FINANCE — GENERAL
1993

Sept — Dec.

Absa stuns market with poor showing

BDay 30/11/93.

(68)

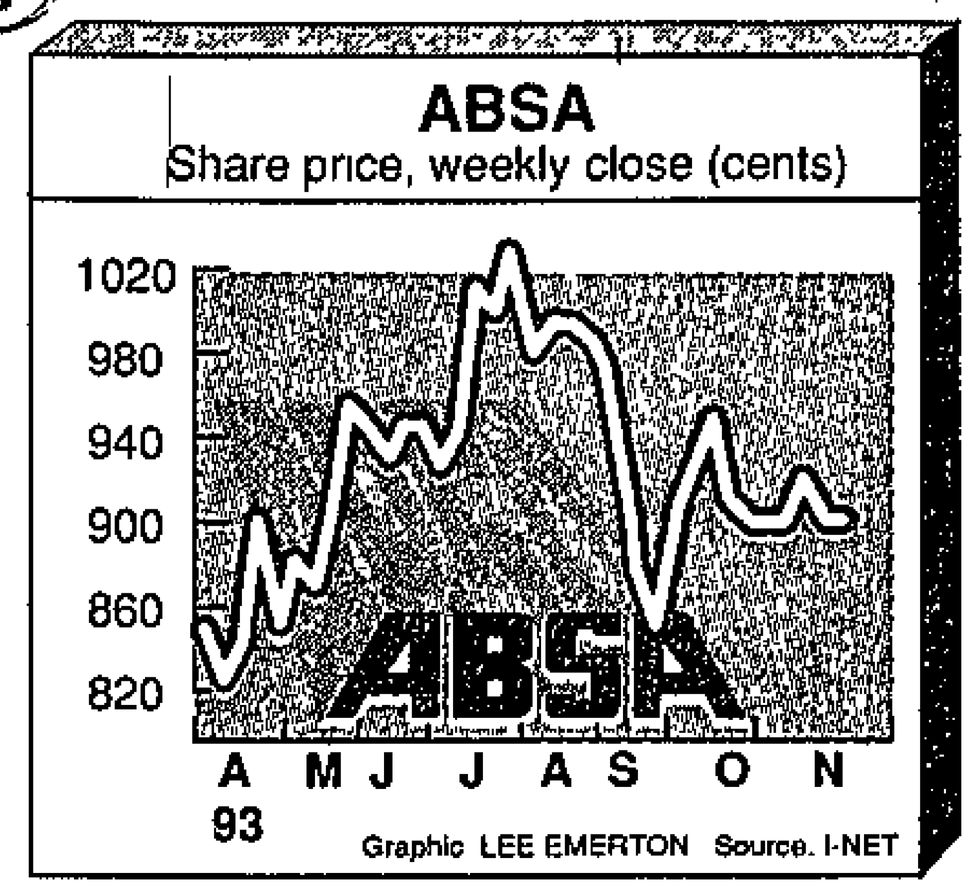
SHARON WOOD

BATTERED by loss of market share and a higher tax burden, Absa shocked the market with earnings growth of only 4% to R305m in the six months to end-September from a previous R294m.

The results were significantly below market expectations of more than 10% growth in earnings a share. Earlier this year, analysts were expecting profit growth of 18%-20%. Earnings a share rose 4% to 54c (51,9c) and dividends were maintained at 17c.

CE Danie Cronje said the loss of market share in high interest retail advances (consumer loans) had squeezed interest margins, with net interest income rising only 2% to R1,83bn (R1,79bn).

He said his biggest concern was the low 5% growth in advances to R66,9bn (R63,8bn) because this had had an impact on operating income. Operating income edged up 6% to R2,4bn (R2,3bn).



But Cronje said the weakness in retail advances appeared to have reached the

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Absa

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bottom of the cycle in March, and growth of 7% had taken place from then until September. Meanwhile, corporate advances had shown growth of 15% during the interim period.

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Cronje was pessimistic about the expected performance of Absa during the rest of the year. "I do not envisage high growth in assets in the remaining six months and earnings growth will probably be maintained at its current level."

The bank would review its dividend policy at the end of the year and was not guaranteeing an increase in dividends.

He said the amalgamation of the various interests in the group was a long-term project, which would run its course in only about two-and-a-half years.

Absa reduced bad and doubtful debt provisions by 33% to R279,4m (R420,1m) and Cronje believed this was under control.

The group had continued to rationalise high exposures and to improve credit risk assessment and management. This had resulted in a significant improvement in the quality of the advances on the book.

He said Absa had also contained the increase in operating expenditure, which rose only 4% to R1,9bn (R1,8bn).

The group's tax burden rose substantially. Cronje said the bank had not benefited from lower company tax because it had a deferred tax asset of R600m from the Bankorp tax losses inherited when Absa took it over. Tax jumped 30% to R231m (R177m).

Absa had also disposed of dividend-earning investments which had not been producing realistic returns against the background of Absa's substantial tax losses.

Cronje said the rationalisation process was "substantially over" and all that remained was the continuing process of standardising the group's computer systems. Any future reduction in staff numbers would be through natural attrition, he said.

Absa had increased its risk-weighted capital ratio to 8,7% by raising a R1bn 10-year subordinated loan, which would be compulsorily convertible into ordinary shares in the bank. Cronje said as this would become permanent capital at some stage the bank was adequately capitalised. It was not considering a rights issue.

Saambou earnings soar 212%

(58)

CT 29/11/93

By ARI JACOBSON

SAAMBOU BANK, in a liquidity squeeze until Fedsure threw it a lifeline in 1991, showed the benefits of working within a big financial orgainsation boosting attributable earnings by 212% to R7,8m (R2,5m) for the half year to September.

The end result of the new shareholding and the ensuing changes to the organisation, is this massive gain in earnings a share to 6,2c (2c), for the six months to September 1993.

An interim dividend of 1c a share (nil) has been declared.

This was achieved after a R5m general provision, lower than the R6m provision, for the same period last financial year.

Saambou in 1991 was running a deficit and fighting a hostile bid, when Fedsure took up a 34% stake via convertible debentures — now having matured into shares.

Since then Saambou has been restructured and a new management team inserted.

MD Johann Mybrugh who took up the reins around then, pointed out at the time "Saambou was losing R2m a month".

Losses were coming mostly from large bad debts in the black market and an unprofitable property portfolio.

Johann Myburgh was quoted at the weekend as saying "the group is continuing to maintain the positive growth trend, as is evident in the 65% gain in net operating profit before tax, for the half-year".

"The bank is continuing with the process of converting non-performing assets to better quality assets, producing better returns".

Myburgh pointed out that the introduction of new products such as the Dinkum Save, aimed at the salary earner and pensioner "has helped boost liquidity", adding that 45% of total funding now came from this source.

"The radio of productive assets to non-productive assets for the same period rose from 82,9% to 84,5% which has had a positive effect on margins.

"Group schemes, which is the other niche market we pursue aggressively, has also been a source of growth to us," Myburgh said.

"Our operating expenses continue to be well managed and is unlikely to exceed the figure for the previous financial year," he said.

Saambou continues surge into the black

BIDay 29/11/93

SHARON WOOD

SAAMBOU Holdings has continued its turnaround to profitability, almost doubling net income before tax to R14,7m in the six months to end-September, from R8,9m in the same period last year. (58)

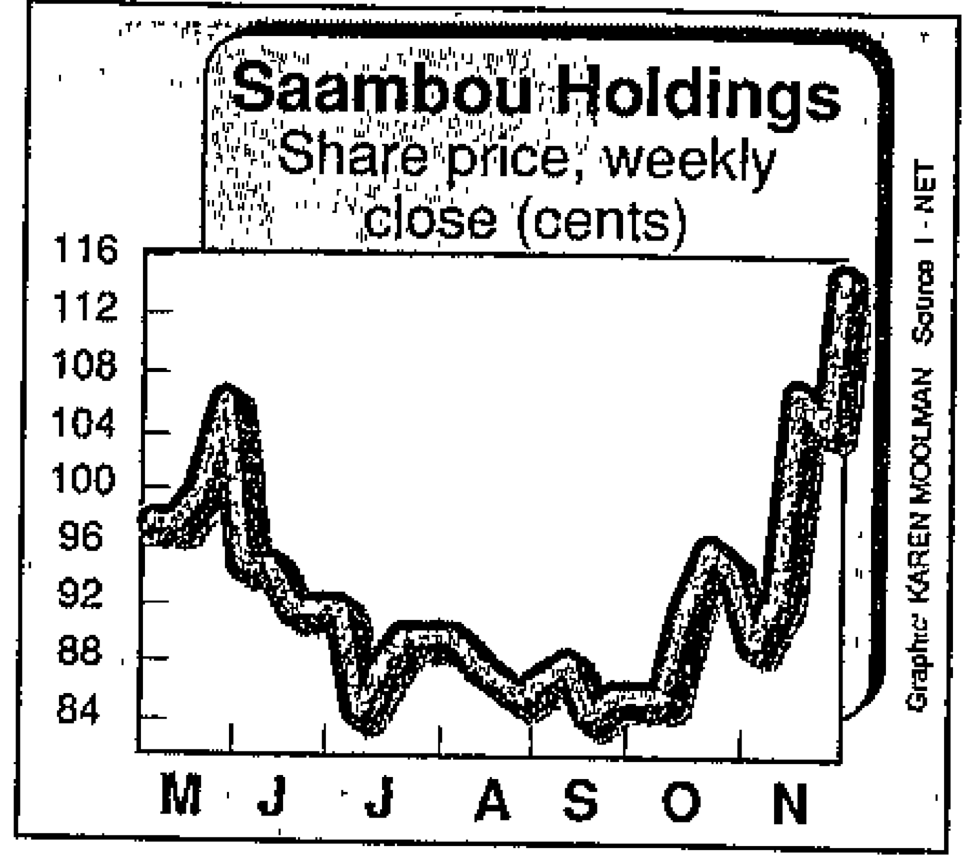
The group's tax charge rose slightly to R5,7m from R5,2m, leaving attributable earnings at R7,8m, 212% higher than the previous low base of R2,5m.

Earnings a share trebled to 6,2c from 2c. Another sign of a healthier balance sheet was the declaration of a 1c interim dividend. At the interim stage disclosure is limited and no account of interest performance is given.

MD Johan Myburgh was upbeat about the future of the bank, despite it only recently climbing out of the red.

Saambou was moving gradually towards its target of funding 50% of mortgage loans with savings accounts. It had reached 20% from last year's 18%.

But Myburgh said the target was proving difficult to meet because home loans



were growing much faster than anticipated. The bank would like to see a tapering off in home loan growth.

The bank's home loan book had jumped 15% during the period under review and now stood at R3,3bn. But he said the bank would be able to change its book — in-

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Saambou

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creasing its high interest rate loans and reducing its dependence on home loans — only over five years.

Saambou's aim was to reduce home loans from the current 80% of the book to 60%, which translated into annual growth of about 8% a year in home loans. (58)

Myburgh said the bank's current success, and potential future success, came from the fact that it continued to focus on a particular market, the individual and the individual through group schemes.

Group schemes would continue to grow, especially with the likelihood of a larger public service in the new SA, he added.

Myburgh believed Saambou would be able to survive a probable squeeze in interest margins during the next six months. "I believe we will expand faster than we expected," he said.

The group's productivity had improved substantially, he added. Expenses in October were 3% lower than the previous year. "This will only flow through in the future but I believe it will give Saambou a competitive advantage," he said.

NBS HOLDINGS

Fm 26/11/93

Bigger and better slices

58

Good investments and strategic alliances have been driving this share

The listing in April 1987 of a somewhat parochial business called the Natal Building Society was preceded, by four months, by a far more glamorous listing: that of United Building Society, the nucleus of what became Amalgamated Banks of SA.

Both shares fared badly at first. UBS, tendered at R6, was being offered at half the price a year later. The NBS bumped along at about R2,40 after coming on to the market at R3.

The more recent history of the shares is better known, especially since legislation passed in 1991 removed the distinction between banks and building societies. In that year Absa's share peaked at R10,50 — a point which was not to be regained as the Bankorp acquisition proved hard to swallow and bad publicity surrounding management intrigue sent the price plummeting.

Meanwhile, the share price of NBS Holdings, the name given to the group after the merger of its banking and building society interests, firmed steadily from R8 at the beginning of 1991 to R18 now. In one of those curious coincidences of numbers, NBS's share, listed at half the price of the UBS, now trades at double Absa's R9.

It's an apples and pears comparison, considering the traumatic period Absa went through and from which it now seems to be emerging, and is only worth making because bankers have long memories. A number of them remember Piet Badenhorst, CE of the UBS at the time, saying the NBS would not last more than two years beyond its listing.

The hard facts of the respective share performances, and prospects, are reflected in the ratings accorded each by the market. Absa is far behind the sector's average 3,6% yield and 14,9 p:e ratio, dominated as it is by the big four banks (Absa is the biggest by total assets, though only third in market capitalisation).

NBS, which has grown to become the fifth biggest bank in the sector, is on a yield of 2,7% and p:e of 12,1, second only to market leader Standard Bank Investment Corp among the big commercial banks (some of the smaller, specialist merchant banks have higher ratings).

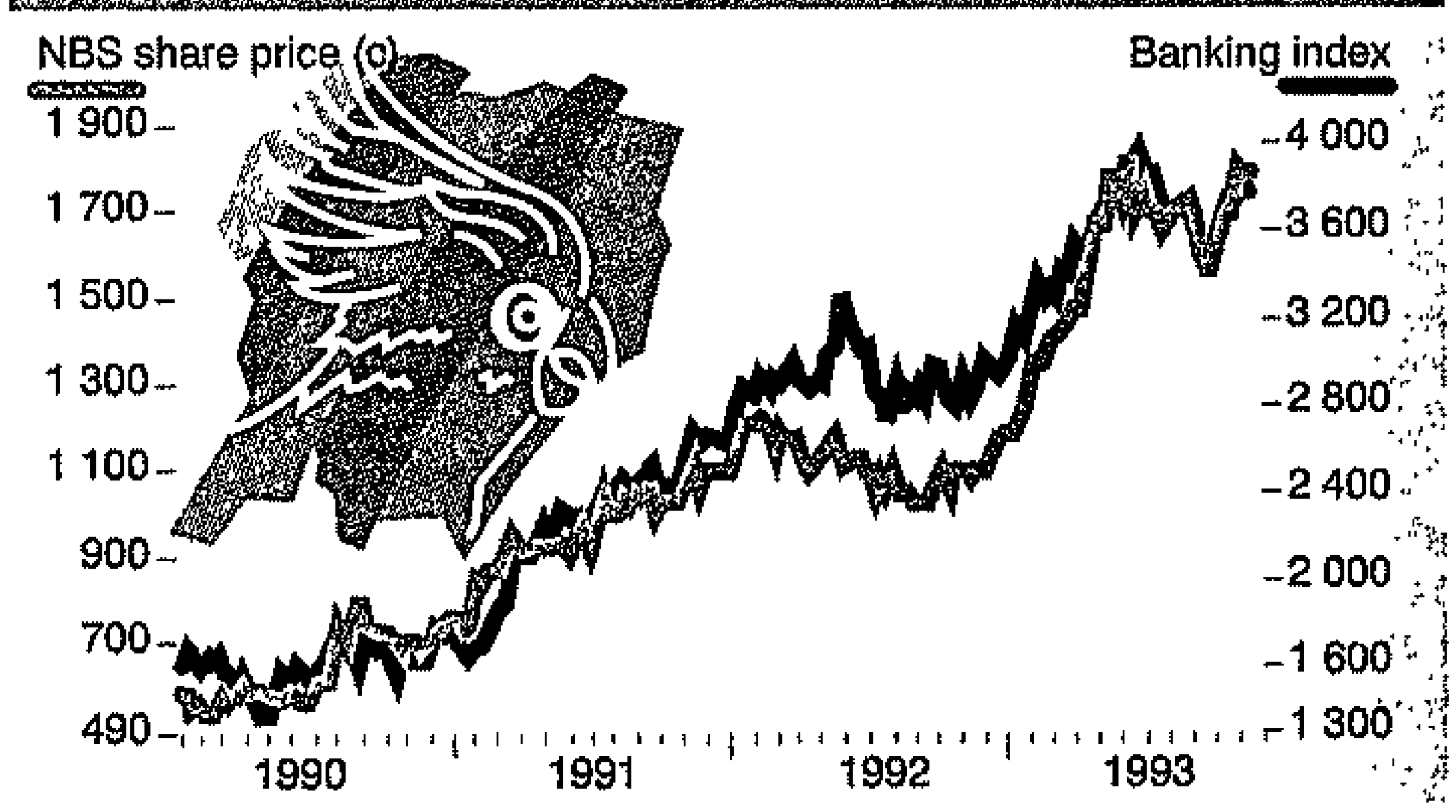
What has been driving NBS's share? A lot must have to do with a recent series of investments and strategic alliances, which correspond with the price gaining R6 — a 50% appreciation — since the beginning of 1993.

