter.

Although the average size of a new small house fell during the first quarter from 113 sq m to 111 sq m, prices showed the highest increases, at 3,5 percent for the quarter and 14,7 percent year-on-year, to R103 000.

Average price

The average price of a large house (264 sq m) rose 2,5 percent in the quarter to R192 000, an annual increase of 13,7 percent.

Although the rise in building costs, at 14,1 percent, was below inflation for the third consecutive quarter, the differential between newly built and existing homes fell just one percent, to 23 percent, year-on-year.

The average price of a new medium-size home fell to R175 000 (R179 000 in the previous quarter) and that of an existing home rose to R132 000 (R122 000).

Figures show that in real terms, the price of a medium-size house has actually fallen 20 percent since 1986.

Supply situation

But Absa expects that economic recovery later this year will spur activity in the property market, highlighting a thin supply situation and causing a real increase of around two percent.

It also says that although interest rates are likely to fall two percent in the course of the year, homebuyers should not rely on these remaining at lower levels beyond next year, when it expects renewed inflationary pressure resulting from higher wage increases and government expenditure.

INHOUD

CONTENTS

Gedruk deur en verkrygbaar by die Staatsdrukker, Bosmanstraat, Privaat Sak X85, Pretoria, 0001. Tel. 323-9731 × 263, 267 of 269

Printed by and obtainable from the Government Printer, Bosman Street, Private Bag X85, Pretoria, 0001. Tel. 323-9731 × 263, 267 or 269

REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

Staatskoerant
Government Gazette

R1,00 Prys • Price
R0,10 Plus 10% BTW • VAT
R1,10 Verkoopprys • Selling price
Buitelands R1,40 Other countries
Posvry • Post free

Regulasiekoerant
Regulation Gazette
No. 4873

Vol. 323 PRETORIA, 22 MEI MAY 1992 No. 14005

PROKLAMASIE

van die

Staatspresident

van die Republiek van Suid-Afrika

No. R. 46, 1992

KOMMISSIE VAN ONDERSOEK NA DIE SAKE VAN DIE MASTERBONDGROEP

Kragtens die bevoegdheid my verleen by artikel 1 van die Kommissiewet, 1947 (Wet No. 8 van 1947), verklaar ek hierby dat die bepalings van die voormelde Wet op die Kommissie van Ondersoek na die Sake van die Masterbondgroep van toepassing is en vaardig ek hierby die regulasies (Afrikaans en Engels) in die Bylae vervat met betrekking tot genoemde Kommissie uit.

Gegee onder my Hand en die Seël van die Republiek van Suid-Afrika te Kaapstad, op hede die Negentiende dag van Mei Eenduisend Negehonderd Twee-en-negentig.

F. W. DE KLERK,
Staatspresident.

Op las van die Staatspresident-in-Kabinet:

H. J. COETSEE,
Minister van die Kabinet.

BYLAE

REGULASIES

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

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

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

PROCLAMATION

56

by the

State President

of the Republic of South Africa

No. R. 46, 1992

COMMISSION OF INQUIRY INTO THE AFFAIRS OF THE MASTERBOND GROUP

Under the powers vested in me by section 1 of the Commissions Act, 1947 (Act No. 8 of 1947), I hereby declare that the provisions of the said Act shall be applicable to the Commission of Inquiry into the Affairs of the Masterbond Group and I hereby make the Regulations (Afrikaans and English) contained in the Schedule with reference to the said Commission.

Given under my Hand and the Seal of the Republic of South Africa at Cape Town this Nineteenth day of May, One thousand Nine hundred and Ninety-two.

F. W. DE KLERK,
State President.

By Order of the State President-in-Cabinet:

H. J. COETSEE,
Minister of the Cabinet.

SCHEDULE

REGULATIONS

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

"Chairman" means the Chairman of the Commission;

"Commission" means the Commission of Inquiry into the Affairs of the Masterbond Group referred to in this proclamation;

"document" includes any book, pamphlet, record, list, circular, plan, placard, poster, publication, drawing, photograph or picture;

58

"Kommissie" die in hierdie proklamasie bedoelde Kommissie van Ondersoek na die Sake van die Masterbondgroep;

"lid" 'n lid van die Kommissie;

"ondersoek" die ondersoek wat deur die Kommissie ingestel word;

"perseel" ook grond of 'n gebou, bouwerk, gedeelte van 'n gebou of bouwerk, voertuig, vervoermiddel, vaartuig of lugvaartuig;

"Voorsitter" die Voorsitter van die Kommissie.

2. Die verrigtinge van die Kommissie word genotuleer op die wyse deur die Voorsitter bepaal.

3. (1) Iemand wat aangestel of aangewys is om die verrigtinge van die Kommissie in snelskrif aan te teken of op meganiese wyse op te neem of om sodanige verrigtinge wat aldus aangeteken of opgeneem is, te transkribeer, moet vooraf 'n eed of bevestiging in die volgende vorm aflê:

Ek, A.B., verklaar onder eed/bevestig en verklaar—

(a) dat ek getrou en na my beste vermoë die verrigtinge van die Kommissie van Ondersoek na die Sake van die Masterbondgroep in snelskrif sal aanteken/op meganiese wyse sal opneem soos deur die Voorsitter gelas;

(b) dat ek enige snelskrifaantekeninge/meganiese opname van die verrigtinge van genoemde Kommissie deur my of iemand anders gemaak, volledig en na my beste vermoë sal transkribeer.

(2) Geen snelskrifaantekeninge of meganiese opname van die verrigtinge van die Kommissie word getranskribeer nie behalwe op las van die Voorsitter.

4. Elke persoon wat diens doen by die verrigting van die Kommissie se werksaamhede, met inbegrip van iemand in regulasie 3 (1) bedoel, moet ten aansien van enige aangeleentheid of inligting wat by die vervulling van sy pligte in verband met bedoelde werksaamhede tot sy kennis kom, geheimhouding help bewaar, behalwe vir sover bekendmaking van sodanige aangeleentheid of inligting vir die doeleindes van die Kommissie se verslag nodig is, en elke sodanige persoon, behalwe die Voorsitter, 'n lid of 'n beampte, moet, voordat hy enige diens in verband met die Kommissie verrig, 'n eed van getrouheid of geheimhouding voor die Voorsitter in die volgende vorm aflê en onderteken:

Ek, A.B., verklaar onder eed/bevestig en verklaar dat, behalwe vir sover dit by die uitvoering van my pligte in verband met die werksaamhede van die Kommissie van Ondersoek na die Sake van die Masterbondgroep of ingevolge 'n bevel van 'n bevoegde hof nodig is, ek geen aangeleentheid of inligting wat in verband met genoemde Kommissie se ondersoek tot my kennis kom, aan enigiemand sal meedeel nie en niemand sal toelaat of veroorloof om toegang tot stukke van die Kommissie te verkry nie, met inbegrip van enige aantekening, opname of transkripsie van die verrigtinge van genoemde Kommissie in my besit of bewaring of in die besit of bewaring van genoemde Kommissie of 'n beampte.

"inquiry" means the inquiry conducted by the Commission;

"member" means a member of the Commission;

"officer" means a person in the full-time service of the State who has been appointed or designated to assist the Commission in the execution of its functions;

"premises" includes any land, building, structure, part of a building or structure, vehicle, conveyance, vessel or aircraft.

2. The proceedings of the Commission shall be recorded in the manner determined by the Chairman.

3. (1) Any person appointed or designated to take down or record the proceedings of the Commission in shorthand or by mechanical means or to transcribe such proceedings which have been so taken down or recorded shall at the outset take an oath or make an affirmation in the following form:

I, A.B., declare under oath/affirm and declare—

(a) that I shall faithfully and to the best of my ability take down/record the proceedings of the Commission of Inquiry into the Affairs of the Masterbond Group in shorthand/by mechanical means as ordered by the Chairman of the Commission;

(b) that I shall transcribe fully and to the best of my ability any shorthand notes/mechanical record of the proceedings of the said Commission made by me or by any other person.

(2) No shorthand notes or mechanical record of the proceedings of the Commission shall be transcribed except by order of the Chairman.

4. Every person employed in the execution of the functions of the Commission, including any person referred to in regulation 3 (1), shall help to preserve secrecy with regard to any matter or information that may come to his knowledge in the performance of his duties in connection with the said functions, except in so far as the publication of such matter or information is necessary for the purposes of the report of the Commission, and every such person, except the Chairman, any member or any officer, shall, before performing any duty in connection with the Commission, take and subscribe before the Chairman an oath of fidelity or secrecy in the following form:

I, A.B., declare under oath/affirm and declare that except in so far as it is necessary in the performance of my duties in connection with the functions of the Commission of Inquiry into the Affairs of the Masterbond Group, or by order of a competent court, I shall not communicate to any person any matter or information which may come to my knowledge in connection with the inquiry of the said Commission, or suffer or permit any person to have access to any records of the Commission, including any note, record or transcription of the proceedings of the said Commission in my possession or custody or in the possession or custody of the said Commission or any officer.

BELANGRIKE AANKONDIGING

Sluitingstye ***VOOR VAKANSIEDAE*** *vir*

WETLIKE KENNISGEWINGS GOEWERMENTSKENNISGEWINGS 1992

*Die sluitingstyd is stiptelik **15:00** op die volgende dae:*

- **2 April**, Donderdag, vir die uitgawe van Vrydag **10 April**
- **9 April**, Donderdag, vir die uitgawe van Donderdag **16 April**
- **15 April**, Woensdag, vir die uitgawe van Vrydag **24 April**
- **23 April**, Donderdag, vir die uitgawe van Donderdag **30 April**
- **21 Mei**, Donderdag, vir die uitgawe van Vrydag **29 Mei**
- **10 Desember**, Donderdag, vir die uitgawe van Vrydag **18 Desember**
- **17 Desember**, Donderdag, vir die uitgawe van Donderdag **24 Desember**
- **22 Desember**, Dinsdag, vir die uitgawe van Donderdag **31 Desember**

Laat kennisgewings sal in die daaropvolgende uitgawe geplaas word. Indien 'n laat kennisgewing wel, onder spesiale omstandighede, aanvaar word, sal 'n dubbeltarief gehef word

Wanneer 'n APARTE *Staatskoerant* verlang word moet die kopie drie kalenderweke voor publikasie ingedien word

IMPORTANT ANNOUNCEMENT

Closing times ***PRIOR TO PUBLIC HOLIDAYS*** *for*

LEGAL NOTICES GOVERNMENT NOTICES 1992

*The closing time is **15:00** sharp on the following days:*

- **2 April**, Thursday, for the issue of Friday **10 April**
- **9 April**, Thursday, for the issue of Thursday **16 April**
- **15 April**, Wednesday, for the issue of Friday **24 April**
- **23 April**, Thursday, for the issue of Thursday **30 April**
- **21 May**, Thursday, for the issue of Friday **29 May**
- **10 December**, Thursday, for the issue of Friday **18 December**
- **17 December**, Thursday, for the issue of Thursday **24 December**
- **22 December**, Tuesday, for the issue of Thursday **31 December**

Late notices will be published in the subsequent issue. If, under special circumstances, a late notice is being accepted, a double tariff will be charged

The copy for a SEPARATE *Government Gazette* must be handed in not later than three calendar weeks before date of publication

(b) enige dokumente, met inbegrip van enige verklaring, wat bestem is om aan die Voorsitter voorgelê te word, insien of onderwyl dit na die Voorsitter geneem of aan hom versend word, onderskep nie.

15. Niemand mag, behalwe vir sover dit by die uitvoering van die Kommissie se opdrag nodig is, die verslag van die Kommissie of 'n afskrif of 'n gedeelte daarvan of inligting met betrekking tot die oorweging van getuienis deur die Kommissie publiseer of aan iemand anders verstrek nie voordat die Staatspresident die verslag vir publikasie beskikbaar gestel het of die verslag in die Parlement ter tafel gelê is: Met dien verstande dat die Voorsitter te eniger tyd in die loop van die Kommissie se werksaamhede inligting of dokumente na die Kantoor vir Ernstige Ekonomiese Misdrywe vir verdere ondersoek kan verwys.

16. Niemand mag die Voorsitter of 'n lid van die Kommissie beledig, neerhaal of verkleineer of die verrigtinge of die bevindings van die Kommissie benadeel, beïnvloed of vooruitloop nie.

17. Iemand wat—

(a) die Voorsitter, 'n lid of 'n beampte by die uitoefening van 'n bevoegdheid in regulasie 13 bedoel, opsetlik hinder, teengaan of dwarsboom; of

(b) 'n bepaling van regulasie 5, 8 (2), 14 of 15 oortree; of

(c) 'n bepaling van regulasie 16 oortree,

is aan 'n misdryf skuldig en by skuldigbevinding strafbaar—

(i) in die geval van 'n misdryf in paragraaf (a) of (b) bedoel, met 'n boete van hoogstens R200 of gevangenisstraf vir 'n tydperk van hoogstens ses maande; en

(ii) in die geval van 'n misdryf in paragraaf (c) bedoel, met 'n boete van hoogstens R1 000 of gevangenisstraf vir 'n tydperk van hoogstens 12 maande.

GOEWERMENTSKENNISGEWING

DEPARTEMENT VAN JUSTISIE

No. R. 1483 **22 Mei 1992**

AANSTELLING VAN KOMMISSIE VAN ONDERSOEK NA DIE SAKE VAN DIE MASTERBONDGROEP

Hierby word vir algemene inligting bekendgemaak dat dit die Staatspresident behaag het om Sy Edele regter **HENDRIK CHRISTOFFEL NEL** as Voorsitter en menere **ROGER BOTHA CLEAVER** en **HUGH DONOVAN COLLIER** as lede van 'n Kommissie van Ondersoek na die Sake van die Masterbondgroep aan te stel.

Die Kommissie se opdrag lui soos volg:

1. Om ondersoek in te stel na en verslag te doen oor—

1.1 die omstandighede wat aanleiding gegee het tot die finansiële probleme en moeilikhede van Masterbond Trust Investment Holdings Beperk insluitende enige

(b) peruse any document, including any statement, which is destined to be submitted to the Chairman or intercept such document while it is being taken or forwarded to the Chairman.

15. No person shall, except in so far as may be necessary in the execution of the terms of reference of the Commission, publish or furnish to any other person the report of the Commission or a copy or a part thereof or information regarding the consideration of evidence by the Commission before the State President has released the report for publication or the report has been laid upon the Table in Parliament: Provided that the Chairman may at any time during the course of the Commission's activities refer information or documents to the Office for Serious Economic Offences for further investigation.

16. No person shall insult, disparage or belittle the Chairman or any member of the Commission or prejudice, influence or anticipate the proceedings or findings of the Commission.

17. Any person who—

(a) wilfully hinders, resists or obstructs the Chairman, any member or any officer in the exercise of any power referred to in regulation 13; or

(b) contravenes a provision of regulation 5, 8 (2), 14 or 15; or

(c) contravenes a provision of regulation 16,

shall be guilty of an offence and liable on conviction—

(i) in the case of an offence referred to in paragraph (a) or (b), to a fine not exceeding R200 or imprisonment for a period not exceeding six months; and

(ii) in the case of an offence referred to in paragraph (c), to a fine not exceeding R1 000 or imprisonment for a period not exceeding 12 months.

GOVERNMENT NOTICE

DEPARTMENT OF JUSTICE

No. R. 1483 **22 May 1992**

APPOINTMENT OF COMMISSION OF INQUIRY INTO THE AFFAIRS OF THE MASTERBOND GROUP

It is hereby notified for general information that the State President has been pleased to appoint the Honourable Mr **Justice HENDRIK CHRISTOFFEL NEL** as Chairman and Messrs **ROGER BOTHA CLEAVER** and **HUGH DONOVAN COLLIER** as members of a Commission of Inquiry into the Affairs of the Masterbond Group.

The Commission's terms of reference are as follows:

1. To inquire into and report on—

1.1 the circumstances which gave rise to the financial problems and difficulties of Masterbond Trust Investment Holdings Limited including any company, partnership, closed

maatskappy, vennootskap, beslote korporasie, trust of ander onderneming of persoon wat geassosieer is of was, of enige verbintenis of sake daarmee het of gehad het, hetsy as filiaal, houermaatskappy, filiaal van so 'n houermaatskappy of op enige ander wyse (hierna die Masterbondgroep genoem);

1.2 enige regspersoon wat obligasies uitgereik het en/of deelnemingsverbande geregistreer het ten gunste van die Masterbondgroep of ten gunste van enige persoon, en/of maatskappy en/of instelling ten behoewe van wie of waarvan die Masterbondgroep as prinsipaal, agent of kurator optree of opgetree het;

1.3 die vraag of persone, wat as direkteure, bestuurders, tussengangers, agente, beamptes, verteenwoordigers en adviseurs van die Masterbondgroep optree of opgetree het of andersins 'n verbintenis met die Masterbondgroep het of gehad het, of aan wie professionele pligte opgedra is of was, hulle pligte teenoor die Masterbondgroep in die algemeen en spesifiek hulle pligte om na die belange van beleggers om te sien, versuim het, of hulle vertrouensposisie jeens die gemelde groep en/of beleggers en/of skuldeisers geskend het en, indien wel, in watter opsigte;

1.4 enige wanpraktyke met betrekking tot die oprigting van die Masterbondgroep en die bedryf van die groep se sake;

1.5 die vraag of enige funksionaris wat met statutêre pligte belas was enige plig om na die belange van beleggers of die publiek om te sien, versuim het;

1.6 die vraag of die gemenereg en wetgewing met betrekking tot depositonemende instellings, ander finansiële instellings, maatskappye, aandeleblok- en tyddeelskemas of enige ander wetgewing, voldoende beskerming aan beleggers soortgelyk aan die van die Masterbondgroep en die algemene publiek verleen met spesiale verwysing na die volgende aangeleenthede:

1.6.1 Die vraag of die bestaande wetlike of gemeenregtelike maatstawwe wat vir die optrede van agente, verteenwoordigers, adviseurs en tussengangers, die openbaarmaking van inligting en die beskerming van beleggers gestel word, voldoende is;

1.6.2 die funksies wat 'n ouditeur van 'n maatskappy met betrekking tot die beskerming van die beleggers se belange behoort te vervul; en

1.6.3 die vraag of die bestaande maatreëls met betrekking tot persoonlike aanspreeklikheid van direkteure, beamptes en bestuurders van maatskappye voldoende is;

corporation, trust or other enterprise or person that is or was associated or has or had any connection or dealings with it, whether as subsidiary, holding company, subsidiary of such a holding company or in any other way (hereinafter referred to as the Masterbond Group);

1.2 any legal person which issued debentures and/or registered participation mortgage bonds in favour of the Masterbond Group or in favour of any person and/or company and/or institution on whose behalf the Masterbond Group acts or acted as principal, agent or trustee;

1.3 the question whether persons, who are or were acting as directors, managers, intermediaries, agents, officers, representatives and advisers of the Masterbond Group or who are or were otherwise associated with the Masterbond Group or who are or were entrusted with professional duties, neglected their duties towards the Masterbond Group in general and in particular their duty to look after the interests of the investors, or breached their duty of trust towards the said Group and/or investors and/or creditors and, if so, in what respects;

1.4 any malpractices in respect of the formation of the Masterbond Group and the running of its affairs;

1.5 the question whether any functionary seized with statutory duties neglected any duty to look after the interests of investors or the public;

1.6 the question whether the common law and legislation with regard to deposit taking institutions, other financial institutions, companies, share block- and time share schemes or any other legislation, provide sufficient protection to investors similar to those of the Masterbond Group and the public in general, with special reference to the following matters:

1.6.1 The question whether the existing statutory or common law requirements for the conduct of agents, representatives, advisers and intermediaries, the disclosure of information and the protection of investors, are adequate;

1.6.2 the functions that an auditor of a company should fulfil in respect of the protection of the interests of investors; and

1.6.3 the question whether the existing measures with regard to the personal liablity of directors, officers and managers of companies are sufficient;

1.7 enige wanaanwending van fondse in die Masterbondgroep of van enige fondse daarin belê;

1.8 enige handeling of versuim wat dui op moontlike strafregtelike aanspreeklikheid deur die Masterbondgroep of enige persoon; en

1.9 enige ander relevante aspekte.

2. Om in die lig van die kennis wat uit die ondersoek opgedoen word, aanbevelings te doen aangaande wysigings wat aan die voormelde wetgewing of enige ander wetgewing of die gemenereg aangebring behoort te word ten einde 'n meer effektiewe toepassing van wetgewing en die gemenereg te bewerkstellig vir die beter beskerming van beleggers soos dié in die Masterbondgroep.

1.7 any misappropriation of funds in the Masterbond Group or of any funds invested therein;

1.8 any act or omission that may suggest criminal liability by the Masterbond Group or by any person; and

1.9 any other relevant aspects.

2. To make recommendations, in view of the knowledge acquired from the inquiry, regarding amendments which should be affected to the above-mentioned legislation or any other legislation or the common law in order to bring about a more efficient application of legislation and the common law for the better protection of investors such as those in the Masterbond Group.

5. Niemand mag enige aangeleentheid of inligting wat in verband met die Kommissie se ondersoek tot sy kennis gekom het, aan iemand anders meedeel of iemand anders toelaat of veroorloof om toegang te verkry tot stukke van die Kommissie nie, behalwe vir sover dit by die uitoefening van sy pligte in verband met die werksaamhede van die Kommissie of ingevolge 'n bevel van 'n bevoegde hof nodig is.

6.1 Getuienis kan afgeneem word deur die Kommissie of, met toestemming van die Kommissie, deur die Voorsitter of een of meer lede van die Kommissie deur die Voorsitter vir daardie doel aangewys.

6.2 Wanneer sodanige lid of lede aldus aangewys is, beskik sodanige lid of lede oor dieselfde bevoegdhede as wat die Voorsitter sou gehad het indien hy teenwoordig was.

7. Die Voorsitter of 'n beampte deur die Voorsitter in die algemeen of spesiaal daartoe gemagtig, moet 'n getuie wat voor die Kommissie verskyn, 'n eed oplê of van hom 'n bevestiging afneem.

8. (1) Indien 'n persoon wat getuienis voor die Kommissie afgelê het of aflê of wat opgeroep is om aldus getuienis af te lê, die Kommissie aldus versoek, kan die Voorsitter gelas dat niemand die naam of adres van sodanige persoon of enige inligting wat waarskynlik sy identiteit sal openbaar, op enige wyse hoegenaamd bekend maak nie.

(2) Niemand mag 'n bepaling van 'n lasgewing bedoel in subregulasie (1) oortree nie.

9. 'n Getuie wat voor die Kommissie verskyn, kan deur 'n persoon in kruisverhoor geneem word slegs indien die Voorsitter sodanige kruisverhoor deur daardie persoon toelaat omdat die Voorsitter dit in belang van die werksaamhede van die Kommissie nodig ag.

10. 'n Getuie wat voor die Kommissie verskyn, kan na goeddunke van die Voorsitter en op die wyse wat hy bepaal, deur 'n advokaat of prokureur bygestaan word.

11. 'n Beampte, prokureur of advokaat deur die Voorsitter daartoe aangewys, kan by die aanhoor van getuienis by die ondersoek aanwesig wees en getuienis en argumente wat op die ondersoek betrekking het, aanvoer.

12. Wanneer die Kommissie op getuienis of inligting aan hom voorgelê, oortuig is dat die Kommissie se ondersoek enige bestaande, ingestelde of hangende regsproses of enige ondersoek wat ingevolge die bepalings van enige wet ingestel is, nadelig kan raak, word getuienis wat relevant is tot sodanige regsproses of ondersoek op so 'n wyse deur die Kommissie hanteer dat daardie regsproses of ondersoek nie daardeur nadelig geraak word nie.

13. Die Voorsitter, 'n lid of 'n beampte kan vir doeleindes van die ondersoek te alle redelike tye enige perseel betree en besigtig en enige dokument wat op sodanige perseel is, opeis en in beslag neem.

14. Niemand mag sonder die skriftelike toestemming van die Voorsitter—

(a) 'n dokument wat in verband met die ondersoek deur enige persoon aan die Kommissie voorgelê is, versprei of die inhoud of 'n gedeelte van die inhoud van so 'n dokument publiseer nie; of

5. No person shall communicate to any other person any matter or information which may have come to his knowledge in connection with the inquiry of the Commission, or suffer or permit any other person to have access to any records of the Commission, except in so far as it is necessary in the performance of his duties in connection with the functions of the Commission or by order of a competent court.

6.1 Evidence can be taken by the Commission or, with the consent of the Commission, by the Chairman or by one or more members of the Commission designated by the Chairman for that purpose.

6.2 When such a member is or members are so appointed, such a member or members will have the same powers as the Chairman would have had if he was present.

7. The Chairman or an officer generally or specially authorised thereto by the Chairman shall administer an oath to or accept an affirmation from any witness appearing before the Commission.

8. (1) If any person who gave or is giving evidence before the Commission or who has been summoned so to give evidence so requests the Commission, the Chairman may direct that no person shall publish in any manner whatsoever the name or address of such person or any information likely to reveal his identity.

(2) No person shall contravene any provision of a directive referred to in subregulation (1).

9. Any witness appearing before the Commission may be cross-examined by a person only if the Chairman permits such cross-examination by such person because the Chairman deems it necessary in the interest of the functions of the Commission.

10. Any witness appearing before the Commission may, in the discretion of the Chairman and in such manner as may be determined by him, be assisted by an advocate or an attorney.

11. An officer, attorney or advocate designated thereto by the Chairman may be present at the hearing of evidence at the inquiry and may adduce evidence and arguments relating to the inquiry.

12. Whenever the Commission is satisfied upon evidence or information presented to it that the Commission's inquiry may adversely affect any existing, instituted or pending legal proceedings or any investigation instituted in terms of any law, evidence which is relevant to such legal proceedings or investigation shall be dealt with by the Commission in such a manner as not to affect adversely such legal proceedings or investigation.

13. The Chairman, any member or any officer may, for the purposes of the inquiry, at all reasonable times enter and inspect any premises and demand and seize any document which is on such premises.

14. No person shall without the written permission of the Chairman—

(a) disseminate any document submitted to the Commission by any person in connection with the inquiry or publish the contents or any portion of the contents of such document; or

Weekly Mail 22/5-28/5/92

Absa monopoly feared

GIANT financial institution Absa's acquisition of Multi Listing Services caused a flurry in the property industry this week, with players warning that increased concentration would prejudice the homebuyer's freedom of choice. Absa already has its own computer listing system which services estate agents and facilitates a much quicker homebuying process.

In the past year the group — when it was still the United — acquired several estate agencies and crowned its campaign by acquiring several financial institutions including the Allied Building Society.

58

TRANSATLANTIC (58)

A London listing at last

FM 22/5/92

By end-July — all being well — TransAtlantic Holdings (TAH), Liberty Life's hybrid UK insurance-property subsidiary, should finally have a full London Stock Exchange listing. Fulfilment of chairman Donald Gordon's ambition should come from mopping up the 17,4% minority in property group Capital & Counties (Capco) announced last week (and presaged at the time of TAH's £147m rights issue — *Fox* May 1).

With the London Stock Exchange's "pyramid" objections now removed, TAH will come to market with shareholders' funds of just over £1bn and fully diluted NAV of 303p a share (against 323p at end-1991).

It will still be a property-weighted group, at 57,5% of gross assets, against 24,3% for the 50% of Sun Life held in partnership with Unions des Assurance de Paris (UAP) via Rockleigh Corp. The balance is mainly cash or short-term investments.

Outside investors are being offered five TAH for six Capco. It's a challenging target, at TAH's 280p price in Luxembourg.

It is hard to tell whether the tail of the Capco rump will wag the TAH dog, especially in the light of the crisis at Olympia & York, the world's biggest property developer, which plunged the sector into deeper gloom.

A TAH price of 280p values Capco at 233p. But Capco slipped to 195p this week, pointing to TAH at 234p. That compares with the 250p rights price and even more starkly with the 350p paid by UAP when it bought 16,8% of TAH as part of the Sun Life deal in November 1991.

Taking the Luxembourg price — which is dubious, given the illiquidity of that market

cont →

FOX FM 22/5/92 (58)

— TAH yields just 4,3% on last year's reduced dividend. Capco's current yield is 6,8% and the property sector average 6,4%, with an earnings multiple of 18. The life insurance sector yield is 5,7%.

It will take some doing for TAH to warrant its apparent premium. Even at a Capco indicator price of 234p, TAH yields just 5,1% and stands at a discount of 21% to NAV. That is a slightly happier picture than Capco, which, at 195p, stands 25% below its deflated NAV.

John Cavill

MONEY MARKET FM 22/5/92

Over the edge (58)

When news about the economy is really bad, bulls in the financial markets flex their muscles. A fall in business activity means reduced demand for credit and consequently sliding interest rates. This increases the value of existing financial instruments because their yields will be comparatively higher than those provided by paper newly issued.

No wonder bulls feel good when the economy bleeds.