The year started with NBS announcing it was taking 65% in a new securities trading and risk management company called Circle Risk Management — essentially a team from a subsidiary of merchant bank Sechold; the team had walked out after an offer to buy Sechold's interest was turned down.

The CE of one of the big commercial banks recently told the *FM* that overseeing bond market traders was like trying to run a ballet company because of the prima-donna egos involved. But NBS's group finance and treasury GM Paul Leaf-Wright says the investment has so far been a happy one. "Apart from producing a return on equity of over 20% in its first six months of trading, the Circle team offers us their knowlege of specialised markets and introduces us to new clients."

Closing the gap

NBS Holdings' share and the Banking index



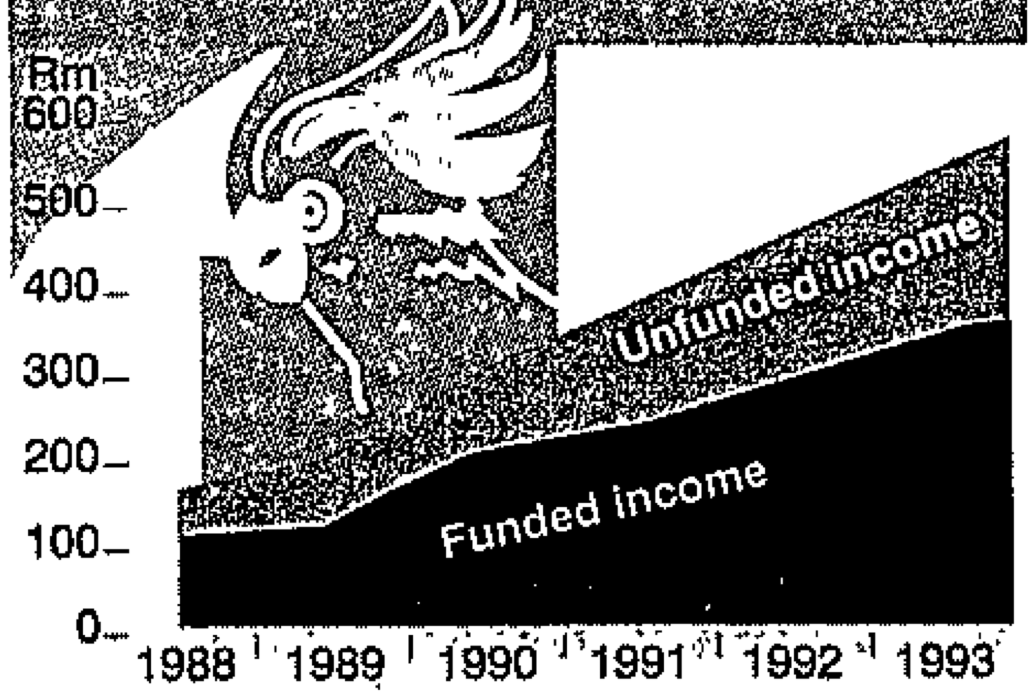
In February a cautionary announcement indicated negotiations were under way for Norwich Life (then a 26% shareholder in NBS), RMB Holdings and subsidiary Momentum Life to acquire joint control of short-term insurer Aegis. NBS was not mentioned in the cautionary but, when the deal was announced early in May, NBS and Momentum emerged as joint controllers of the highly regarded insurer, with 47,5% each.

Chairman Brian McCarthy says that after discussions with Norwich, it was decided it would be more logical for the interest in Aegis to be placed under NBS Bank, along with the group's wholly owned long- and short-term insurance companies (see organogram), rather than in Norwich's investment portfolio.

By then, NBS management was under considerable strain: bedding down the new investments; concluding an extensive internal restructuring programme; and getting ready to move from the group's eight buildings scattered around Durban and Pinetown to a new R70m head office at Kingsmead.

Widening the funnel

Analysis of income



Leaf-Wright says NBS was not contemplating any further acquisitions and admits he was getting concerned that the group might be giving the impression it was prepared to buy anything that came along. Then Barlow Rand (an 18% shareholder in NBS) announced its intention to unbundle and triggered the events which led to the recent 20% share swap with RMB Holdings.

Barlows, like Norwich, was an important shareholder for NBS because it helped tie up control of the bank and secure its independence. Control had been a concern for NBS's management — rumours of takeovers surfaced periodically and most of the big banks had been making overtures to NBS.

McCarthy went to Barlows' Warren Clewlow and offered the stake in NBS, mainly because the large industrial group represented a stable shareholder — and it had an investment in French Bank. Besides indicating it was not adverse to a stake in the financial services sector, Barlows' French Bank connection must have been an attraction for NBS (as later diversification showed).

But, with unbundling, NBS had to find a new home for its shares, and after considering a couple of options, settled on RMB Holdings. Chance had it that RMB Holdings was also looking for a shareholder after Sage indicated it would be selling its 20% holding as part of a consolidation process. After meetings between NBS and RMB Holdings, the benefits of a strategic alliance soon became clear.

Structurally, the share swap was important because it resulted in NBS having two

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FM 26/11/93

main shareholders, RMB Holdings and Norwich (whose interest was diluted from 26% to 22%), with roughly the same holding. At the same time, additional shares issued by NBS to fund the acquisition of RMB Holdings' shares allowed the Eskom Pension Fund to come in as an 11% shareholder — a relationship NBS is happy with and which it believes could offer marketing opportunities because of the large number of people employed by Eskom.

Securing control, and therefore independence, has been one of the two basic reasons for the investments and diversification NBS has undertaken in recent years.

On the face of it, the latest transaction seems to make NBS almost impregnable. But one school of thought, which keeps resurfacing, suggests NBS has offered RMB Holdings the thin end of the wedge to gain control of the bank.

NBS MD John Gafney has heard the rumours and shrugs them off. "Firstly, we have agreements in place not to increase our shareholding in each other beyond 20%. We also have pre-emptive rights to each other's shares. I suppose it is possible that there could be a closer connection between us and RMB Holdings in the future, but it would have to be through mutual agreement."

Most important, says Gafney, is the trust NBS has in its new partner. "Our organisations share a similar vision and we value independence. I really don't perceive any threat from RMB Holdings."

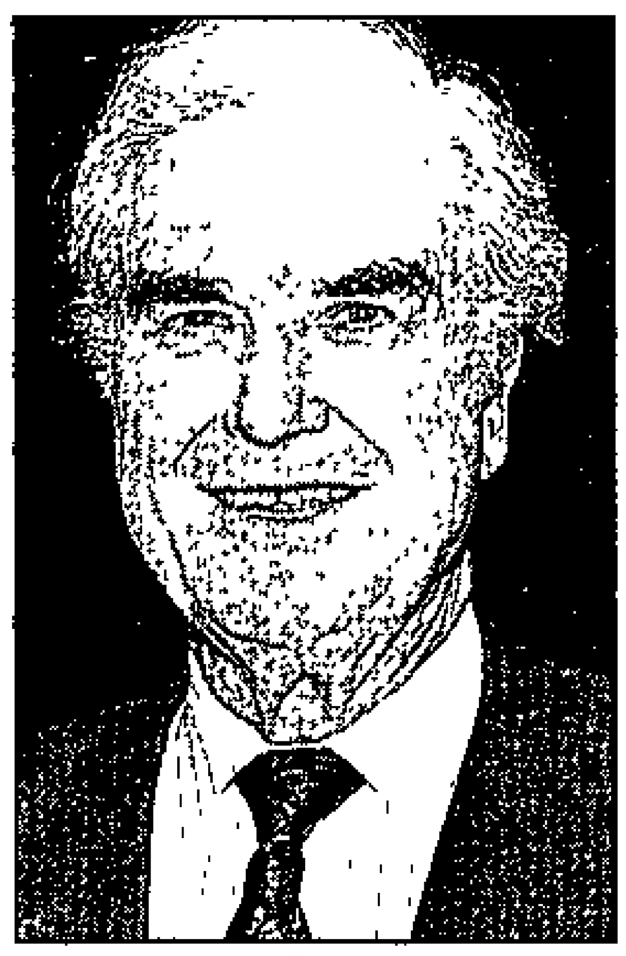
Leaf-Wright has his own view on maintaining the group's independence. "We are comfortable with RMB Holdings and, besides our joint control of Aegis, we had worked together on other transactions before the share swap.

"My argument has always been that as long as we can continue to perform, our share rating will remain high and we will be too expensive to take over."

NBS's present rating in the banking sector certainly shows that strategy is working. The high rating might put off potential investors who think the share is too expensive but it also helps deter predators.

Recent interim results, which showed earnings per share advancing 20% to 69,9c, reflect some of the benefits of the investments NBS has been making since 1991. (58)

The 18% increase in pre-tax income was boosted by strong balance sheet growth, particularly the inclusion of the 20% share in RMB Holdings, which helped grow shareholders' funds by 72% to R940m.



McCarthy

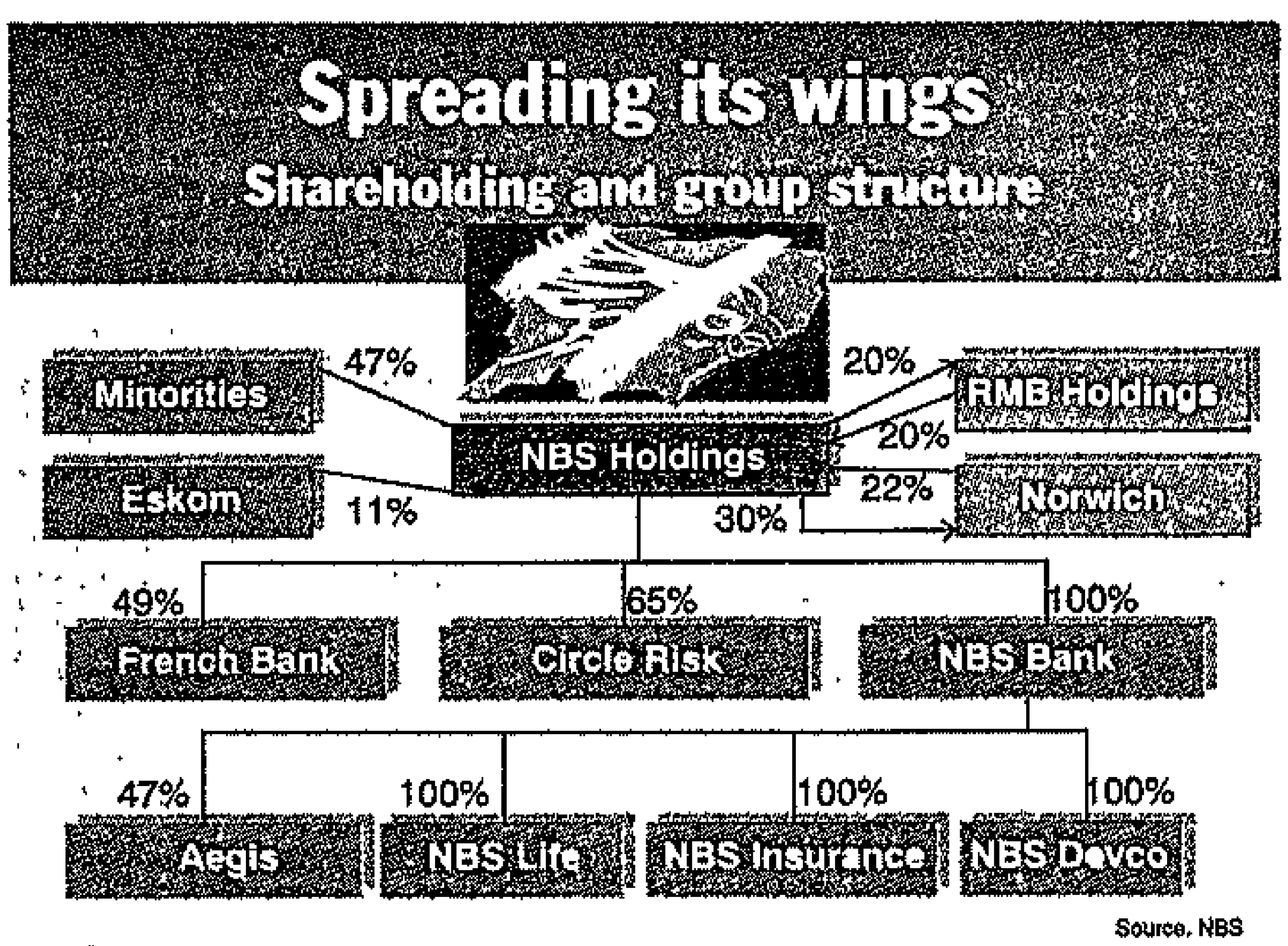
Significantly, while the first-time inclusion of Aegis helped the 26% growth in taxed income, to R42m, it does not include RMB Holdings (and NBS's effective 8% interest in strong performer Rand Merchant Bank). That will come in during the second half and, despite falling interest rates, should ensure good bottom-line growth for the full year.

The most dramatic effect on the income statement was the near doubling, to R9,9m, in income from associates. This comes from NBS's earlier diversification into merchant banking and insurance, represented by its 49% stake in French Bank (which it shares with Banque Indosuez, a valuable overseas connection NBS will be able to exploit more fully with the end of sanctions), and the 30% holding in Norwich.

Apart from the material effect NBS's investments are now having on results, they underlie the second basic reason for the group's diversification — its need to get away from its former heavy reliance on unstable interest income.

Its origins as a building society naturally left NBS with a large home loans book. A few years ago, a drop in bond rates would affect about 15%-20% of the big commercial banks' business — for NBS, the same cut in rates would effect about 65% of its income.

But the mix is improving, mainly through NBS expanding into insurance as well as corporate lending which is linked to the prime rate. NBS's R1,8bn corporate book is expected to grow to R2bn by year-end, representing about 20% of total loans.



Executive director Mark Farrer says the proportion of unfunded income to total income increased to 20% during the first half of the financial year (see graph), a proportion he would like to see increase to about 30%.

At the March year-end, income from insurance accounted for about 19% of total earnings. The Aegis acquisition, together with a recently expanded licence for NBS's two subsidiaries, should see insurance activities accounting for 35%-40% of earnings by the 1994 year-end.

Farrer says NBS has always seen insurance as a natural adjunct to banking. Even as a building society in the late Seventies, it "saw the insurance gap" and began developing in-house products. But the old licence was restrictive. "All we could sell was bond cover to mortgage holders, which was a convenient service for our clients but not a big part of our business," he says.

The expanded licence allows NBS to sell any insurance product, long- and short-term, to all clients. In addition, there will be an increasing flow of business referred between NBS and Norwich, Aegis, and possibly even RMB Holdings' Momentum Life.

"I think our p:e ratio should be rerated as the market starts to appreciate our increasing exposure to insurance," Farrer says. He admits NBS is entertaining distant plans to consider applying for a transfer to the insurance sector if the asset base from insurance grows enough — an example set by partner RMB Holdings, which was successfully granted a listing in the higher-rated insurance sector after it took over Momentum Life.

For now, there are no further plans for acquisitions. McCarthy says the board and management agree the period ahead should be one of consolidation as NBS works on developing its investments and the strategic links it has forged.

Leaf-Wright says it has never been NBS's intention to compete directly against the big banks. Ultimately, commercial banking is a volumes game and, despite its growth, the group remains outside the league of SA's big four.

"We believe, however, that there is a place for a medium-sized, well-focused bank such as the NBS. Being smaller, we can move quickly."

An example of this flexibility is a deal Leaf-Wright concluded in the Cape. He heard a company was looking for finance to develop a sport facility, flew down to meet the businessmen, and, on the strength of the meeting, could sign a deal right away. Other bankers were still waiting for authorisation from head office.

Also encouraging is the spread of income NBS is starting to get from its network of alliances. These offer access to a combined capital base that the group, while maintaining its independence, could exploit in the future.

NBS's share is expensive. Good earnings growth combined with the group's ability to make its investments work will probably keep it expensive for some time. But share price appreciation has been impressive (see graph). The three-times dividend cover should ensure good payouts. *Shaun Harris*

IGI in R60 million sell-off deal with rival Fedsure (58)

Business Staff

LIFE assurance company IGI Life has sold off its business in life assurance on hire purchase and lease agreements and funerals to competitor Fedsure for R60 million.

IGI Life chief executive Ben Gildenhuys said today proceeds of the sale would be used to capitalise IGI Life's core business — the servicing of blue collar workforces through corporations.

The business involves selling life policies to blue collar workers who pay the premiums through salary stop orders.

Mr Gildenhuys said the sale would result in the loss of lucrative business but "we believe it is an inevitable part of the group's whole refocusing and represents a necessary change to meet the changing market conditions.

"We will continue to provide what our market needs, not just the standard off the shelf product.

"Our past successes can be largely attributed to our flexibility and speed in product innovation."

Fedsure will pay holding company Saflife in Fedlife shares or cash for the two businesses.

Investec Merchant Bank said the two businesses have been reassured by Fedsure from July 1 this year in exchange for premiums equal to the assessed actuarial liability of the two buinesses as at the same date.

Fedsure has already taken control of the management and day-to-day running of the business.

Saflife and IGI have agreed to a restraint of trade for a period of five years.

ARGT 25/11/93

Part of the deal involves resolving the issue of the confusion of names between Safrican Life Investment Holdings, the holding company of IGI Life and other businesses and Safrican, the funeral business.

Subject to the approval of the Registrar the Safrican funeral business trade name will go with the sale of the company to Fedsure while IGI holding company Saflife will continue under its existing name.

The whole deal has to be approved by Saflife's shareholders and the JSE. However, 76 percent of Saflife shareholders have given undertakings to vote in favour of the deal.

Fedure said the transactions would have no immediate effect on earnings or net asset value but "are expected to contribute positively in the future".

Mr Gildenhuys said IGI Life was overcoming the problems it had suffered by the confusion caused when IGI Insurance was placed under curatorship.

Although the two companies are in the same stable they operate as separate business units and IFI Life is unaffected by the problems of the short term insurance IGI Insurance.

It was only a year later that Mr

will affect

smothered her daughter Nadine with a pillow.

Magistrate Mr M S Knox postponed the matter to January 24 and he warned Ms Kullis to appear on that date.

Town clerk of Riversdale dies

RIVERSDALE. — The town clerk of Riversdale, Mr Fritz Grub, 51, was burnt to death on Tuesday night after his vehicle left the road and hit a tree on the Riversdale/Ladismith Road.

A spokesman for the Riversdale municipality said it was believed Mr Grub had lost control of his vehicle.

Mr Grub, who leaves a wife and three daughters, had been town clerk for almost 20 years. — Sapa

The error was discovered, and

24 metro negotiators sent on world tour

Municipal Reporter

NO fewer than 24 members of the "non-statutory" side of the Cape Metropolitan Negotiating Forum are to be sent on a four-week study tour from January to various cities in Africa, Latin America, and the United States.

These are groups that would not participate in apartheid-structured local government.

The purpose of the trip was to "provide leading representatives of organisations involved in negotiation an opportunity to explore issues of local governance", Mr Kam Chetty, of the Foundation for Contemporary Research, said in a letter.

He said a United States-based organisation called USAID was providing the money for the non-statutory delegates' trips. CT 25/11/93

The Western Cape Regional Services Council, which is on the statutory side of the forum, resolved yesterday that it would send three of its councillors and two officials, at its own expense.

In order to cut costs — which are estimated to be R30 000 per person for the entire trip — the RSC's executive committee has resolved that its delegates will go on only half the trip.

The Cape Town City Council yesterday opposed sending anyone with ratepayers' funds. Mr Clive Keegan suggested that that the same "shoulder-rubbing" could be done more cheaply at the Rustenberg Hydro.

Mr Louis Kreiner said a study on metro government done 10 years ago was still relevant today, so there was no need for the trip.

West Coast reserve proposed

CT 25/11/93 (58)

A NEW nature reserve has been proposed for a botanically valuable area which stretches from Bloubergstrand to Melkbosstrand.

According to a report before the RSC yesterday, the National Monuments Council (NMC) has decided to designate the area as a conservation area in terms of the NMC Act.

This means that a permit from the NMC is required whenever any development, sub-division or change of land use is planned.

The area will be protected in this way while further discussions are held with Melkbosstrand, whose local council is opposed to an "encroachment" into its area of jurisdiction by a reserve.

Boundaries of the proposed reserve area may yet change, and the RSC report says recreation needs along the coastline will still be catered for.

Dr Clive McDowell of UCT said there were three fundamental vegetation types in the proposed reseve area: Sand Plain Fynbos, Renosterveld and Strandveld.

Syfrets enjoys strong growth

Star 25/11/93

■ BY STEPHEN CRANSTON

Syfrets reports strong growth in its investment management and property finance business in the year to September.

Healthy investment inflows and good investment returns increased the market value of funds under administration from R13 billion to R15 billion.

Syfrets remains the second-largest unit trust management company after Old Mutual.

It lifted funds by 50 percent to R2,5 billion and unit-holders from 54 000 to 81 000. Market share rose from 13,1 to 15,3 percent.

(58)

Net inflows into portfolio management business grew 38 percent to R76 million.

Syfrets Managed Assets increased the market value of funds administered by 18 percent to R5,2 billion.

In its original core business of fiduciary services, including wills, trusts and executorships, there was good demand for Employee Benefits Trusts as volumes were three times the level of last year.

Syfrets Property Finance increased its income by 30 percent to R72 million and its total advances book grew 15 percent to R2,3 billion.

Syfrets absorbed an interest reserve of R15 million and set aside R30 million in provisions in anticipation of problems in the property field. Net of these deductions, taxed profit was R17 million (R22 million).

Bank posts a 21% rise

LINDA ENSOR

CAPE TOWN — Wider margins from higher interest rates, and a lower effective tax rate led Nedcor's wholly owned subsidiary Cape of Good Hope Bank to produce a 21,1% rise in attributable income to R18,8m (R15,5m) in the year to September.

The bank's commercial and industrial property activities contributed 51% of after-tax profits, instalment credit and leasing 28%, home loans 17% and corporate finance 4%.

MD Ron Rundle said the instalment credit and home loans divisions were stable.

Bad debts on the home loans book of R302m were minimal — one property was repossessed — as the bank targeted its home loans at the middle to upper income group.

But R4,08m (R1,04m) was written off on the R576m commercial and industrial portfolio.

The main cause of the bad debt was a write-off on the sale of a Somerset West building which had been financed on the basis of allegedly fraudulent presales agreements.

Rundle said prudent, unallocated provisions in previous years had minimised the impact of bad debts on the bottom-line. B/D 04

Last year general risk provisions were increased to provide for future contingencies. 24/11/93

Total assets climbed 14,5% to R1,4bn (R1,2bn) while capital and reserves stood at R91,3m (R55,4m). The instalment credit portfolio was R274m. (58)

A 1,5% return on average assets was achieved which Rundle said compared well with the industry's 1% average.

However, return on average equity dropped to 27,3% (33,5%) due to the increase in capital which was higher than the required ratio. The capital surplus in terms of the Banks Act stood at R29,7m (R11,9m) at year-end.

Rundle said the percentage of expenses to total income of 45,2% (45,4%) also compared favourably with the industry average.

He said the bank would be satisfied with a moderate increase in profits in the current 12 months.

Cape of Good Hope Bank lifts income 21%

58

CT 24/11/93

By ARI JACOBSON

THE CAPE of Good Hope Bank, a wholly-owned subsidiary in the Nedcor stable, pushed up after tax income by 21% to R18,8m (R15,5m) for the year to September, helped by improved interest rate margins and a lower effective tax rate.

MD Ron Rundle pointed out at a media luncheon yesterday that "the home loan book has been particularly sound and instalment credit very stable, with the write-offs coming from commercial and industrial property loans".

He added that the high interest margins enjoyed were now under pressure "from declining interest rates, increased competition as well as bad debts".

The effective tax rate fell from 50,5% in September 1992 to 42,9% in the year under review.

Total assets were 14,5% higher at R1,35bn against the R1,18bn reported the previous year.

Rundle forecast that the home loan book could grow by 20% in the new year but added that non-interest income, which applied to fee and commission based income, would be a new focus of the group in the year September 1994.

"The Accuma financial services team with its target market of high net worth individuals, should improve it performance," he said.

Returns

Return on average equity was down to 27,3% (33,5%) as capital increased but return on average assets rose marginally to a highly satisfactory 1,53%.

The bank was also given an A2 rating by Republic Rating, the highest yet given to any small- or medium-sized bank.

Rundle mentioned that the bank had "the freedom to make decisions" but any loan that took up 10% of the bank's book required the nod of the Nedcor group.

He said that the Cape of Good Hope Bank had built up a client base of 40 000.

Rundle added that Blue Route and Tableview could be new areas to establish branches to add to the 11 already present in the Cape.

He anticipated that the bank would make "moderate profits" this year even with the continued pattern of liquidations.

Good Hope Bank bucks recession

(58) ARGT 24/11/93

MARC HASENFUSS
Business Staff

CAPE of Good Hope Bank (CGHP), which operates a lucrative niche in the Western Cape, notched up an impressive 21 percent gain in taxed income to R18,8 million in the year to end September.

Improved margins from high interest rates and a lower effective tax rate offset the effects of low economic activity, inflation and unemployment.

The Nedcor subsidiary also managed to limit the increase in total expenses to an acceptable 14 percent. The ratio of expenses to total income stood at 45,2 percent — well below the industry average of 60 percent.

Divisionally, CGHP's commercial and industrial property division contributed a hefty 51 percent to bottom line. The credit installment division donated 28 percent while home loans and corporate finance added 17 percent and 4 percent respectively.

The bank's commercial and industrial property portfolio is worth R576 million, credit instalment worth R274 million and home loans worth R302 million.

Turning to bad debts, MD Ron Rundle said general risk provision was increased again to provide for any contingency in the future.

Secondary reserves showed a 36 percent jump to R5,2 million in the year under review.

Mr Rundle noted that the home loan book — which is pitched at middle and upper income groups — and instalment credit receivables were very stable. The bank's main write-offs were in commercial and industrial property loans.

CGHP wrote off R4,8 million in bad debts this year compared to R1,4 million last year. A major slice of the write-off related to fraudulent property sales in Somerset West.

"Although we have recorded a much higher bad debt figure for the year, prudent unallocated provisions over past years have minimised the effect on bottom line."

On the balance sheet shareholders' funds saw a 67 percent increase to R86 million, while there was a 14,5 percent growth in total assets to R1,36 million.

Return on average equity was down markedly to 27,3 percent (previously 33,5 percent) because of increased capital but return on average assets improved marginally to 1,53 percent (1,52 percent).

Looking ahead, Mr Rundle predicted a moderate increase in profits in the current financial year.

The bank's non interest income business has been earmarked for growth in the current year, especially personal consulting with high net worth individuals.

Although the ratio of non interest income to total income slipped to 14,5 percent (previously 15 percent) in the review period, Mr Rundle expects to improve the ratio to 20 percent in the new year.

CGHP is also looking to open two new branches, probably in Tokai's Blue Route Centre and in Tableview. Currently the bank operates through a network of 11 branches and a central treasury.

Servgro ups profit

JOHANNESBURG. — Leisure and services group Servgro International's attributable profit rose to R27,3m (R24,6m) in the six months to September with improved results from the Price Forbes Group and Teljoy and "stable" results from its other investments.

The group, whose other interests include Interleisure, Avis, Fedics, Interpark and Nasionale Pers (Naspers), reported turnover ahead 14% at R495m. But pressure on margins saw operating income grow by 5% to R64,2m (R61,1m).

Pre-tax profit was up by a similar level at R57,3m (R54,7m). But lower taxation resulted in an 18% rise in taxed profit to R39,7m from R33,6m.

The drop in the income from associates to R3,8m (R5m) reflected the poor performances of Fedics associate Protea Hotels and some associates in Price Forbes.

Earnings rose 6% to 24,7c (23,4c) a share. A 7% higher interim dividend of 8c (7,5c) a share was declared.

Higher insurance premiums likely as car thefts soar

CT 23/11/93

Business Editor

58

CAR thefts in the Western Cape have shot up by 15% in the past two months, says Jim Brayson, executive director of Protea Assurance. This has pushed up the amount paid out to local policyholders by 74% — and if the trend continues they may face higher premiums.

Protea slashed annual premium rates for local car owners by 3% earlier this year because of lower inflation and a drop in car thefts in the Western Cape in the first eight months.

Brayson said premium rates varied from city to city according to the crime rate. The monthly premium on a car valued at R28 000 would be R119 in Cape Town compared with R185 in Johannesburg, because of the higher crime and accident rate on the Reef.

But, he said, figures released by the SA Police show that the average number of cars stolen in greater Cape Town has "shot up" since August to 645 a month compared with 558 a month until then.

He urged car owners to "utilise every mechanism" to protect their vehicles and keep their premiums down. An alarm and immboliser would act as deterrents.

Brayson said there had been a huge increase in claims for stolen vehicles all over the country in September and October. "This can only be attributed to an increase in crime in all the major cities."

Islamic Bank lifts assets above R100-m

Star 23/11/93

BY MICHAEL CHESTER

More investment in the housing sector and in budding small business ventures will be the main focus of new expansion plans for the Islamic Bank of South Africa.

Chief executive Ebrahim Kharsany underlined the priorities recently when he announced that the bank intended to increase its share capital and reserves from their current R25 million to R75 million.

In a period of zero growth in the national economy, he said, the bank had boosted its current assets to above the R100 million-mark from an initial capital base that stood at only R200 000 just a decade ago.

Net income before tax in the 1992-93 financial year had increased by 103 percent to R1,6 million.

All earnings had been transferred to general reserves.

"The increase in share capital will enable the bank to expand its activities as a whole, but this will be seen in housing in particular.

(58)

Moreover, the bank plannned to deploy 70 percent of its investment funds in the housing sector, he said.

New shares would be placed privately and issued in tranches to existing shareholders, to depositors and to bank associates.

Islamic Bank was not yet planning a listing on the Johannesburg Stock Exchange, "although we have had approaches from institutional investors, both locally and internationally."

South Africa's economic prospects looked hopeful.

"Already there are signs of a slight economic upturn — and business confidence is improving," Kharsany said.

Norwich offer to students

INSURANCE giant Norwich Life has offered students space to study at its head office. (58) CT 22/11/73

This follows criticism by students and Claremont residents of noisy construction work on the company's R20-million Oval Park development.

Norwich Life senior manager Mr Hugh Fichardt said pile-driving would be undertaken only from 8am to 5.30pm on weekdays and would be completed by December 14.

He said students could study at Norwich's head office, and independent assessors would survey properties for damage.

But resident Ms Sally McDermott said residents did not want any construction activities on weekday afternoons. Students had almost completed exams, making the offer of study facilities superfluous.

Bank's forward cover losses tip over R1bn

CT 22/11/93 (58)

From GRETA STEYN

JOHANNESBURG. — Forward cover losses incurred by the Reserve Bank surged in the past three months as the rand took a battering against the dollar, with the Bank's balance sheet suggesting a loss of well over R1bn over the period.

The Bank's statement of assets and liabilities showed "other assets" — usually forward cover losses — had risen by more than R2bn over the period August to October. Economists said even if the full amount did not represent losses, it was probable that about half did.

The losses, which arise when the forward rand/dollar exchange rate is cheaper than the market rate, are for government's account and are added to debt totals. They represent a subsidy to the foreign exchange market, as the Bank acts as the provider of cover of last resort.

A Bank spokesman confirmed that a weak rand/dollar exchange rate had had an adverse effect on the forward book, but declined to quantify the problem.

The rand weakened from an average R3,3793 in August to an average of R3,4347 in September before improving to R3,3530 in October.

Nedcor economist Edward Osborn said the recent weakening of the rand against the dollar after a period of relative strength suggested the problem would have reared its head again. Osborn opposed government's practice of reducing the debt by payments to the Bank from interest-bearing loans raised on the capital market. He suggested the debt be left in perpetuity, or written off. There was, however, no mechanism to write it off.

The losses are reflected as an asset on the Bank's balance sheet because government owes it the money. The last official figures (in the Quarterly Bulletin) showed government owed the Bank R8,9bn for these losses. Finance Minister Derek Keys was behind a move to include these figures in the official debt statistics for the first time, taking the overall debt up to R170,2bn in June. According to the Bulletin, the loss between January and June was about R200m. Government's debt as a percentage of GDP was close to 50%.

Earlier this year, Keys said government was considering issuing securities to cover the debt, but the Reserve Bank said at the weekend that no finality had been reached on the matter. Issues such as whether the securities should be interest-bearing or not still had to be decided, and might be raised once the finance subcouncil of the Transitional Executive Council was in place.

The debt on account of forward losses peaked at R14bn in 1990. It was reduced substantially, from R12,5bn to R8,7bn, by a payment from the Exchequer in August 1992. The payment effectively replaced non-interest bearing debt with interest-bearing debt — a move which Osborn and other economists opposed. Funds accumulated in the stabilisation account — a special account for keeping finance raised to drain the markets of liquidity — were usually used to reduce the debt.