So it's appropriate that a sharp fall in short-term interest rates coincides with release of official figures which show a continuing decline in GDP (see p42). Driven by a drop in the call rate from 14,5% on May 11 to 14% three days later, most key interest rates declined sharply in the middle of the month. The rate on three-month liquid bankers' acceptances fell below 15% last week to 14,55% on Monday morning while 12-month

cont →

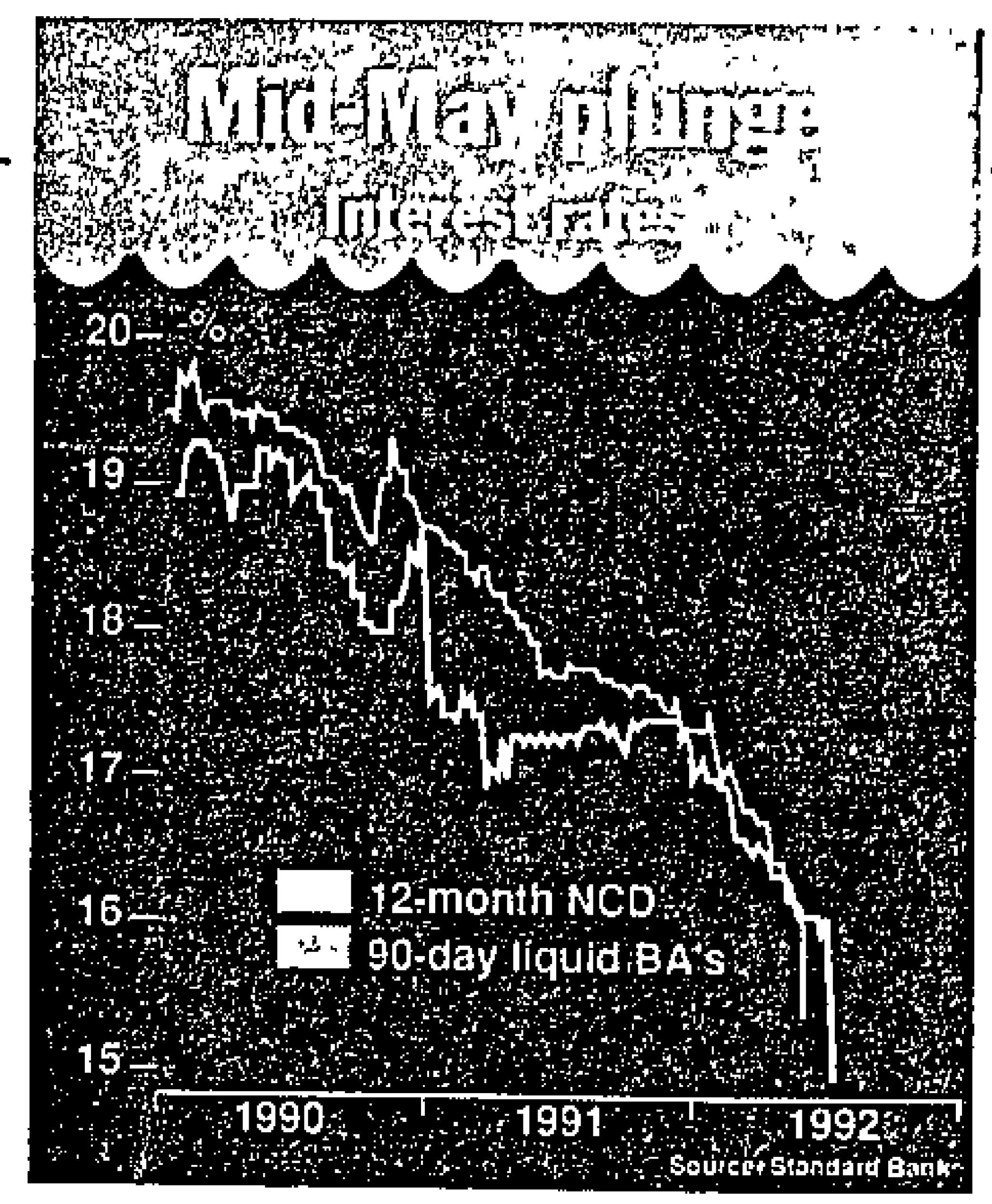
certificates of deposit fell from 15% on Monday to 14,7%. FM 22/5/92

Market participants attribute this to a number of factors including: restricted business activity which has reduced the supply of trade-based financial instruments; investors' attempts to lock into longer-term assets; and slack demand for credit.

The Reserve Bank, which has kept the market on a short rein for more than two years, has kept a relatively low profile. Though bankers speculated about the extent of dollar swaps, which remove cash from the system, the central bank has offered no recent tenders of special Treasury bills. After taking R600m out of the market on May 5, and R300m on May 6, it had made no further offers by Tuesday afternoon, when the *FM* went to press. Both issues expired by May 7.

Apparently the Bank was satisfied with the size of the shortage which ranged between R1bn-R1,5bn. But there are no serious expectations of an immediate fall in the official Bank rate — though Treasury bills were trading in the market at less than 14,2% on Monday to discount a fall of 1,8 percentage points.

There is too much uncertainty about the path of inflation. ■



Auditors' accountability

FM 22/5/92

Explosive growth in successful professional negligence actions against auditors has made the point: auditors are accountable. So delegates at the Deneys Reitz seminar on auditors' liability in Johannesburg last week were pleased to hear about a recent UK case which seemed to afford them a defence to liability claims from third parties or non-clients.

According to Wim Trengove SC, who addressed the seminar, the Caparo case — as it is known — is likely to have "considerable persuasive weight in an SA court."

Caparo Industries Plc purchased shares in a company on the strength of preliminary results issued by its directors and continued to purchase shares after the final audited figures were published. Later, Caparo made a successful takeover bid for the company.

After the takeover, however, Caparo brought an action against the auditors, charging that they were in breach of the duty of care owed to Caparo. They alleged that the auditors had negligently certified accounts that indicated a pre-tax profit of £1,3m when, in fact, there had been a loss of £400 000. The court had to decide whether a company's auditors owe a duty of care to prospective investors merely because it is reasonably foreseeable that they might rely on audited accounts.

The House of Lords, on appeal, found that no such duty of care exists; moreover, that duty does not arise even in relation to existing shareholders — because the statutory-audit requirement was not imposed to provide information for the assistance of purchasers of shares.

Trengove pointed out that, unlike their UK counterparts, SA courts recognise an extension of the duty of care — though only if there are positive policy considerations.

Despite the UK decision, auditors cannot afford to be complacent: the position would be different if the investor were to consult the auditor — as is often the case — while making an investment decision. Here, the investor's reliance is apparent and the auditor effectively vouches for his report — if not expressly, then tacitly by not disavowing it. Our courts would probably hold an auditor liable for negligence, the legal basis being that a reasonable auditor should know the investor would decide using the report.

As for an auditing firm's liability to its client, the duty of care arises directly out of the contract between them, or is prescribed by statute. Relatively little ambiguity surrounds the question of an auditor's duty when he is engaged to do a conventional audit but Trengove cautioned auditors who are involved in less common assignments.

He gave the example of the accounting officer of a close corporation (most often, a practising accountant and auditor), whose "normal" statutory duties are to determine whether the corporation's financial statements were prepared in accordance with its books and records and to review the appropriateness of the accounting policies said to have been applied.

The Close Corporations Act prescribes "special" duties. The accounting officer must report any contravention of the Act in his report and, in the event of the corporation's liabilities exceeding its assets, notify the Registrar of Companies. These duties create considerable potential for liability to the corporation and its members.

Similarly, in assignments not regulated by statute, the agreement between the parties will determine the extent of an auditor's negligence. This was at the core of a recent Cape case in which the auditors were ordered to pay nearly R2m in damages to their client, a partnership. The case is to go to appeal.

Meanwhile, professional indemnity insurance is increasingly becoming harder and more expensive to obtain. David Arthur, a UK-based indemnity lawyer who represents accountants and underwriters worldwide, said large firms of accountants are insured at levels that might be considered catastrophe cover for most other businesses.

His outlook for the auditing profession is pessimistic: "Until there have been major accounting firms collapsing under the weight of litigation, investigations and disciplinary procedures, it is unlikely that the political inclination to limit the exposure of auditors will arise."

The *Financial Times* reports that the UK Auditing Practices Board proposes that, from early next year, all annual company reports should contain a substantially enlarged audit report giving an unambiguous opinion on the financial statements. The auditors will be required to comment on whether a company can survive for at least one year after its financial statements are approved.

Of course, the UK board has no jurisdiction in SA. One delegate, lawyer Michael Judin, commented at the end of the seminar: "It's not all that ominous: the public, alerted to the fact of claims, is now doing no more than holding professionals to the degree of skill and care they always expected of us."

That cannot be a bad thing.

MERCANTILE BANK IS FUNDING GROWTH

58

FM 22/5/92

Mercantile Bank, the small bank formed three years ago by Derek Cohen, Alistair Laughland and a group of former Bankorp employees, last week announced an increase in capital of R4,45m. The extra capital from the shareholders will fund expansion of the bank.

The bank is now well within the capital:asset ratio requirement of 5,5% by 1992. "Our ratio at the end of 1991 stood at 6,4%," says executive director Laughland. He adds any new bank increasing lending will find its capital needs expanding quicker than short-term earnings, especially in an inflationary environment.

"They need to have their overheads in place before allowing for growth in turnover. So capital requirements tend to exceed retained earnings to start with. Our shareholders realise these needs and see our long-term prospects as good."

IGI Group holds 49% of Mercantile, Momentum Life about 15% and directors and staff the balance.

Mercantile niche markets, focusing on consumer, instalment & asset-based financing. It also gets fee-based income from corporate finance. The board includes: chairman Henry Vorster, head of mercantile law at RAU; Graham Lund, Bond Market Association CEO; and Roly Perold, ex-Santambank MD. ■

MASTERBOND

D-day for Phinda investors FM 22/5/92

Contrary to what Phinda debenture holders were told in a radio programme this week, they may have a great deal to lose if they do not approve an agreement which will be on the table today. It provides for the repayment, by Phinda holding company Conscorp, of R43m in debentures, out of funds raised from new investors who include the AECI Pension Fund and a number of financial institutions.

Attorney Allan Levin, representing an organisation calling itself Masterbond Victims, advised Phinda debenture holders that the offer would not go away. He was speaking on *Radio Today*.

Later he told the *FM* that, as the investors loans were secured by mortgage bonds over the nature reserve Phinda Land, they were secured creditors. However, if the Phinda debenture holders do not approve the agreement reached with the curators, the new investors will not put in their money.

The mortgage bonds will then be called up and the properties declared executable. This means a forced sale, which may not raise enough cash to pay back the mortgage bonds. As a result, the debenture holders will lose the difference between their claims and the amount the property realises on a sale in execution.

In that case investors will lose their chance to get back almost 100c in the rand of their capital sum.

Levin is uncomfortable with the fact that investors are being asked to decide on the offer only days before the curators' report on Masterbond is due to be published.

But the state of Masterbond has no bearing on the agreement to repay debenture holders. The sum involved is loan capital, not equity.

For this reason the question of what will happen to unallocated funds and the rights of other investors is not necessarily material.

The resistance to the agreement is coming from Don MacKenzie who claims he represents 1 760 investors who placed money with or through the collapsed Masterbond. He is not himself a holder of a Phinda debenture but of a debenture issued by K J Beleggings (subsequently renamed Mykonos Weskus Beleggings). In both cases Masterbond acted as agent.

This and the fact that MacKenzie was initially issued with a receipt for the funds led him to believe he was placing money on deposit with Masterbond.

Further confusion arose from claims of former Masterbond chairman Koos Jonker about alleged offers made for the purchase of Phinda. There were, in fact, no plans to sell Phinda, only a move to raise funds to develop it (*Economy* May 15). An attempt was made to raise R83m, R63m was actually subscribed.

But debenture holders have no claims other than the about R43m they lent.

MacKenzie's perception of the transaction and the events surrounding it led him into a crusade for what he describes as fair play. He argues investors were not given the choice of investment therefore it is "grossly unfair" that the Phinda investors should be "favoured." And he raises the question of R155m in unallocated funds, of which R139m came from short-term debenture holders.

He is advocating the pooling of funds between all Masterbond investors. This, of course, is not possible as the curators are legally obliged to return the funds to the investors holding the debentures issued by Phinda.

What is relevant to Phinda is that about R2m of the unallocated funds were used to make up the difference between the total bond issue of R43m and the debenture register of R41m.

Horton Griffiths, executive officer of the curators, explains that this sum of about R2m will go proportionately to the investors of R139m.

There is great sympathy for people who lost money in the Masterbond debacle. Moreover there appears to be confusion about who the lawful holders of the Phinda debentures are.

Levin cites the case of an investor who was asked by Masterbond to return her certificate so the investment could be reallocated. He argues that those investors who complied with the request may have a rightful claim at this point.

Griffiths says: "We were bound by the register and we sent a notice to everyone on the register. It is still open to those who believe they have a lawful claim to write to the curators. The money will be held in trust by Conscorp until the mortgage bonds are cancelled and that will take about a month. Thereafter the curators will hold the funds, in trust, until all claims have been resolved."

Whoever is lawfully entitled to the money will be paid almost 100c in the rand. If it is not accepted about R43m less will be available for distribution. ■

MONEY MARKET FM 22/5/92

Over the edge

When news about the economy is really bad, bulls in the financial markets flex their muscles. A fall in business activity means reduced demand for credit and consequently sliding interest rates. This increases the value of existing financial instruments because their yields will be comparatively higher than those provided by paper newly issued.

No wonder bulls feel good when the economy bleeds.

So it's appropriate that a sharp fall in short-term interest rates coincides with release of official figures which show a continuing decline in GDP (see p42). Driven by a drop in the call rate from 14,5% on May 11 to 14% three days later, most key interest rates declined sharply in the middle of the month. The rate on three-month liquid bankers' acceptances fell below 15% last week to 14,55% on Monday morning while 12-month

cont →

MERCANTILE BANK IS FUNDING GROWTH

FM 22/5/92

Mercantile Bank, the small bank formed three years ago by Derek Cohen, Alistair Laughland and a group of former Bankorp employees, last week announced an increase in capital of R4,45m. The extra capital from the shareholders will fund expansion of the bank.

The bank is now well within the capital:asset ratio requirement of 5,5% by 1992. "Our ratio at the end of 1991 stood at 6,4%," says executive director Laughland. He adds any new bank increasing lending will find its capital needs expanding quicker than short-term earnings, especially in an inflationary environment.

"They need to have their overheads in place before allowing for growth in turnover. So capital requirements tend to exceed retained earnings to start with. Our shareholders realise these needs and see our long-term prospects as good."

IGI Group holds 49% of Mercantile, Momentum Life about 15% and directors and staff the balance.

Mercantile niche markets, focusing on consumer, instalment & asset-based financing. It also gets fee-based income from corporate finance. The board includes: chairman Henry Vorster, head of mercantile law at RAU; Graham Lund, Bond Market Association CEO; and Roly Perold, ex-Santambank MD. ■

Joy for home buyers as bond rate cut

58

STAR 23/5/92

DEREK TOMMEY

FURTHER relief for hard-pressed house-buyers is in the pipeline. Standard Bank, First National Bank and Ned-bank announced last night that they are to cut their mortgage rates by 1 percentage point to 18 percent from July 1.

Other banks are expected to make similar announcements in the next few days.

This is the second such reduction in the mortage rate this year. The 1 percentage point reduction will reduce monthly mortgage bond repayments by just more than R80 a month on a R100 000 bond and by equivalent amounts on larger or smaller bonds.

The reduction in mortgage rates has been expected as rates in the short-term money market have fallen sharply in the past few days.

Businessmen will now be waiting for a similar reduction in the commercial banks' prime rate and in the Reserve Bank's discount rate.

In view of the lead given by the mortgage rate, this should happen within the next week.

The cut in the mortgage rate should provide a boost for the retail trade. South Africans have more than R66 billion in mortgage loans and the 1 percent point reduction will boost the purchasing power of house-buyers by some R660 million a year.

Quayle's wife lauds SA

PETER DAVIES

MARILYN Quayle, wife of the United States vice-president, yesterday praised South Africa for "taking the lead in regional co-operation" by facilitating the

---

S

n

(30uA)

l Editor

Govern-
National
est point
matum"

appeared
over were
week.

p distrust,
a 2 to pro-
blacks into
day verbal
's two key

Ideal medium for serious investors

STAR 23/5/92. (58)

THE trusts offer sound prospects for capital appreciation, which will be amplified if interest rates decline.

INVESTMENT in property is an essential component in any serious investment portfolio. The objective is the same as investment in equities — an overall return made up of income, its growth and capital appreciation.

Property unit trusts (PUTs), which are in effect large property syndications, provide an ideal mechanism for property investment and for achieving diversification of risk, says Les Weil, chairman of the JH Isaacs group and of the Association of Property Unit Trust Management Companies.

The 16 PUTs listed on the JSE represent market capitalisation of R5 billion. Their portfolios cover all categories of real estate.

All 12 companies managing the PUTs are members of the association.

PUTs and equity trusts are regulated by the Unit Trust Control Act of 1981.

The main difference between equity trusts and PUTs is that PUTs are closed-end, which means that the management company does not repurchase units from investors.

The units are traded on the JSE in the same way as a listed firm's shares.

Property trusts have expanded through rights issues, offering unitholders a continuing opportunity to participate in portfolio growth.

The association believes that to achieve the same investment advantages as other investor categories, besides expanding through rights issues, properties should also be acquired for scrip.

This is being discussed with the unit trusts advisory committee of the Financial Services Board.

As with equity trusts, the board will not register a management company unless it is satisfied with its financial standing and ability.

Leading banks and financial institutions with long-standing track records are major investors in property trust management companies.

The property portfolios are managed by experienced and professional property management organisations. Each is responsible for investment decisions and administration of funds under its control.

The trustee, normally a large financial institution, approves every investment.

The trustee is also the custodian of each trust's assets — the holder of funds awaiting capital investment and of title deeds — and is responsible for the issue of unit certificates and ensuring that each trust's assets are properly insured.

Weil says PUTs provide an avenue for spread of investment risk through holding a number of properties in different geographical locations, occupied by a large number of sound tenants.

The units are readily marketable through the JSE and investors can easily realise part or all of their units.

A programme purchasing units in selected PUTs ensures an investment spread covering numerous quality properties.

PUTs are not taxable, and since they distribute their entire income at least twice annually, it is received by investors in the same way as if they had invested in the properties directly.

Investors pay tax at their usual marginal rates on such income but receive the benefit of the interest income deduction of R2 000. With an equity trust, the companies in which it has invested bear a tax charge before a dividend is distributed.

It is important to note that PUTs are not permitted to mortgage or encumber properties in a unit trust portfolio in any way. This reduces investment risk substantially.

There is nothing to stop an investor using his units to secure borrowing at his own bank, as they are a most acceptable form of collateral.

The prices of each of the PUTs are quoted on the JSE on a daily basis.

Weil says property should be regarded as a long-term investment.

Bearing in mind that space in existing buildings is limited and that development of new accommodation can only be achieved if rentals escalate substantially, the overall trend in income and capital appreciation is extremely promising.

At current prices, the property units offer an attractive yield which is in historically high ground. The sector average is 11,3 percent and there are sound prospects for capital appreciation, which will be amplified if interest rates decline.

Cashing up as you say totsiens

STAR 23/5/92.

(58)

YOUR rands will have shrunk painfully in almost any other currency — so size up your options, warns

MAGNUS HEYSTEK.

PEOPLE who emigrate are always in a quandary as to what to do with their insurance policies in South Africa, especially if they have a large surrender or paid-up value.

Many people mistakenly believe that their only option is to surrender the policy before their departure.

But there is another option worth considering, says Bryan Hirsch, managing director of Pride International, a newly established financial and advisory service company, a division of Pride Consultants.

The company offers prospective emigrants advice on the financial opportunities — and pitfalls — which await them in their country of destination.

Some South African insurance companies with links with overseas companies offer prospective emigrants the option to transfer the surrender value of the local policy into a new policy overseas.

Deducted from the allowance

However, the surrender value is deducted from the individual's emigration allowance.

Many people also prefer to use the cash from their surrendered policies to help them settle in their new country — either towards a car or towards downpayment on a home.

Hirsch, however, says prospective emigrants should consider another option — and that is to recycle the policy.

"Rather than give up the policy, it is possible to sell the policy to a third party for a higher amount than the current surrender value," he says.

There is an active market in South Africa for "second-hand policies", especially ones issued before July 1985 as they have certain characteristics that appeal to certain types of investors looking for tax-free capital growth over a short period of time.

But having relinquished existing policies, it's absolutely essential that new policies — possibly organised before departure — are put into place in the new country, Hirsch adds.

Another dilemma facing emigrants is what to do with blocked rands — money which cannot be taken out of the country in terms of the strict Exchange Control regulations.

This a common problem as blocked rands can only be invested in certain categories of investments in South Africa.

Often these funds — sometimes running into millions of rands — are simply left in bank accounts at very low interest rates.

Not only is the value of these investments being eroded by high local inflation, but also by the apparently inexorable depreciation of the rand against most other major currencies — and even some not so major ones.

With some careful fund management, blocked rand portfolios can be invested more profitably.

Hirsch cites a recent strategy involving switching blocked rands from Eskom stocks to the RSA equivalents.

Another alternative involves investing in equity futures, a move which only recently has been allowed by the Reserve Bank.

But this type of investment, one must add, is highly sophisticated and needs to be in the hands of someone locally who is experienced with this kind of investment and will give it daily attention — nothing less will do.

For someone living in London, trying to make profitable investments in the equity futures market on the JSE would be a highly risky venture.

Tax implications of decisons

Apart from handling the financial management of assets, Pride International also has expertise on the tax implications of the emigrant's financial decisions.

Says Hirsch: "Many South Africans are not fully aware of the different tax structures in other countries.

"For example, in South Africa income is taxed at source, while United States and Australian residents are taxed on their worldwide income."

In addition to its service to departing emigrants, the newly established company also plans to service returning South Africans and new immigrants.

"Through our international partnerships we are able to reverse the process and provide investment advice in preparation for their arrival," he says.

Prima to buy two buildings

(58)
ST Times (BUSS)
24/5/92

PRIMA Property Trust Managers aims to raise R27,9-million through a rights issue to finance the acquisition of two new properties.

This will increase the size of Prima's fund by 50% to about R85-million.

The properties are the Technotron Building in Verwoerdburg and a half undivided share in portion 1 of Pretoria's Sammy Marks Square. Prima already owns the other half undivided share.

Prima director Neno Haasbroek says these investments fit in with the trust's strategy to sell part of its portfolio and invest in top-quality properties in the Johannesburg-Pretoria corridor.

Mr Haasbroek says: "The two properties are soundly constructed with an excellent tenant spread. Leases with retail traders are generally turnover linked, which will provide the trust with an inflation-proof investment."

Rising HIV rate worries assurers

ST Times (BUSS) 24/5/92 58

By CIARAN RYAN

SOUTH African life assurers are watching the rise in HIV infection in Africa anxiously — in spite of the fact that the AIDS scare of the 1980s has faded in Western countries.

The average HIV infection rate in the US is estimated at less than 0,1% — no more than it was 10 years ago and largely confined to homosexuals and intravenous drug users.

Studies in SA suggest an average infection rate of 1,35% compared with almost zero five years ago.

When AIDS was discovered 10 years ago, the forecast leap in death claims was expected to rip holes in company reserves. Many life offices wrote AIDS exclusion clauses into their policies or demanded compulsory HIV screening for life cover above certain limits.

Risk

Metropolitan Life (Metpol) is particularly exposed to AIDS-related death claims, 80% of its total business coming from high-risk groups in the black and coloured markets.

Metpol actuary Peter Doyle developed the Doyle model, which predicts a peak HIV infection rate of 27% of the population by 2005. He says testing among new policyholders shows an HIV infection rate in line with the national average of 1,35%.

MARIUS SMITH: A thousand HIV tests every month at Metpol

Metpol managing director Marius Smith says about 1 000 tests are made each month.

"Even if the rate of HIV infection rises to 27%, our products are designed to limit our financial risk. For people under 35, we require HIV testing for life cover above R50 000. For people older than 35, HIV testing is required for life cover of more than R150 000.

"Most of the premium goes into an investment fund and a smaller proportion to the life cover. The products are so designed that the accumulated money in the investment fund will become greater than the life cover."

Given its exposure to the AIDS threat, one would expect anti-selection — a person with AIDS or HIV or any other serious disease takes out an insurance policy with a view to receiving a quick payout — to be increasing.

Mr Smith says anti-selection can occur only where individuals take out life cover of less than R50 000. Above this they must undergo HIV screening. A survey by reinsurer Mercantile & General found that the number of AIDS claims received by the SA assurance business industry increased from 172 in 1990 to 281 in 1991.

The AIDS debate is hotting up and threatens to unseat some entrenched assumptions about the disease's causes.

Several scientists, supported by some compelling statistical and medical analyses, challenge the orthodoxy that HIV infection alone is sufficient to cause AIDS. They argue that other co-factors are required to destroy the body's immune system.

The dissenters include the discoverer of the HIV virus, Luc Montagnier, and American virologist Peter Duesberg.

Profile

If they are proved right, countless forecasting models will hit the shredder and billions of research rands will have been wasted.

Life assurers could be forced to recalculate their risk profile and develop appropriate policies.

Those companies that increased their reserve allocations in fear of higher death claims will be able to release these funds for other uses.

Mr Doyle says: "Our research is not based on medical argument. For the purpose of finding a medical cure for AIDS I agree that research must be directed in as wide an area as possible.

"But from a statistical point of view, there is a strong correlation between AIDS and HIV infection. Our forecasts are based on what we know of the disease."

The Doyle model forecasts that about 3,75-million people will be infected with HIV by the year 2000, the cumulative death tally being about 407 000 by that year.

This assumes no change in behaviour, no cure and that the pattern of the disease in SA will follow that of other African countries where HIV infection rates are already between 20% and 30%.

Lower

The AIDS threat has done little to dent Metpol's earnings growth — up 24% to 70c a share for the year to September 1991 in spite of a 25% increase in transfers totalling R425-million to meet future liabilities.

Premium income was R703-million — 29% up on the previous year — and investment income rose by 16% to R317-million.

Mr Smith says premium growth this year will be slightly lower because of a strike by salesmen last year. About 90% of premiums are recurring, cushioning Metpol against the economic downturn. The lapse rate, generally higher than average, is falling.

Pressure builds up for rate cuts

58

S/Times (Buss) 24/5/92.

Business Times Reporters

THE Reserve Bank is under strong pressure to ease the bank rate after mortgage payment cuts of one percentage point spearheaded by Standard Bank, First National Bank and the NBS.

Rates were reduced to 18% this week, the second such cut in three months.

But observers say the Reserve Bank may resist calls for a cut in rates for a while longer because the war on inflation is far from over.

Reserve Bank Governor Chris Stals says combating inflation is the major determinant of monetary policy.

The consumer price index is running at 15,7% and is expected to top 16% for May.

Prompted

Standard Bank was first off the mark with bond rate cuts, effective from July 1. It will reduce retail deposit rates by half a percentage point. NBS will only cut new home loans from tomorrow. Existing loans will be considered later.

Jaap Meijer, Deputy Governor of the Reserve Bank, says no decision on a cut in bank rate is expected until senior officials have had a chance to confer on developments in the economy.

The bond rate cuts were prompted by lower money market rates in recent weeks. Three-month bankers' acceptances dropped from 15,25% to 14,6% in the past three weeks in expectation of a cut in the bank rate.

Similarly, call rates of discount houses fell from 14,5% to 13,75%. Capital market rates firmed on expectations of a follow-through by the Reserve Bank.

The market is awash with money, as indicated by the money-market shortage to the Reserve Bank which has remained steady about R1-billion compared with R4-billion at the height of the business cycle in 1989.

This also indicates the success of the Reserve Bank's monetary policy in curbing the creation of bank credit. But inflation has proved stubborn.

The money market shortage remained steady at R1-billion when the Reserve Bank announced a cut in bank rate earlier this year, indicating that the demand for credit was not fanned by lower interest charges.

"This is a move in the right direction," says Econometrix economist Tony Twine.

"The banks can afford a cut because their mortgages are highly secured loans and have lower capital:asset requirements than other types of lending.

"The interest burden on bonds is now about 14% less than it was at its peak."

It is believed that the Reserve Bank is involved in isolating food and non-food components in the consumer price index to ascertain the extent of any possible distortions in the current method of calculation. This adds weight to the theory that Dr Stals might discount current CPI figures and go ahead with a rate cut.

Food inflation is running at 28% and non-food at 12,7%.

The impact on credit demand will remain relatively muted, however. Dr Stals has limited room for further cuts in bank rate until inflation eases.

Absa sets up business in Middle East

MANAMA — Absa Bank said at the weekend it had established links with Middle East parties to finance trade in the two areas. Bday 25/5/92

Absa international banking services GM Stephanus Smith said in Bahrain banks in the United Arab Emirates and Egypt had agreed to establish credit lines with his firm to accommodate anticipated business.

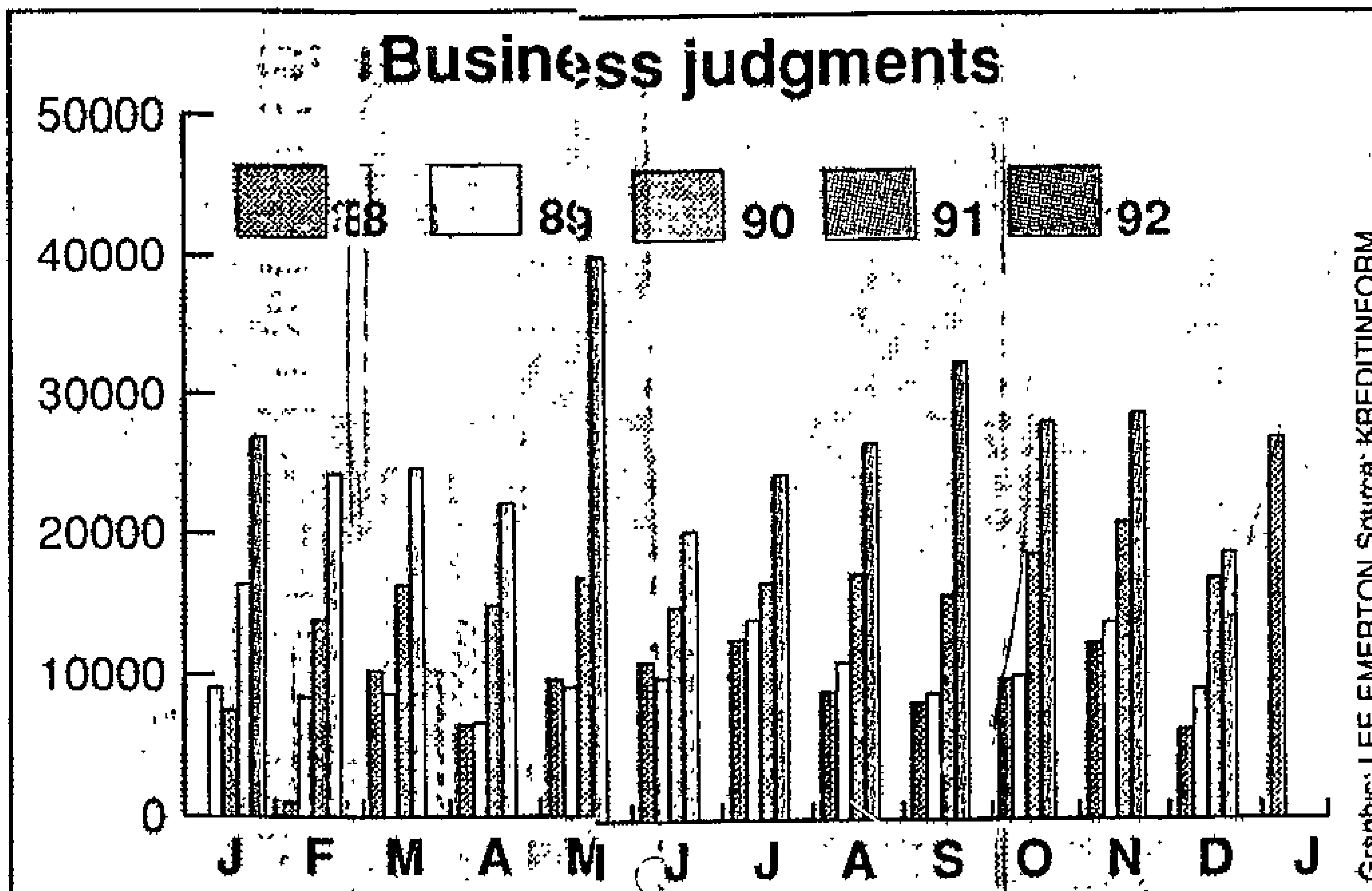
Gulf Arab states have not formally lifted economic sanctions against SA but business links have been strenghtening in the past few months.