HOUSING SUBSIDIES Fm 19/11/93

Forging a national housing policy

(53)

Is the National Housing Forum's proposal of an interim, lump sum housing subsidy scheme and the Cabinet's decision to further investigate the possibility of a mortgage indemnity insurance scheme, the first tentative step towards the formulation of a comprehensive national housing policy?

One way of removing the political risk associated with lending in the low income housing market is to offer insurance cover to banks to encourage them back into the market. This would clear the way for developers to deliver low-cost homes through the provision of cash subsidies.

On the face of it, the forum's recommendation that a lump sum subsidy replace all existing subsidy schemes makes good sense. It is also in line with the recommendations of the 1992 De Loor Task Group, according to the Department of National Housing (DNH).

Calls from developers for subsidies to be applied to participants (buyers and renters) in their projects, as well as criticism of the disparities among the existing subsidy schemes, are common complaints.

The forum's difficulty with the existing system is threefold:

☐ The issue of racial inequality inherent in the present subsidy system. Essentially, coloureds and Indians through larger House of Representatives and Delegates budgets, are receiving housing assistance of R30 000-R40 000 per individual while blacks, through the DNH, only get around R10 000 per person.

However, the DNH says because these subsidies are undisclosed, forming part of the end-user finance, the benefits are not readily quantifiable and cannot be easily compared;

☐ Many subsidies provide higher levels of State assistance as incomes increase. The First Time Home Buyers interest subsidy is a case in point. The larger the loan you can afford for a house up to R65 000 in value, the greater the level of State assistance in repaying it; and

☐ There are many types and differing levels of subsidy being provided by various State bodies. For example, the provinces in effect provide free serviced sites varying in value from R2 500 to R7 500; the Independent Development Trust grants a capital subsidy of R7 500 on each serviced site; the First Time Home Buyers subsidy applies assistance against mortgage finance over a seven-year period; and the sales and rental formula provides assistance of up to R30 000 in value to coloureds, Indians and whites.

Urban Foundation's Mathew Nell ... *looking for solutions*

Not only do these disparities cause confusion and conflict — as demonstrated in the illegal occupation by blacks of new coloured and Indian houses in Durban and Cape Town — the very concept of serviced sites as against completed shelter is finding less and less favour among the forum and DNH.

While the forum believes total solutions are still far from reach, it feels the pressing need to house 300 000 families annually (200 000 new households and a backlog of 100 000) necessitates an interim arrangement which is both politically acceptable and practically sustainable. As it sees it, 85% of the occupants of the 300 000 homes needed every year would require financial assistance. And of those the bulk earn less than R1 500 a month.

Its answer is to replace all the existing housing subsidy schemes with two lump sum subsidies. The aim would be to assist the widest range of beneficiaries as possible by opening up options in response to real conditions on the ground. Buyers in schemes such as the Seven Buildings Project (an inner city upgrading programme) or in three and four-storey walkups on well-located urban land would then also qualify.

Working within a projected fiscal allocation of R2,5bn to R3bn a year, the forum has proposed two sets of figures for the two separate subsidies to the DNH. These are now under "intense" discussion.

The first lump sum subsidy is targeted at the lowest end of the market — that is below a certain monthly income — where end-user credit is generally not available. It should apply to any housing product costing less than a certain amount.

The second lump sum subsidy — to replace the current First Time Home Buyers interest subsidy — though in value somewhat less than the first lump sum one, is intended for people earning in a certain income range above the minimum monthly income stipulated as the qualifying threshold for the first subsidy. This one is intended to continue to assist people to afford private sector funding in the form of mortgage credit.

The matter, however, is far from settled. It is understood that the DNH has "a more flexible capital subsidy scheme" in mind — though others believe it is arguing for lower capital subsidy amounts.

The time frame needed to settle this question, among others, as well as the priority it is given, is being discussed between the forum and the DNH. ■

HISTORIC SALE

One of Durban's historical landmarks, Alexandra House in Point Road — better known as the notorious Smugglers' Inn — fetched R1m on auction.

The buyer, Durban businessman Anand Naidoo of Anand Properties, says he bought the property speculatively and has no immediate plans for it. Maybe he thinks the Point redevelopment will start soon and his investment will appreciate.

SA in line for AfDB concessions

S Times (Buss)

By ZILLA EFRAT: Abidjan

SOUTH Africa could become the African Development Bank's (AfDB) biggest beneficiary in its first two years of membership of the institution, says AfDB vice president Adwele Sangowawa. 21/11/93

He says some members are given special concessions, such as Namibia, which was given soft loans despite its high GDP per capita. The AfDB usually reserves such treatment for its poorest members.

Mr Songowawa says that despite the size of SA's economy, its demands are large and there are segments of the economy that have not had access to development funds.

He says likely AfDB priorities in SA include human resource development, poverty alleviation and development of rural areas.

While no monetary projections have been made, SA should get direct assistance from the AfDB and benefit from financial projects throughout Africa. But the country will not be able to participate in any project until it becomes a member of the bank.

Mr Sangowawa says the AfDB will welcome SA when it makes a formal request for membership. In his judgment, a transitional government could be an acceptable vehicle for this request. (58)

However, SA membership must be ratified by the AfDB's board of governors which will meet only in May. A special meeting before then is unlikely.

Once SA becomes a member it will be allocated a certain percentage of the bank's share capital, depending on the size of its economy.

Sage Life performance lifts group's half-year

BDay 18/11/93

CHARLOTTE MATHEWS

LIFE ASSURANCE, property and financial services provider Sage Group improved attributable earnings 24% in the six months to September 30 to R25,35m (R20,50m), boosted by a good performance from Sage Life.

(58)

Group operating profit declined slightly to R32,46m (R32,93m) and net interest charge lifted to R5,17m (R5,08m). Executive director Bernard Nackan said interest paid was likely to fall as a result of income from the disposal in September of Sage's interest in RMB Holdings for R167,2m and in Imperial Car Rental for R31,8m.

Attributable profit benefited from improved associated companies' contribution and reduced profit attributable to outside shareholders in subsidiaries.

Earnings rose to 29,2c (24,8c) a share and, assuming the conversion of 15,1-million (19,16-million) convertible preference shares, would have been 27,2c (22,7c) a share. A dividend of 16c (14c) was declared.

On the balance sheet, the increase in ordinary shareholders' funds to R344,7m (R277,8m at March 31) partly reflected the sale of interests in RMBH and Imperial.

The ratio of borrowings to total capital improved to 14,5% (77,9% at March 31).

The life assurance and financial services division met its forecast of continued growth. Although the property market was still suffering from the recession and political uncertainty, the realisation of land holdings had enabled the property division to contribute to earnings.

In the past six months, Sage has added two new unit trusts, Sage Financial Services Fund and Sage Income Fund, and has established a company, SageMed, to market health care insurance products.

The earnings of the group were expected to show "satisfactory growth" in the full year, directors said. The Sage rationalisation and restructuring — begun from March 1992 and now nearing completion — had consolidated interests in one entity.

Sage shares were unchanged at 560c on the JSE yesterday, well below their 12-month high of 750c on May 21. They offer an earnings yield of 10,80% and a dividend yield of 5,35%.

Sage earnings up 23,7%

SB CT 18/11/93

JOHANNESBURG. — Lower payments to outside shareholders lifted Sage Group's attributable earnings 23,7% to R25,4m (R20,5m) in the six months ended September 1993.

Earnings per share were 29,2c (24,8c) and the group declared an interim dividend of 16c (14c) a share.

Operating profit was almost unchanged at R32,5m (R32,9m) but after-tax profit was down at R21,4m (R23,4m) as a results on increased tax and interest payments. The R4,5m decline in payments to outside shareholders provided the fillip for the increased attributable earnings.

ANC in plan to centralise borrowing

58

CT 15/11/93

Own Correspondent

JOHANNESBURG. — The ANC was probing the possibility of setting up a centralised borrowing authority to raise capital for development groups and municipalities, ANC department of economic planning co-ordinator Mr Neil Morrison said yesterday.

Speaking at an Andersen Consulting breakfast here, he said this could mean the introduction of new "highly visible" instruments that were government guaranteed — similar to current RSA stock. The move would make it cheaper for development institutions and local authorities to get funds.

Scarce resources could also be used more efficiently while foreign investment in the market should improve.

The centralised authority would channel the money to institutions needing the funds.

Southern lifts premium income 34%

(58) CT 18/11/93

Business Editor

SOUTHERN Life lifted premium income by 34% to R1,5bn and investment income by 12% to R592m in the six months to September 30.

Total income rose by 27% to R2,1m and total assets by 19% to R20,7bn.

The interim dividend has risen by 20,3% to 38,5c a share. Announcing this yesterday, MD Jan Calitz said shareholders would be given the option to receive their dividend in the form of Southern Life shares.

"This will provide Southern Life with additional shareholders' funds as well as limiting the tax payable under the 15% secondary tax on companies (STC).

"Our two major shareholders, Anglo American Corporation and First National Bank, have elected to increase their holding in the company by accepting shares in lieu of the interim dividend."

Details of the offer and the price at which shares will be issued will be announced on December 3.

Disclosed earnings rose by 20,3% to 57,8c a share as the company continued its policy of setting interim earnings and dividend figures at 50% of the totals of the previous financial year.

The Southern's controversial Exclusive Life policy — which avoids cross-subsidisation of Aids victims by testing policy holders for HIV infection every five years until they reach 45 — has proved successful.

Calitz said that "after five months the product currently makes up some 40% of our new individual policy sales. The response from brokers and the public has been most encouraging."

Southern offers shares

Southern Life has increased its interim dividend by 20,3 percent to 38,5c per share for the six months to September.

"Shareholders will be given the option of receiving their interim dividend in the form of Southern Life shares," says MD Jan Calitz. Star

"This will provide Southern Life with additional shareholders' funds, as well as limiting tax payable under the 15 percent secondary tax on companies," he says.

"Our two major shareholders, Anglo American and First National Bank, have elected to increase their holdings by accepting shares in lieu of the dividend."

Details of the offer and the price at which the shares will be issued will be announced on December 3. 18/11/93

Disclosed earnings rose 20,3 percent to 57,8c per share as the company continued its policy of setting interim earnings and dividend figures at 50 percent of the totals of the previous financial year. (58)

Total assets grew by R3,27 billion to R20,74 billion — showing an increase of 19 percent over the corresponding period last year.

Total income was up 27 percent to R2,13 billion. This consisted of premium income, which increased 34 percent to R1,54 billion, and investment income, which showed 12 percent growth to R592 million.

Calitz said the launch of the world-first Exclusive Life Policy in April had been highly successful.

The product introduced repeat HIV testing every five years until the age of 45 and eliminates cross-subsidisation of HIV-infected clients by healthy policyholders.

"After five months, the product currently makes up some 40 percent of our new individual policy sales." — Sapa.

Protea Assurance set for a revamp

ALIDE DASNOIS (58)
Business Staff

CAPE TOWN-based Protea Assurance, which remained on the recovery path in the half year to end-June, is to be restructured.

In a cautionary announcement today the directors say proposals are being drawn up for the restructuring of the company's insurance operations into wholly-owned subsidiaries.

They warn that the restructuring could affect the share price. Yesterday the share was untraded at R28.

■ **Southern Life** has raised its interim divident 20 percent to 38,5c for the six months to end-September on income which rose 27 percent to R2,1 billion.

Shareholders can opt to receive the dividend in the form of shares. ARG 18/11/93

Major shareholders Anglo American Corporation and First National Bank have already decided to take shares in lieu of dividends.

Details of the offer will be announced on December 3.

The company said the Exclusive Life policy launched in April — which is designed to eliminate cross-subsidisation of HIV-infected clients by healthy policyholders — now makes up 40 percent of new individual policy sales.

Southern's Timed Exposure Portfolio (STEP) for pension and provident funds had also been a success, attracting more than R250 million in the past few months.

In all, new business production rose 63 percent over last year to total R832 million.

■ **Sage Group** has lifted attributable profit nearly 24 percent to R25,4 million in the six months to end-September.

After-tax profit was down to R21,4 million from R23,4 million because of increased tax and interest payments, but a drop of R4,5 million in payments to outside shareholders boosted bottom line.

An interim dividend of 16c (14c) was declared.

The group said the life assurance and financial services divisions were on target.

In property, adverse conditions in the market, particularly in home building, were offset by the sale of land holdings.

New products help boost Southern's earnings 20,3%

B/Day. 18/11/93

CHARLOTTE MATHEWS

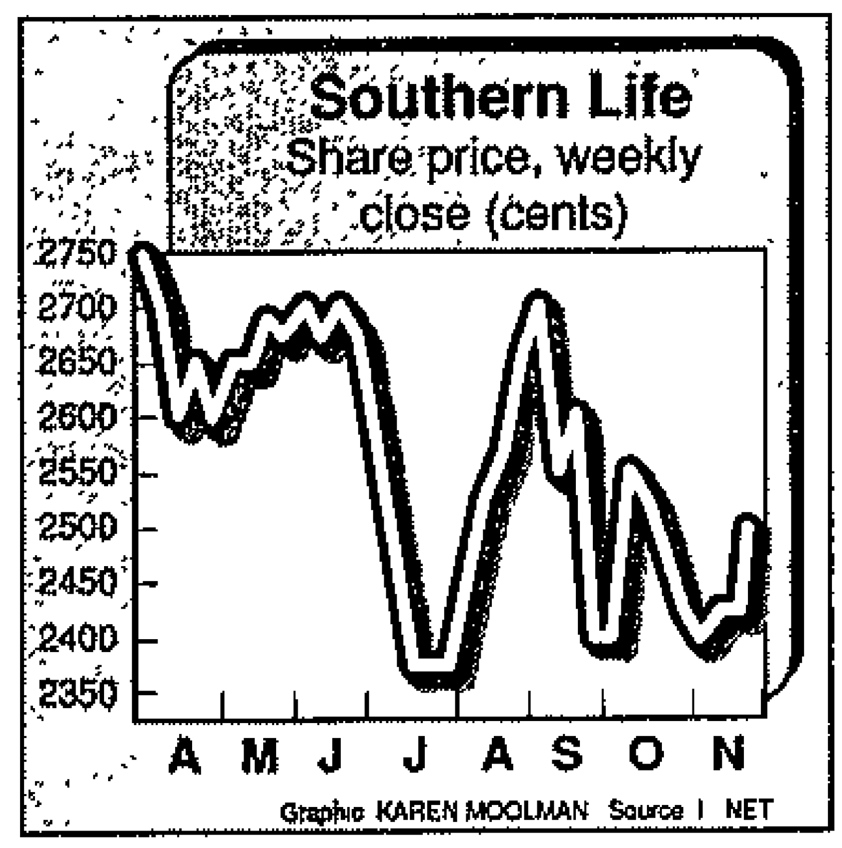
LIFE ASSURANCE group Southern Life's total income in the six months to September 1993 climbed 27% to R2,13bn (R1,68bn), reflecting a 34% rise in net premium income and a 12% lift in investment income.

MD Jan Calitz said the improvement in net premium income to R1,54bn (R1,15bn) reflected the success of Southern's new products and its single-premium business.

The 12% increase in investment income to R592m (R531m) is a considerable improvement on the 1,4% growth seen in the year to March. The figure, which excludes any capital appreciation, reflected the increase in assets on the balance sheet rather than any change in Southern's investment mix, Calitz said. Total assets on the balance sheet were 19% higher at R20,74bn (R17,47bn).

No figures were disclosed for increases in expenses, but Calitz said expenses were well-controlled.

Disclosed earnings rose 20,3% to 57,8c (48,0c) a share and the interim dividend rose by the same percentage to 38,5c (32,0c) a share. The company's policy is to set interim earnings and dividends at half the total of the previous financial year. 58



Shareholders, as at year-end, have the option of receiving the interim dividend in the form of Southern Life shares. Calitz said the offer was partly a direct response to the Secondary Tax on Companies and partly to strengthen shareholders' funds. At this stage he could not say whether the policy of offering bonus shares would continue.

Southern's two major shareholders, Anglo American, which owns 40%, and First National Bank, which owns 29%, have elected to receive shares in lieu of the interim dividend. Details of the offer will be announced on December 3.

Calitz said the Exclusive Life policy, launched in April, had been highly successful. After five months the product now made up about 40% of new individual policy sales.

Another major new contributor had been the Timed Exposure Portfolio for pension and provident funds, a product that offered market-linked investments and guaranteed returns. In the past few months, the portfolio had attracted R250m in investments.

Southern chairman Neal Chapman said shareholders could again expect growth in earnings and the dividend at year-end.

Southern's shares rose 75c or 3% to R25,00 on the JSE yesterday, where they are R3 below their 12-month February high of R28,50.