Smith, who visited the Gulf island state with an SA business delegation, said he hoped to establish similar credit links with banks in Oman, Qatar and Bahrain, the Middle East's financial hub. (58) (TED)

He also hoped to set up foreign exchange dealing lines with banks in Bahrain.

"Up until now the Middle East has been a closed market for us. We want to enter into a formal correspondent banking relationship with banks in this area as trade starts," he said.

"We've had a very positive response in Egypt, Dubai and Abu Dhabi and have agreed to establish a relationship with a number of major banks there," he said. — Sapa-Reuter.



Business is booming for insurers

B/Day 25/5/92

(58)

DURING recessions, when liquidations and bad debts escalate, companies look for protection such as credit insurance.

Credit Underwriting Agency (CUAL), which is a relatively new player in the credit insurance market, says business is booming.

MD John Manners says: "Since we started three years ago, we estimate we have about 20% of the market. And of that about 80% is brand new to the market, so we have generated new interest in credit insurance.

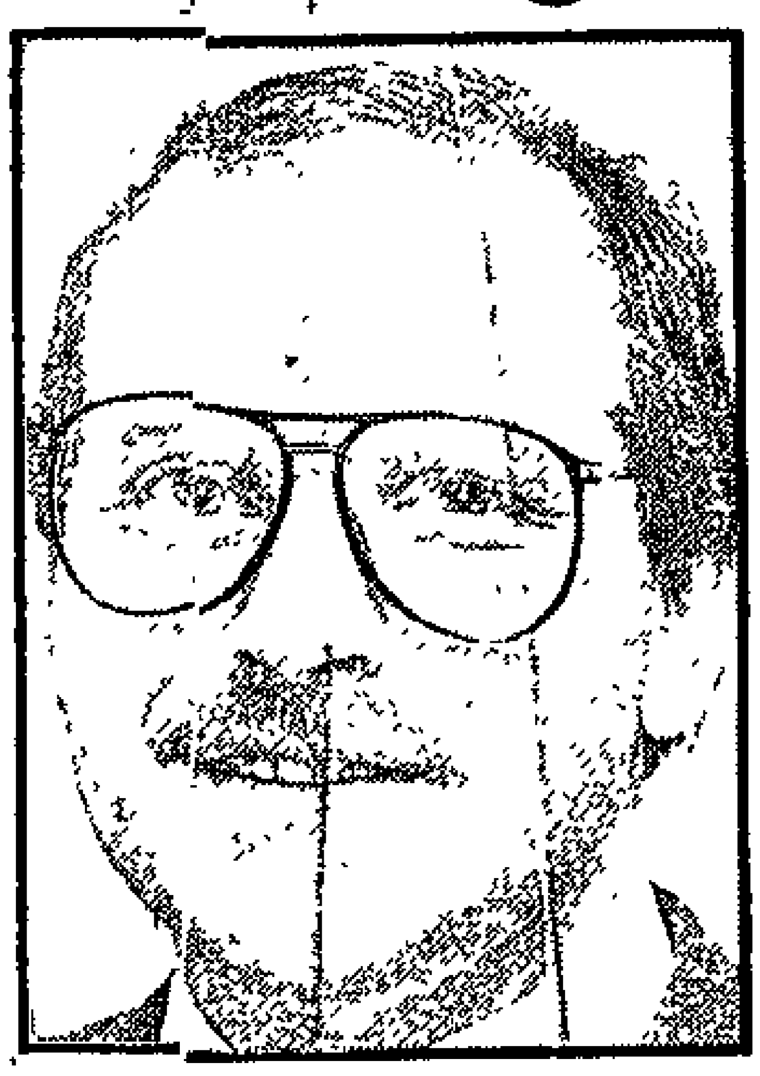
"We picked the right time to enter the market, in terms of growth, as the economy was in recession. Everybody thinks about an umbrella when it is raining and that is what is happening in the credit insurance market.

"On the other hand, from a claims point of view, it is not a good time to launch."

He says the worst losses have not come from the big collapses, which are few and far between.

"Our losses have occurred in the small market — R5 000 to R25 000. The amount of information that you are able to get on the smaller company is limited and often they are one-off deals where ... we have to make a quick decision."

Credit insurance is often re-



JOHN MANNERS

garded as being unwarranted and too expensive.

However, Manners says: "If you don't get the money out of your debtor, your working capital cycle stops. It may not happen tomorrow because one company goes under, but over a period of six months you could be losing enough out of your cash to place your whole business in jeopardy."

The potential credit insurance client wants to insure the high risk, high exposure clients, keeping costs down and covering the bigger risks. On the other side the insurer wants to get premiums from as wide a base as possible.

"It is a question of balance. The lower the spread, the higher the premium rate. It might be more costly to insure one or two debtors than to get a lower rate across the whole book.

"We would look at the profile of the client's book, determine his big debtors and where he really needs to protect himself.

"The company might have a book of 3 000 debtors, but 2 000 of these might be under R2 000 each. Any one of these debts going bad is not going to hurt.

"But if one of the R50 000 debts goes bad, that is where he really is going to lose money. We would look at the entire book and make suggestions," says Manners.

The client is not only buying insurance but also the management that comes with the deal.

" We take risks but they are quantifiable. The client is wearing several hats. He wants to make sales, to get turnover, to generate profits. At the same time he does not want to sell to bad risks. Often it depends on how big the deal is as to which way the client moves.

"We give him an unbiased assessment and monitor the debtor on an ongoing basis."

Bond rate moves put Stals under pressure

BDay 25/5/92. (58)

SHERIDAN CONNOLLY

FALLING money market rates resulted in leading financial institutions announcing a 1% cut in mortgage bond rates on Friday.

Standard Bank fired the first shots in the latest bond war with the announcement of a reduction in home loan rates effective from July 1. It said it would lower its home loan rate to 18% from 19%.

First National Bank and Nedbank followed suit and the Natal Building Society said it would reduce its rate on new home loans to 18% from today.

Absa MD Mike de Blanche said yesterday Absa's home loan rates had not been lowered, but a possible reduction would be considered this week.

A liquidity build-up in the money market over the past few months has put strong downward pressure on market rates. The three-month BA and Treasury bill rates have fallen in the past three months.

Recently, the Board of Executors Merchant Bank announced that selected clients would benefit from a one percentage point reduction in home loan rates. The SA Bank of Athens also reduced its bond rate by one percentage point with effect from June 1.

Standard GM, home loans division, Duncan Reekie said the bank would reduce its retail deposit rates by half a percentage point this week to bring them into line with market developments. He said lower money market rates in recent weeks had enabled Standard to take the lead among the large financial institutions in cutting its home loan rate.

The reduction in mortgage bond rates has put the Reserve Bank under mounting pressure to reduce the official Bank rate.

However, Bank Governor Chris Stals has reiterated his resolve to maintain current interest rates until the rate of consumer inflation is firmly under control.

The released of April consumer inflation data is expected this week.

Some economists said they expected the consumer inflation rate to hold steady around the 15% level.

They did not expect Stals to cut the discount rate before July.

Absa falls under Bankorp cloud

STAR 25/5/92

By Leigh Hassall (58)

The share price of banking giant Absa has fallen considerably since its high in November last year.

The market appears to consider the recent merger with Bankorp to be the cause and has not been reassured by recent announcements on the rationalisation of the group.

In the months before the January announcement of the merger, Absa shares had entered a bullish trend, reaching a high of R11,50. The day after the announcement the price dropped 95c to R10,65 in high volume trading. The price at present is 980c.

Bullish trend

As one might have expected the share price to rise after the merger announcement due to the proposed rationalisation benefits, the Absa scenario provides food for thought.

Consider first the share price increase in the pre-merger months. Davis Borkum Hare analyst Graham Baillie attributes the increase to a bullish trend in the banking sector itself.

He adds that investors were looking to buy the "cheaper" Absa shares that rendered the same returns as the other major banking groups.

The price fall after the January announcement produces a more varied explanation.

Alan McConnochie, analyst at Ed Hern Rudolph, says: "The market is terrified that Bankorp will drag Absa down with it.

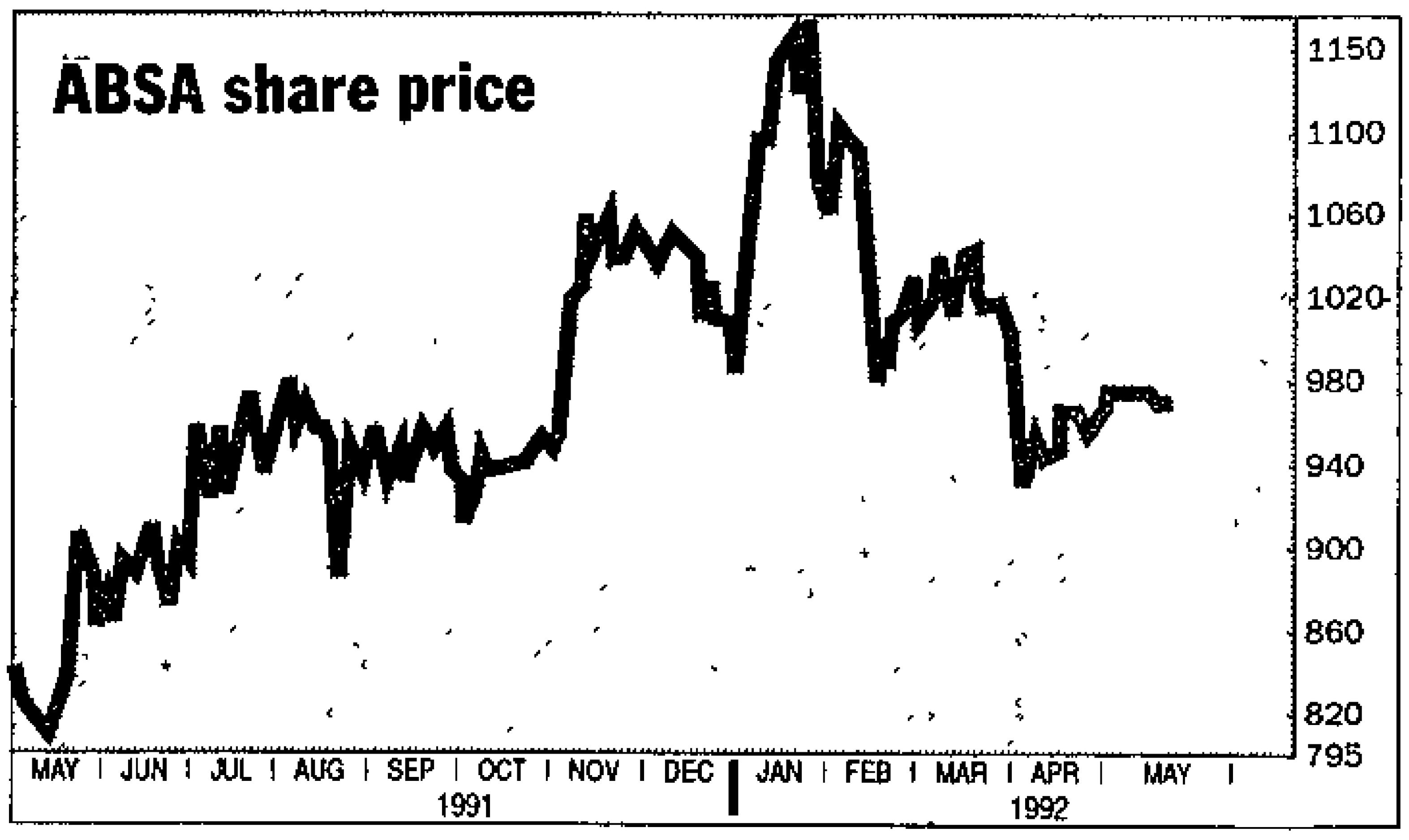
"Investors have repeatedly been asked to believe in a turnaround in the fortunes of Bankorp, but every time shareholders have lost vast amounts of money.

"After so many disappointments, some shareholders will go to their graves refusing to believe in Bankorp (or whoever takes it over), no matter what the future performance."

Mr McConnochie concludes that the market is adopting a "wait and see" attitude.

"Investors will stay underweight until the promised rationalisation benefits begin to flow, which we expect should be in about three years time," he says.

Absa has said rationalisation will focus on support functions. Other benefits include a more balanced asset mix, an improved product range and stronger management.



Share price . . . There is concern in the market that Bankcorp will drag Absa down with it.

Mr Baillie on the other hand says the downgrading of the share since January is a composite of not only the Bankorp issue but also of the quality of the asset base of Absa as a whole.

Volkskas (in Absa) and Trustbank (in Bankorp) have a large exposure to the drought-stricken agricultural sector.

"FNB and Nedcor have sharply increased their provision for bad debts in their interim results and the market is possibly attributing this to Absa.

"The R1 billion one percent loan rumour also dented the markets feelings on the merger."

Should the investor buy Absa shares? Both analysts say yes at the current price, but the hold is for long-term value and the investor must acknowledge the risks involved.

Absa will release its final results later this week.

Community bank 'for the people'

R2bn plan for loans to low earners

B/Day 25/5/92

58

ADRIAN HADLAND

FORMER SA Perm MD Bob Tucker is spearheading an initiative to set up a National Community Bank with assets of up to R2bn. It could become operational within a year.

The bank would provide credit and banking facilities to low-income, mostly black, customers frustrated by the profit-motivated policies of the formal financial institutions.

It is envisaged that profits from the scheme would be ploughed back into community advancement projects.

The bank would provide the institutional structures for an initial network of 10 to 15 community banks each owned by a specific community. The banks would not issue equity and members of a specific community would hold units which could be redeemed or transferred at par.

"Unless something is urgently done to provide access to credit within the community, (social) disintegration is likely to continue," says a report drawn up by the recently formed Community Banking Project (CBP).

Registrar of deposit-taking institutions Hennie van Greunen has indicated his willingness to have banking laws changed to accommodate the emergence of non-equity financed, community-owned banking institutions.

In meetings with the CBP, Van Greunen said semi-autonomous "community banks" would be exempted from certain aspects of the Deposit-Taking Institutions Act such as the minimum reserve requirements.

The project team charged with investigating the establishment of the National Community Bank includes the Kagiso Trust's Eric Molobi, Actstop's Cas Coovadia and ANC economist Ketso Gordhan. Tucker is chairman of the team.

The central bank in the NCB network would render all returns to the registrar of deposit-taking institutions, with the Reserve Bank acting as lender of last resort. The central bank would have access to bulk loan financing from institutions such as the World Bank.

CBP executive officer Cas Coovadia said the bank would provide "low-cost, low-key" services including deposit accounts, group or housing loans, entrepreneurial investment and project financing. The banks would be connected to the electronic Saswitch automatic teller network.

In its report, the CBP said "serious progress has already been made with one of the formal sector banks in developing a basis for the provision of infrastructure and systems".

Coovadia, stressing that the project was still in its conceptual stages, said many communities had no access to credit and no control over the administration of their savings by formal banking institutions or life-insurance offices.

The CBP report said "the developmental needs of the community (and in particular the lower income groups) are not being met, and unsophisticated communities are left to cope most ineffectually with very sophisticated financial institutions".

"Institutions which are felt to be 'of the

☐ To Page 2

Community bank

B/Day 25/5/92

☐ From Page 1

community, for the community' do not exist and the mission, culture, management and practices of the formal banks do not enable them to 'connect' with the lower income groups within the community or with the needs of the community."

It suggests members of the community would hold subordinated debt "units" which could be redeemed or transferred at par.

Unit holders would be entitled to elect the local community bank's board of directors who would nominate a representative for the national community bank's board of governors.

"The National Community Bank would provide all the training and other support programmes necessary to underpin the community banks, and ensure management and development of each community bank," the report said.

An Informal Finance Forum, established in February this year, will also make recommendations to the registrar concerning aspects of the Deposit-Taking Institutions Act which inhibit the growth and work of informal financial institutions such as stokvels.

Housing prices set to rise a mere 2% — Absa

(58)

(142)(NEQ)

Bday 25/5/92.

KARIN FRANKEN

FUTURE housing prices are set to rise a mere 2% providing the political situation stabilises, says Absa's latest Quarterly Housing Review.

Firmer prices were expected to stimulate the domestic property market and highlight the weak supply situation.

The review also indicated that interest rates might decline another 2%, although prospective buyers were advised not to rely on the lower rates.

On a national basis, the average price of a medium-sized house rose 13,2% to R135 000 in the first quarter of 1992 compared to 1991. During the same period, smaller houses' prices rose 14,7% to R103 000, while the average price of a larger house rose 13,7% to R192 000, Absa said.

The year-on-year increase of 14,1% in building costs during the first quarter of 1992 was lower than the general inflation rate for the third successive quarter, reflecting an economic and building sector depression.

This resulted in marginal narrowing of prices between new and existing houses.

During the last quarter of 1991 and first quarter of 1992 prices of medium-sized houses in parts of Natal increased 5,6%, in the Free State and the northern Cape 4,7%, and in the East Rand 5,5%.

The eastern Cape showed a marginal house price increase of 2,6%, the Transvaal (excluding the PWV area) 2,2%, and the Durban-Pinetown area 1,9%.

Prices for medium-sized houses in Pretoria and the western Cape remained unchanged. Johannesburg experienced a price decline of 3,5%, the West Rand 3,4%, and Vaal Triangle 3,0%.

The review said the limited downward potential in the capital value of a house made it a comparatively attractive investment opportunity and a better long-term investment than gold, fixed deposits or shares if transfer costs, commissions and tax were not taken into account.

Mortgage rate cut eases pain for homeowners

Stals faces pressure to cut bank rate soon

STAR 25/5/92

By Derek Tommey (58)

The weekend was a good one for householders with the news that mortgage rates are to be cut by one percent to 18 percent from July.

This should put an additional R60 million a month in the pockets of those people with mortgage bonds and should give some badly needed help to the ailing retail trade.

The reduction in mortgage rates reflects the sharp drop in interest rates in the money market owing to the decreasing level of business activity.

This has led to a build up in cash holdings in companies as they reduce stocks and cut back on new investment and, for the same reason, a reduction in the demand for commercial loans.

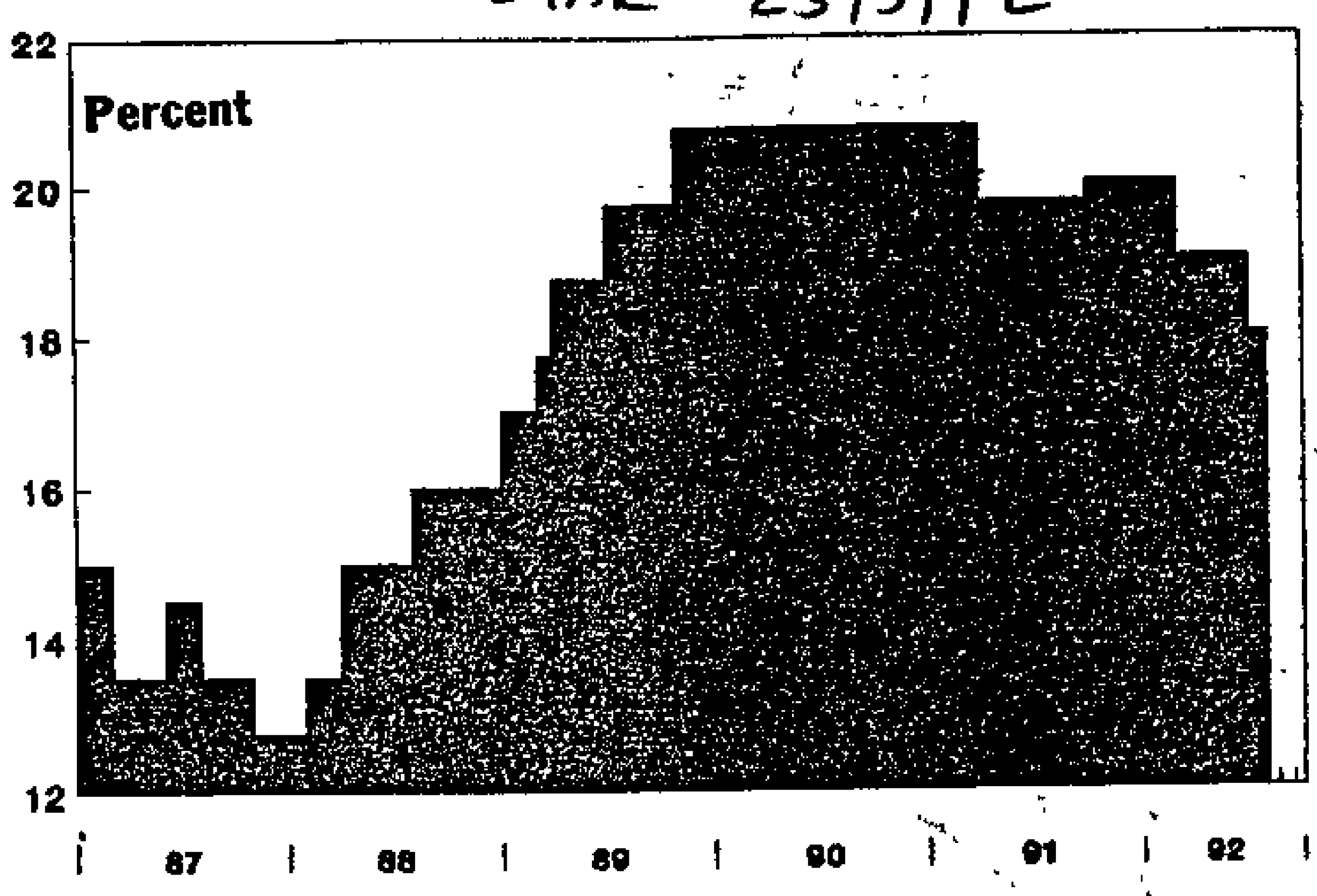
But those who still owe money to the banks are now eagerly waiting for the other part of the equation — the banks to cut their prime and other overdraft rates.

R100-m boost

A one percent cut in these rates would save those with bank loans up to R100 million a month. This would an extremely welcome development in today's recessionary times.

Such a cut in rates cannot be too far away. But first, say the banks, they would like to see the Reserve Bank cut its discount rate. The more optimistic bankers expect this could be within a week. But others are not so sanguine.

The banks met the Reserve Bank just over two weeks ago to discuss lowering interest rates. The Reserve Bank apparently told the banks that it had no objection to their cutting lending rates but the discount rate would be lowered only if the rate of inflation fell.



Interest rates are slowly easing but have a long way to go to match those prevailing in 1987.

However, there is no doubt that the economy is moving deeper into recession and is urgently in need of a boost, as Dr Johan Louw, chief economist of Sanlam, convincingly shows in a report published today.

And at the same time, there is a growing dissatisfaction among economists about using the consumer price index as a measure of inflation.

These economists claim that the drought and population growth together are putting increasing pressure on food resources. Consequently food prices are being distorted with the result that the CPI is no longer an accurate indicator of real inflationary pressures in the economy. Therefore, they argue, another indicator should be used.

The Reserve Bank apparently is doing a rethink on this matter, and in fact is believed to be considering excluding the food component from the CPI when it next uses it as an inflation indicator.

The CPI for April is due in the next two days or so. If the increase in food prices is, in fact, excluded from the index, then a cut in bank rate might not be too far away.

In his report Mr Louw says there is evidence that the recession is deepening in several sectors.

And although South Africa is entering its fourth year of downswing, it seems there will be no recovery until late in the year.

On the bright side net foreign trade is still in a surprisingly favourable position. Other positive are the lower local interest rates, the mild drop in the inflation rate and increased government spending on social projects

But these are overshadowed by the following:

- Continued uncertainty over the future political and economic dispensation.
- The political and criminal violence, which continues to erode confidence and frighten off investors.
- The unemployment rate, which is unacceptably high and getting worse.
- The serious drought, which has reached disaster proportions in several areas and is threatening to limit the country's total production.
- The weak performance of gold and other commodity prices.
- Continued relatively strict monetary and fiscal discipline.
- The poor financial position of consumers.

Mr Louw does not expect the turning point to come until late in the second half of this year. He expects an economic growth rate of only 0.5 percent for 1992, but this should rise to more than 3 percent next year.

Bond rate drop has downside

STAR 25/5/92

(58)

By Zingisa Mkhuma

While hard-pressed consumers welcomed the one percentage point drop in home loan rates announced by several banks at the weekend, the Housewives League has warned that people who lived off their savings would be hard hit when the banks' borrowing rates followed suit.

Standard Bank, First National Bank, Nedbank and the Natal Building Society announced that home loan rates would drop by one percentage point to 18 percent from July 1.

This is the second reduction in mortgage rates this year and will reduce monthly mortgage bond repayments on a R100 000 bond by more than R80 a month.

Housewives League president Lyn Morris said although the cut would be of tremendous benefit to people with mortgage bonds, there was always another side to this issue.

When banks and building societies dropped their lending rates, they also dropped their borrowing rates, she said.

People who lived on savings and other investments would be hard hit.

Analysts differ on Absa's full-year showing

BDay 25/5/92

SHARON WOOD

58

THE market is waiting with interest for Absa's first full-year results, due on Tuesday, and most analysts expect the group's earnings to grow by about 15%.

But expectations vary between an earnings growth of as low as 13% to 105,5c a share and as high as 19% to 111c a share. Dividends are expected to be between 39c a share and 40c, with most analysts betting on an 11% increase to 40c. Previous earnings a share were 93,4c and dividends 36c.

Analysts point to increased bad debt provisions, problems in the Allied book and high Volkskas exposure to agricultural debt as possible problem areas for the group during 1992.

The rationalisation savings are not expected to emerge at this stage and, instead, costs may increase through retrenchment packages and restructuring costs.

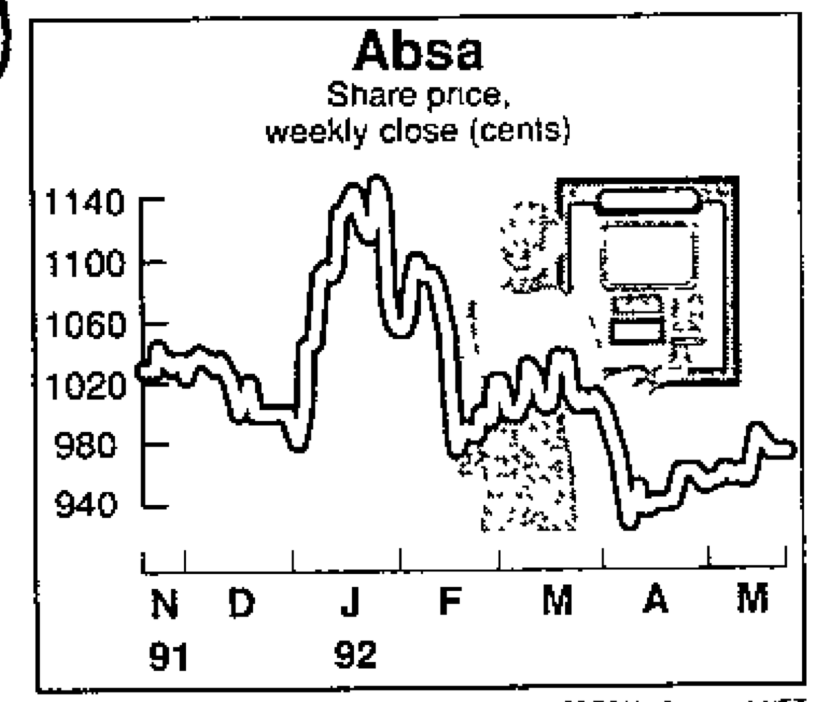
One analyst, whose 13% earnings growth prediction is lower than average market expectations, says the extent of bad debt provisions could be a surprise.

Davis Borkum Hare analyst Graham Baillie expresses concern about the Allied book. "The Allied book could be in a lot of trouble because they grew their book very quickly and I expect some underperforming assets there," he says.

Baillie is expecting a 19% rise in earnings and a 40c dividend.

Volkskas's high exposure to agricultural debt, at about 40% of commercial agricultural debt, could also depress results for Absa, he says.

Problems with interest rate repricing following the early FNB bond rate cut in March may also dent the group's performance because it cost Absa about 3,3c a share or R15m, one analyst says.



Graphic LEE EMERTON Source I-NET

On the bright side, Absa will probably benefit from widening interest margins, he says.