Sunshine and rain for short-term insurers

(58)

ARG 17/11/93

BRUCE CAMERON
Business Staff

WHILE one short-term insurer Santam has kept shareholders cool under its yellow umbrella with a solid performance rival IGI Insurance has left its shareholders out in the rain with very little cover.

In two separate events yesterday Santam reported its taxed profits had passed the R100 million mark for the first time while the Pretoria Supreme Court placed IGI Insurance Company under final curatorship.

Although the fate of IGI shareholders is not known, policyholders are likely to have premium refunds paid in full and all outstanding claims met following the decision by the Supreme Court in Pretoria to place the company under final curatorship.

Against this shareholders in Santam have seen their final dividend for the year ended September 30 upped by 19 percent to 50c a share.

Net attributable profit of R109,2 (R79,3 million) provided earnings a share of 151c.

Managing director Jurie Geldenhuys said the major contributor to the performance was pre-tax investment income of R106,3 million.

The underwriting surplus increased by 19 percent to R61,3 million (R51,5 million).

The company's solvency margin showed further improvement during the year and stood at 62,8percent (54,7percent).

Net asset value per share rose from 787c to 991c.

As was the case in the collapse of short-term insurer AA Mutual it now appears that policy holders in IGI Insurance will not be prejudiced, leaving the question why the Financial Services Board moved to place IGI Insurance under provisional curatorship in the first place.

In an interview FSB short-term insurance manager Nico Fourie said that FSB had taken action when it was clear IGI could not comply with finanvial provisions required by the Insurance Act.

This was different from any commercial decision. While a company could move into liquidation with shareholders being paid out almost nothing the Insurance Act sought to protect policyholders.

If the FSB had left the situation unattended policyholders could have been seriously prejudiced.

FSB chief executive Piet Badenhorst said in a statement yesterday in the application for final curatorship it was still not possible to determine the exact financial position of the company with absolute certainty.

However, "if the company should be managed properly and its assets, especially those held through subsidiary companies, nurtured in a non-liquidation situation, there appears to be a reasonable prospect that the company will not only pay its debts but also survive (albeit not as an insurer) so as to be able to be returned to its board of directors".

The curators have been empowered by the court to dispose of assets of the company.

In accordance with a plan drawn up by the curators they will proceed to realise assets on a short, medium and long term basis to facilitate the payment of the various classes of claims.

Banks welcome Shill's bond insurance scheme

BDay 17/11/93

ROBYN CHALMERS

FINANCIAL institutions have cautiously welcomed Housing Minister Louis Shill's proposed mortgage indemnity insurance scheme, which is intended to generate an extra R5bn for low-cost housing.

The scheme proposes establishing a R1bn insurance company which would protect banks from political risk and encourage their participation in the low-cost housing market.

First National Bank home loan chief manager Andre le Tre said yesterday the scheme was "a move in the right direction. Banks have recognised that normal commercial risks should be accepted, but believe they should not be exposed to political risk. The scheme will work towards removing that risk". How a proposed 0,5% premium on mortgage portfolios would be funded had yet to be negotiated.

Shill said the premium, which would fund the formation of the insurance company, would be paid by the banks, which would have to determine how they would recover the funds from borrowers.

Standard Bank community banking services divisional director Jopie van Honschooten said the fact that political risk had been recognised formally as a serious impediment to lending in the low-cost housing market was laudable. It was vital that the plan was fully supported by all players, including banks, communities and political parties. (58)

Urban Foundation executive director Jill Strelitz said it was imperative that financial institutions bought into the scheme to make it viable and that borrowers were involved in its formulation.

Care would have to be taken to ensure that customers did not believe the state-guaranteed schemes meant the state had taken responsibility for financing housing.

The National Housing Forum met National Housing Department representatives on Monday to begin negotiations on the scheme.

LINDA ENSOR reports from Cape Town that Shill said yesterday lack of a unified structure to channel funds for housing was the greatest single obstacle to overcoming the housing backlog.

He told western Cape community, local authority and housing organisations' representatives that while land and finance were available, communities would have to work together to solve the problem.

There was enough land to develop at maximum construction capacity for the next two to four years. Government was also prepared to buy land if it was not available in areas where it was needed.

● Comment: Page 6

Bond lenders insurance plan

BDay 16/11/93

HOUSING Minister Louis Shill has submitted a proposal to the National Housing Forum for a R1bn institution to cover political risk to mortgage lenders operating in black townships.

He also said yesterday that up to R800m was available for housing in Cape Town and Durban.

Shill said the insurance plan was "a form of redistribution", involving a premium paid by banks of about 0,5% of their entire mortgage portfolio, not just a premium on high-risk loans.

"It is a form of cross-subsidisation, but it would cover the risk to all mortgages and this sort of cover could become necessary in other areas as well," Shill said.

He said the plan, to be capitalised by private sector investors in SA and abroad, had been approved by the Cabinet but was still subject to negotiations with the forum and financial institutions.

"It's got to be arm's length. We have every intention that this company should stand on its own feet. Government's role would be to undertake to cover any losses incurred by the institution. (58)

"There will be a private enterprise public company, properly capitalised and government will be the reinsurer."

Shill said lenders would insure their mortgage portfolios with the proposed institution against political risks such as bond boycotts or regional intimidation.

"By taking the insurance on all mortgages we are looking at a very low cost. The premiums will have to be paid by the banks. How they recover that from their borrowers is up to them."

He said the proposal could release R4bn-R5bn a year into the lower-value housing market, where average costs including

☐ To Page 2

Shill

BDay 16/11/93

☐ From Page 1

land would be about R25 000 a unit. "Our broad estimate is that about 70% of the needy could get housing with this support."

Government estimated the housing shortfall among blacks to be between 1,5-million and 2-million units. (58)

Shill also said he would meet Cape Town local authorities and civic leaders today to seek co-operation for a housing boost of up to R400m. He would meet the Cape Town housing forum, the ANC, the city council and the Cape Provincial Administration.

"If there is a local body that can manage the project, then government can commit substantial sums with immediate effect." He said a similar amount was available for Durban. — Reuter

Key African alliance for Nedcor Bank

(58) CT 16/11/93

NEDCOR Bank yesterday announced a strategic alliance with African banking network Société Financiere pour les Pays d'Outre-Mer (SFOM) — becoming the first SA bank to enter Francophone Africa.

MD Richard Laubscher said the deal was a "limited equity investment", adding that it was the start of a "cautious" entry into Africa. The bank would make substantial capital investments only in countries with hard currencies.

Swiss-based SFOM has majority stakes in 14 central and north African banks and is owned by three of Europe's largest banks — Banque Nationale de Paris (48%), Dresder Bank of Germany (26%) and Banque Bruxelles Lambert (26%).

Muller said Nedcor would use its correspondent banking relationships with Standard Charter and Barclays in areas not covered by SFOM. He stressed the alliance was the "first instalment" of a broader strategy to cover the African financial services market. "We can't solve the African strategy in one deal."

The deal would contribute minimally to profit but would increase trade dealings, he said.

Nedcor had also concluded deals in two neighbouring states. In Namibia, SFOM and Nedcor had merged their banks — the Namibian Banking Corporation and the Commercial Bank of Namibia — with effect from October 1. The Commercial Bank of Namibia would be jointly managed, with the two banks holding an effective 87,7%. It would be the third largest Namibian bank with assets of R725m.

In Zimbabwe, Nedcor had taken an effective 16% stake in the Merchant Bank of Central Africa, with assets of R450m, in partnership with SFOM, NM Rothschild, Hill Samuel and Old Mutual Zimbabwe.

Coup for Firstnet

● Meanwhile, First National Bank (FNB) has struck a deal through subsidiary Firstnet which will allow local business to access "instant" information worldwide — via British Telecommunications (BT).

Terms of the deal have not been disclosed at the request of BT.

The BT Global Network Service (GNS), the world's most extensive managed data network, will provide local business with the ability to tackle major issues such as internationalisation, increasing efficiency, improving customer service and strategic control.

Firstnet MD Mike van den Bergh pointed out that "networking was the life-blood" of any large corporation and that the commercial information obtained through GNS would allow the local group to access the entire globe, in a flash.

Nedcor heads into Africa

(58) ARG 15/11/93

JOHANNESBURG. — Nedcor is to become South Africa's first financial services group to launch itself into Francophone Africa through a strategic alliance with Societe Financiere pour les pays d'Outre-Mer (SFOM).

SFOM, a Swiss-based holding company, has major shareholdings in banks in 14 countries, mainly in west and central Africa.

Nedcor managing director Richard Laubscher said today South Africa had a pivotal role in Africa, but Nedcor was wary of immediately establishing itself directly in the continent An alliance with major banks in Africa was thought to be the best path to follow.

"It would be inopportune of us to rattle our way through Africa. There is a learning curve.. and we felt it would be more prudent to lever-off other persons experiences (in Africa)."

He said the deal would provide the Nedcor group with a small increase in profit mainly as a result of increased trade dealings between the SFOM aligned banks and Nedcor's own customers. It was not a "short-term money spinner".

SFOM is owned by three of Europe's largest banks — Banque Nationale de Paris (48 percent), Dresder Bank of Germany (26 percent) and Banque Bruxelles Lambert (26 percent). The SFOM banks in Africa are generally amongst the three largest banks in their respective countries.

In addition, Nedbank corporate and international director Derek Muller said Nedcor Bank and SFOM had agreed to merge their two banks in Namibia — the Namibian Banking Corporation and the Commercial Bank of Namibia.

Nedcor Bank and SFOM will own 87,7 percent of the merged bank — to be known as The Commercial Bank of Namibia.

The bank will be the third largest in Namibia with total assets of about R725 million.

Mr Muller also announced Nedcor had acquired a 16 percent stake in Zimbabwe's Merchant Bank of Central Africa. The bank has assets of about R450 million. — Sapa.

SUNDAY TIMES, Business Times, November 14, 1993 5

S Times (Buss)

SA Eagle and Aegis pull black insurer out of the red

KHEHLA MTHEMBU: Afgen took on the establishment

By ZILLA EFRAT

SA EAGLE and Aegis have acted to avert what could have been another disaster in South African short-term insurance.

They have given full support to African General Insurance (Afgen) while it is restructured and refocused.

Afgen has retrenched some employees, several unprofitable departments have been closed and bad business has been dropped.

A drive is under way to carve a niche for the company in the emerging black market where it has special strengths.

Afgen is SA's first black-controlled insurance company. But after losses in the past year, its shareholding was changed temporarily.

Afgen's new chief executive Khehla Mthembu says that after the company received an insurance licence in April last year, management took on the established insurers.

Afgen was the name given to an insurer bought by the present company.

Afgen's aim was market share at all costs and its premiums undercut the rest of the market.

The company grew too fast and its expenses were too high.

Afgen's claims exceeded gross premium income in the year to February 1993 when auditors Price Waterhouse Meyernel issued a qualified report.

Afgen also suffered underwriting losses in most classes of business.

Attributable losses, before statutory transfers to contingency reserves, wiped out the company's capital.

This necessitated a further capital injection from SA Eagle and Aegis of R2,5-million.

After the yearend, the two shareholders had to put in R1,1-million to make up the shortfall in net assets to meet Insurance Act requirements.

The capital injections resulted in a change of control. Fabcos and Future Bank together initially held 51% of Afgen. Now Aegis and SA Eagle have a combined 62%.

But both larger insurers say this position is temporary and new black capital will be brought in.

Aegis managing director Brian Seach says this will happen after the company's affairs have been straightened out.

14/11/93

SA Eagle managing director Peter Martin says informal discussions have been held with potential black investors about their involvement in Afgen.

Afgen received the poorest rating in a recent Republic Ratings' analysis of the credit risk of short-term insurers.

Without taking shareholder support into account, Afgen was seen as having an "inadequate capacity to ensure timely payment of policyholder obligations".

(58)

When shareholder support was taken into account, its ranking improved slightly.

Since then Aegis and SA Eagle have come out strongly in support of Afgen.

Mr Seach says the two shareholders are committed to keeping Afgen going. They have guaranteed that all claims will be met and that no Afgen customer will experience a problem.

They have told brokers that if any Afgen customer has any doubts, Aegis or SA Eagle will take over the business.

Mr Seach says that being insured with Afgen is the same in effect as being covered by Aegis or SA Eagle.

Mr Mthembu joined the company last November.

After taking stock of Afgen, he closed several departments, including the one handling financial and performance guarantees. Unprofitable haulage business was also cancelled.

Aegis and SA Eagle made their own people available to support Afgen management.

Mr Mthembu says: "Our strategy now is to stick to small commercial and personal lines which serve the emerging market.

"We decided that because this is a black company, it must be involved in sourcing its business in the black community.

"It should also be involved in the corporate markets that understand the importance of being linked to a company like Afgen in the changing SA."

Mr Mthembu says management is rectifying the mistakes of the past.

He believes Agen has gone through the worst and expects it to be profitable within 12 months.

Afgen plans several developments, but Mr Mthembu will not comment on them until the company has overcome the hurdle of a poor image.

Coronation declares maiden div

(58) CT 13/11/93

By ARI JACOBSON

CORONATION Syndicate, listed in the financial services sector, increased earnings from 11,3c to 39,9c a share for the year to September.

Coronation made the headlines midyear when top Syfrets and UAL portfolio managers defected to this new financial grouping en masse.

Coronation, which saw in the year as a dormant company, was transformed from a cash shell into a financial services group in the year under review — hence figures are meaningless in comparative terms.

The group declared a maiden dividend, as a financial operation, of 12c a share.

Yesterday director Tony Gibson pointed out that the relevance of the figures for this financial year is to show that "a dream is now a business reality".

Coronation is broken up into four divisions which incorporates bond trading, asset management, derivatives and an overseas arm offering advice to potential investors.

The asset management company boasts assets of R2bn and "broke even" after three months in operation, to September.

"We thought it would take a year to achieve this," said Gibson.

He added that for the year to September 1994 "we will definitely make a profit — time will tell how much".

Net income after tax was at R4,8m — against the R678 000 for the previous financial year.

RMBH/MOMENTUM LIFE

Spreading across the sector

FM 12/11/93 (58)

RMB Holdings
Activities: *Financial services, mainly life assurance and merchant banking.*
Control: *Directors and management 39,5%.*
Chairman: *J P Rupert.*
Capital structure: *73m ords. Market capitalisation: R1,4bn.*
Share market: *Price: 1 925c. Yields: 1,7% on dividend; 4,2% on earnings; p:e ratio, 23,9; cover, 2,5. 12-month high, 1 925c; low, 1 000c. Trading volume last quarter, 351 000 shares.*

Year to June 30	†'92	'93
Total assets (Rbn)	10,5	17,0
Shareholders' funds (Rm)	106	172
Taxed profit (Rm)	34,0	44,4
Earnings (c)	61,7	80,6
Dividends (c)	26	32
Return on average shareholders' funds (%)	30	28

† Pro forma, assuming the transaction with Momentum Life was in place.

RMBH's Ferreira ... *contributions from Aegis and NBS*

Momentum Life
Activities: *Bank controlling company, active mainly in long-term assurance, and through subsidiary Rand Merchant Bank in a variety of banking and investment management activities.*
Control: *RMB Holdings 68,2%.*
Chairman: *L L Dippenaar; MD: J D Krige.*
Capital structure: *134m ords. Market capitalisation: R1,2bn.*
Share market: *Price: 900c. Yields: 2,6% on dividend; 4,7% on earnings; p:e ratio, 21,2; cover, 1,8. 12-month high, 1 025c; low, 540c. Trading volume last quarter, 515 000 shares.*

Year to June 30	'90	'91	'92	'93
Premium income (Rm)	946	1 010	895	1 113
Investment inc (Rm)	442	541	587	540
Taxed surplus (Rm)	16	18	21	53
Earnings (c)	23,0	25,7	30,0	42,4
Dividends (c)	13,0	15,0	16,5	23,0

It's been an exceedingly eventful year for RMB Holdings (RMBH), with acquisitions and restructuring — as well as the listing last November — fundamentally changing its nature and spreading its interests throughout the financial services industry.

Trigger for the changes was RMBH's acquisition, on July 1 1992, of the controlling interest in Momentum Life. That resulted in the restructure — mainly the placing of Rand Merchant Bank under Momentum as a wholly owned subsidiary, while functions of Momentum such as its asset management and property interests were taken out of the life assurer and merged with Rand Merchant Bank interests.

In addition, a new health insurer was formed and placed under Momentum, as well as the 50% interest in short-term insurer Aegis.

With this somewhat unwieldy structure in place (the Registrar of Financial Institutions wants it flattened out), RMBH listed in the insurance sector, where it enjoys higher ratings than it would have in the banking sector.

Maiden results have no direct base for comparisons, though the 20% growth in attributable income, to R44,4m, was 11% higher than the forecast R40m in the prelisting statement. The bulk of this came from Momentum (R36,1m), with roughly half contributed by Rand Merchant Bank, a strong performance which saw net profit increase 24% to R44m.

But even without a base for analysis, it's clear the market likes the new structure. Listed at R10 only a year ago, the share price has nearly doubled in a firm upward trend.

Though the bulk of RMBH's assets are in insurance, ratings are not really comparable to those of competitors because of the substantial contribution RMBH receives from non-insurance activities. Still, the share's ratings are above average for the sector. After the year-end, RMBH acquired a 20% holding in NBS Holdings and London & Dominion Trust — formerly held directly by RMBH — became a division of Rand Merchant Bank.

One way of measuring the effect of RMBH's acquisitions is to note that total assets under administration have grown from R2,9bn to R17bn — little wonder, then, that outgoing chairman Johann Rupert says it is "looking forward to a period of consolidation," and will not actively be seeking acquisitions in the year ahead.

His successor will be G T Ferreira, chairman of Rand Merchant Bank and the man who has effectively been heading the overall operation.

While acquisitions and alliances are bedded down, Ferreira can look forward to a full year's contribution from Aegis Insurance (it contributed to only three months of financial 1993), as well as the attributable portion of NBS's earnings.

The rump of earnings, though, will continue to come from Momentum, which has performed well considering that Ferreira expected it to take up to three years to get the assurer to match the potential he felt it had.

RMBH acquired Momentum while it was still suffering from its merger, several years before, with Lifegro, a transaction which was difficult to digest and resulted in an unacceptably high lapse ratio. Chairman Laurie Dippenaar says the number of policy lapses has declined significantly. Against this, the 24% growth in premium income, to R1,1bn, is a creditable achievement.

It's clear Momentum's performance has involved some pain. Expenses were contained at R127m, an increase of only 9,6%. Staff numbers decreased 13%, to 1 217.

Momentum's share price has responded accordingly, appreciating by 50% over the year. Ratings have firmed, though with the turnaround of the assurer still in progress and good contributions expected from Rand Merchant Bank and Aegis Insurance, the share could still offer value.

In his final chairman's statement, Rupert says he expects real growth in earnings for financial 1994. That's surely an understatement — RMBH has consistently maintained profit growth for 15 years.

Momentum, on the other hand, now has the stability of Rand Merchant Bank to smooth its earnings profile. Anything extra it can tweak from subsidiaries — like RMB Properties and Momentum Health which are

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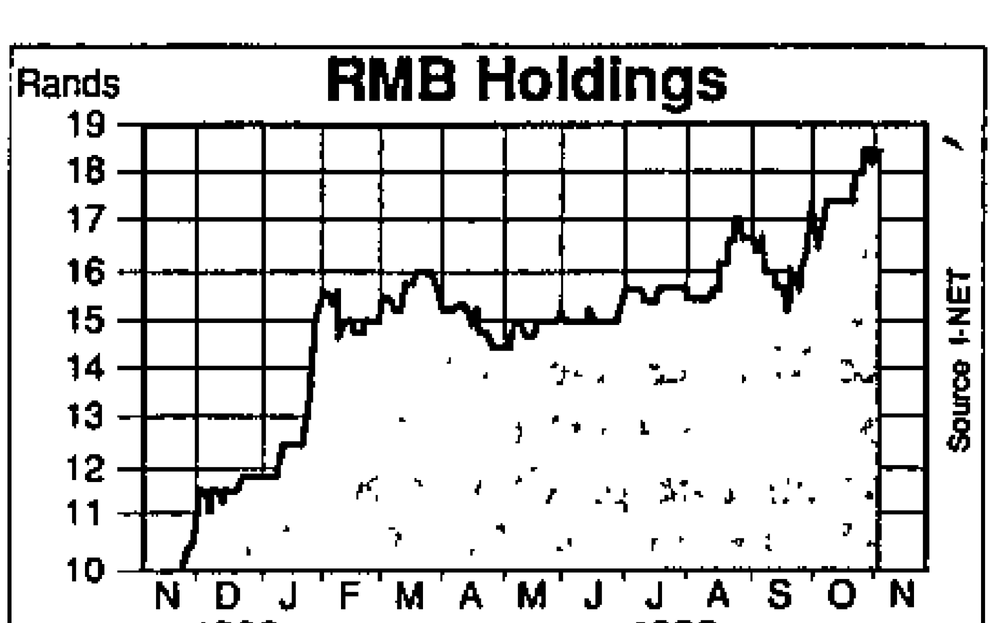

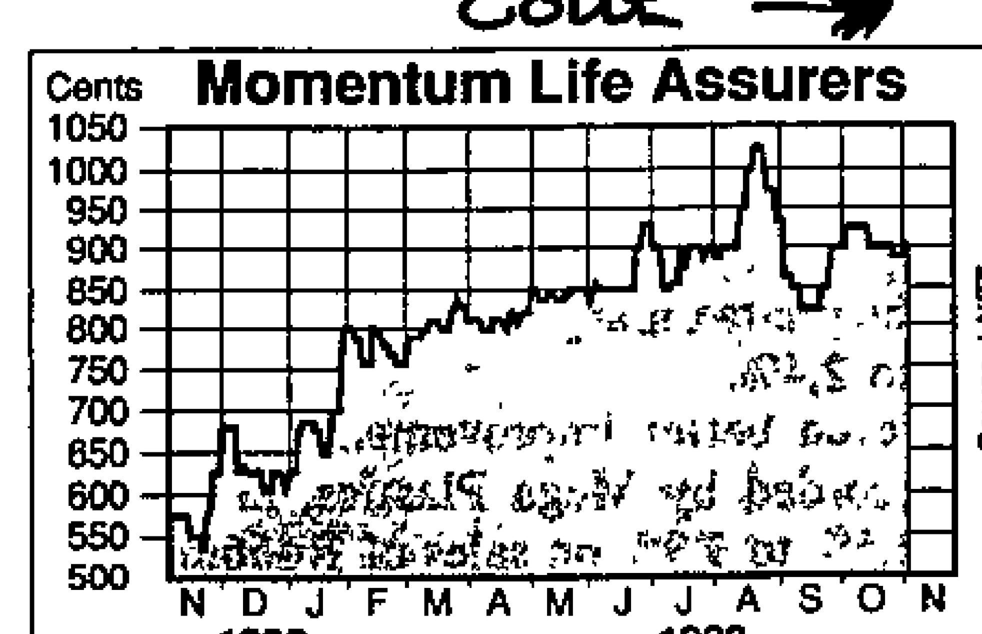

FM 12/11/93

P T.07

not yet contributing to profits — will be cream on top.

Neither of the shares is cheap, but they should continue to carry premium ratings.

Shaun Harris

Sterling 17% earnings growth from Nedbank

(58) CT 12/11/93

From SHARON WOOD

JOHANNESBURG. — A lower tax burden and tighter control of the Perm saw Nedcor realise expectations of a 17% rise in earnings a share to 251c (215c) in the year to end-September.

Outgoing CE Chris Liebenberg said yesterday the group's past troubles — particularly with the Perm — had largely been resolved. Healthy margins further boosted earnings, with net interest income rising 11% to R1,8bn (R1,62bn). There was a 7% decline in interest expenses and a 2% fall in interest income.

The group's interest margin, calculated on average assets, was 3,92% during the year. This compared with 4,74% at FNB and 4,65% at Standard Bank.

Other income increased 14% to R1,2bn (R1bn), reaching the group's short-term objective of 40% of total income. The long-term objective was 50%, Liebenberg said.

Bad debt provisions continued rising, increasing 22% to R282m (R231m).

Liebenberg did not expect a dramatic turnaround in the bad debt situation. "Bad debts level off only when the economy is well into an upswing and not as it goes into one."

The Perm had made "tremendous progress", reducing the number of accounts in arrears by 37% and payments on 94% of its bond book were up to date. Township exposure in the home loan market stood at R2,3bn and the home loans book was R11bn.

Taxation charge

The group's taxation charge fell 9% to R320m (R353m), reducing the tax rate to 39% (46%) of net income. Nedcor brought in its deferred tax advantage only below the line, so it had no effect on earnings.

A dividend of 77c (66c) was declared, a rise of 17% and well covered at 3,2 times.

The balance sheet topped R50bn for the first time, with advances up 15% to R40m (R34,7m). The group's home loans book grew 12% to R15,1bn.

Nedbank home loans showed the strongest growth in the industry, Liebenberg said. However, a different strategy was adopted at the Perm, where home loans grew only 6% during the year.

"We deliberately constrained the new bond growth at the Perm during the year while the right policies, procedures and disciplines were put into place."

For the first time, capital grew faster than assets and the group was well-positioned for an economic upswing. The risk-adjusted capital:asset ratio stood at 9,35% — above the 8% requirement.

The Perm's contribution to Nedcor's net income jumped 22%, Nedbank's was up 22% and Nedfin's rose 16%.

The Nedcor share price rose R1 to R25 on the release of the results.

Two variants of this model have emerged from the pilot projects. They are obviously highly dependent on the circumstances at farm level The first model is as follows:

FINANCIAL CONSORTIUM

↓

WORKER TRUST

Buys a percentage of the Farm Operating Company ↓ OPERATING COMPANY

Buys 100% of Land Company ↓ LAND COMPANY

Rents Land to Operating Company

'his model the workers take up full ownership of the land and rent out most of the land to the farm erating company of which they own a share. The portions that are not let out to the farming company e allocated to the shareholders family for own farming purposes. This model gives workers full control ver any fixed investment in the land but puts the responsibility of making the enterprise work on the original owner.

EXCHANGE CONTROL FM (58)

What are the limits?

12/11/93

How far should the Reserve Bank go to verify information in foreign exchange applications? This issue was raised by a former Bank employee who complained to Finance Minister Derek Keys about what he regards as inadequate controls.

In a letter to Keys earlier this year, Nico Alant, formerly a senior investigator in the exchange control department, says his career has been prejudiced because of his complaints to senior managers about the Bank's handling of exchange control applications. Alant claims the Bank often does not act in the public interest.

He alleges it abdicates reponsibilities by delegating powers to commercial banks and sometimes acts negligently by relying on inadequate information when considering the applications. He cites a case in which First National Bank referred an application for foreign exchange to the Bank while admitting details of the investment were not available. The application succeeded.

He says a letter in which he asked FNB for further information was cancelled by a colleague without consultation.

"I have been isolated by management. My memorandums, which dealt with these legal issues, were not answered and disciplinary action was taken against me because I had forwarded documents dealing with the issues directly to Dr (Pierre) Groenewald (senior Deputy Governor)," wrote Alant.

About a year before he left the Bank, Alant was moved from investigation to another division. This position became redundant and, after negotiations, a severance package was agreed. He left the Bank in July, two months after he had written to Keys and had discussions with a senior Finance official. Alant, an attorney, now works for the Financial Services Board.

In response to Alant's initial complaints, the Bank instructed attorney Tippie Luttig of Rooth & Wessels to write a legal opinion on its responsibilities regarding exchange control. In a 24-page document, Luttig advised that Alant is unjustified when he says the Bank exceeds its powers by attempting to delegate discretion to the commercial banks. Luttig says the banks have been validly appointed as authorised dealers (in foreign exchange) by the Minister and their powers are derived not from the Bank but from exchange control regulations.

Exchange control GM John Postmus says authorised dealers operate within certain guidelines to approve foreign exchange. "Any applications which exceed those guidelines are referred to the Bank's exchange control department."

Inspectors from the exchange control department regularly inspect banks to check that guidelines are being followed, says Charles van Staden, head of investigations. "We alert internal inspectorates at the various banks to the exchange control requirements and receive reports regularly."

Dealing with the stringent verification of applications that Alant expects from the Bank, Luttig says: "If the Bank's requirements for information and documentation were to become too exhaustive and stringent, the system would result in trade being unnecessarily hampered, the administration of the system becoming too expensive, confi-

Continued on page 39

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Continued from page 35

dence in the Bank and the economy being undermined and even more evasion of the control measures taking place."

Alant was not satisfied with Luttig's briefing by the Bank or his opinion. In his letter to Keys, he says: "Luttig has for many years had a close relationship with the Reserve Bank."

He challenges Luttig's opinion that "the main reason for the high incidence of exchange control fraud is to be found in . . . the inability of the legal system to deal expeditiously and effectively with exchange control fraud, thus depriving the community of the deterrent effect which efficacious action would have."

Reserve Bank Governor Chris Stals, replying to Alant's memorandums, says the Bank regards exchange control as a measure forced on SA by extraordinary circumstances, which clashes with the country's traditional market economy philosophy. He adds that the Bank accepts it cannot apply exchange control fully without destroying the market economy.

"The question arises whether someone who does not respect the accepted principles of the Bank is suitable to take part in the execution of the policy while the responsibility thereof has been placed with the Bank," writes Stals.

"I am surprised that you arranged for a representative of Sasbo (the SA Society for Bank Officials, a workers' union) to be present during the discussion between yourself and the Director-General of Finance.

"You will know that neither the Minister nor the Director-General are responsible for internal Reserve Bank staff matters. On the other hand, Sasbo certainly has no input into monetary policy."

Groenewald says: "I have sympathy for Alant's viewpoint but it is practically impossible for us to verify every application. Were we to do that, the whole economy would come to a standstill." He adds that government's legal advisers are looking at issues raised by Alant.

Alant says he is forbidden by the Reserve Bank Act to discuss the matter. *Eddie Botha*

Nedcor laughs all the way to the bank

(58)

ARGT 12/11/93

Business Staff

BANKING group Nedcor increased earnings by a highly creditable 19 percent to R486 million in the year ended September.

This translated into earnings a share of 251c, from which a 17 percent higher dividend of 77c a share was declared.

The rise in earnings came in spite of an increase in specific and general risk provisions from R231 million to R282 million, which was partly the result of the bank's concern about the effects of the economic situation on the property market.

Chief executive Chris Liebenberg said it had been en extremely long recession and it was difficult to decide what provisions to make.

A decision not to take into account income from certain major lease agreements other than cost of the money lent, also restrained earnings. This income would be included in 1995.

Interest income dropped two percent from R6.5 billion to R6,4 million while the cost of money declined from R4,9 billion to R4,6 billion.

Net interest income was R1,8 billion against R1,6 billion last year.

Other income increased 14 percent from R1 billion to R1,2 billion.

Expenses, which included significant infrastructure and strategic spending, rose 13 percent from R1,67 billion to R1,89 billion.

Taxation, which includes transactions taxes, dropped 9 percent from R353 million to 320 million. This reflects the benefit of an improved use of the tax base and the lower company tax rate

The lower tax rate provided a net benefit of R53 million to the deferred tax balance. Some R38 million went in various provisions and the balance of R15million was transferred to the income statement but not included in the calculation of earning a share.

Flagship Nedbank increased its net income by 22 percent to R230 million while the Perm's net income increased by 22 percent to R85 million.

Cautious Nedcor lifts earnings 19%

Star 12/11/93

BY DEREK TOMMEY

Banking group Nedcor increased earnings by a highly creditable 19 percent in the year ended September. They rose from R408 million to R486 million. Earnings a share increased by 17 percent from 215c to 251c. Dividends are 17 percent higher at 77c (66c).

The rise in earnings came in spite of an increase in specific and general risk provisions from R231 million to R282 million, which was partly the result of the bank's concern about the effects of the economic situation on the property market.

Chief executive Chris Liebenberg said it had been an extremely long recession and it was difficult to decide what provisions to make.

However, the entire property portfolio of subsidiaries Syfrets and UAL had been reassessed and this had resulted in additional provisions of R25 million being made against Syfrets' properties and R20 million against UAL's properties.

This cut Syfrets' net income from R22 million to R17 million, but UAL's income rose from R47 million to R55 million.

UAL would have shown an "astronomical" increase in earnings but for the property provision, said Liebenberg.

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58

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The lower tax rate provided a net benefit of R53 million to the deferred tax balance. Some R38 million went in various provisions and the balance of R15 million was transferred to the income statement but not included in the calculation of earning a share.

Nedbank increased its net income by 22 percent to R230 million while the Perm's net income rose by 22 percent to R85 million. Hard work by the Perm's staff led to its arrears being 37 percent lower than a year ago, and 94 percent of its bond payments are totally up-to-date.

In view of the high level of unemployment this was an outstanding achievement, said Liebenberg.

Liberty announces reshuffle

58

CT 12/11/93

Business Staff

LIBERTY Life announced yesterday it had rationalised and streamlined the group, with a view to relieving chairman Donald Gordon of certain of his executive, strategic and corporate responsibilities.

Gordon, who attained the retirement age of 63 in June of this year, has already intimated his willingness to continue as chairman for a period not exceeding five years.