Pressure on Allied through its fixed rate mortgages will have eased along with lower mortgage rates. "Allied still has a lot of fixed rate mortgages which were arranged at 15% in 1989 when interest rates were rising," he says.

The results will not include recently merged Bankorp operations, whose year-end has changed to March 31 from its previous December 31. Bankorp will be included in the Absa results only at the interim stage.

Looking to the future inclusion of Bankorp in the Absa results, analysts say Bankorp will bring a better spread of assets to the balance sheet.

The group's asset finance business, Bankfin, may improve the interest turn because asset finance usually has a better interest margin, Baillie says.

However, one analyst says the benefits of Bankorp joining the group will take longer to show than is generally expected.

Mortgage bond rates slashed

58

THREE major banks and a building society will drop their home loan rates to 18 percent from July 1, it was announed at the weekend Sowetan 25/5/92

The institutions are Standard Bank, First National Bank, Nedbank and the Natal Building Society.

This is the second reduction in mortgage rates this year. It will further reduce monthly mortgage bond repayments on a R100 000 bond by more than R80 a month.

The first cuts in bond rates were in March.

However, Housewives League president Mrs Lyn Morris described the drop as a "two-edged sword".

She said although the cut would be of tremendous benefit to people with mortgate bonds, there was always another side to this issue.

When banks and building societies dropped their landing rates, they also dropped their borrowing rates, Morris added. She said people who lived on savings and other investments would be hard hit. -- *Sowetan Correspondent.*

R2bn community bank initiative

CT 25/5/92 (58)

From ADRIAN HADLAND

JOHANNESBURG. — Former SA Perm MD Bob Tucker is spearheading an initiative to set up a National Community Bank with assets of up to R2bn. It become operational within a year.

The bank would provide credit and banking facilities to low-income, mostly black, customers frustrated by the profit-motivated policies of the formal financial institutions.

It is envisaged that profits from the scheme would be ploughed back into community advancement projects.

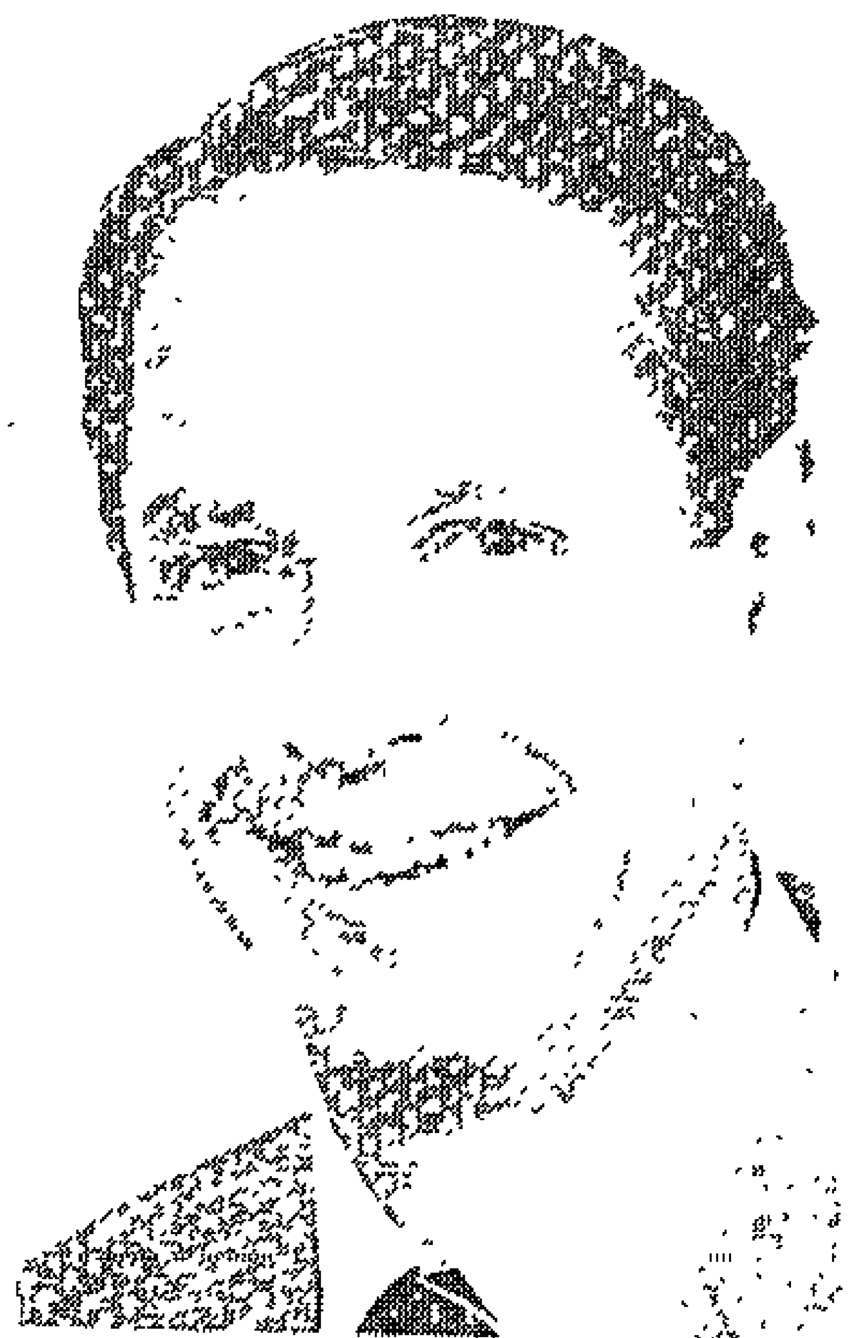
The bank would provide the institutional structures for an initial network of 10 to 15 community banks each owned by a specific community. The banks would not issue equity and members of a specific community would hold units which could be redeemed or transferred at par.

"Unless something is urgently done to provide access to credit within the community, (social) disintegration is likely to continue," says a report drawn up by the recently formed Community Banking Project (CBP).

Registrar of deposit-taking institutions Hennie van Greunen has indicated his willingness to have banking laws changed to accommodate the emergence of non-equity financed, community-owned banking institutions.

In meetings with the CBP, Van Greunen said semi-autonomous "community banks" would be exempted from certain aspects of the Deposit-Taking Institutions Act such as the minimum reserve requirements.

The project team charged with investigating the establishment of the National Community Bank includes the Kagiso Trust's Eric



Bob Tucker

Molobi, Actstop's Cas Coovadia and ANC economist Ketso Gordhan. Tucker is chairman of the team.

The central bank in the NCB network would render all returns to the registrar of deposit-taking institutions, with the Reserve Bank acting as lender of last resort. The central bank would have access to bulk loan financing from institutions such as the World Bank.

CBP executive officer Cas Coovadia said the bank would provide "low-cost, low-key" services including deposit accounts, group or housing loans, entrepreneurial investment and project financing. The banks would be connected to the electronic Saswitch automatic teller network.

In its report, the CBP said "serious progress has already been made with one of the formal sector banks in developing a basis for the provision of infrastructure and systems".

Coovadia, stressing that the project was still in its conceptual stages, said many communitieshad no access to credit and no control over the administration of their savings by formal banking institutions or life-insurance offices.

The CBP report said "the developmental needs of the community (and in particular the lower income groups) are not being met. and unsophisticated communities are left to cope most ineffectually with very sophisticated financial institutions".

"Institutions which are felt to be 'of the community, for the community' do not exist and the mission, culture, management and practices of the formal banks do not enable them to 'connect' with the lower income groups within the community or with the needs of the community."

It suggests members of the community would hold subordinated debt "units" which could be redeemed or transferred at par.

Unit holders would be entitled to elect the local community bank's board of directors who would nominate a representative for the national community bank's board of governors.

"The National Community Bank would provide all the training and other support programmes necessary to underpin the community banks, and ensure management and development of each community bank," the report said.

An Informal Finance Forum, established in February this year, will also make recommendations to the registrar concerning aspects of the Deposit-Taking Institutions Act which inhibit the growth and work of informal financial institutions such as stokvels.

ıgh back
ıal recorc
ss credit ı
should tal
ıave the c
formation
We'll also
ers and c

ınesburg (01

MONEY MARKETS by Sheridan Connolly

Heightened speculation of rates cut dominates trade

CONTINUED speculation about an official interest rate cut — heightened by Standard's home loan rate cut late on Friday — continued to cause jitters amongst players last week and dominated money market trade. B/Day 25/5/92

Although the market has already discounted a cut in the official Bank rate, most analysts still do not expect Reserve Bank Governor Chris Stals to budge from his resolve to maintain current interest rate levels until the rate of inflation shows some firm signs of downward movement.

In the past, falling market rates alone have been insufficient in persuading the Bank to bow to market pressure for an easing in official interest rates. Other economic indicators such as consumer and producer inflation, as well as money supply growth, also demand attention.

As the market headed towards month-end, liquidity remained strong and the hunt for quality assets continued. The 90-day BA rate tracked the downward trend in call rates, which fell to around 13,70% on Friday.

The BA rate continued its decline last week and, towards the end of the week, it was trading within a 14,40%-14,70% range compared with 14,65%-14,85% the previous week. (58)

The Bank kept a low profile last week with only one special Treasury bill (TB) being tendered. The market shortage was maintained around the Bank's preferred level of R1,5bn and was at R1,34bn towards the end of last week.

The average rate on the three-month TB dipped sharply in the Bank's weekly tender. It slid to 13,93% after falling to 14,20% the previous week. The six- and nine-month rates were also down — at 13,50% (13,84%) and 13,03% (13,37%) respectively.

The strong downward trend in the TB rate was indicative of the market's anticipation of lower official interest rates in the short term. If a cut fails to materialise within the next week or so, then an upward correction in market rates seems likely.

Bullish sentiment in the capital market saw rates ease towards the end of the week. Money market firmness had players shifting funds into the capital market to purchase gilts.

Towards the end of last week, the benchmark Eskom 168 was trading around levels of 15,66% compared with 15,73% at the end of the previous week. The government RSA 150 stock was also down at 15,75% from a previous 15,80%.

Fed unlikely to trim US interest rates

B/Day 25/5/92

WASHINGTON — The US unemployment rate remains above 7%. Car sales are weak. Housing starts took a dive last month. Inflation seems tame. The money supply is growing only sluggishly, the Wall Street Journal reported on Friday.

Yet US Federal Reserve policymakers have agreed that, barring some surprisingly bad economic news, they probably have cut short-term interest rates enough for now, according to people familiar with the Fed's deliberations. It was reported on Thursday that the Fed's open market committee decided last week to eliminate a bias toward lower rates that it had included in its policy directives since August. However, Fed chairman Alan Greenspan still has the leeway to cut short-term interest rates a notch should incoming data justify such a move.

This decision surprised those on Wall Street who had been eagerly expecting another Fed move, and it disappointed some of US President George Bush's economic advisers. "We can't repeat what we did in 1991, when the Fed shrunk the money supply as growth started to emerge," said Treasury Secretary Nicholas Brady.

Bush's top economist, Michael Boskin, said on Thursday the economy grew substantially faster in the first quarter than the 2% annual rate estimated by the commerce department in its initial report on the period. — AP-DJ.

...ual profits of at least R400 000

MONEY MARKETS by Sheridan Connolly

Heightened speculation of rates cut dominates trade

(S8)

CONTINUED speculation about an official interest rate cut — heightened by Standard's home loan rate cut late on Friday — continued to cause jitters amongst players last week and dominated money market trade. BDay 25/5/92

Although the market has already discounted a cut in the official Bank rate, most analysts still do not expect Reserve Bank Governor Chris Stals to budge from his resolve to maintain current interest rate levels until the rate of inflation shows some firm signs of downward movement.

In the past, falling market rates alone have been insufficient in persuading the Bank to bow to market pressure for an easing in official interest rates. Other economic indicators such as consumer and producer inflation, as well as money supply growth, also demand attention.

As the market headed towards month-end, liquidity remained strong and the hunt for quality assets continued. The 90-day BA rate tracked the downward trend in call rates, which fell to around 13,70% on Friday.

The BA rate continued its decline last week and, towards the end of the week, it was trading within a 14,40%-14,70% range compared with 14,65%-14,85% the previous week.

The Bank kept a low profile last week with only one special Treasury bill (TB) being tendered. The market shortage was maintained around the Bank's preferred level of R1,5bn and was at R1,34bn towards the end of last week.

The average rate on the three-month TB dipped sharply in the Bank's weekly tender. It slid to 13,93% after falling to 14,20% the previous week. The six- and nine-month rates were also down — at 13,50% (13,84%) and 13,03% (13,37%) respectively.

The strong downward trend in the TB rate was indicative of the market's anticipation of lower official interest rates in the short term. If a cut fails to materialise within the next week or so, then an upward correction in market rates seems likely.

Bullish sentiment in the capital market saw rates ease towards the end of the week. Money market firmness had players shifting funds into the capital market to purchase gilts.

Towards the end of last week, the benchmark Eskom 168 was trading around levels of 15,66% compared with 15,73% at the end of the previous week. The government RSA 150 stock was also down at 15,75% from a previous 15,80%.

Fed unlikely to trim US interest rates

BDay 25/5/92

WASHINGTON — The US unemployment rate remains above 7%. Car sales are weak. Housing starts took a dive last month. Inflation seems tame. The money supply is growing only sluggishly, the Wall Street Journal reported on Friday.

Yet US Federal Reserve policymakers have agreed that, barring some surprisingly bad economic news, they probably have cut short-term interest rates enough for now, according to people familiar with the Fed's deliberations. It was reported on Thursday that the Fed's open market committee decided last week to eliminate a bias toward lower rates that it had included in its policy directives since August. However, Fed chairman Alan Greenspan still has the leeway to cut short-term interest rates a notch should incoming data justify such a move.

This decision surprised those on Wall Street who had been eagerly expecting another Fed move, and it disappointed some of US President George Bush's economic advisers. "We can't repeat what we did in 1991, when the Fed shrunk the money supply as growth started to emerge," said Treasury Secretary Nicholas Brady.

Bush's top economist, Michael Boskin, said on Thursday the economy grew substantially faster in the first quarter than the 2% annual rate estimated by the commerce department in its initial report on the period. — AP-DJ.

aid. They will have to submit written justification for the amounts they

Planting and developing last season's drought-reduced maize crop

cessitated tons at a

Thumbs-up for Phinda lodge

BDay 25/5/92

LINDA ENSOR

CAPE TOWN — The unanimous approval given by 1 120 Masterbond investors in Phinda to the agreement reached with The Conservation Corporation (Conscorp) frees the company to proceed with its plans to build a R9m luxury lodge at Phinda game reserve in northern Natal.

The luxury 44-bed Phinda Forest Lodge was expected to be completed by the first quarter of 1993, Conscorp MD Alan Bernstein said on the weekend.

Bernstein expressed delight at the outcome of the debenture holders' vote on Friday and in the fact that the Phinda development had been freed from the complexities and confusion associated with the Masterbond debacle.

In terms of the agreement, Phinda investors would receive the full amount of their R43,2m investments, less curator fees and the amount which would have to be shared with unaccounted-for debenture holders.

The Masterbond curators had to fend off a last-minute court bid last week to prevent the vote being taken.

After negotiations, the application was withdrawn.

Bernstein said there was a need to gear up Conscorp.

About R10m-R15m would be raised during the next few years.

A 1:3 debt to equity ratio was considered appropriate.

Bernstein added that it had not yet been decided whether the source of the finance would be the commercial banks or the Industrial Development Corporation (IDC).

The IDC recently received R600m for investment in tourism projects.

He said there was a significant requirement for infrastructural development of roads and airports in the areas in which Conscorp was active.

IDC finance could be used for these projects.

PEANUTS

By Charles Schulz

Prima Property Trust launches rights offer

BID my 25/5/92

(232) (58)

PETER GALLI

PRIMA Property Trust has announced a rights offer to raise R27,9m so it can buy two new properties.

About 44,37-million units will be offered on the basis of 50 units for every 100 units held at a price of 63c a unit. "Prima's expected final dividend for the six months to end-June is 5c, bringing the total dividend for the year to 10,25c," Prima Property Trust Managers director Neno Haasbroek says.

This represents a 9,5% rise over the previous year and a dividend yield of 16,3c on a unit price of 63c. For the year to end-June 1993, a dividend of 10,47c a unit is forecast, giving a dividend yield of 16,6%.

The creation of additional units will have a diluting effect on the trust's income in the short term, but creates a more balanced property portfolio that will enhance long-term rental growth, he adds.

The rights issue will increase the size of the fund by about 50% to around R85m. The new properties to be acquired are a half undivided share in portion 1 of the Sammy Marks Square development in Pretoria and the Technotron Building in Verwoerdburg.

The trust holds the other half undivided share in the Sammy Marks development, which is located in the centre of the Pretoria CBD and is bounded by Muntoria, the Reserve Bank and the State Theatre.

"The redevelopment of the entire city block, of which Portion 1 forms part, will include the introduction of major retail chains, line stores and office space," he said.

The official opening is scheduled for September 24 and the initial acquisition yield is 11,1%.

The Technotron building was developed in 1989 and is situated in the Highveld Technopark, a township developed by the Verwoerdburg Town Council for high-tech companies.

The property will be acquired at an initial 11,6% yield. "Leases with retail traders are generally turnover linked, which will provide the trust with an inflation-proof investment," Haasbroek says.

No growth for Amaprop in oversupplied market

BIDay 26/5/92 58

PETER GALLI

ANGLO American Properties (Amaprop) failed to show growth in the year to end-March, with attributable profit after extraordinary items falling marginally to R36,3m in the year to end-March (1991. R36,7m).

Total dividends 6,4% higher at 50c (47c) were declared on the back of earnings 8% up at 78.87c a share from 72,98c. Retained profit for the year almost trebled to R13,02m from R4,9m.

In the annual report also released yesterday chairman Gerald Leissner said the improved earnings were attributable to the continuing growth of net rental income from its office and shop accommodation, as well as an improved performance from the Carlton Hotel in the last quarter of the financial year.

"However, over the next year rent levels will rise only where leases provide for an automatic increase. This is because the oversupply situation in the retail and commercial markets has been aggravated by new space.

"This has resulted in falling office rentals and, at best, static rent levels in most retail situations," he said.

The group would continue to emphasise the need to retain tenants and would maintain its properties in excellent condition and offer good service. The company would not buy any new land nor start any infrastructural development on land it holds over the next year.

Leases due to expire in the next year, together with space presently unlet, amounted to about 18% of the total portfolio.

The Carlton, which reduced its loss for the year under review to R1,8m from R2,1m previously, is expected to move into the black in the short to medium term.

The hotel is the only part of Amaprop's varied R1bn property portfolio that could show an immediate increase in profitability should the local economy begin an upturn.

The industry and other players have expressed concern about the perceived deterioration of the major CBD's.

Amaprop holds major investments in all of these and is attempting to correct these perceptions through its manager, Anglo American Property Services (Ampros).

"We are confident that profit from well maintained, well located CBD properties will grow at least as well as decentralised properties — possibly even at a greater pace," he said.

The total lettable area of the portfolio of completed developments is 448 491m2 from 445 536m2 in 1991. Retail space accounts for 33,5% or 150 324m2 of this, with the balance being commercial space.

Some 78% of the space in the portfolio is located in Johannesburg, with 10.1% in Durban, 7% in Pretoria and 4.9% in Cape Town.

Masterbond control at stake

B/Day 26/5/92

LINDA ENSOR

CAPE TOWN — Outside parties' hopes of gaining control of the boards of directors of 11 Masterbond participation bond companies appeared to be dashed yesterday.

The parties had hoped to be able to gain control of the management contracts for the properties owned by the companies.

Shareholders who met yesterday to vote directors onto the boards of each company believed strongly that shareholders should control the boards, which would then appoint property managers.

This view was supported by Masterbond curators to ensure no conflict of interests emerged.

The votes were still being counted last night, but a partner of one of the contenders, Citygate Corporate Finance's Michael Addison, said he was not optimistic.

Other contenders were Fintex Consulting Group in association with the IPC group and Seeff Trust.

Bidders' hopes of taking control of all the companies were also dimmed as separate boards were appointed for each company. 58

The curators had received offers to buy all the companies and for all their properties to be consolidated into one company which could be listed on the JSE.

These offers would have to be considered by each company's board, a spokesman said at the meeting.

The meeting was well represented, with up to 70% of shareholders present either personally or by proxy.

'Inflation is still out of line'

Stals stands firm despite bond rate cuts

(58)

B/Day 26/5/92.

SHARON WOOD

RESERVE Bank Governor Chris Stals last night stood firm in maintaining Bank rate at its current level despite an avalanche of bond rate cuts during the weekend and yesterday.

Absa yesterday cutits home loan rates by a percentage point to 18%. This was followed by similar notices from the Perm and the EP Building Society.

Standard Bank spearheaded a percentage point cut in its home loan rate on Friday, followed by similar reductions at FNB, Nedcor and NBS.

"The bond rate cuts mean nothing for the Bank rate because there is no direct link between the two interest rates," Stals said.

"The Reserve Bank has no problem or objection to the lower bond rates because they are an indication of the easier conditions in the money market which the Bank is happy with," he added.

Asked whether a reduction in Bank rate would depend on the level of inflation to be released later this week, he said the Bank looked at a lot of things. "But the one thing at this stage that is out of line is the inflation rate ... we would like to see the rate of inflation come down."

He added the Bank was happy with the money supply and bank credit extension.

The lower bond rates announced by the various institutions are effective at different times: clients of the big four banks will benefit from a percentage point cut only after July 1, while an 18% mortgage rate is effective immediately at NBS and EP Building Society.

Analysts said the reduction in bond rates would hit Absa harder than the other banks because it had a higher exposure to home loans.

Reserve Bank DI 900 figures for December show Absa's exposure to home loans was 55% of total advances, but this drops to 42% if Bankorp advances are included.

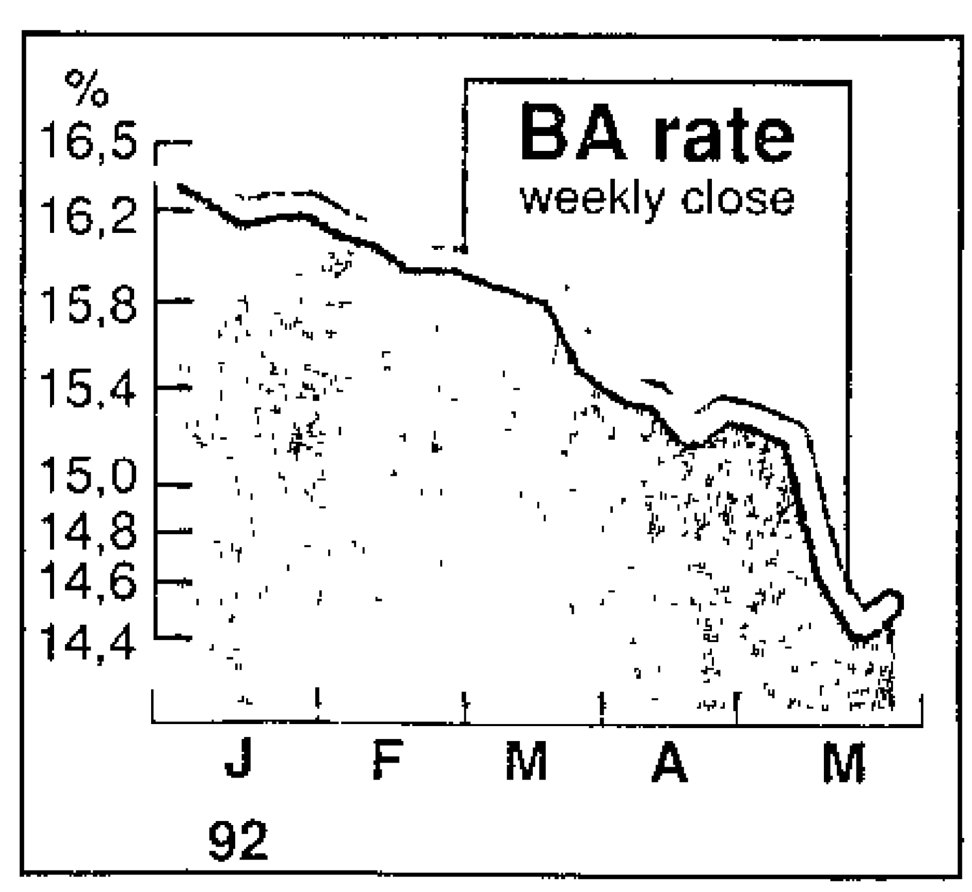
Standard Bank, on the other hand, had a 21% exposure, FNB a 19% exposure and Nedcor Bank a 45% exposure.

"Standard is putting the boot into Absa ... the bond rate cut will hurt Absa more than twice as much as it will Standard and FNB," one analyst said.

Standard Bank and FNB were trying to increase their share in the most lucrative market and they had the capital strength to do it, he added. "Absa home loan market share is going to be eroded," he said.

Absa MD Mike de Blanche would not comment on how much the interest rate

☐ To Page 2



Graphic LEE EMERTON Source I-NET

Interest rates

B/Day 26/5/92. (58)

☐ From Page 1

reduction would cost the bank.

He said the restructuring of Absa and the incorporation of Bankorp had significantly changed the structure of the group's advances book.

Standard Bank home loans division GM Duncan Reekie said the decision to cut its bond rate was a result of actions in the money market, where liquidity was building up and wholesale rates were declining.

Absa had a much larger home loan book and therefore the interest rate cut would have a greater effect on it, he added.

The Perm also has a high exposure to home loans. "Home loans are Perm's major asset and the interest rate cut is going to cost us," Perm CE Hugh Maclachlan said.

But the cost of the rate cut to the banks depended strongly on the funding mix of the particular bank, he added.

Money and capital market rates did not respond to the rate reductions because they already had been discounted, a dealer said.

The key liquid BA rate ticked up to 14,50% yesterday from Friday's 14,40% and capital market rates edged higher with the Eskom E168 at 15,70% from Friday's 15,64%.

Dealers in both markets remained optimistic that Stals would drop Bank rate soon.

Metpol given boost by interest on rights offer

BDay 26/5/92

(58)

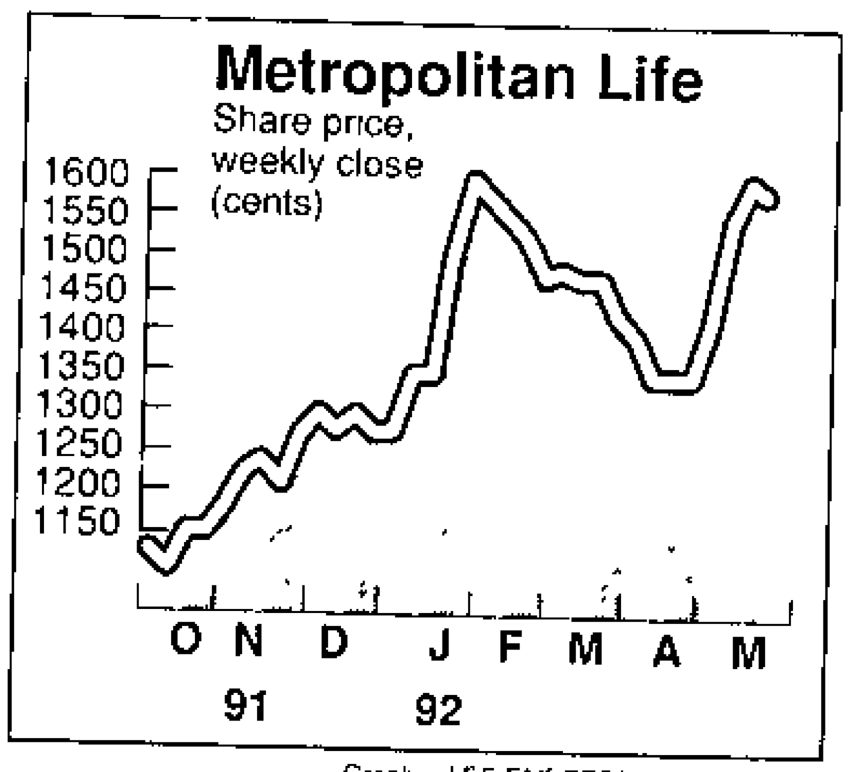
LINDA ENSOR

CAPE TOWN — Interest earned on the R186m raised in the Metropolitan Life (Metpol) rights offer in August enabled the life assurer to attain 22% earnings growth in the six months to end-March.

This was in spite of the number of shares in issue rising to 65-million from 43-million, diluting the 85% growth in the disclosed surplus profit to R20m (R10,8m).

From earnings of 30,6c (25c) a share, an interim dividend of 20c (16,5c) was declared.

The strong 25% rise in the income from recurring premiums set off the 38% decline in single premium income and the mediocre 14% increase in investment income. Recurring premium income reached R375m (R299m), constituting 96% of total premium income, which increased by 21% to R390m (R323m). Total income from premiums and investments rose 18% to R567m (R478,7m).



Graphic LEE EMERTON Source I-NET

Metpol has concentrated its marketing on certain niche markets such as civil servants, nurses, teachers and other professional groups who earn a steady income. This strategy has enabled it to withstand to a large extent the ravages of the recession, which, however, did prevent the group achieving its budgeted premium income and resulted in a higher rate of policy lapses.

Group accountant Piet Scannell said a lot of new business came from the emerging black market and said the slump in single premium business was due to the acquisition of a few large pension funds during the interim period.

MD Marius Smith said the slow growth in investment income was because of lower interest rates and a more active policy of investing in shares.

The market value of total assets rose 28,6% to R4,5bn compared with R3,5bn the previous year.

Scannell said the reason investment income rose 14% while the disclosed surplus increased by 85% was that shareholders were entitled to a greater share of the interest earned after the rights offer.

The life fund increased by 23% to R2,6bn (R2,1bn).

Smith said that barring unforeseen circumstances, Metpol should show a "satisfactory" increase in earnings for the full year.

ABSA lowers bonds rates

55

South Africa's largest banking group, ABSA, yesterday announced a 1 percent cut in its bond rates to 18 percent.