The new appointments to the board of Liberty Holdings are Dorian Wharton-Hood, currently vice chairman of Liberty Life and Alan Romanis, MD of Liberty Life. Wolf Cesman and Roy McAlpine will be appointed to the board of Liberty Life.

Liberty Holdings MD Farrell Sher, will move to the UK from the second quarter of 1994, as the new executive director (international).

Nedcor achieves 17% earnings rise

B/Day 12/11/93

SHARON WOOD

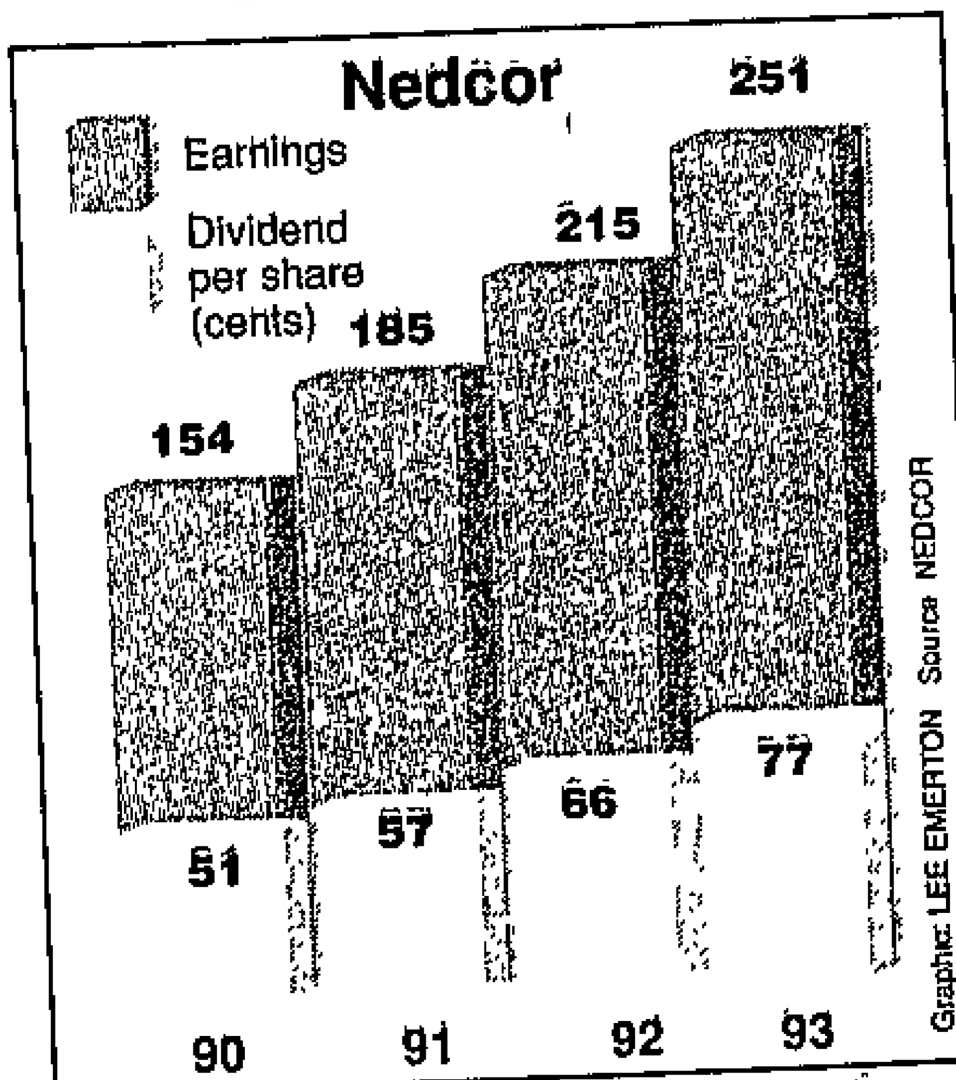
A LOWER tax burden and tighter control of the Perm saw Nedcor realise expectations of a 17% rise in earnings a share to 251c (215c) in the year to end-September.

Outgoing CE Chris Liebenberg said yesterday the group's past troubles — particularly with the Perm — had largely been resolved. Healthy margins further boosted earnings, with net interest income rising 11% to R1,8bn (R1,62bn). There was a 7% decline in interest expenses and a 2% fall in interest income. (68)

The group's interest margin, calculated on average assets, was 3,92% during the year. This compared with 4,74% at FNB and 4,65% at Standard Bank.

Other income increased 14% to R1,2bn (R1bn), reaching the group's short-term objective of 40% of total income. The long-term objective was 50%, Liebenberg said.

Bad debt provisions continued rising, increasing 22% to R282m (R231m). Liebenberg did not expect a dramatic turnaround in the bad debt situation. "Bad debts level off only when the economy is well into an upswing and not as it goes into one."



The Perm had made "tremendous progress", reducing the number of accounts in arrears by 37% and payments on 94% of its bond book were up to date. Township exposure in the home loan market stood at R2,3bn and the book was R11bn.

The group's taxation charge fell 9% to

□ To Page 2

Nedcor

B/Day 12/11/93

□ From Page 1

R320m (R353m), reducing the tax rate to 39% (46%) of net income. Nedcor brought in its deferred tax advantage only below the line, so it had no effect on earnings.

A dividend of 77c (66c) was declared, a rise of 17% and well covered at 3,2 times.

The balance sheet topped R50bn for the first time, with advances up 15% to R40m (R34,7m). The group's home loans book grew 12% to R15,1bn. (58)

Nedbank home loans showed the strongest growth in the industry, Liebenberg said. However, a different strategy was adopted at the Perm, where home loans grew only 6% during the year. "We deliberately constrained the new bond growth at the Perm during the year while the right policies, procedures and disciplines were put into place."

For the first time, capital grew faster than assets and the group was well-positioned for an economic upswing. The risk-adjusted capital:asset ratio stood at 9,35% — above the 8% requirement.

The Perm's contribution to Nedcor's net income jumped 22%, Nedbank's was up 22% and Nedfin's rose 16%.

The Nedcor share price rose R1 to R25 on the release of the results.

Perm's recovery boosts Nedcor's results

(58) WM 19-25/11/93

Having solved problems at the Perm, Nedcor is well placed to take advantage of an upturn, reports Reg Rumney

THE number of Perm accounts in arrears is 37 percent down on last year, Nedcor managing director Richard Laubscher said last week at the announcement of the annual results.

Nedcor's earning rose 17 percent in the year to end-September 1993, and with the Perm's problems seemingly resolved outgoing chief executive Chris Liebenberg has cause for feeling confident the bank is well placed to take advantage of any upturn.

Since Nedcor swallowed the Perm it has been in the spotlight because it inherited the Perm's relatively large black client base and a high portfolio of loans to black clients.

Nedcor MD Richard Laubscher

These loans are seen as troublesome because of the perception that banks lending in black areas face bond boycotts and a higher rate of defaults and nonpayment of bond instalments.

Laubscher added that of the Perm's total bond book 94 percent was up to date; 92 percent of loans in townships were totally up to date.

In the light of high unemployment and retrenchments last year, the Perm's performance was exceptional, he said.

Also, the Perm's total bad debt level is 20 percent down on last year. "The Perm peformed quite exceptionally this year."

Properties in possession show an absolute growth of 12,7 percent but the rate of increase was 74 percent down on the previous comparable period.

Nedcor is getting the stock of properties in possession to start turning over, with sales up 37 percent year-on-year. In July, August and September there was a net reduction in properties in possession.

The Perm granted only six-seven percent more bonds than the previous year, focusing, said Liebenberg, on discipline and control rather than growth.

The Nedcor home loan book is R15-billion. Of that R2,3-billion comprises Perm home loans in townships.

"The bond boycott has affected all institutions and is an area of great concern," said Liebenberg. But bond boycotts had had far less of an impact on the Perm than on other institutions, he said.

This was because the Perm had spent an immense amount of time addressing that specific issue with civic organisations.

Student loan system restructured

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In an attempt to 'democratise' the process or allocating student loans, the Tertiary Education Fund of South Africa has been restructured to make its board of directors more representative, reports PHILIPPA GARSON WM 12-18/11/93

STUDENTS can look forward to a more equitable distribution of student loans after the reconstitution last month of the Tertiary Education Fund of South Africa.

The newly structured company, the culmination of three years' groundwork to set up a national loan and bursary fund, is an attempt to "democratise" the process of allocating mainly Independent Development Trust funds by means of a more representative board of directors.

Members of the National Education Co-ordinating Committee, Union of Democratic Staff Associations, the South African Students' Congress (Sasco), Pan Africanist Students' Organisation (Paso) and Azanian Students' Congress have taken up seats alongside the IDT, Kagiso Trust and a range of other organisations.

Commented new board chairman Merlyn Mehl: "We have finally set up a company to administer student loans, with a focus on students from disadvantaged backgrounds. Now we have a representative board. We are moving towards a way of making sure the allocation of funds is credible."

Student groups boycotted their positions on the Tertiary Education Fund's interim committee in the past, charging that funds were being allocated unfairly.

Sasco representative Robinson Ramaite said the organisation had had a problem in the past with the IDT's "bias" towards historically white universities at the expense of the historically black universities.

"We feel that the democratic composition of the Tefsa board enables us to have a say with regard to who gets funds and how they are allocated," he said.

Ramaite said Tefsa could not be seen as the sole solution to the tertiary funding crisis.

Submissions were being made to the National Education and Training Forum to come up with new funding schemes.

Paso official Eddie Bosman said that by participating on the board, his organisation hoped to make "the process as transparent and inclusive as possible."

The IDT has made R30-million available for student loans this year. Last year Tefsa made R28-million available for loans for 9 200 students. Kagiso Trust, the other major provider, gave R19-million for loans and R29-million for bursaries, assisting about 6 000 students.

With at least 200 000 students needing financial help for university and technikon training every year, only about 10 percent are actually receiving assistance.

(58) WMS-11/11/93

Sanlam is changing, for sure

From afar Sanlam seems as Afrikaans as the Voortrekker monument. But it is changing, reports Reg Rumney

GIANT South African assurer Sanlam may not be able next year to repeat this year's glowing results — but those results underline how the company has adapted to changing circumstances.

Continuing recession did not obstruct the 75-year-old mutual assurance company from announcing a respectable performance for the 1993 financial year.

Total income in the form of premiums for life and other policies was 23 percent up on 1992 at almost R12,8-billion — and double the total premium income figure recorded in 1989. Assets held by Sanlam on behalf of policy-owners and pension and provident funds increased to almost R72-billion.

Assurers generally seem to have done not too badly in the now four-and-a-half-year recession. Sanlam managing director Desmond Smith explains that in times of recession and change people tend to try to ensure financial security and peace of mind.

Single premium income was up by 34 percent, a lot of it retrenchment money put away for an even rainier day by those who lost jobs.

The image may linger of a conservative company serving a lower middle class, rural Afrikaans community, but one reason Sanlam has managed to crest the recessionary tide is that it has persistently broadened its market.

Symbolically, it manages pensions for both the African National Congress itself and, reportedly, the South African Communist Party.

Smith says Sanlam has not relinquished its traditional market, but it has made a big push into other markets. He says despite its Afrikaans identity Sanlam is accepted by blacks.

"Blacks see Sanlam as a role model for black empowerment."

Sanlam has not designed specific products for the black market, says Smith, and believes its success in branching out into the black market lies in not being condescending. There is a separate marketing drive into the senior market, but not the black market.

Now, 40 percent of its new business is English-speaking; 25 percent is black. In line with this, 20 percent of its sales staff is also black, though the admin staff is still largely white and the Sanlam board has not a single black face — yet.

Smith says the appointment of a black board member is inevitable, since Sanlam is a mutual and as the number of black policyholders increases, they will want representation at board level.

Sanlam does have an affirmative action policy, Smith says, with regularly monitored targets. "It isn't easy given that the admin staff figure itself is shrinking and staff turnover is low because people are hanging on to their jobs," he admits.

What does the future hold in financial terms?

Investment income grew by 13 percent to R4,5-billion in 1993 compared to 1992, a respectable figure, and one not likely to be repeated next year.

Benefits paid rose 36 percent to R8,4-billion.

"Inflation coming down will impact on the growth we can achieve," Smith notes. But he predicts real growth — adjusted for inflation.

"Growth of 18 to 19 percent if inflation is eight percent next year will be satisfactory."

Reserve Bank's fragile independence (58)

WM 12-18/11/93

Why the outcry over calls to subordinate the Reserve Bank to the government. Reg Rumney explains

VELLA PILLAY, head of the African National Congress-sponsored Macro Economic Research Group (Merg) has caused a stir with his suggestion that the Reserve Bank should be "subordinate to the government".

Pillay was speaking at the Oliver Tambo Memorial Lecture last Friday on the research undertaken by Merg. His suggestion was immediately shot down the ANC itself. The ANC emphasised the Merg was an independent research group and its recommendations were not offical ANC policy.

The group's report on a "coherent macroeconomic framework for a post-apartheid South Africa" would be formally delivered to the ANC sometime in December" said an ANC statement.

It went on to say what Pillay did not — that one section in the Merg report on Banking and Finance suggests that the Reserve Bank should be nationalised and placed under the control of the Ministry of Finance.

"Such an approach is unlikely to find favour in the ANC," said the ANC, "as we are currently developing our own approach to monetary policy which will not require nationalisation of the South African Reserve Bank."

Pillay cannot understand the fuss. "Having been an international banker of some 35 years experience and having had links with international financial institutions and central banks in a large number of countries I can claim with confidence, that, whatever may the constitutional position there does not exist a single central bank in the world which is truly independent."

Pillay says all matters of economic policy have a direct bearing on that role, and on the management of the credit structure and tha banking system. Governments know this, as do the parliaments. This explains the

Vella Pillay ... Caused a storm

universal existence of strict rules of central banking accountability.

"The formality of 'autonomy', where it is explicit, is today everywhere observed more in the breach than otherwise.

"And that has been a central fact in the history of the South African Reserve Bank. I cannot see why, in the context of the present severe economic crisis that historical fact should not be recognised as a basis for future policy formulation."

Pillay has a point — at least in that no central bank could be completely independent of the government of the day. The Reserve Bank's independence has the backing of President FW de Klerk's cabinet.

This is somewhat different however, from the bank becoming a nationalised instrument of government economic policy.

In South Africa most economists and business, although hurt to some extent by the relatively high positive real interest rates enforced by the Reserve Bank, tend to support Reserve Bank governor Chris Stals in his conservative approach to monetary policy.

Fresh in their minds is the economic damage done by see-sawing interest rates in the era of the former governor, the late Gerhard de Kock. Under De Kock the Reserve Bank did dance to PW Botha's tune, raising or lowering interest rate with an eye on political expediency.

De Kock's successor has had a hard time convincing the general public that he intends sticking to his guns on the Reserve Bank's stated mission of protecting the "internal and external value of the rand". The ANC, endorses the Bank's position, although it does say there must be a break with the past and the governor must consult the minister of finance.

Stals seems to be winning the battle to change public attitudes about inflation. There seems to be a wider acceptance that double-digit inflation is not a given, and that prices can indeed come down if the Bank is strong-willed enough not to ease the pain of positive real interest rates.

Hence the furore over Pillay's mild suggestion. Perhaps Stals can hang tough only because FW de Klerk allows him to.

At Kempton Park the ANC and government agreed this week to entrench the Bank's independence. But the symbolism of nationalising the Reserve Bank would be too much for local and foreign business to bear.

Reserve Bank to remain independent – Mboweni

ANC gives assurance on Bank

Sowetan 11/11/93

By Mzimkulu Malunga

THE South African Reserve Bank will remain an independent institution under an ANC government.

Following the weekend's recommendation by the ANC-aligned Macro Economic Research Group (Meng) that the Reserve Bank should be nationalised, the movement's deputy head of economic affairs, Mr Tito Mboweni, has been quick to give an assurance that the institution will remain independent.

The ANC says the bank will continue to be governed by the parliamentary legislation which guarantees its independence.

According to ANC economist Miss Maria Ramos, her organisation prefers subordinate legislation outlining a consultation mechanism between the Reserve Bank and the Minister of Finance.

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She says principles of accountability and transparency will be the guiding force behind ANC policy on the future role of the Reserve Bank.

"We want a Reserve Bank that reflects the needs of a democratic South Africa," Ramos argues.

An ANC statement released early in the week by Mboweni says the formal report from Merg will be submitted to the organisation next month.

Mboweni says Merg's recommendations will not automatically be absorbed into ANC policy.

"We have to break with the past and as such, the Reserve Bank should be constitutionally bound to consult with the Minister of Finance in conducting monetary policy.