The bank said its operating divisions, Volkskas, Trust Bank, Allied and United would reduce home loan rates by 1 percent with immediate effect on new loans and from July 1 on existing bonds.

The reduction follows on the trend set by other banks on Friday when Standard Bank, First National Bank, Nedbank and NBS announced cuts in their home loan rates.

Lower money market rates as a result of high liquidity, have been cited as reasons for the latest home loan reductions.

Sowetan 26/5/92

The Bank of Athens in South Africa and the Board of Executors were the first two financial institutions to lower bond rates two weeks ago amid speculation the Reserve Bank was to lower the official bank rate.

This was, however, denied by Reserve Bank officials at the weekend. - *Sapa*

Two join the bond wagon (58)

Business Day Reporter

BOLAND and Saambou yesterday announced a one percentage point reduction in mortgage rates, following the example set over the last few days by their major competitors.

Boland said in Cape Town it would cut home loans to 18,25% from 19,25% from July 1, with the new rate effective immediately on new loans.

In Johannesburg, Saambou Bank said that in accordance with moves by other banks on Friday and Monday, it would also lower bond rates. BDay

Saambou said new bonds would be given at the lower rate and instalments on existing bonds cut with effect from July 1. 27/5/92

On Friday, Standard Bank was the first to cut its bond rate, a move followed by FNB, Nedcor and NBS.

Top unit trusts gain from surge

(58) B/Day 27/5/92

SHERIDAN CONNOLLY

27/5/92

THE recent surge in the JSE industrial index to new annual highs over the past few weeks resulted in leading unit trust funds recording strong growth levels, portfolio managers and analysts said yesterday.

Unlike new funds such as Telkom and Transnet, the more established or mature funds did not have to take up shares at the current high prices as they were already positioned in the market, an analyst said.

These funds were investing in gilts which offered higher returns than the market, together with capital gains as market-driven yields dropped.

Over the last month, the industrial index has risen 442 points, climbing to a new yearly high of 4 658 yesterday. The surge in industrial share prices has been attributed to keen institutional, pension fund and unit trust demand for blue chip stock coupled with a shortage of scrip.

Momentum Fund Investment director Peter du Toit said the fund had gained from firmer industrials.

Guardbank senior financial manager Errol Tate said the industrial fund had performed well, in line with the rise in the industrial index, which had risen consistently for 20 days.

No talk of liquidation, says Bester

BDay 27/5/92

PETER GALLI

PROPERTY and township developer Bester Investments executive chairman Theunis Bester moved quickly yesterday to counter reports that the company was in dire financial straits.

Responding to allegations in the latest Finance Week that Bester Homes was to be provisionally liquidated in the next week, he said: "There is definitely no talk of the liquidation of Bester Homes at this point and, while market conditions are tight, we believe we are able to sit it out until things improve."

However, he confirmed a meeting was held late last week with all of the group's major bank creditors. Finance Week named them as Absa, FNB and Boland Bank.

Bester said there was "absolutely nothing significant" in the meeting as he had held meetings with his banks throughout the life of his companies.

Bester confirmed that the company last month tried to sell off about R20m of its Pretoria portfolio in a move designed to offset some of its debt, which the 1991 annual report put at R188,92m.

However, only about R1,5m of these assets had been sold "due to difficult market

☐ To Page 2

Bester

BDay 27/5/92.

☐ From Page 1

conditions".

The book value of assets was R291,72m at end-February 1991, which Bester said was sufficient "to offset the R140m-odd exposure by the banks".

A qualified report by auditors Coopers Theron Du Toit in the annual report said because of the unfavourable economic climate and prevailing high interest rates, the cash flow and margins of the group were under pressure and dependent on the ongoing financial support of its financiers.

The auditors were unable to determine whether the net realisable value of about R49,5m relating to land for township development exceeded the current book values.

The auditors also could not determine whether the realisable values of certain fixed properties exceeded their R6,34m capitalised values.

Bester Investments is expected to release its results for the year to end-February next week.

At end-February 1991 a loss of 89,4c a share was reported from an 11c a share loss in 1990.

Absa staff cuts aid earnings growth

BDay 27/5/92

(58)

SHARON WOOD

IN ITS first full financial year, banking conglomerate Absa showed a 15,2% rise in earnings but announced it had retrenched 849 staff members since April 1.

The group managed to exceed its projected savings target of R85m, with net savings of R98m during 1992.

But bad debt provisions leapt 157% to R450,6m from R175,4m.

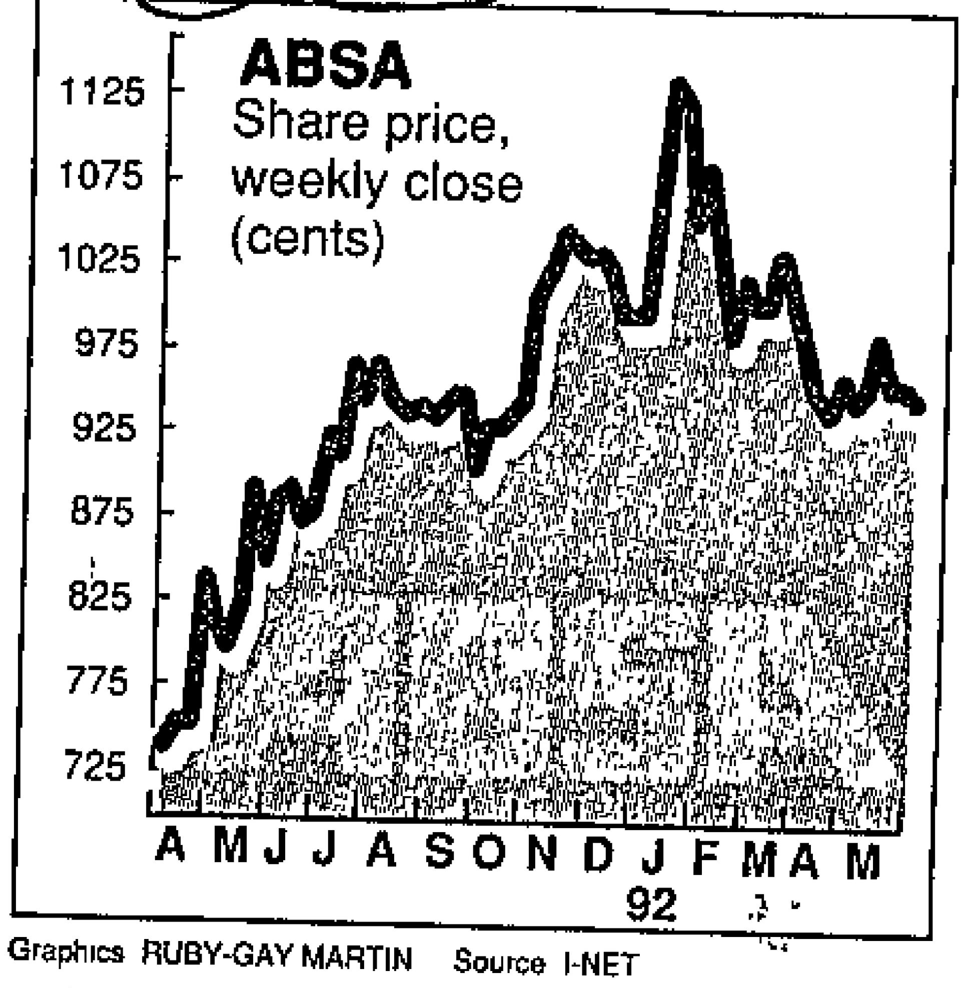
MD Piet Badenhorst said manpower cost savings had been enormous, adding that staff would be reduced "meaningfully" from the last financial year's 43 714, which included Bankorp staff.

Staff rationalisation would be completed in six months and technology rationalisation within 15 months, he said.

Earnings rose in line with market expectations to 107,6c a share during 1992 from 93,4c previously. The total dividend rose 9,7% to 39,5c a share from 36c.

Badenhorst said the group was aware that it would lose market share to its competitors during the rationalisation process. "But we want to reduce our exposure to the corporate market in areas where we have been overexposed," he said.

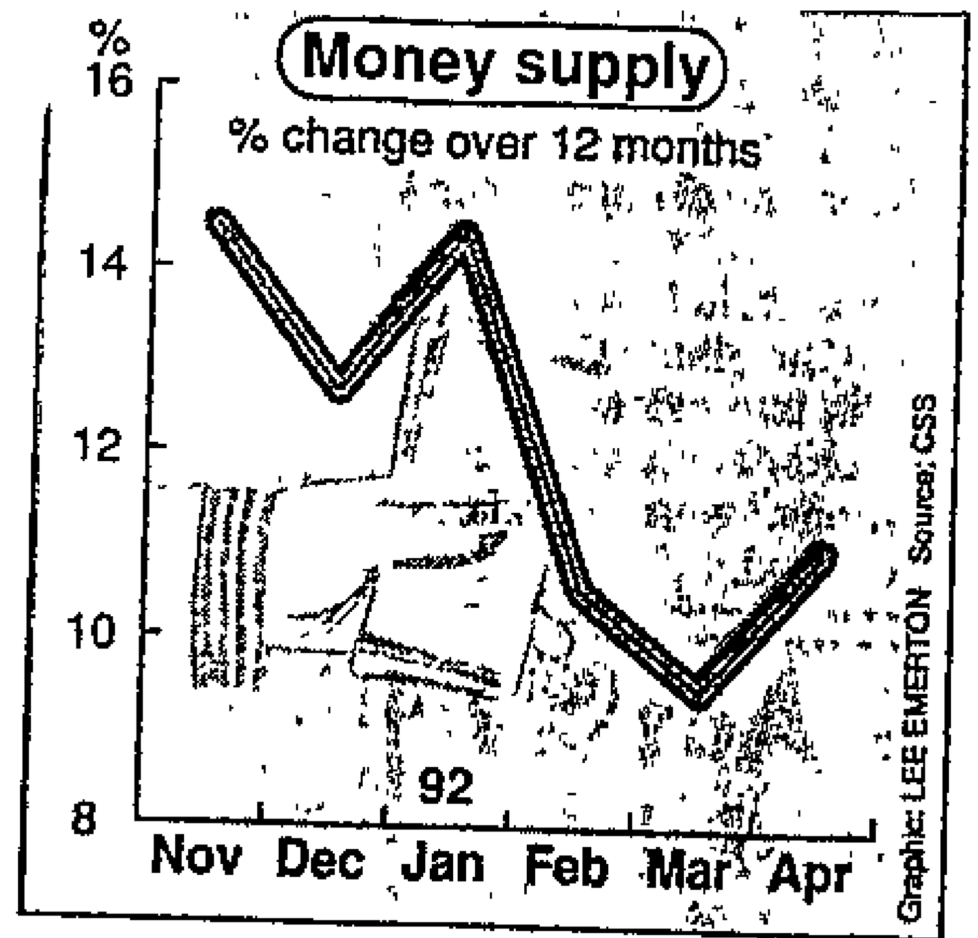
Attributable income jumped 153% to R491m, but this was not strictly comparable as it included only the preceding six months's results of Allied and Volkskas, and three months of Sage interests.



Graphics RUBY-GAY MARTIN Source I-NET

Total Absa assets increased 8,5% to R56,2bn from R51,8bn. Advances rose by 10,5% to R42,1bn from R38,2bn. With Bankorp included from March 31, group assets were R84,4bn and advances R64,7bn.

Return on average assets fell to 0,95% during 1992 from 1,01%. "This is not the kind of return we are striving for, we want it to be over one percent," Badenhorst said. Absa chairman Herc Hefer expected no significant recovery from the recession. "Demand for credit is likely to remain sluggish and the high level of default amongst borrowers will continue," he said.



M3 rise dampens hope for rate cuts

Bdcay 27/5/92 (58)

SHERIDAN CONNOLLY

HOPES for a near-term cut in official interest rates were dashed after April money supply figures, released by the Reserve Bank yesterday, showed higher than expected growth in broad money supply.

Growth in M3, the broad monetary aggregate consisting of cash in circulation and all deposits with banks, accelerated to 11,05% in the year to April. March growth in M3 was revised downwards to 9,5% from a preliminary 10,5%.

The rolling increase in M3 from the base of the current guideline year was 12,49% compared with a revised 7,31% in March — outside the Bank's 7%-10% guideline range for 1992.

Old Mutual chief economist Dave Mohr said M3's overshoot meant a cut in official interest rates would be inconsistent with the Bank's monetary policy stance.

The figures reflected the weak state of the economy. He said, however, the 11,05% growth in M3 in April was substantially below the current consumer inflation rate.

The uptick in money supply growth was not expected to have any effect on the rate of consumer inflation in the short term, Mohr said. As with the revised March M3 figure, this month's figures could show a downward revision in M3 for April to a level within the 7%-10% range.

"When things are trending downwards, there is a tendency for the general view to be optimistic," and the opposite was true, he said.

In the short term he expected growth in money supply to remain subdued. He said the next set of figures could be conducive to lower interest rates in the longer term.

Absa in fighting trim after clean-up at merged banks

STAR 27/5/92.

By Derek Tommey 58

Absa, formed by merging United, Allied and Volkskas banks, and which is now taking over Bankorp, has been successful in rationalising the three operations

Figures given at a presentation in Johannesburg last night show that despite a poor economic environment, highlighted by the provision of R540,6 million for bad and doubtful debts, Absa was able to report taxed earnings for the year to March of R492,7 million — equal to 107,6c a share.

This is an increase of 15 percent on the 93,4c earned a year ago.

Attributable earnings in 1990-91 were R297,2 million but, as this was before the merger, the figures are not comparable.

A final dividend of 24c has been declared for a total of 39,5c, which is an increase of 10 percent on the 36c paid last year. The dividend cover has been raised from 2,6 times to 2,7 times and it is intended to increase this cover to 3 times.

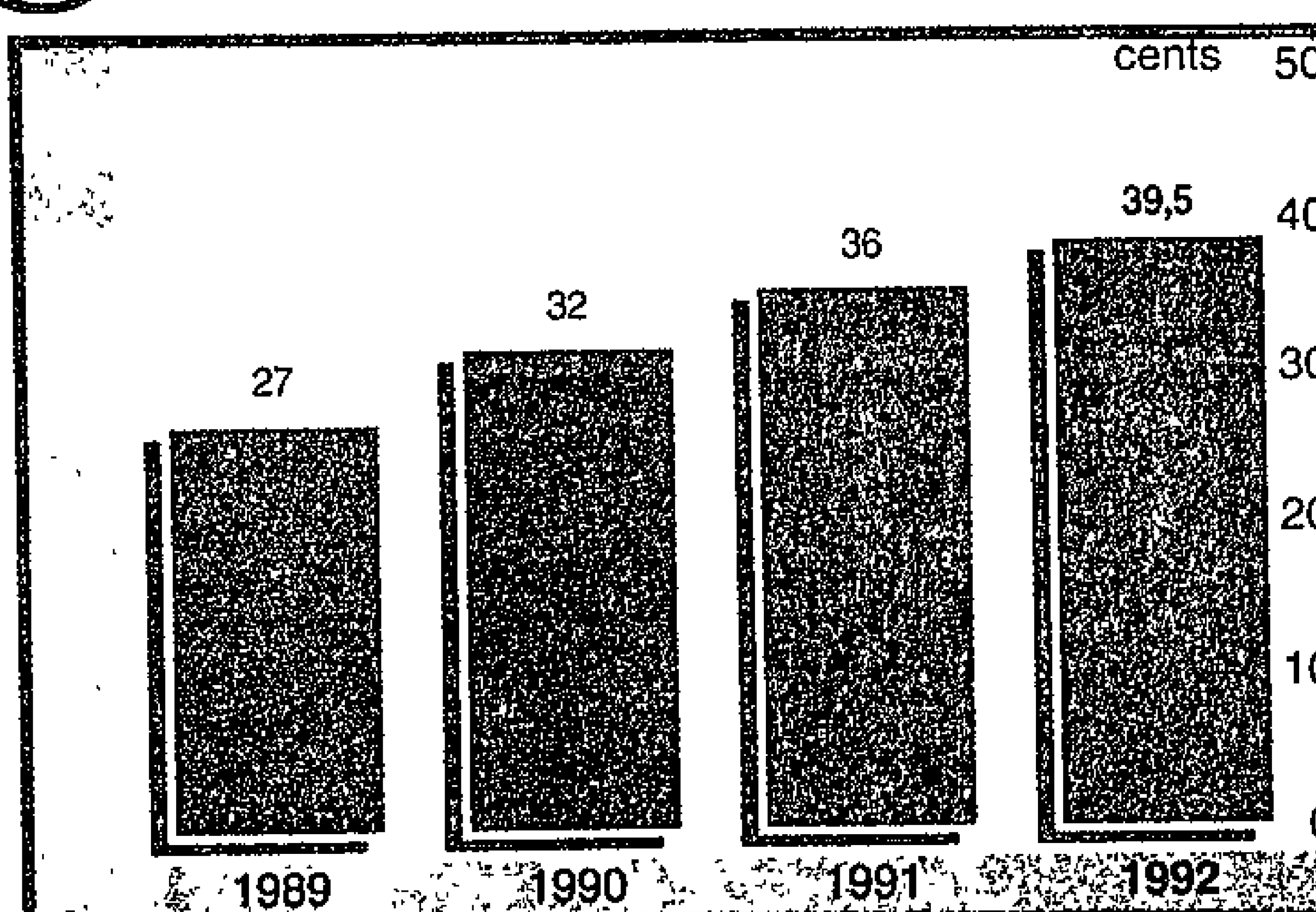
Chairman Herc Hefer said the merger produced savings of R98 million, which was considerable more than the R85 million forecast.

He would not make a forecast about future profits except to say that further major rationalisation savings should result in an improvement.

But he said the anticipated ongoing controlled growth, improvement in profitability and return on assets, as well as increased dividend cover, should enable the group to grow without the need for additional capital.

He said the combined assets of Absa and Bankorp at March 31 were R84,4 billion and total advances R64,7 billion.

Managing director Piet Badenhorst made it clear that great things were expected from the merger with Bankorp.



Slower growth in dividends reflects higher dividend cover

He said Absa went into the merger because it gave it a more balanced operation.

Large-scale rationalision was expected at TrustBank, which is a part of Bankorp. He said one of TrustBank's problems was that it was overstaffed and staff overpaid.

However, Absa's experience developed by merging United, Allied and Volkskas last year had enabled it achieve savings in one month at Bankorp than it had in six months at Absa last year.

Absa had stopped the practice of allowing employees to borrow large sums of money at low interest rates.

They now had to pay the market rate, but received housing allowances.

The rates of pay throughout the group were determined as a total package.

Mr Badenhorst said reports Absa would be more affected by the cut in mortgage rates than other banks was just propaganda.

The same claim applied to reports that Absas was more exposed to agricultural bad debts that other banks.

He said Absa's mortage loans would account for R28,4 billion, or about 33 percent of its total assets of R84,4 million, after the merger with Bankorp.

Absa's and TrustBank's agricultural loans amounted to R2,7 billion, which compared with R2,6 billion for Standard Bank and R2,4 billion for First National Bank.

The merger with Bankorp would increase Absa's market share, based on total assets, from 27 percent to 40 percent against Standard's 23 percent, Firt National Bank's 19 percent and Nedcor's 18 percent.

Its share of mortage advances would rise to 44 percent, while Standard had 15 percent, First National 11 percent and Nedcor 24 percent.

Its share of cash, cheque and transmission accounts would be 30 percent, the same as that held by Standard.

First National Bank's share was 23 prcent and Nedcor's 17 percent.

It would have 39 percent of total deposits, while Standard would have 25 percent, First National Bank and Nedcor 18 percent each, and 48 percent of the savings deposits (Standard Bank 21 percent, First National Bank 22 percent and Nedcor 9 percent).

Standard acquires UK merchant bank

Bday 27/5/92

SHARON WOOD

STANDARD Bank had extended its international links by acquiring British merchant bank Brown Shipley Holdings for £10m (R51,4m), the bank announced in a statement yesterday.

Brown Shipley operates on Jersey and the Isle of Man, two major international financial service centres, and has high volumes of funds under administration and representation from most leading global banking and investment institutions, Standard Bank says.

The deal is subject to the agreement of UK authorities.

The acquisition will allow Standard Bank involvement in all areas of offshore asset management including banking and global custody, fiduciary services, investment management and stockbroking.

The deal will have negligible effects on profit and net assets in the short term, but major long-term benefits are expected.

The move is part of a general industry trend towards greater direct participation in international financial markets.

All of SA's big four banks have interests in the UK but Standard and FNB are still waiting to receive banking licences from the Bank of England. Nedcor Bank and Absa received banking licences prior to the debt standstill and operate fully functioning branches in London.

Money supply figures on rise

STAR 27/5/92 (58)

By Sven Lünsche

Growth in money supply in April exceeded the 1992 guidelines set by the Reserve Bank again, after it dropped into the target range for the first time in March.

The Reserve Bank reported yesterday that the broad money supply measure M3 increased by a provisionally estimated 11,05 percent to R190,22 billion from April 1991 to April this year.

The year-on-year increase in March was 9,5 percent and in February 10,58 percent.

The rise in credit extension could dampen hopes of an early interest rate cut by the Bank as it inevitably filters through to higher demand for consumer items.

The Bank will be particularly disappointed with the fact that money supply growth has exceeded its seven to 10 percent guidelines for the year.

From mid-November, which is the base for the guidelines, M3 rose by an annualised seasonally adjusted 12,49 percent in April. The comparative increases for March and February were 7,31 and 15,46 percent respectively.

The more narrowly defined money supply measures M2 and M1 also showed higher rates of increases during April. M2 rose by 11,77 percent to R161,1 billion and M1 by 14,18 percent to R64,19 billion.

Trust aimed at Muslims

Business Day Reporter (58)

A UNIT trust fund aimed at the Muslim community and taking into account their religious philosophies is to be launched by Southern Life.

The decision was not influenced by the recent lifting of a ban on stock market investments for the Islamic community, said GM (investments) Shams Pather.

B/Day 27/5/97

Southern Unit Trusts had been working on the fund for two years, he said. "Recent Press reports commented on the decision by the Islamic Academy in Jeddah, Saudi Arabia, to lift restrictions on certain share investments. This decision effectively makes it permissible for Muslims to invest in companies which are Islamically acceptable," said Pather.

Application to the Registrar had been made and approval was imminent, he said.

PHASE III

Don'ts

- ❑ Do not stick out your stomach.
- ❑ Do not arch your back.
- ❑ Do not tense your neck or shoulders.
- ❑ Do not lock your knees.

Note: Remember to take your leg directly out to the side, in line with your hip. It is common tendency to want to take the leg forward, but this will not get the results you want

Repetitions
TO EACH SIDE

1	2	3	4	5	6	7
8	9	DAY 10 50	DAY 11 55	DAY 12 60	DAY 13 65	DAY 14 70
DAY 15 75	DAY 16 75	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

Fedsure off on a 30% growth path

B/Day 27/5/92

MARCIA KLEIN

THE Fedsure Group increased its total assets by more than R1bn in the past year and intends to continue on its growth path.

Speaking at a presentation yesterday, group CE Arnold Basserabie said gross premium income had increased by 30% in the 12 months to December, and had grown by more than 30% in the first four months of the current year.

In the year to end December Fedsure's attributable earnings — derived from its long-term insurance company Fedlife — grew by 22% to R28,8m.

Basserabie said that over the past 18 months, the group's numerous expansion activities had been based on a strategy of becoming involved in the broader financial services industry.

These included taking a strategic 35% stake in Saambou, and forming an alliance with the Inhold-Investec group, in which Fedsure acquired 27% of Inhold and 22% of Investec, and in which Investec acquired 19% of Fedsure. Fedsure and Inhold were looking at developing joint products to sell across each other's client base.

Fedsure also formed an alliance with Fidelity Bank, which allowed for joint business synergies. It sold 30% of its 100% holding in Fedgen to a German mutual insurer.

Murray & Roberts survives nightmare

(58) (82)

ANDREW KRUMM

DEVELOPER Murray & Roberts has overcome the project co-ordinators' nightmare, successfully juggling into place the large volumes of resources needed to construct Pretoria's R220m Sammy Marks Square development.

The project remains on schedule for completion on September 24, a week ahead of deadline. B/Day 27/5/92

Murray and Roberts (N-TVL) Property MD Leon Botha said in a recent interview the most difficult aspect of the square, Pretoria's largest retail centre, was co-ordinating the use and distribution of "very large volumes" of materials.

Botha said in the first three months of excavations, 177 000m³ of soil was removed from the site, peaking at 520 truckloads a day.

The site, a block bordering the State Theatre and the Reserve Bank, had been excavated to a depth of 9m, the equivalent of excavating three blocks in Johannesburg, he said.

Botha said 32 000m³ of structural concrete had been cast on site, while 80 000m² of suspended concrete slab was being produced at a rate of 3 000m² a week.

The brick industry will not be left out of the profit equation as 5,5-million bricks will be used before the project is completed. Work began in February last year.

The 30 850m² complex is the first major development to be undertaken in Pretoria's CBD since 1979. It is also the first co-operative venture between the private sector and Pretoria City Council.

Financiers Newport Property Fund, Prima Property Trust and AA Life Assurance each own a portion of the development, while the council is financing and retaining ownership of their own portion.

The council facilities are to open in stages between September/October this year and mid-1993.

Fancourt's new golf holes signal progress

PETER GALLI

DEVELOPMENT at Fancourt, the luxury golf estate in George, is on track with the third nine-hole golf course officially opened at the weekend.

The development now boasts a 27-hole course, comparable with any in the world. About R9m has been spent on the development of the course, said MD Billy Freer.

So far, about 47 lodges, valued at more than R30m, have been sold. A R5m health and beauty centre is also on the cards.

Land has also been bought for a beach centre at Wilderness and construction is expected to begin soon.

The hotel section of the development consists of about 100 rooms.

"The development is presently equally owned by the Pieterse family through Golf Investments and Golf Estates and a British consortium headed by Abraham van Praagh," Freer said.

Negotiations are still under way with Orient Express regarding its shareholding and management contract, but these are expected to be finalised soon, he added.

Initially, Masterbond had a 50% stake in Fancourt, but all of this was bought out before Masterbond's collapse.

"Masterbond was to provide bond finance, and when it collapsed we were left without a bank," he said. "However, alternative arrangements are in the process of being finalised and an announcement is expected to be made soon."

When Masterbond went under, Group Five construction, Fancourt Holdings, Orient Express and the Masterbond curators reached agreement on the best way to continue the development of the resort.

Group Five was a major player in this, extending its financial arrangements and credit line.

"We are committed to paying back all the money borrowed from Masterbond to debenture holders and will meet all of our responsibilities in this regard. Thus far, just over R90m has been spent on the project, on infrastructure and land," Freer said.

The development plan envisages 292 lodges on the 154ha site over the next four years.

About 200 stands of 1 000m² will then be offered for sale for permanent residents. Guidelines for building have been set.

About 47% of buyers and 68,3% of hotel guests have been foreigners.

Several sales are in the pipeline, but are dependent on improved marketplace confidence in the development,Freer said.

Lodges range from about R745 000 for a two-bedroomed unit to well over R2m, depending on size and location.

Chairman André Pieterse said that since the collapse of Masterbond, about R23m worth of property had been sold, but there were still doubts in the minds of many prospective buyers. "We are going to address these in the near future and hope this will end the rumours and stories that are preventing more sales."

Lakefront offices 'in demand'

Business Day Reporter

NEW Kleinfontein Properties, which launched a R45m low density lakefront office park in Benoni three months ago, has moved up the proclamation of a second phase — an additional 10 stands. Twenty-two of the 26 stands have already been sold. NKP MD Grant Fischer said sales had demonstrated a distinct need for low density office developments. NKP offers a fixed interest rate of 15% and allows buyers three years to take transfer.

Prestasi sounds warning on high cost of insurance

STAR 28/5/92

Finance Staff (58)

Jan Erasmus was a proud man yesterday. It was the 20th anniversary of the foundation of his company, Prestasi Brokers.

Prestasi is the country's biggest independent insurance broker with more than 150 000 policy holders. This represented a compound growth of 25 percent a year since 1975.

However, the increased cost of insurance had resulted in premium income rising much faster, said Mr Erasmus who is chairman of the company.

This should be seen by the insurance industry as a warning sign and an indication that it could be pricing itself out of the market.

Mr Erasmus said dedication to giving service had been the single most important reason for the company's exceptional growth.

A recent survey of the company's clients had found an 85 percent level of costumer satisfaction, using a satisfaction index devised by a Professor Johan van Zyl at the Porchefstroom University.

He said Prestasi was entering its third decade fully aware of the socio-political changes that must be accommodated by companies wishing to maintain and even expand market share and profitability.

Jan Erasmus . . . dedicated to service.

Prestasi was seeking an insurance licence to develop a niche market in the pensions and life field.

Obtaining a licence to open a short-term insurance company was not feasible at present as Prestasi would have to raise an additional R70 million.

... and the military in Haiti, and yet another expressed serious concern about a proposed Spanish

... crossfire between drug cartels, Marxist guerrilla movements and rightwing paramilitary groups has

... expression whatsoever.

"In Haiti, one could say there is simply no Press," Calderon said

Investment product being tailored for stokvel members

WILSON ZWANE

STOKVELS and a major financial institution are edging closer to producing a new investment product for stokvel members. B/Day

And a number of investment companies in the US and Britain have signalled they would invest in the product, provided it yielded good returns and was "benefiting the people on the ground". 29/5/92

National Stokvels Association of SA (Nasasa) president Andrew Lukhele recently announced that his organisation planned to help alleviate the black housing crisis by diverting millions from banks to unit trusts, which would serve as collateral for home loans since banks were reluctant to lend money to township residents.

Lukhele said the arrangement would allow black savings to be ploughed back into black communities, rather than having the money lent to affluent whites.

The latest Markinor survey of the informal financial sector indicates a 62.5% growth in the money collected by stokvels in urban areas.

In 1991, stokvels collected an estimated R84m a month compared with R52m in 1989. Membership also rose to 1,3-million from 680 000 in 1989.

Nasasa consultant and Tremsen Broker Services MD Stephen Japp said yesterday although some Nasasa members had invested in Syfrets-administered unit trusts, the services group was unable to produce "the type of product which Nasasa wants".

Nasasa had, therefore, entered into a joint venture with a major financial institution with a view to developing a "unit trust product tailored to meet the needs of the stokvel members".

Japp would not name the financial institution, but said it was anticipated that the unit trust product would be available within three months.

Lukhele said the recent De Loor Commission report on housing supported Nasasa's conviction that stokvels could play a role in meeting the black housing backlog.

'Affirmative quotas fail'

WILSON ZWANE

AFFIRMATIVE action programmes fail in SA because they are geared towards meeting recruitment quotas rather than developing the potential of blacks and women. B/Day

This is the view of human resources consultant Linda Human in a paper to be delivered at next month's fourth annual conference of the Institute of Personnel Management's (IPM) human resources development division.

She says other reasons for the failure of affirmative action programmes are: 29/5/92

- That blacks and women are expected to function in a white male world which remains uncommitted to people development;
- A lack of commitment on the part of top management.

"It is time for managers to accept their responsibilities in relation to the disadvantaged ... it is also time for blacks and women to accept responsibility for their own development," says Human.

...ernment and the military in Haiti, and yet another expressed serious concern about a proposed Spanish

...security created by a permanent crossfire between drug cartels, Marxist guerrilla movements and rightwing paramilitary groups has

...country where there is no freedom of expression whatsoever.

"In Haiti, one could say there is simply no Press," Calderon said.

Investment product being tailored for stokvel members

(58) (1537)

WILSON ZWANE

STOKVELS and a major financial institution are edging closer to producing a new investment product for stokvel members. B/Day

And a number of investment companies in the US and Britain have signalled they would invest in the product, provided it yielded good returns and was "benefiting the people on the ground". 29/5/92

National Stokvels Association of SA (Nasasa) president Andrew Lukhele recently announced that his organisation planned to help alleviate the black housing crisis by diverting millions from banks to unit trusts, which would serve as collateral for home loans since banks were reluctant to lend money to township residents.

Lukhele said the arrangement would allow black savings to be ploughed back into black communities, rather than having the money lent to affluent whites.

The latest Markinor survey of the informal financial sector indicates a 62,5% growth in the money collected by stokvels in urban areas.

In 1991, stokvels collected an estimated R84m a month compared with R52m in 1989. Membership also rose to 1,3-million from 680 000 in 1989.

Nasasa consultant and Tremsen Broker Services MD Stephen Japp said yesterday although some Nasasa members had invested in Syfrets-administered unit trusts, the services group was unable to produce "the type of product which Nasasa wants".

Nasasa had, therefore, entered into a joint venture with a major financial institution with a view to developing a "unit trust product tailored to meet the needs of the stokvel members".

Japp would not name the financial institution, but said it was anticipated that the unit trust product would be available within three months.

Lukhele said the recent De Loor Commission report on housing supported Nasasa's conviction that stokvels could play a role in meeting the black housing backlog.

'Affirmative quotas fail'

(142) WILSON ZWANE (176)

AFFIRMATIVE action programmes fail in SA because they are geared towards meeting recruitment quotas rather than developing the potential of blacks and women. B/Day

This is the view of human resources consultant Linda Human in a paper to be delivered at next month's fourth annual conference of the Institute of Personnel Management's (IPM) human resources development division.

She says other reasons for the failure of affirmative action programmes are: 29/5/92

- That blacks and women are expected to function in a white male world which remains uncommitted to people development;
- A lack of commitment on the part of top management.

"It is time for managers to accept their responsibilities in relation to the disadvantaged ... it is also time for blacks and women to accept responsibility for their own development," says Human.

...estment product being tailored for stokvel members

WILSON ZWANE

STOKVELS and a major financial institution are edging closer to producing a new investment product for stokvel members. B/Day

And a number of investment companies in the US and Britain have signalled they would invest in the product, provided it yielded good returns and was "benefiting the people on the ground". 29/5/92

National Stokvels Association of SA (Nasasa) president Andrew Lukhele recently announced that his organisation planned to help alleviate the black housing crisis by diverting millions from banks to unit trusts, which would serve as collateral for home loans since banks were reluctant to lend money to township residents.

Lukhele said the arrangement would allow black savings to be ploughed back into black communities, rather than having the money lent to affluent whites.

The latest Markinor survey of the informal financial sector indicates a 62.5% growth in the money collected by stokvels in urban areas.

In 1991, stokvels collected an estimated R84m a month compared with R52m in 1989. Membership also rose to 1,3-million from 680 000 in 1989.

Nasasa consultant and Tremsen Broker Services MD Stephen Japp said yesterday although some Nasasa members had invested in Syfrets-administered unit trusts, the services group was unable to produce "the type of product which Nasasa wants".

Nasasa had, therefore, entered into a joint venture with a major financial institution with a view to developing a "unit trust product tailored to meet the needs of the stokvel members".

Japp would not name the financial institution, but said it was anticipated that the unit trust product would be available within three months.

Lukhele said the recent De Loor Commission report on housing supported Nasasa's conviction that stokvels could play a role in meeting the black housing backlog.

'Affirmative quotas fail'

WILSON ZWANE

AFFIRMATIVE action programmes fail in SA because they are geared towards meeting recruitment quotas rather than developing the potential of blacks and women. B/Day

This is the view of human resources consultant Linda Human in a paper to be delivered at next month's fourth annual conference of the Institute of Personnel Management's (IPM) human resources development division.

She says other reasons for the failure of affirmative action programmes are: 29/5/92

- That blacks and women are expected to function in a white male world which remains uncommitted to people development;
- A lack of commitment on the part of top management.

"It is time for managers to accept their responsibilities in relation to the disadvantaged ... it is also time for blacks and women to accept responsibility for their own development," says Human.

FM 29/5/92

RENTMEESTER (58) FM 29/5/92.

Flying for its life

Activities: *Investment and holding company with interests in insurance, netting and aviation.*
Control: *Directors 37,5%.*
Chairman: *P H N Bremer; MD: J Vermooten.*
Capital structure: *3,6m ords. Market capitalisation: R18,1m.*
Share market: *Price: 500c. 12-month high, 750c; low, 415c. Trading volume last quarter, 32 000 shares.*

Year to June	'88	'89	'90	'91
ST debt (Rm)	25,8	30,8	29	37,1
LT debt (Rm)	22,1	20,5	16,8	17,1
Debt:equity ratio	0,78	1,15	0,32	0,66
Shareholders' interest	0,32	0,19	0,24	0,29
Int & leasing cover	20,6	—	—	—
Return on cap (%)	0,4	2,2	—	—
Turnover (Rm)	149	180	170	135
Pre-int profit (Rm)	0,5	2,4	(3)	(7,6)
Pre-int margin (%)	0,3	0,2	—	—
Earnings (c)	55,3	121,7	66,9	(73,3)
Dividends (c)	11	15	8	—
Net worth (c)	824	548	655	1 078

Rentmeesterbeleggings' (Rentbel)'s finances look precarious: for financial 1991, a trading loss of R2,9m, plus a R6,6m interest charge, gave a pre-tax loss of R9,5m

Gearing at the group, with a 44% stake in Trek Airways which operates Luxavia and fledgling Flitestar, was then 66%; it has since widened, given net losses of R740 000 reported for the six months to December.

Though the closure and sale of steel and short-term insurance activities and rationalisation of netting business Alnet enabled the group to move back to a R2,3m six-month trading profit, a R2,6m interest charge meant interest cover remained negative.

Apart from Trek, the principal operations are subsidiaries Rentmeester Versekeraars, (58) a niche life assurer which accounts for around 57% of turnover, and Alnet, which comprises the remaining 43%.

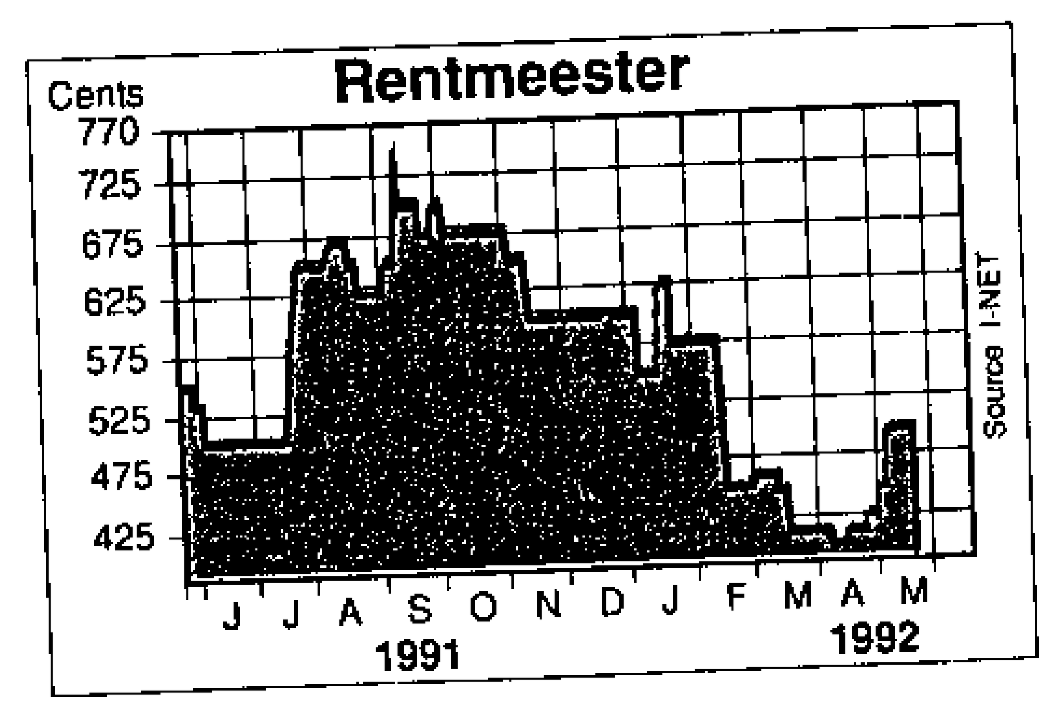
The tax structure is also inefficient, as the group incurred a R433 000 tax charge despite the R281 000 taxable loss for the six months to December. MD Joachim Vermooten explains Rentbel cannot offset Alnet's losses against profits elsewhere.

Rentbel depended almost solely on the life assurance subsidiary during the first six months of financial 1992. The equity-accounted contribution from Trek fell to R157 000 (1991: R2,1m), which Vermooten says results from the write-off of start-up costs at Flitestar. As Rentbel holds 44% of Trek, this implies Trek's earnings dropped to about R356 000 (R4,7m) in the six months.

Vermooten says the start-up costs will be capitalised and amortised over the initial lease period of the aircraft when final costs have been calculated.

Prospects are becoming increasingly reliant on Trek. On the local front, Flitestar broke even less than seven months after inception, according to MD Jan Blake, who claims Flitestar has about 20% of the domestic market, increasing its load factor to 60% from 40% in April. Breakeven is at 57%.

He believes Flitestar could achieve a further 5%-6% occupancy by December.



Internationally, Blake says Flitestar aims to be flying to Mombasa, the Gulf States, the Seychelles and India by December, in addition to the Bahrain route recently approved by the National Transport Commission.

On the other hand, Vermooten predicts increased capacity from existing carriers and the "definite" entry of Virgin Airlines means keener competition on international routes.

Analysts say the share price, at a 54% discount to NAV, reflects pessimism over when the next dividend will be paid, as well as concern about the high gearing.

William Gilfillan

NEDCOR FM 29/5/92 (58)

Brand of friendship

Following George Bush's Inauguration example, in which he called for a kinder, gentler America (and this is neither the time nor the place to consider what he got instead!), Nedcor Bank CEO Richard Laubscher embarked on an exercise last July to achieve a friendlier, more caring bank. The days of defining the market in terms of Eighties criteria like demographics and level of income are over; the Nineties deserve a new strategy called Attitudinal Segmentation — for the personal market.

The new organisational structure is, therefore, based on clearly identified customer wants and needs, and each division concentrates on its specific type of customer. There's the corporate market (which caters to the giants of commerce and industry), the

FM 29/5/92 (58)

commercial market (which serves, through the branch network, businesses large and small) and the personal market. The idea is that the customer should think (borrowing yet again from a head of State — Margaret Thatcher commenting on Gorbachev): "Here's someone I can do business with."

The group has rationalised as many back-office activities as possible, integrating marketing, human resources, processing and credit functions across its brands. This integration avoids duplication and makes the facilities of one brand (for example, Nedbank's cheque-clearing infrastructure) available to another (Perm's new current account) without additional investment.

The point is to make each segment of the target feel special. Within a single Nedbank branch, a clear demarcation between commercial and consumer activities will exist. Similarly, the Perm's market has been segmented to differentiate between customers who require quick and easy transaction facilities and those who require comprehensive banking and investment services.

At question time, a sticky one was whether the new streamlined and cost-effective Nedcor would find itself overstaffed. But Laubscher was prepared: "Retrenchments are obviously not entered into lightly and will only be used as a last resort. Natural attrition takes care of the problem." He admitted the staff complement was some 400 less than it was six months ago, but stressed the restructuring made positions, and not people, redundant. "People who perform well are redeployed all the time."

A new division, Corporate Culture and Customer Focus, has been set up to ensure the strategy is actually carried out. In charge is Brian Wegerle. Nedcor obviously recognises that clever advertising campaigns are not enough for the Nineties.

Makes you think, doesn't it? ■

GENERAL ACCIDENT (58)

Feeling better FM 29/5/92

General Accident, a medium-sized general insurer in which First National Bank and Southern Life have substantial shareholdings, slashed its underwriting loss by more than two-thirds in the year to December. But the company is still struggling with high expense ratios and the legacies of 1990, SA's poorest insurance year.

Overall, GA trimmed its 1991 loss attributable to shareholders from R28,2m to R1,8m. Net premiums were slightly down from R175,8m to R172,8m and the underwriting loss fell from R63m to R19,6m.

At R20,3m, investment income was similar to the 1989 level of R19,8m. Investment income for the disastrous 1990 reporting period, when the company sold off certain investments, was stated at R35m.

In 1990, many of GA's troubles came from the motor account, at a time when the insurer had an arrangement to handle much of the business steered by Wesbank. That arrangement was cancelled and, from 1990's motor account underwriting loss of R44m, losses last year were contained at R7,6m on a reduced volume of premiums.

Expenses remain unacceptably high. As a percentage of net written premiums, net expenses were 18,8%. The company says the development of new administration systems and other nonrecurrent items kept expenditure high. ■

Penalty wipes out Disa profit

(58)

GAVIN DU VENAGE

BDay 29/5/92

DISA Development Corp reported a loss of R1,9m for the six months to end-February after paying a R2m penalty on a cancelled contract and R761 000 in interest.

Earnings a share were not announced, so no comparison could be made with the loss of 4c a share in the previous period.

Chairman Theo Stergianos said the collapse of the black and coloured housing markets had resulted in the company deciding to cut its losses.

The losses resulted from a subsidiary's agreement with a financial institution to service bonds on repossessed properties. Agreement was reached at the end of February to terminate this arrangement at a full and final cost of R2m.

Stergianos said this would have no impact on future results.

Interest free loans of R2m had been raised, with R1m to be repaid over four years and the other half with no fixed terms of repayment, he said. Operating profit was R768 000, compared with a R1,1m loss in the previous period.

Stergianos said steps taken by management to contain overheads had borne fruit. This, coupled with the response to several new projects and which had been in line with expectations, had impacted favourably on the group's operating results.

Health care

Insurance is more and more attractive

Star 29/5/92 (58)

THE insurance business believes the shift towards individual health cover will continue as medical costs continue to spin out of control.

Although health insurance has only been on the market for about 18 months, there is already a wide range of sophisticated products to meet the growing demand, says Old Mutual's Dave Hudson.

He says American research shows that appropriate health insurance is a top priority for employees when assessing benefit packages.

However, as Jonathan Broomberg from Witwatersrand University's Centre for Health Policy points out, spiralling costs in the health insurance industry in the US means that 37-million Americans are unable to afford health insurance.

A major reason for the growth of the medical insurance industry is the gap between medical costs and what medical aid schemes pay.

The Aegis Insurance Group's Adrian Hoffman says health insurance is necessary to cover the "big claims" over and above medical aid.

Aegis is one of the dominant insurers in the corporate market because of its low contribution scale.

According to Old Mutual, medical aid schemes are doing the best they can. "But gaps remain because medical aids are not allowed, in terms of the Medical Schemes Act, to pay more than the Representative Association of Medical Aid tariff on claims.

Higher

"Many medical practitioners are on the much higher Medical Association of SA tariff and this is generally where insurance schemes step in."

Hudson says Old Mutual's individual health insurance Flexicare accounted for 12% of the life assurer's new business in the first two months of launching.

A benefit fund, contributed to by the employer with pre-tax money on behalf of the employee, provides for all Flexicare benefits.

Hudson says it is a kind of self assurance which "allows the applicant to build up a personal fund for retirement, from which benefits can be paid".

Whatever the pros or cons of the myriad health insurance schemes, the danger is that medical aid schemes will be forced to compete with health insurance in order to survive, says Bloomberg.

He says this will open the way for an infinite range of medical scheme "packages" which will not hesitate to "risk rate" and "skim off" the good risks in pursuit of clients.

"This might suit the young, the healthy and the well-off, but it will be a disaster for everyone else."

Cornerstone funds increase income

STAR 29/5/92 (58)

Property Reporter

Both listed property funds in the Cornerstone stable have increased distributable income and dividends for the year to end-April.

Fund administrators Russell Mariott and Boyd Trust point out that success is largely due to the fact that vacancy factors in the portfolios of both Higate and Highstone are well below the current industry average — at one percent and two percent respectively.

Higate increased net distributable income for the year from R21,9 million to R23,6 million, and is paying a second-half dividend of 39c (36c), for a total of 76,5c (71c).

During the year, the trust sold an industrial property in Durban for R3,6 million and bought R8,5 million worth of other property, leaving uncommitted cash resources of R13,5 million.

Highstone's distributable income rose to R13 million, compared with R8,3 million in the period from listing in September 1990 to April 1991.

It is paying a second-half dividend of 10,75c, for a total of 21,75c, compared with 13,65c in the listing period.

It committed R8,1 million to property investment this year, and is now fully invested.

Significant numbers of leases in both portfolios fall due for renewal in the coming financial year.

Fund managers expect this to result in good growth, since market rental levels are higher than those now in place.

Pressure mounts for cut in interest rates

STAR 29/5/92

By Sven Lünsche (58)

The pressure is mounting on Reserve Bank Governor Dr Chris Stals to stimulate economic activity by cutting interest rates.

The latest economist to join the call for a more relaxed monetary policy is the Board of Executors' Rob Lee who accuses Dr Stals of "unduly prolonging the agony".

"The Bank rate can be cut without any threat to the integrity of monetary policy," Mr Lee says.

Responding to the Reserve Bank's argument that further progress must be made in reducing inflation before rates are cut, he questions whether the current inflation rate of 15,7 percent is a correct measure of underlying price increases.

"Producer price inflation was at eight percent in the 12 months to March and has been around 10 percent for over 12 months.

"Underlying money supply growth has been around 10 percent for over 12 months, while the exchange rate has been stable to rising in real terms for over two years.

Rob Lee . . . no threat to integrity of monetary policy

"The economy is extremely weak and the average level of wage settlements is probably closer to 10 than 15 percent, while the consumer price index itself has risen at an annualised rate of only 12,5 percent since the introduction of VAT in October.

"Taking all these factors into account," Mr Lee says, "it seems very clear that the underlying inflation rate is probably not more than 12 percent and is falling."

Using this measure, he says that the current prime rate is at a real level of over seven percent — "very high for an economy at the latter stages of a long and increasingly damaging recession.

"Dr Stals may hang on for another month or two, but another one percent cut in the Bank rate is inevitable in the near future, with at least one more before year-end."

Recent developments suggest that within the next six to nine months the prime rate could quite comfortably fall to 16 percent, with the inflation rate by then below 12 percent and possibly as low as 10 percent.

Turning to the outlook for economic growth, Mr Lee says lower interest rates, higher exports and increased government spending will see the gradual beginnings of an economic recovery in the second half of the year.

Reduced confidence, as a result of the breakdown at Codesa 2 and the subsequent recriminatory atmosphere between the major negotiating parties, and the continued drought will not prevent these factors from having an increasingly positive influence, he fels.

He adds, however, that the drop in gross domestic product (GDP) in the first quarter may prevent GDP growth for the year as a whole from reaching the one percent level.

In line with other economists he forecast substantially higher growth rates next year.

"Succesful negotiations and reduced levels of violence are essential if the economy is to achieve its potential for a sustained recovery at growth rates of four to five percent.

"However, even a lack of progress in these areas will not prevent the economy from increasing by three to four percent in 1993.

"The reason for this is simply that the economy is currently operating so far below its potential, especially after the effective removal of trade sanctions and foreign debt repayment constraints, that a significant bounce back in economic activity does not require increased confidence levels," Mr Lee says.

'Stals prolonging pain of recession'

BDay 29/5/92 (58) (…) (…)

LINDA ENSOR

CAPE TOWN — Reserve Bank Governor Chris Stals was unduly prolonging the agony of a damaging recession by refusing to cut the Bank rate, the Board of Executors (BoE) said in its latest Investment Outlook.

BoE senior portfolio manager Rob Lee said: "Dr Stals may hang on for another month or two but another 1% cut is inevitable in the near future with at least one more before year-end."

Lee said an immediate cut in the Bank rate would not undermine the integrity of monetary policy.

He questioned whether the increase in the "real" underlying inflation rate over the past 12 months was as high as 15,7% as producer price inflation was 8% in the year to end-March, underlying money supply growth had been about 10% for more than 12 months and the exchange rate had been stable to rising in real terms for more than two years.

"The economy is extremely weak and the average level of wage settlements is probably closer to 10% than 15%. Taking all these factors together it seems very clear that the underlying inflation rate is probably not more than 12% and is falling," Lee said.

"With the prime overdraft rate at 19,25% this is a "real" prime rate of more than 7% — very high for an economy at the latter stages of a long and increasingly damaging recession."

Prime rate was expected to be 2% lower by year-end with a further reduction likely early in 1993.

Lee said business and consumer confidence had been knocked by the breakdown of Codesa II negotiations, violence and threats of mass action, but this would not act as a brake on short-term economic recovery.

He said increased confidence was not a prerequisite for recovery as the level of economic activity was considerably lower than its potential, especially considering the lifting of trade sanctions and foreign debt repayment constraints.

"Our view that the second half of this year will see the gradual beginning of an economic upswing is based upon expectations of rising government spending, higher exports, a reduced pace of inventory depletion and lower inflation and interest rates," he said.

"Reduced confidence and continued drought will not prevent these factors from having an increasingly positive influence."

Lee said a growth rate of 3% to 4% in 1993 was "quite feasible".

GDP growth might not reach the 1% forecast for 1992, but should still be on a rising trend by year-end, he said.

In 1993 stimulatory factors such as large capital investment projects and an eventual inventory build up would be sufficient to achieve a significant cyclical recovery.

New fund calls for extra diligence

BDay 29/5/92 .

JOE GATES

ALLEGATIONS of financial impropriety against the late Robert Maxwell led the Economist to comment (November 9 1991) that "entrepreneurial capitalism needs capital, but capital always needs guardians".

This appears true for pension fund trustees, owing to the emergence of the trade union-sponsored Community Growth Fund (CGF). This alternative investment vehicle is welcomed for a variety of reasons. But, as with most innovations, there will be obstacles to overcome and learning curves to master.

It is welcomed in the hope that its advent is a signal that nationalisation is relegated to the history books of economic and political posturing. If not, pension funds will once again be hampered by prescribed investment sponsored by interventionists.

It is also welcomed if it is a signal to all that trade unions underwrite the free market — a system which is always willing to receive new entrants and competition. If not, it will be a well-disguised socialist plot to co-opt market forces.

In the race to subscribe to the CGF or equivalent facility, pension fund trustees must remain conscious of their fiduciary duties and use them to advantage — to act with care, good faith and diligence; to obtain expert advice if their own knowledge is wanting; to avoid conflict of interest; to invest assets for the benefit of the fund and its members; and to act with impartiality in respect of members and beneficiaries.

It is not difficult to find justification in each of these duties when assessing the CGF as an investment vehicle, especially in regard to the economic and social environment of members and beneficiaries. However, trustees might feel obliged to maximise investment return on monies under their control.

The pursuit of investment performance is not necessarily in the best medium- or long-term interests of members and beneficiaries, and trustees should contemplate the responsibility that comes with freedom of choice offered by pension fund investment regulations.

Through diligent analysis and research, pension fund trustees can contribute to the economic enrichment of our country and its people as well as pension fund members while ensuring competitive returns.

Social responsibility does not mean that investment performance can be disregarded in favour of ethics and conscience, as the latter do not necessarily meet the bread-and-butter issues members need to finance in their retirement.

What is called for in trustees is a fine blend of conscience and reality, theory and practice, and an empathetic understanding of the present as well as the future.

Ultimately trustees are going to have to define their funds' boundaries regarding risk and reward, and find solace in the notion that optimising returns on funds they control might well be as important for their own funds' members as maximising returns for other funds' members.

If they are concerned that they might breach their fiduciary duties and find an action in law against them, perhaps the defence of *volenti non fit injuria* — there can be no action if a person voluntarily consents to the prospect of suffering injury — might allow for this.

Our courts have recognised the need to adapt the law to fit the changing times: "There comes a time in the growth of every living system of law when old practice ... must be modified in order to keep pace with the requirements of changing conditions." (Innes C J, Blower v Van Noorden 1909 TS 890).

And "however anxious the court may be to maintain the Roman Dutch law in all its integrity, there must, in the ordinary course, be a progressive development of the law, keeping pace with modern requirements." (De Villiers C J, Henderson v Henderson (1903) 20 SC 513).

Pliny the Elder knew more than most when he observed that there was always something new out of Africa. Our trustees must ensure that, above all else, they discharge their fiduciary responsibilities in a careful, honest and diligent manner, for the CGF or its equivalent will be one instance of there being no doubt (with apologies to Juvenal for what is lost in translation) as to who guards the guards.

☐ **Gates is AA Life Assurance Association Ltd MD and president of the Institute of Life and Pension Advisers.**

Move to form new bank

Sowetan 29/5/92

(58)

By JOSHUA RABOROKO

MOVES are afoot to establish a National Community Bank with assets totalling R2 billion to provide financial aid, including home loans and entrepreneurial investments, to the low-income blacks.

Consultations are to be made with trade unions, political and community-based organisations to get the project off the ground.

Seminars and workshops will be conducted countrywide where strategies will be drawn before the massive multi-million rand project is launched, possibly within a year.

The project team charged with investigating the formation of the bank includes former SA Perm managing director Mr Bob Tucker (as chairman), the Kagiso Trust's Mr Eric Molobi, Acstop's Mr Cas Coovadia and African National Congress economist Mr Ketso Gordhan.

Coovadia, who is the executive officer of the newly-formed Community Banking Project, said yesterday the bank would provide "low cost", "low key" services including deposit accounts, group or housing loans, entrepreneurial investment and project financing.

It would also provide credit and banking facilities to low-income, mostly blacks frustrated by the profit-motivated policies of the informal financial institutions.

It is expected that the bank would provide the institutional structures for an initial complex of 10 to 15 community banks each owned by a specific community.

It would not issue shares and members of a specific community would hold units which could be bought or transferred.

Reluctance by major banks to grant financial aid to low-income groups, especially in black housing and business, has caused concern.

Coovadia said the project was still in its formative stage and all relevant parties and organisations would be consulted within a month.

He added that many communities had no access to credit and control over the administration of their savings by the major banks or insurance companies.

A spokesman for the registrar of deposit-taking institutions has indicated they were willing to have banking laws changed to accommodate the non-equity financed, community-owned banking institutions.

The bank would render all returns to the registrar of deposit-taking institutions, with the Reserve Bank acting as lender of last resort.

It is expected that it would have access to huge loan financing from institutions such as as the International Monetary Fund and the World Bank.

We will help you says newly-formed group

Sowetan 29/5/92 Sowetan

58

By JOSHUA RABOROKO

THE newly-formed Qondisa Estate Agency and Soweto Home Builders is offering help to people living in four-roomed houses.

Chief executive and co-ordinator for the Soweto Civic Association, Mr Graham Qondisa, yesterday said they were also offering advice on how to obtain bonds from financial institutions.

He said: "We are working hand in hand with the civic association and the banks to help the black community."

Their help was directed to those people who owned the old four-roomed houses.

They might want to obtain a bond for building two rooms and a garage behind the existing homes or to add bathroom and did not know how to go about it.

"Our advice is: consult your nearest or local civic association and make arrangements with them to overcome your problems," he said.

He said that number of blacks living in informal dwellings in Soweto was estimated at more than 10 000.

The squatter problem was serious and contributed to the large scale violence that was sweeping through the townships today, he said.

"This problem must be resolved, otherwise we are sitting on a time-bomb. We cannot afford to lose more lives," he added.

The business was also concerned about the large number of people who were facing the prospect of losing their homes because they were unable to pay their bonds.

He warned that financial institutions had no right to evict or to repossess homes before considering the plight of the home-owners.

The agency was negotiating such problems with the institutions.

He said when buying a house, prospective owners must have a full understanding of what they were doing and what the result could before signing documents.

"Do not just sign because you need a roof above your head," he said, adding that " it is exactly where you can get into trouble."

He was having consultations with the civic associations concerning housing problems.

He said he could be contacted at the Blackchain Centre in Diepkloof or telephone 936-1054.

BUSINESS

Bond rate dip won't ease housing blues

W/mail 29/5/-4/6/92. (58)

House prices countrywide are still in the doldrums. But the national picture hides wide price variances between regions. **REG RUMNEY** *looks at recent surveys of the housing market*

CUTS in the bond rate by themselves won't set the property market on fire. So would-be housebuyers, and those who want to trade up, still have time to get into the market relatively cheaply.

The bond rate has now dropped to 18,25 percent, the second such drop this year.

Real Estate Surveys research director Erwin Rode says that contrary to widespread belief bond rates per se have an almost negligible effect on house prices. An interest rate change, he explains, heralds a change in economic activity, although with a time lag.

"During an upswing, for example, one finds that the positive effect upon affordability generated by rising disposable income tends to be more powerful than any opposing negative effect of rising interest rates."

So the influence of general interest rates is more important than the bond rate itself.

Recent bond rate cuts have not yet filtered into a decline in the Bank Rate, the key interest rate which the Reserve Bank uses to influence all other rates. April money supply figures released this week seem to dash hopes of a cut in the Bank Rate. So Rode's reservations have even more force.

Moreover, he points out that housing subsidies, still widespread, introduce an artificial element into the housing market. When the bond rate rate has risen the higher bond repayment amount has been picked up by the employer. So dropping rates won't make any difference — except if rates fall while the minister of finance keeps the official rate the same.

The employee is taxed on the difference between the official rate and the rate of interest he has to pay on a subsidised bond. The official rate is now 19 percent. If it stays there the employee with a subsidised bond with an interest rate equal to the new rate of 18,25 percent will be taxed on the difference.

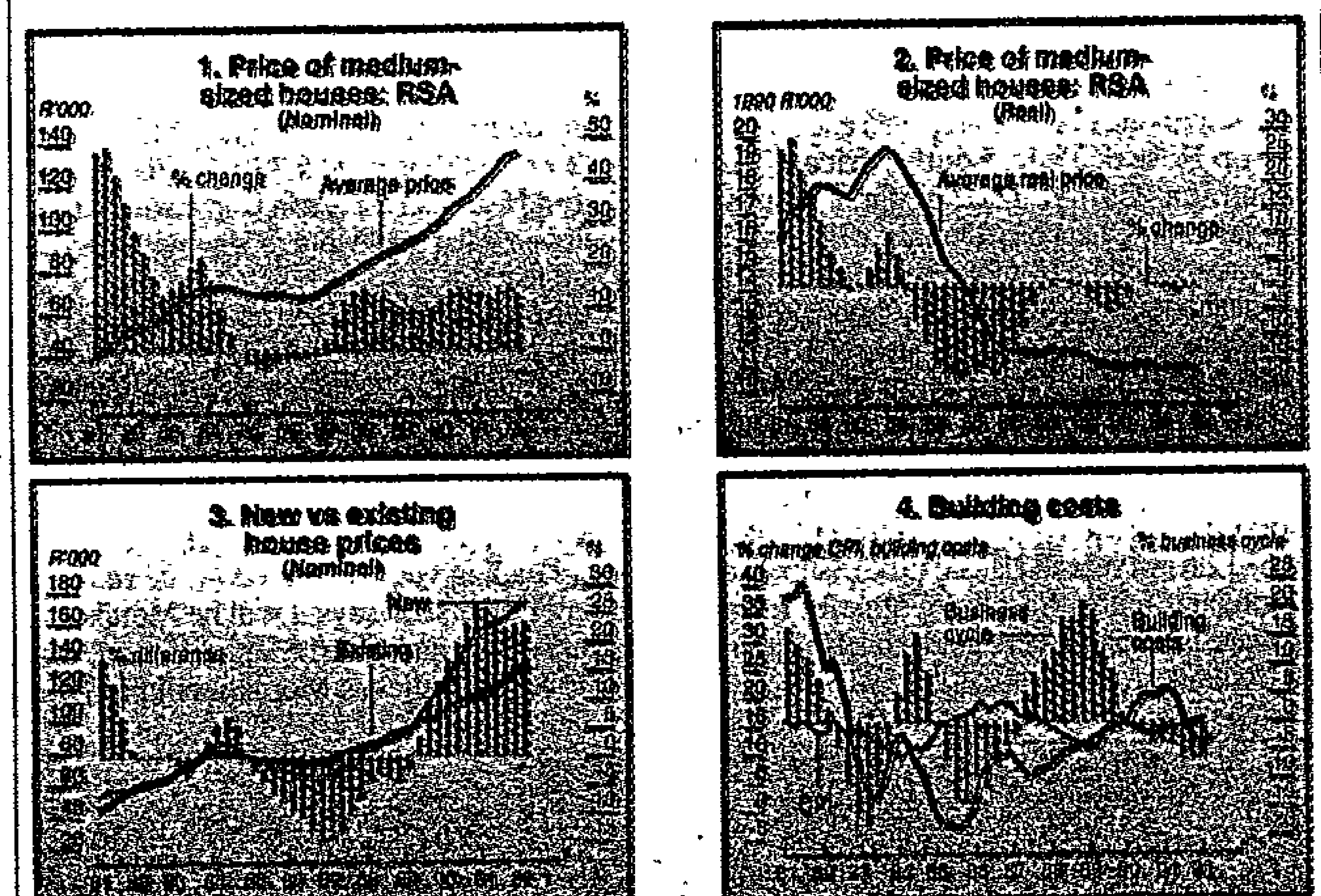
Should subsidies, which have been tax neutral for some time now, become punitive it is likely employees will agitate for more choice about how they receive their money.

"Now you are forced to live in sumptuous accommodation," comments Rode????????.

Continuing recession more than anything else is keeping a lid on house price increases nationwide. House prices, adjusted for inflation, have declined slightly over the past five years, according to the Quarterly Housing Review, put out by the Associated Banks of SA (Absa).

Rode says house prices nationally rose 12,7 percent for the year to end September 1991, and he forecasts an 11 percent rise this year — well below inflation again.

At regional level, however, price levels vary widely. The 12,7 percent nationwide increase, across all price classes, breaks down into a rise of only seven percent in Johannesburg versus a 19 percent rise in Pretoria, which has been lagging, according to Rode. House prices in Durban rose by 27 percent, catching up after lagging because of the violence. Port Elizabeth shot up 37 percent, making up for the devastation of the 1980s, while Cape Town prices declined by two percent, in a correction to the overheated boom of the recent past.



Source: ABSA

Within those regions, higher-priced houses — those above R300 000 — were hit hard by the recession in two instances. Upper market houses in Johannesburg fell by 11 percent and in Cape Town by 22 percent. Houses in the middle-price class — R150 000 to R300 000 — are beginning to climb, says Rode.

Don't expect house prices to take off suddenly, though. Even when an upturn does appear, nominal house prices, according to Rode, typically lag the business cycle by about three quarters. This would mean that if there is an upturn, say in the third quarter of this year house, prices would start to take off in the middle of next year.

However, growth in the number of house transactions, he says, is a leading indicator or pointer to what will happen about 18 months in the future.

House transactions for 1991 showed strong growth, and forecast for 1992 would tie in with an upturn in the economy in the latter half of the year.

The Absa report notes that in the fourth quarter of last year houses completed and house plans passed reached their lowest levels in more than five years, underlining the effect of the prolonged recession on the property market.

Houses completed declined by 16,1 percent during 1991, while house plans passed fell by 9,7 percent.

Strong signals, the Absa economists believe, should emerge of an economic recovery during the latter part of this year. A resulting surge in the property market would then emphasise how little housing stock there is.

In contrast to Rode, Absa suggests house prices could see real — ie adjusted for inflation — increases this year.

"Provided that the political environment does not further destabilise, house prices should harden and real increases of two percent seem likely this year."

COMPANIES

Higate shows 7,8% earnings rise

ANDREW KRUMM (58)

HIGATE Property Fund's earnings rose 7,8% in the year to end April as an interest earnings drop and the investment of cash resources into property offset its inflation-beating 16,4% dividend income rise.

Despite the rise from R18,1m to R21,1m, net distributable income was dragged down by a 33,1% decrease in interest earnings from R3,8m in 1991 to R2,5m in 1992. A final dividend of 39c was declared, giving a total dividend a unit of 76,5c (71c).

Russell, Marriott and Boyd Trust (RMBT), which administers Higate through the Cornerstone Property Fund Managers (CPF), linked the reduction in interest earnings to lower interest rates and the consequent investment of cash resources into property. Higate invested R8,5m over the year, reducing uncommitted cash reserves to R13,1m by year end.

The portfolio remained almost fully let throughout the year, with vacancies well below 1% at year end, RMBT said. However, 41% of Higate's leases are due for review in the current financial year.

RMBT said they still expected "good rental growth". B/Day 29/5/92.

Another CPF managed fund, the Highstone Property Fund, reported a 4% annualised earnings decrease from R13,5m to R12,97m in the period under review.

The drop-off resulted mainly from a 66% reduction in annualised interest income.

RMBT said net distributable income was "dampened" since Highstone committed R8,1m to property and initial yields were lower than market rates. Dividend income rose from an annualised R10,1m to R11,8m in the year to end April, but total dividends a unit fell to 21,25c.

FM 29/5/92 (58)

A key reason for mining houses' interest is the possibility of downstream expansion through beneficiation, which could add up to six times the value of the export of the raw material. Keeley hints at developments in this field, commenting "the feasibility of substantial joint ventures in granite manufacturing will be assessed this year."

He also comments vaguely that "a revised marketing strategy combined with improved customer service is expected to achieve greater market penetration." Neither Keeley nor any of the executive directors could be reached to explain this statement.

Also unexplained is how Kelgran managed to pull a R3,5m tax credit out of the hat compared with a 1991 tax rate of 9%, softening a 67,5% drop pre-tax to 55,7% after.

KELGRAN CRUMBLES

Year to	Feb '91	Feb '92
Turnover (Rm)	200,7	191,4
Operating income (Rm)	47,1	16,9
Attributable income (Rm)	41,1	18,4
Earnings (c)	58,5	26,2
Dividends (c)	40	20

Result of the tough year is apparent in the balance sheet through another rise in stock to R42,2m (1991: R26,7m and 1990: R14m). Short-term borrowings hit R58,7m (R25,4m) but on the plus side cash balances are also higher at R37,6m (R16,9m).

Keeley/Kelgran is widely considered the pick of the granite sector, particularly with the link to Gencor, but share prices have fallen steadily, with Kelgran down from its 12-month high of 625c in August to a 12-month low of 220c.

The year ahead does not look promising and the shares could remain weak until a decent upturn in the major world industrialised economies is confirmed. Analysts also point out Kelgran needs to retain earnings to improve dividend cover, which dropped to 1,3 (1,5) instead of the target of 2,0 announced at the listing. *Brendan Ryan*

SOUTHERN LIFE FM 29/5/92 (58)

Economic downturn hits growth rate

As one of SA's bigger assurers, and with a relatively strong record, Southern Life is often taken as a benchmark by which to measure the life industry. This high profile partly explains why the latest preliminary results look disappointing.

The limited disclosure in the summarised accounts doesn't help, but they seem to suggest that either the downturn is hurting life assurers more than realised, or Southern is tucking away a lot more into reserves.

Maybe it's a bit of both. Executive director Chris Liddle confirms that the group transferred more funds into reserves in the past financial year, including the special Aids reserve, now over R100m.

This suggests that the declared surplus of R165m, 19% up, could have managed the 20%-21% analysts were expecting. In turn, the lower declared growth in earnings must indicate that Southern is concerned about the length of the recession, skimming cream off the top to make sure it can get through the rest of the downturn comfortably.

Shareholders can't be too unhappy with the increased dividend, but it is nearly three percentage points lower than the annual compound growth of 22% since Southern listed in 1985. No doubt the dividend could also have been higher; at the same time, Southern's cautious approach is probably wise in present economic conditions.

Liddle says the group believes in trying to maintain dividend growth that is stable in the long run. By increasing transfers to reserves now there will be sufficient funds to maintain dividends for a long time, he says.

Total income, at R3,1bn, grew by only 10%, nearly three percentage points slower than the previous year and the fourth consecutive year growth has declined. New business totalled R830m, with recurring premiums rising 17% to R397m. However, single premium income, at R433m, was 14% down.

A 14,3% advance in investment income is respectable and represents a great improvement on last year's meagre 6,9%, when the portfolio suffered because of over-exposure to gold and mining financials. But other life offices have seen better growth in investment income and with assurers' ability to fund growth often hidden in the life fund out of sight of analysts, investment income remains a key visible indicator of performance.

SLOWING DOWN

Year to Mar 31	1991	1992
Net prem income (Rbn)	1,85	2,0
Investment income (Rbn)	0,94	1,07
Taxed surplus (Rm)	138	165
Surplus per share (c)	82	98
Dividends (c)	32	38

Southern's Calitz ... *unhealthy trend in cost ratio*

Liddle says the major restraint on investment income was the generally lower dividend growth of companies on the JSE in which Southern has invested. He says exposure to gold has been "balanced out."

Another indication that Southern is not having everything its way is administration and marketing expenses, up about 23%, outstripping the 17% growth in net recurring premium income. Liddle points out expenses included a significant investment in a software package, but the deteriorating ratio between income and expenses is not healthy.

MD Jan Calitz acknowledges the effect of the recession, saying with many sectors reducing manpower to try to stay profitable and with wage increases largely below inflation, there are fewer customers and they have less to spend.

The share remains highly rated and has advanced some R8 over the past year. But, at R23,50, the price is indifferent: not expensive but probably not cheap enough to justify much interest. At present, there is not much to distinguish Southern's share from the other leading life assurers. *Shaun Harris*

KEELEY/KELGRAN

Hard times

The granite business may have a rosy future, but SA producers face great difficulties in achieving it. That's the message from the Keeley Group/Kelgran, whose preliminary results show a 64% drop in profit margins for the year to February.

That was on a dip of just 5% in turnover, underlining that order was not restored to the granite market, as producers claimed, following the price war that erupted in 1990 — particularly on Rustenburg grey granite.

Chairman Fred Keeley blames fierce competition between processors, which caused price cuts for manufactured granite in most countries and "precipitated extreme pressure on the price of SA raw granite exports, which in turn seriously eroded margins."

Keeley claimed last year (*FM* July 19) that all SA producers had put up their prices in March and the new levels had stuck. But analysts reckon that within two months of the March increases producers were at each others' throats again, cutting prices to maintain market share.

End result of the renewed price war is another attempt to get the industry to see reason, this time through the SA Granite Association (Saga), formed after months of negotiation. Whether it will succeed remains to be seen, because the business has been dominated by the personalities running the various companies, described by one analyst as "a bunch of entrepreneurial gunslingers."

It's hoped recent developments will tone down the fierce competition, with Kudu moving closer to unlisted Impala Platinum, which is linked to Anglo American, and Keeley now firmly in the Gencor fold.

CLICKS DEAL OFF

When Clicks announced a proposed takeover of music retailer Musica, the impression was created that this would be the basis of a major new expansion for the retail chain. But a terse announcement last week said the deal is off because certain "conditions precedent" were not complied with, and Clicks was not prepared to waive noncompliance.

This suggests that Clicks did not like what it found when examining Musica's affairs. Musica has grown fast since its 1988 listing and in 1990 transferred from the DCM to the main board, but the (September) interim showed it lapsing into a R250 000 six-month pre-tax loss (1990: R720 000 profit).

Year-end figures should be due any week, but with the sorry interim and Clicks' pull-out it's not surprising the share, at 14c, is close to the low of the 12-month 45c-10c range. *Michael Coulson*

COMMUNITY NEWSPAPERS

Local is lekker

FM 29/5/92 (243)

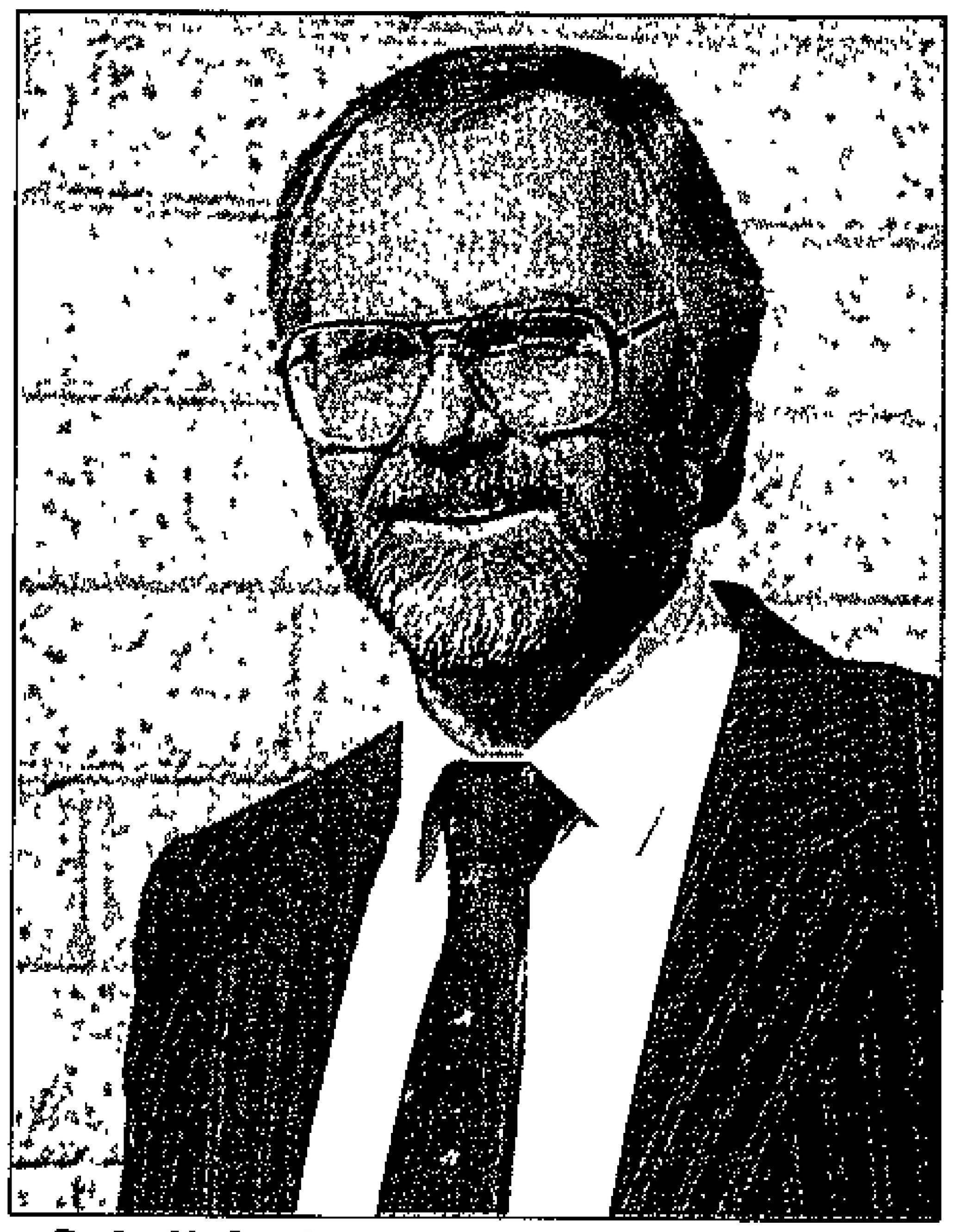
The first of a new generation of SA newspapers, using the latest design and layout techniques from America, landed on Johannesburg suburban doorsteps two weeks ago. No, not *The Sunday Star*. *The Northsider*, a northern suburbs local newspaper which looks as though it emerged from the same design stable, beat its over-hyped rival, by two days, into the consciousness of Johannesburg readers.

It was a trial run of some 10 000 copies distributed to selected households and also on sale (for R1,50) at 19 CNA outlets which will be used to test reaction to the new product.

The appearance of *The Northsider* reflects the conviction of community newspaper publisher Caxton that, in the newspaper business, local is lekker. Whereas most existing community papers are distributed free, *The Northsider* is a rather different kind of publication; it will be on sale.

Local free sheets have surprising levels of reader loyalty. In Roodepoort, for example, where 24% of the population read *The Star*, the *Roodepoort Record* reaches 82%. And contrary to some perceptions, local papers are not exclusively female-orientated. The *Record* gets to 81% of males, 84% of females and 86% of its readers are in the A and A-plus income groups. This pattern is duplicated with astonishing consistency wherever you look, from Kempton Park to Johannesburg's southern suburbs.

The reason is, quite simply, that local newspapers are filled with news and events that are covered nowhere else and which impinge on the daily lives of the area's residents. "There is no other source of parochial community news," says Robin Dukoff-Gordon, MD of the Newspaper Marketing Bureau (NMB) which acts as the sales representative for 66 community newspapers countrywide. "That is why our papers have



Dukoff-Gordon ... *no other source of community news*

such a high readership." Caxton owns about 80% of the papers NMB represents.

With high readership levels and advertising rates pitched to their market sizes, community newspapers are much more attractive vehicles for local advertising than the big metropolitan dailies. To reach a local resident through the *Bedfordview/Edenvale News*, for example, costs R11,75 a column centimetre, whereas *The Star* costs R42 and has a smaller circulation in that area.

"The more focused your advertising needs are, the better the local newspaper is," says Dukoff-Gordon.

NMB's papers derive advertising in roughly equal proportions from local classified, local retail and national retail advertising. "We are trying to increase our branded advertising, which at the moment represents about 3% of our total," says Dukoff-Gordon. "We believe there is a lot of potential there."

Though 1991 was not a good year, free sheet advertising has grown much faster than the average of national adspend since 1970 and has been beaten only by television (see table). And, says Dukoff-Gordon, "if a publication is sent into a home, people will read it because nowhere else can they get parochial community news."

The brutal truth, however, is that without the cushion of a cover price, local newspapers perforce must run to much higher advertising ratios (a minimum of 70% is common, compared with 60% or less in metropolitan dailies), and editorial quality tends to be — well — mundane. This is where *The Northsider* comes in. It is, according to Caxton joint MD Noel Coburn, "a more serious, fuller and more complete newspaper than the local frees."

Will it compete with the free sheets? Coburn thinks not. "This has not happened in similar circumstances overseas. The free sheets are narrowly focused on geographic areas, whereas *The Northsider* covers a broad residential band stretching from Bedfordview and Edenvale in the east to Randburg and north Roodepoort in the west.

"We see them as complementary. We think we will establish a new marketplace." There are 200 000 households in the catchment area and *The Northsider*'s target is a circulation of 30 000-40 000.

The Northsider will offer attractive rates to retailers and others who want broader exposure than one of the local newspapers offers and could be attractive for staff vacancy and regional service advertising. Says Coburn: "If we hit our target circulation, this could become quite a potent marketplace for advertising in the northern suburbs area." ■

BEATING THE AVERAGE

Growth in adspend

	Rm			10 year %
	1970	1980	1990	growth
Dailies	25	86	310	260
Weekend papers	13	36	121	236
Magazines	16	68	331	386
Community Papers	2	17	103	505
TV	—	70	542	674
Radio	12	39	187	379
Outdoor	—	14	41	193
Cinema	—	6	18	200
Total	71	352	1 600	354

Source: Adindex

New idea, old problem

New Idea, the Australian-derived weekly woman's magazine launched with much fanfare a few months ago, has reduced its publishing frequency from weekly to fortnightly. Amid a welter of rumours about the future of the magazine and its publisher, Enosi Publishing, it is obvious that advertising volumes are not up to expectations.

Among the rumours circulating is that *New Idea* is being sold to another publisher. A coy Enosi MD, Greg Psillos, has been determinedly unavailable for comment, but he conceded last week that "there are some negotiations on the go." He expects a conclusion within two weeks.

Psillos described the magazine originally as a joint venture with Rupert Murdoch's Southdown Press. The Australian mag from which the local variant is cloned sells more than 1m copies a week, allowing it to claim the highest per capita circulation in the world.

However, it has never been clear exactly how much money Southdown invested in the local venture, if any. And as any publisher worth his salt knows, an exercise like this probably requires R2m in capital and strong nerves to carry it through its first two years before it can hope to start making money. *New Idea* faces competition from a clutch of women's magazines, while magazine purchases are declining among whites.

Tony Koenderman

AGRICULTURE

Sasol and the salt

Sasol's giant Secunda synfuel plant last year released damaging quantities of saline water into the Waterval River in the eastern Transvaal, with serious consequences for irrigation farmers, says a former irrigation farmer on the river, Paul Reynolds.

He claims that he abandoned plans last winter to plant wheat and potato crops under irrigation because the salinity in the river at a critical time (the beginning of last May) would have destroyed the crops and inflicted long-term damage to his soil. He says his loss was some R220 000, for which Sasol denies any liability.

The water required for wheat and potato planting must not exceed a sodium content of 100 parts per million (ppm) or a chloride content of 100 ppm. The electrical conductivity (a measure of total dissolved mineral content) must not exceed 80 millisiemens per metre (ms/m). The sodium adsorption ratio (sar), which measures the extent to which the sodium present is available to plants, should not exceed 4.

Water passed a quality test on March 22 1991, so Reynolds decided to plant his wheat and potatoes. But on April 30 he found that the water quality had deteriorated so much that it was hazardous to plant either crop.

The sodium level at Reynolds's first irrigation pump, early in May, was 140 ppm and the chloride level 106 ppm. The sar was 4,8, while the conductivity was 98 ms/m. But the conductivity increased to 155 ms/m at the Sasol boundary on the Trichardspruit. At the Roodebank measuring point, above which the Trichardspruit enters the Waterval, the readings were sodium 145 ppm, chloride 142 ppm, sar 6 and conductivity 124 ms/m.

On May 6, Reynolds's consultants — Piet Hammes, professor in the department of plant production at Pretoria University, and John Harrison of Agri-Africa of Maritzburg — both advised him not to use Waterval River water for irrigation.

A late planting — which might have been theoretically possible when Sasol belatedly took steps to improve the water quality — would have interfered with Reynolds's plans to harvest teff from the same land as high-quality racehorse feed. There would have been further problems associated with a late planting — missing the best moment in the climatic cycle and labour problems at harvest time.

The outflow of pollutants during last May resulted from heavy rains that leached out the mineral content from an ash dump at Secunda — which Sasol does not dispute. Reynolds estimates that the discharge must have persisted for at least six weeks to produce the volume of contaminated water detected.

Reynolds says he had suffered a previous loss of net income from irrigation farming in 1986-87. On that occasion he compromised, accepting about R46 000 on a loss he had estimated at some R120 000 when Sasol accepted its liability in principle.

Reynolds emphasises that saline water contaminates agricultural land: the water flowing from Secunda a year ago will take several years to leach out before the soil can be used again.

Worse still, says Reynolds, is the passive attitude of the Department of Water Affairs, which has not taken steps to control pollution in the Waterval River, even though it conducted an inquiry into water quality and commissioned detailed reports by consulting engineers Stewart Sviridov and Olivier (SSO).

Reynolds says he informed the department of the latest pollution episode, but claims it is reluctant to act. Sakkie van der Westerhuizen, director of water quality management at the department, says the department has given high priority to promoting good water quality in the Waterval River. He says SSO's reports indicate a dramatic improvement in water quality since 1989 in the Trichardspruit because of remedial measures taken by Sasol.

Nevertheless, the sodium and chloride contents remain a cause for concern from time to time. This is not acceptable to the department and will be addressed as part of the water-quality control plan for the area. Van der Westhuizen rejects summarily Reynolds's allegations of passivity, saying water-quality control has to be developed systematically over time — which the department is doing.

Sasol strenuously disputes most of Reynolds's version. Jan Krynauw, a Sasol spokesman, says that upon discovering the seepage, it took steps to prevent further spillage and — with co-operation from the department — flushed the river with fresh water purchased from the Rand Water Board. This exercise was completed by the middle of June at a cost of about R300 000.

Sasol alleges that Reynolds — when informed of Sasol's intention to flush the Waterval River with fresh water — suggested it would be cheaper for it to pay his claim. Sasol pointed out to Reynolds that this would be prejudicial to other farmers down the river and to the environment generally.

Sasol further says the water was not poisonous but merely contained increased salt levels. Even when the salt level was at its highest, it could still be used for most irrigation purposes for a short period. Sasol says that, when its representative overflew Reynolds's farm by helicopter, together with Reynolds, he saw that Reynolds was irrigating his farm with the very water at issue.

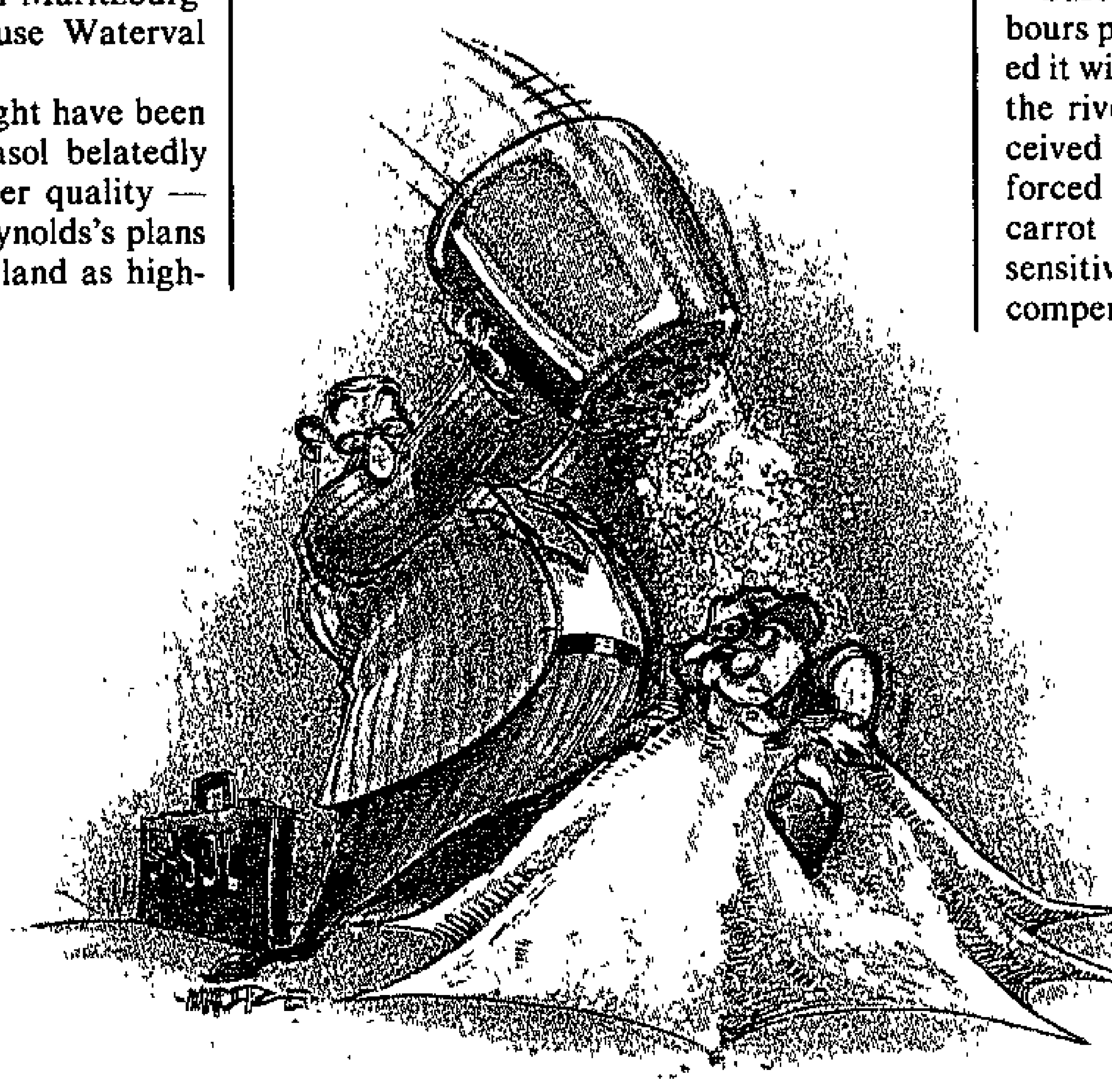
Sasol points out that one of SSO's reports states that wheat can tolerate salinity of up to 400 ms/m, while the maximum conductivity levels complained of ranged between 112 and 118 ms/m.

According to Sasol, the flushing process was complete by the middle of June, well in time for Reynolds's planting schedule. Indeed, the water quality by that stage was better than it had been for many years at that point in the season.

Sasol believes that Reynolds never had any intention of planting either wheat or potatoes. Sasol says Hammes considered that Reynolds could have planted wheat until the end of July and that the best time for planting potatoes was only in August. In any event, Sasol proposed to Reynolds that he should plant and that Sasol would reimburse him for any losses in yield caused by poor water quality.

It also claims that Reynolds threatened to dump a load of salt outside its Rosebank headquarters and to stage a demonstration there with his labourers.

Sasol claims that one of Reynolds's neighbours planted wheat and successfully irrigated it with the allegedly polluted water. Along the river, only one other complaint was received — from a farmer who found himself forced to use the saline water to irrigate carrot seedlings. As carrots are notoriously sensitive to salt, Sasol unhesitatingly paid compensation in this case.



Sasol says it consulted several agricultural experts, including Robin Barnard, a professor of soil science at Pretoria University, consulting engineers Watermeyer Legge Piesold & Uhlmann and various officials at the Potato Research Station of the Department of Agricultural Development.

There the matter is likely to rest, as Reynolds now says he has quit farming and will not continue to press his claim against Sasol. ■

INTEREST RATES FM 29/5/92

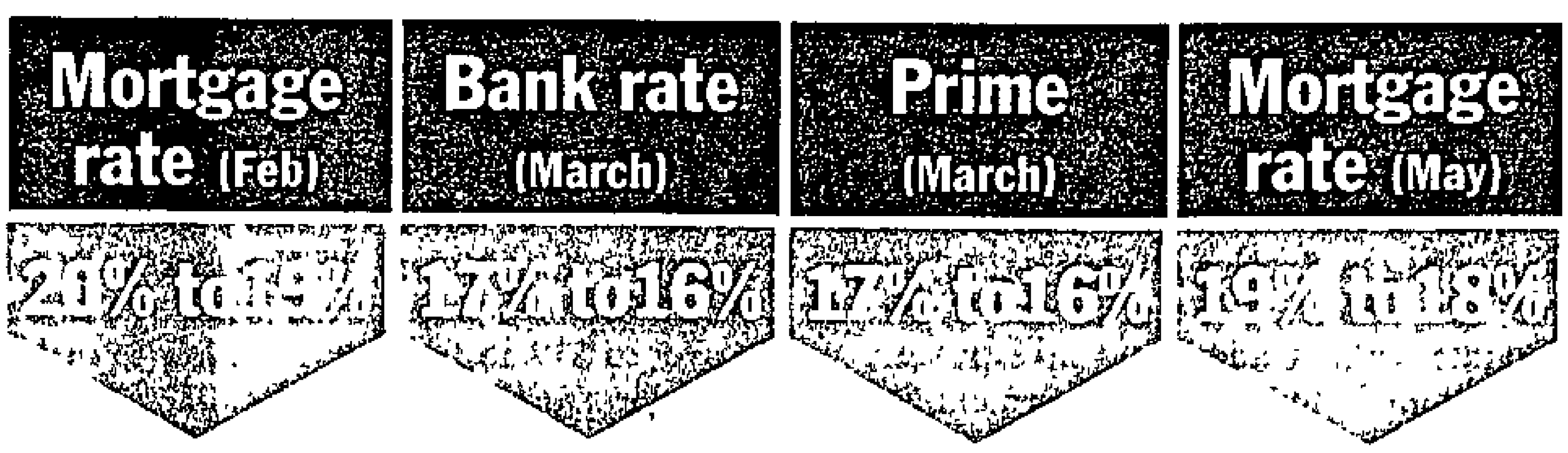
(58)

Telling a wink from a nod

Nods and winks have always been a traditional part of implementing monetary policy. When Bank rate — the official rate at which the central bank accommodates the banking sector — is lowered, it is a clear signal from the Governor that a general downward shift in the pattern of interest rates is in order. When money market rates are allowed to fall with little intervention from the Bank, it is a only a wink. When this development is accompanied by repeated official references to the inflation rate — which remains unacceptably high — banks have to be careful not to read too much into it.

However, recent events gave some bankers enough encouragement to move their mortgage rates down one percentage point to 18% last week.

The steady downward drift in rates accelerated around the second week of this month and no immediate action was taken to stop the slide. Though key rates fell about one percentage point between May 6 and 19, no special Treasury bill tenders took place. Then on Wednesday last week, a R500m five-day tender of special Treasury bills was placed in the market and, on Thursday, money flowed out to pay for RSA stock purchases. These events sent the market shortage up to more than R2bn on Friday after recent levels of around R1,5bn.



But this did not prevent a fall of 10-20 points in the rate on bankers' acceptances between Friday and Monday.

All in all, it seemed likely that Reserve Bank Governor Chris Stals was prepared to show a little flexibility but reluctant to make an official move on the high-profile Bank rate for fear of arousing inflationary expectations.

First to announce the drop was Standard Bank, closely followed by First National Bank (FNB). These banks hold only about 19% and 15%, respectively, of their total assets in mortgage loans, so they are well placed to make the move. They put competitors Nedbank and many of the banks in the Absa group at a disadvantage. Nedbank, having absorbed the portfolio of former building society, the Perm, has about 37% of its assets in home loans. Absa, which last year held a ratio of 44%, reduced this when it took over the Bankorp group. The absorption of Bankfin, Senbank and TrustBank has cut that ratio to about 30% — still relatively high.

The time it takes for banks to reduce their funding costs varies with the term structure of their liabilities but, on average, it will take three months before costs are brought into line with interest revenue. This is why Absa and Nedbank did not immediately announce their own cuts — though they are bound to follow or lose market share.

The cut will not come into effect until July. By then there may have been a fall in Bank rate. Stals has been reluctant to lower Bank rate until inflation figures improve. But, by June and July, they may be looking better. There are two reasons:

□ The producer price index has been falling for more than a year and the lagged effect must feed through at some point; and

□ The technical effects relating to the change in the consumer basket, upon which the inflation figures are based, will be almost fully phased in.

These factors will counter other pressures.

So the strategy may pay off.

If the portents are favourable, a move in prime could precede the Bank rate cut. The tradition of waiting for a cut in Bank rate has been waived, at least in theory, by Stals who has pointed out several times that the banks are not obliged to wait. In reality of course, they depend on him for liquidity in the market. Nevertheless, in March last year, FNB dropped its mortgage rate one percentage point to 20% without waiting for the customary signal; this was promptly followed by a fall in Bank rate and a round of prime rate cuts.

In February this year, a similar move on the mortgage rate was followed a month later by a fall in Bank rate and then in prime.

Whatever the banks do, Stals will undoubtedly act with caution. The liquidity in the market would seem to be a clear indication that the time is right for lower interest rates but, unfortunately, this is not the case. Market mechanisms are distorted by exchange control which prevents money flowing offshore. And government spending constantly buoys supply of funds.

These are potentially inflationary. So despite the fall in demand for credit from the private sector, the country cannot afford almost negative interest rates at this point. ■

TRADE FM 29/5/92

Diamonds aren't forever

The category gems & precious stones, which boosted exports in previous months, fell sharply in April.

This contributed to a smaller monthly trade surplus of R984m (compared with R1,8bn in March) as total exports for April fell to R5,2bn from March's R6bn.

Exports in the category, which consists mainly of diamond stock transfers abroad, reached R946m in February and R962m in March but totalled only R157m in April.

There is some speculation that the sudden decline could have resulted from lags in transfers that have showed up in the May figures.

Because of the previous strong performance, the category was up 22%, at R2,5bn, in the first four months of the year. This is measured against the same period the year before.

Total exports in the four months rose only 6% to R21,6bn.

Over this period, the falling gold price played an important role, reducing the value of exports in the unclassified category, mostly gold, by 9% to R8bn.

And, says Tony Twine of Econometrix, the US dollar's recent fall against the rand should reduce the rand value of this category in May.

Paper & pulp products exports dipped 2% to R498m. Textile exports rose only 1% to R605m.

Base metals exports in the first four months, at R2,97bn, were at the same level as in the preceding period.

But strong increases were seen in:

□ Minerals, up 14% to R2,5bn;

□ Chemical products, 42% to R987m;

□ Vegetable products, 39% to R804m, thanks to good crops in the fruit-growing regions of the western Cape;

□ Prepared foods, 27% to R629m;

□ Plastic products, 46% to R220m;

□ Machinery, 21% to R560m; and

□ Vehicles, 57% to R583m, despite a slump in the month to R146m, down from R255m in March.

Imports remained flat.

They were valued at R4,3bn for April, compared with March's R4,2bn, and the cumulative total over the four-month period was R16,3bn. This was up only 4% on the

Cont — ▷

Portfolio provides safe stake in property

(58)

STAR 30/5/92

UAL Merchant Bank has introduced a new property-related investment concept which, it believes, is a first in South Africa and, possibly, the world.

Peter Anschutz, MD of UAL Investment Planning Services, says the Guaranteed Property Portfolio (GPP) is an investment in property which guarantees the capital value of the investment.

It is being brought to the market through a private placing to selected individual clients.

Says Anschutz: "There are strong indications that there will be significant demand for the GPP. Although the huge 'Yes' vote in the referendum boosted confidence in property investment, there is a wariness in the market over some forms of property investment as a result of the failure of certain types of property schemes.

"There is also concern among some investors about tying their investments to the movements of the stock exchange ... they see investment in property as being safer than equities."

Sacrifice

The underlying property of the GPP investment is the Newport Property Fund, which is managed by UAL's property management division and comprises a portfolio of Amgrada commercial properties not currently available to the individual investor. The guarantee of capital at maturity of the investment in 1997 is provided by a zero coupon bond.

The investment is expected to provide an increase in income as well as capital growth — particularly when Newport is listed on the Johannesburg Stock Exchange as a property unit trust, which UAL expects to do next year. R50 million will be raised now for Newport through the GPP, with a minimum investment per individual of R50 000.

While there is a assurance of the original capital amount invested, the investor may elect to waive the capital guarantee in favour of an investment in Newport only. By sacrificing the guarantee, investors will opt ... a higher income ...d capital ...e distribu- ... made every

...ts: ...ay. ...hic- that by fu...

Positively no vacancies at insurance companies

South 30/5 - 3/6/92

HIV-positive people looking for a job or hoping to find an insurance policy may find that some insurance companies react rather negatively to their applications. **Justin Pearce** reports:

(58)

PEOPLE INFECTED with the HIV virus are not sick. Medical opinion has established that people who have contracted the virus can live for 10 years or longer in perfect health before developing Aids. Yet people with the virus are discriminated against when it comes to finding jobs. Most insurance companies are among the employers who reject HIV-positive workseekers.

This policy is related to the extensive insurance packages that are automatically granted to insurance employees. Consequently job applicants are treated with the same circumspection as life insurance clients.

Applicants who test positive "would probably not be employed," says Old Mutual chief actuary Mr Theo Hartwig. "He would definitely not receive staff benefits, and we do not like to take on people who are not covered."

Not testing staff would result in "a situation where people take advantage of our staff benefits by coming on to the staff when they are already HIV positive".

Southern Life's general manager of life actuarial services, Mr Paul Truyens, says Southern's employee benefit programme includes life insurance. An HIV positive person would not meet the medical requirements for such a scheme.

Sanlam does not compel job applicants to undergo an HIV test. Applicants do, however, answer a health questionnaire which asks, among other things, whether the applicant has voluntarily received an Aids test or counselling, and whether the applicant is aware of having suffered any Aids-related symptoms.

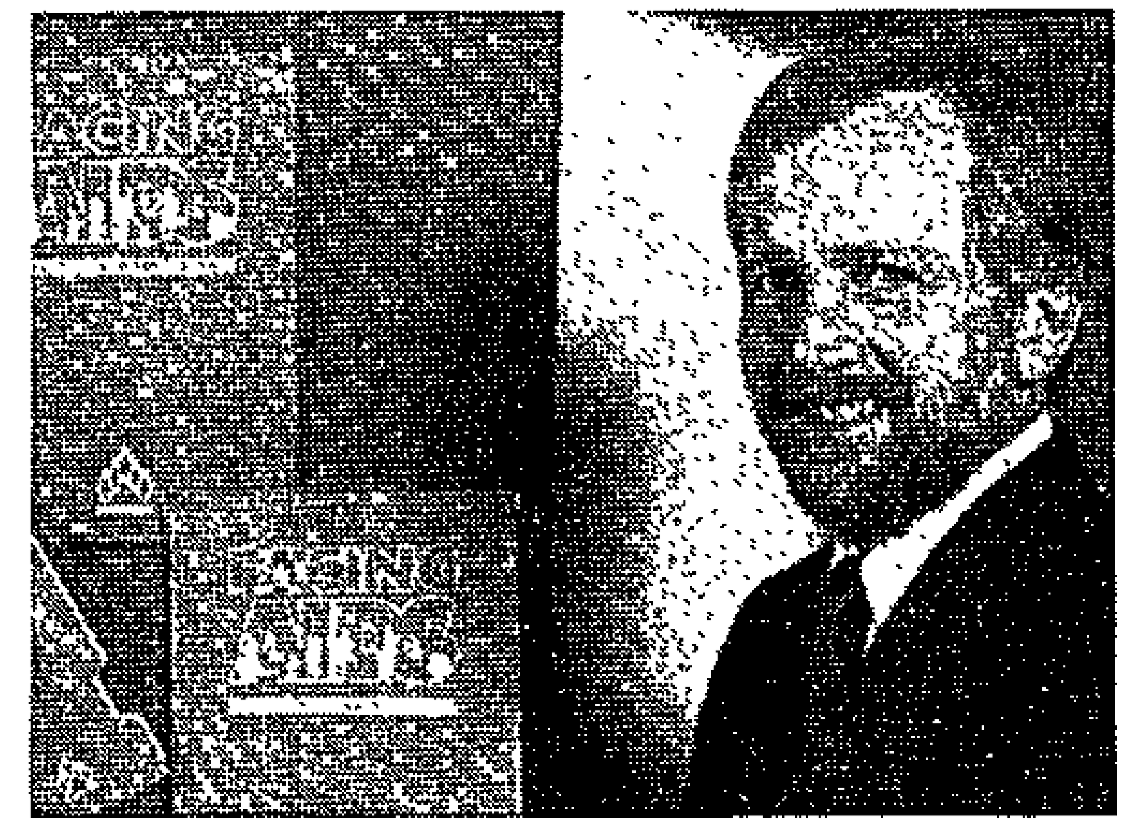
Truyens says Southern Life knows that HIV positive people are employable, and is investigating changing its staff packages in such a way as to accommodate them. An HIV positive person will not, however, be admitted to a position that required many years' training.

One possibility would be to reduce the number of automatic, compulsory benefits received by staff. Staff who tested negative would be able to opt for additional benefits, including life cover.

Southern and Old Mutual have stated that no employees will be dismissed if they are found to have the HIV virus.

Hartwig says Old Mutual's policy must be seen "in the context of Old Mutual being actively supportive of HIV-positive people who are already on the staff".

Southern Life last week released an Aids education resource package intended to guide firms in developing a fair Aids policy as well as educating staff about safer sexual practices.



Paul Truyens

Honesty, the best for policy?

South 30/5 – 3/6/92

IF YOU ADMIT in an application for life insurance to having had a voluntary Aids test you could find your lifestyle being "investigated" — even if the result is negative.

Old Mutual chief actuary Mr Theo Hartwig says the company will enquire why an applicant was tested. "This might lead to an investigation with regard to the applicant's lifestyle."

Indications of gayness will reduce chances of getting a policy, he says.

Southern Life's general manager of life actuarial services, Mr Paul Truyens, says that while Southern Life asks similar questions, these are to establish whether the applicant is HIV positive. Southern will never investigate an applicant's lifestyle, he says.

Life insurance policies are not granted to people who test positive, for the same reason that they will not be granted to a person with a history of heart disease. The increased risk of insuring someone with a relatively short life expectancy will involve raising premiums for all other clients.

Companies therefore demand the HIV testing of life insurance applicants.

But application forms containing questions about Aids testing or counselling have raised fears that applicants who answer "yes" will be discriminated against, even if the result of the test was negative.

Admitting to have had an Aids test or counselling could be interpreted as an admission of being in one of the high-risk groups.

Southern Life and Old Mutual are aware that only a small fraction of Aids cases occur among gay people. Southern's policy already reflects this realisation, while Hartwig says Old Mutual intends adapting its policy.

Bankorp bad debts could be higher

(58)

S/Times (BUSS) 3/5/92

By ZILLA EFRAT

ABSA chief executive Piet Badenhorst conceded this week that the assessed loss or bad debts of its Bankorp acquisition might be higher than assumed by commentators.

His statement heightens speculation about Bankorp's exposure.

Speculation is that Bankorp, possibly dating back to TrustBank, was heavily exposed to properties rented by a listed company involved in private hospitals.

Absa deputy chief executive and former Bankorp chief Piet Liebenberg would not comment when approached this week. He cannot say anything because the matter concerns the bank and a customer. To comment would be a breach of confidentiality.

Bankorp's share price is only 280c and Absa's 980c — it was R11,60 in January before the Bankorp deal.

Absa made a bid for control of Bankorp at 312,5c a share this year. But it was later reduced to 288,5c after a due diligence investigation.

The final price for Bankorp was about R100-million less than originally offered.

Absa this week reported attributable earnings of R491,4-million for the year to March — before the Bankorp merger, which became effective on April 1.

The results included the Allied and Volkskas divisions and some interests acquired from Sage Financial Services.

Earnings a share rose by 15% to 107,6c (93,4c). A final dividend of 24c brought the total to 39,5c (36c).

Before joining Absa, UBS enjoyed a premium rating on the JSE, but it has been overhauled by other groups. Since taking in Bankorp, Absa has become by far the biggest banking group.

Chairman Herc Hefer said this week that progress in the rationalisation programme had exceeded expectations. The projected savings target of R85-million had been surpassed and net savings amounted to R98-million.

However, retrenchments continue to mount at Absa. The enlarged group employed nearly 44 000 people at the yearend..

Axed

Absa group executive human resources head Petrus Claassen says 849 employees have been placed on a surplus list for retrenchment since April 1.

In mid-April, he told Business Times that more than 1 350 employees had been axed since the formation of Absa last year. Another 292 jobs, including those at Bankorp, were set to go.

Rate cut

(58)

NBS Bank will cut its bond rate for existing borrowers by 1% from the beginning of July. Trevor Olivier, assistant general manager, loans, says NBS reduced its bond rate by 1% for new borrowers on May 25 "and we are now following through by bringing the same benefit to our existing homeowners." S/Times 6455 3/15/92

Winning ways at lively Investec

S/Times (BUSS) 31/5/92 (58)

INVESTEC scrip was virtually unobtainable after the financial services group gave a presentation to the Investment Analysts Society a week ago.

The fast-growing group has not always enjoyed the best of images, but consistent performance has won many over to its side in the past three years.

Investec has outpaced other banks, big and small.

Established in 1974 and known as Investec since 1976, it has been added to gradually and profitably. The banking licence was obtained 12 years ago.

The holding company listed in 1986 after the Metboard merger. Investec Bank followed the JSE path in 1988, and there have been several deals, starting with Duros, DMB Securities, Corbank, Kupers, Reichmans and the Provincial Building Society, building up to this year's strategic alliance with Fedsure.

Investec Bank managing director Stephen Koseff takes pride in his group's independence and is happy to have found common interests with Fedsure — also an independent. The deal was mutually beneficial in that it gave both groups an opportunity to raise capital through debenture issues as well as the opportunity to tap into each other's customer base.

Yet that deal — Fedsure bought 15% of Investec Bank and 27% of Investec Holdings which in turn came by 23% of Fedsure — will mean a dilution in the rate of growth in Investec's earnings a share.

"An insurer's paper trades at a higher price-earnings ratio than does a bank's and we were outnegotiated," says Mr Koseff. Investec was obliged to pay a premium for the cross-holding.

"Fedsure will drag us down in the first few years, but the benefits will compensate."

Since 1983, Investec's earnings have increased at a compound annual rate of 25% a year, the dividend has climbed from 10c to 70c and the net asset value from R1 to R11 a share.

Assets under administration are 300 times higher at R9-billion, of which R3,6-billion is on the balance sheet and the rest in property, preference shares and other assets.

Mr Koseff outlines Investec's prospects with emphasis on international business.

Group chairman Bas Kardol says the word international has been reincorporated in the mission statement.

The group is present across the continents through trade financier Reichmans. Coupled with the fact that there are few SA acquisition opportunities, and that the group warned shareholders two weeks ago, market speculation suggests that 60% of a foreign bank has been bought.

Investec cannot comment yet.

In the current bout of rationalisation among SA's banks, Mr Koseff notes that capital and not size is the more important criterion.

He says two of America's five largest banks and three of Japan's do not yet meet the 8% capital-to-assets requirement. European and American credit ratings of banks have fallen as they lose status.

Investec is the sixth-largest bank by capital in sub-Saharan Africa and the 16th by assets. It has been active in lodging footholds across the continent.

Mr Koseff believes that banks might not really be necessary if securitisation and commercial paper take off.

"There's not much point lending on a margin of 0,2% when we have to pay 0,25% in turnover tax," says Mr Koseff. Lending might decline, but banking services will not.

He forecasts that Investec Bank will contribute 31% to profit in the current year, property 12% (after last year's zero), Metboard 17%, Investec Merchant Bank 18%, Reichmans 10% and Fedsure 12%.

Foreign business, mainly Reichmans, will contribute 30% to pre-tax earnings, a touch lower than last year.

Two-thirds of income should be annuity based and the balance from fees — almost the reverse proportions of a few years ago.

Mr Koseff jokes that the group can now afford to pay its overheads without hoping to land a big deal every month.

On a risk-adjusted weighting, Investec Bank's capital ratio will hit 14% this year. The group is cash-flush after a rights issue. Risk-adjusted return on assets is expected to be 1,42% — lower than last year and below next year's forecast.

Mr Koseff says: "As we deploy the cash we will improve returns. We can meet capital requirements until 1998 without a rights issue.

"Contrary to popular belief, we are rather conservative in our banking activities. We don't take very long or very short positions, but match our book carefully so that not everything matures on the same day. We limit both borrowers and depositors to avoid becoming too dependent on one avenue."

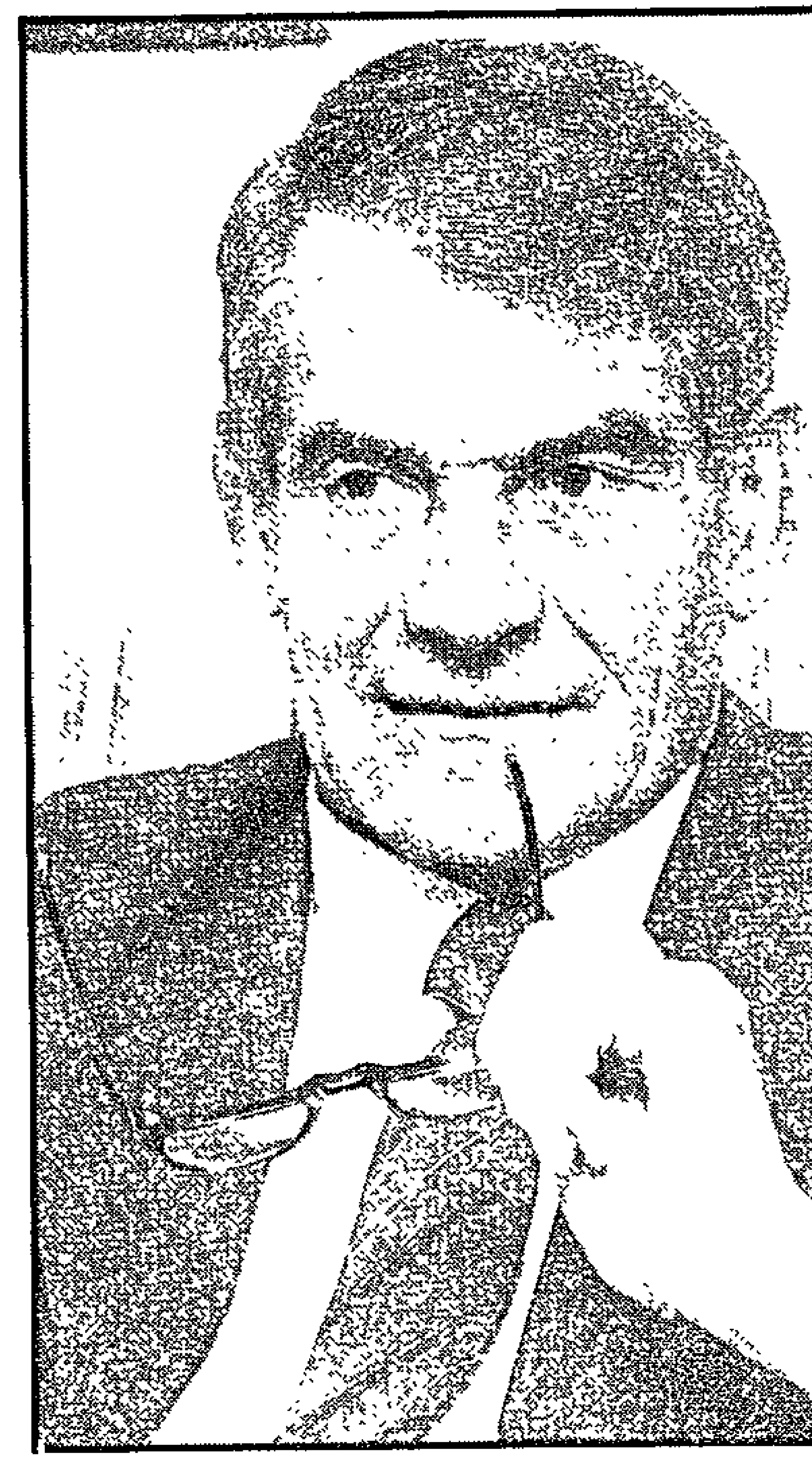
Mr Kardol rounded off the presentation with a look at the staff, who account for 55% of running expenses. The impression is that one has to be competent to work there — the high staff turnover probably reflects that those not making the grade move on. The top 100 are stable.

Investec last gave a presentation three years ago, since when it has fulfilled its expectations to the satisfaction of shareholders

The fact that every employee has a stake in the business augurs well.

Investec's three Ks — Kardol, Koseff and chief operating officer Bernard Kantor — have done a pretty good job in putting the independent financial services group on the map both here and abraod.

Investec hit a high of R23 and the holding company R18 on strong sentiment and speculation about the warning to shareholders.



BAS KARDOL: Only the best of staff Picture: CATHERINE ROSS

Join good company with property unit trusts

■ MONEY TALK (58)

PROPERTY values in most areas of SA are at low levels, mainly as a result of the deepening recession and the gloom that normally accompanies the low point of the business cycle.

Investing in property at a time like this can be extremely profitable. Unfortunately property investment is highly specialised with few of us able to achieve real success in a competitive environment.

Yet the smaller investor can participate in any future growth by making use of existing organisations, such as the property unit trusts listed on the Johannesburg Stock Exchange.

Apart from the fact they provide excellent cash returns there is also the virtual certain appreciation of the capital value of their underlying properties.

The 15 property trusts listed on the JSE cover virtually the entire spectrum of real estate investment in SA. Your money is safe as the trusts are regulated by the strict provisions of the Unit Trust Control Act of 1981, the same act that controls the activities of the popular equity trusts. C Pres 3/1/92

But note that equity trusts are so-called open-ended trusts in that they continue to grow by selling new units to investors, while they also guarantee to buy back your units, less certain fees, at any time. Property trusts are close-ended in that they do not issue new units automatically, nor do they buy back these units. They acquire new capital by making regular rights issues to unit holders.

To buy units in property trusts you must go to a bank or stockbroker to buy them on the open market for you.

Some of the country's leading banks and financial institutions have invested millions in property trusts.

They are popular with these institutions because they are well-managed and provide a spread of risk by holding a number of properties in different parts of the country. These properties are normally occupied by well-established organisations.

At current prices yields of up to 16 percent are obtainable on property trusts and with the prospects of rising property prices and lower interest rates as the economy recovers you can be assured of capital appreciation as well.