"We envisage that the mechanism for consultation should be specified in an Act of Parliament governing the Reserve Bank," he says.

The Reserve Bank is different from ordinary banks. It is the guardian of the country's national reserves and uses a number of strategies to ensure that fluctuations of the rand are kept to a minimum both locally and internationally.

It is also responsible for the supply of all money into the economy. Depending on the priorities at any given time, the bank can increase or decrease volumes of money circulating in the economic life of the country.

Reserve Bank agreement (58)

ST 9/11/93

JOHANNESBURG. — The ANC and the government yesterday released an accord in which they backed the independence of the Reserve Bank.

"The reserve bank shall ... exercise its powers and perform its duties independently, provided that there be regular consultation between the reserve bank and the minister of finance," the accord said.

The accord, arrived at in bilateral talks, was presented to delegates at the multi-party negotiations at the World Trade Centre. — Reuter

Assurance companies penetrate black market

B/Day 9/11/93

(58)

BEATRIX PAYNE and CHARLOTTE MATHEWS

ASSURANCE companies are penetrating the black market with increasing success although most tend to deny making this their target, preferring to aim their products at income groups.

Sanlam estimated about 25% of its new business came from the black market. MD Desmond Smith said the life office had changed over the past five to 10 years, expanding from its traditional white-collar Afrikaans-speaking market to the upper income groups, English speakers and the black market.

Old Mutual's target market for individual life policies was those who could afford to pay its minimum premium of R60 a month, the company said. The proportion of policies issued to black people had increased significantly over the past 20 years as more people could afford the minimum premium. There were a growing number of black sales representatives who sold insurance to their own communities.

Southern Life said that, based on addresses, it had noticed a significant increase in the amount of business coming from black areas in the past few years. Its range of policies aimed at the first time buyer, the Provider series, had been extremely successful.

A and B income group members were the main target of Liberty Life's insurance policies, divisional manager, public affairs, Sven Forsman said. Within these sectors there were a large number of black policy holders but the company did not keep records of clients' race.

Metropolitan Life PR manager Nico Oosthuizen said about 90% of the firm's new business had come from the black sector, its traditional target market. Dave Lewis, assistant GM of Metropolitan Life's marketing services, said the assurer aimed at the solid middle class of teachers, nurses, policemen and professionals. It was moving increasingly towards a market that paid monthly premiums through a stop order or debit order, rather than in cash.

African Life MD Bill Jack said the company did not direct its policies at black people. African Life was a low premium assurer that would "provide cover where others wouldn't". Such cover included funeral insurance at R11 a month and policies that would pay money as often as possible.

As a smaller company, Norwich Life restricted its target market to the A and B income groups, PRO June Barclay said.

Repossession of homes abates

BDay 8/11/93

GRETA STEYN

BANKS' repossessions of homes have taken a sharp downturn from the peak reached late last year, research shows.

The analysis, by consultants BICG, spans the period July 1992 to June 1993 and is based on bank advertisements in the Government Gazette of house sales in execution. The advertisements show the intention to repossess and are the best indicator of the extent to which people are losing their homes. Advertisements have dropped from 600 a gazette in July 1992 to 400 a year later.

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Almost 80% of homes being repossessed are on erven smaller than 1 000m², indicating the bottom end of the market. However, while the rate at which banks want to repossess homes has fallen, the areas affected have spread to "good" suburbs such as Linden and Parkmore in Johannesburg.

NBS home loans GM Trevor Olivier said the bottoming of the economic cycle was an important reason for the slowdown. The property market had also become easier, so that people who needed to sell were able to do so. Banks were taking a softer line on repossessions at the bottom end of the market because of talks with the civics, he said.

The advertisements show the NBS has the third biggest share of homes being repossessed. The Standard has the smallest. Absa and Nedcor, which owns the Perm, have been repossessing the most.

Perm chief Hugh Maclachlan said the bank regarded the market as more stable because retrenchments appeared to have tapered off. "It seems people's ability to pay has started to improve."

An Absa spokesman said falling interest rates were slowing repossessions. He and Maclachlan said banks were going out of their way to keep people in their homes.

Home repossessions

Graphic: LEE EMERTON Source: GOVERNMENT GAZETTES

Bankers to descend on SA

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CT 8/11/93

From GRETA STEYN

JOHANNESBURG. — Bankers from SA's major European and British creditor banks will visit the country this week for talks with the Reserve Bank, government and the ANC.

The bankers include economists representing the holders of SA's $5bn debt inside the standstill net, on which a final repayment agreement has already been reached.

Representatives from Barclays, Natwest, UBS, Dresdner Bank and Commerzbank are expected. It is understood that US banks will not be included during this week's visit, but representatives from J P Morgan are expected to arrive about two weeks later.

Sources said it would be a month "dense with bankers", providing SA with an opportunity to try to ease its foreign capital situation.

It is understood that the South Africans will use the opportunity to raise the possibility of reducing the "bullet payment" of $500m due next February through borrowing new money from the same banks.

The amount would not be rolled over in its entirety, but it was possible that separate agreements could be reached with individual banks, effectively rolling over part of the payment, sources said.

The possibility of "side-letter agreements" had already been raised informally when US sanctions were lifted. It is understood that the ANC is pushing for these deals to ease the pressure on the balance of payments next year.

Nationalisation of Reserve Bank unlikely

(58) (280) CT 8/11/92

JOHANNESBURG. — The African National Congress might oppose a recent proposal that the South African Reserve Bank be nationalised, the organisation's department of economic planning said yesterday.

It was responding to a Macro Economic Research Group (Merg) suggestion that SARB policy approach would have to fall in line with the economic imperatives of a new democratic state.

Merg co-ordinator Dr Vella Pillay said on Friday recent research had shown that the SARB should be subordinate to the government "to allow monetary, interest and exchange-rate policies and the flow and direction of credit in the economy to be consistent with the democratic state's policies".

But in response, the ANC said: "Such an approach is unlikely to find favour in the ANC as we are developing our own approach to monetary policy which will not require nationalisation of the South African Reserve Bank."

Merg was started in 1991 by the ANC, Congress of South African Trade Unions and other organisations as an independent research facility to undertake economic policy research and submit recommendations.

"Their (Merg's) reports do not constitute ANC policy," the economic department stressed in a statement.

"We are currently involved in negotiations on the conduct of monetary policy in the democratic South Africa," the statement added. — Sapa

Reserve Bank role attacked

(58) CT 6/11/93

JOHANNESBURG. — An ANC-aligned economic policy group yesterday attacked the independence of the SA Reserve Bank from central government.

In a speech at a memorial meeting for the late ANC national chairman Mr Oliver Tambo, Macro Economic Research Group (MERG) co-ordinator Mr Vella Pillay said the policy approach of the central bank would have to fall in line with the economic imperatives of a new democratic state.

MERG had conducted intensive research over the past year to formulate economic policies a new government could follow to redress structural economic inefficiencies.

"Our research conclusions suggest that the SA Reserve Bank should be subordinate to the government," Mr Pillay said.

This was necessary "to allow monetary, interest and exchange rate policies and the flow and direction of credit in the economy to be consistent with the democratic state's policies".

This contradicts sharply the policy approach of the Reserve Bank with Dr Chris Stals as governor.

Dr Stals has repeatedly argued that the primary role of the Reserve Bank is to protect the value of the country's currency, and that to do this the central bank has to remain autonomous from central government.

Analysts regard the achievement of single-digit inflation figures earlier this year as a result of the Reserve Bank's independence from government and its ability to refuse to print more money.

However, Mr Pillay said MERG's conclusions, which are to be released fully within the next three weeks, were "much the most exhaustive and innovative in terms of . . . placing the economy on a path of sustainable growth".

He said the MERG report would shortly be presented to the ANC and Cosatu. — Sapa

Boland Bank raises profit

ARG 6/11/93 (58)

Boland Bank extended its profit record with a no-frills performance.

MARC HASENFUSS
Business Staff

PAARL-based Boland Bank extended its consistent profit growth record with another no-frills performance in the half-year to end September.

Attributable profit was pushed up 10 percent to R11,3 million, or 83,9c a share, from which a 25c (previously 23c) dividend was paid to shareholders.

Managing director Gert Liebenberg urged shareholders to evaluate the results under review against the background of prolonged recessionary conditions in the local economy, as well as political uncertainty and unrest.

"This resulted in continued high provision for bad debts, limited growth in financing and a decline in commission — especially from property and auctioneering services."

However, he noted that profits were shielded against these negative factors by relatively favourable interest rate margins and sustained growth in income from other services.

The income statement showed a solid 17 percent gain in total income to R121 million — made up of contributions of R77 million from interest income and R44 million from other income.

Operating expenses were well contained, increasing an acceptable 13 percent to R76 million in the period under review. In addition, the increase in provision for bad and doubtful debts was limited to just over R30 million

This saw operating income soar 60 percent to close to R15 million. A R1,3 million donation from associate companies put net income up 56 percent at R16 million.

Mr Liebenberg attributed the marked increase in the bank's operating income to income derived from the proceeds of the rights issue. These funds have been on investment.

The strong gains in net income were dampened at bottom line by the payment of the first preference dividend of R4,7 million, or 38,85c a share. The preference dividend will be made to about 650 shareholders who came on board earlier in the year via the rights issue.

R8,5b lost in boycotts

Sowetan 5/11/93

By Joshua Raboroko

MAJOR banks and lending institutions have lost about R8,5 billion as a result of bond boycotts, violence in black areas and bad economic conditions so far this year.

Hardest hit institution is the South African Housing Trust which has reported a net loss of R53,7 million for the year ended June 30.

The combined figure of arrears among all South Africans has been estimated at R64 billion, according to sources in the banking industry.

These figures were disclosed to *Sowetan* yesterday by the president of the South African National Civic Associations, Mr Moses Mayekiso, who said the banks had suffered badly as a result of increasing arrears.

Chief executive of the Council of South African Banks, Mr Piet Liebenberg, said yesterday that banks had lost huge amounts of money as a result of arrears caused by organised bond boycotts, violence and unemployment.

He could not give exact figures because, he said, it would need a full investigation by the different banks.

Net loss

SAHT managing director Mr Wallie Conradie said the trust faced increasing arrears as a result of bond boycotts and violence. It had suffered a net loss of R53,7 million for the year ended June 30.

The shortfall could be attributed to an increase in provisions against home loan debtors, he said.

The trust granted only 500 new home loans during the year against 9 500 in 1992 and 12 000

'Political uncertainty, violence and the recession to blame for the arrears'

in 1991. This was because of affordability constraints as result of the recession, higher interest rates and stricter credit criteria.

Mayekiso blamed the arrears on increasing political uncertainty, violence and poor economic conditions. 58

High interest rates

He said some residents were unhappy about badly built houses and decided not to pay their bonds.

Others had been hard hit by the high interest rates charged by banks.

The banks charged an interest rate of 12,5 percent in 1987 which rose to 21 percent in 1989.

Millions of people lost their jobs because of the recession and did not have money to pay their bonds, Mayekiso said.

Because of the violence that erupted on the East Rand, Alexandra and Soweto, some houses were razed to the ground while others were illegally occupied by radical groups, he added.

The secretary of the Association of Mortgage Lenders, Mr Mildurn Pyle, was not available for comment yesterday.

AA Life back in the black

58 C 15/11/93

JOHANNESBURG. — In a dramatic turnaround, AA Life Assurance Association Ltd yesterday said it had posted a surplus of R5m for the year ended June 30 following a shortfall of R98m the previous year.

Despite difficult trading conditions, says AA Life MD, Joe Gates, the company achieved gross recurring individual life premium income of R98m (R99m) for the year and a 13% increase in gross premium income from pensions and group life business to R34m (R30m). Total gross premium income, excluding single premiums, improved marginally to R131m (R128m).

"We also enjoyed an 81% increase in investment gains, from R26m to R47m. This represents an 11% return on average total assets employed. Total assets grew 23% to R479m.

He says the strong positive performance has enabled the company to create an additional contingency and stabilisation reserve of R33m.

● The company's BOE-managed Entrepreneur Portfolio managed growth of 35,2% versus the Overall Index of 15,4% for the year.

"Our BOE Investors Fund, launched in January 1992 as a joint venture between ourselves and the BOE for pension and provident fund investors, achieved a return of 22,1%. The fund's current value is R93m.

"The current declared rate of our Smooth Bonus Portfolio is 12%. — Sapa

Banks' council plans to reshape itself

B/Day 5/11/93

SHARON WOOD

THE Council of Southern African Banks (Cosab) is to be restructured, new CE Piet Liebenberg said in an interview yesterday.

Liebenberg, elected as Tony Norton's replacement in July, said weaknesses had become evident and Cosab would change its structure from an institutional one to a functional one.

It had created two discussion documents — The Fundamental Values of SA Banking and a Code of Good Banking Practice.

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Liebenberg said Cosab would deal with issues such as alleged interest overcharging. "The image of the banks is very important to Cosab ... it will be much more active in communication to the public."

Cosab also intended to add an association of foreign banks to the existing four — the Clearing Bankers' Association, the Association of Mortgage Lenders, the Association of General Banks and the Merchant Bankers' Association.

New Republic Bank to be listed

BDay 5/11/93

NEW Republic Bank (NRB), the Durban-based banking group with total assets of R1bn, will be floated on the JSE before March 31, MD Mac Mia said yesterday.

The flotation will be the largest new issue on the banking and financial services board since Rand Merchant Bank's listing in 1992, and follows the listing of Citizen Bank last month.

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The company reported a marginal increase in earnings to 25,5c (24,8c) a share in the half-year to September 30, diluting a threefold advance in attributable earnings which were up at R4,43m (R1,43m). The interim dividend was unchanged at 7c.

NRB issued new shares to buy Merchant Trade Finance (MTF) for R45m from investment company Merhold in July and held a R17m rights issue in February.

Mia said although the April election was cause for uncertainty, NRB believed market conditions were already suitable for listing and the company's shares would be trading in the first quarter of 1994.

He said NRB would build on its growth from a small to medium-sized niche market bank in the past year.

The three-month contribution of MTF to the bank's interim results was the main

MATTHEW CURTIN

factor in the jump in advances to R922m (R364m), although Mia noted that advances from NRB customers climbed R70m.

Interest income rose to R58,1m (R39,3m) with total income after interest payments and improved revenue from other sources higher at R15,4m (R11,4m).

Pre-tax profit doubled to R6,12m (R3,11m) as increased bad debt provisions — up at R2,95m (R2,03m) — lagged behind the rise in operating costs. Tax provisions were static at R1,69m.

Mia said the bank's capital adequacy ratio after the rights issue stood at 12,5%, well above a target of 8% which the bank hoped to achieve in 1995.

The full impact of a streamlining exercise, bringing management together at its Durban head office and introducing a new computer system, would be felt fully by year-end. He said NRB was well placed for further expansion, having acquired Sanlam as a major shareholder after the rights issue. It would pursue new acquisition opportunities should they arise next year once it had digested the MTF purchase and the listing and developed new products.

Banks' asset growth 'tactics' questioned

CT 9/11/93 58

By ARI JACOBSON

THE need to show asset growth has led to tactics by some large financial institutions "which cannot be good for the industry or the country" said Fidelity Bank chairman Rolf Lippstreu in its latest annual report, for the year to September.

Lippstreu based this assertion on the "fairly intense individual campaigns designed to achieve enhanced market penetration" that had impacted unfavourably on the smaller institutions.

He added "it is hoped that strictly trading values will be restored as soon as possible".

Fidelity Bank is at present holding discussions with the EP Building Society with a view to merging the respective businesses — a cautionary has been announced and a final outcome is expected sometime this month.

On other issues Lippstreu mentioned that in all "the economic gloom" over the last few years, the banking sector has in general performed well and more specifically in the case of Fidelity "the group has met all its growth targets".

He said that Fidelity had "exploited" the better performing facets of its business and thus compensated for the areas "which have suffered more adverse affects".

He added that "resources have been managed with care and the temptations inherent in rapid and costly expansion have been resisted".

According to Lippstreu the core activity of the bank, that of being a general bank, has grown as planned during the past year, with no expansion to the branch network.

"It has not been an easy year with low producer confidence stifling the demand for finance".

He said that "the situation has been somewhat exacerbated" by the larger institutions taking up a larger share of the "shrunken market".

Nevetheless, Lippstreu was quick to point out that the marketing of Fidelity products had been successful.

Fidelity Bank also specialises in participation bonds, trusts and estates, treasury and insurance broking.

HIGH-FLYER Fidelity Bank has marked an outstanding five years gauging by a performance indicator, such as return on assets. An acceptable return on bank assets, in general, is at about 1%. Fidelity in turn has shown continuous growth in this profit indicator and for the year to September 1993 boasted a return on assets of over 2%, which must rank among the highest of the publicly-listed financial institutions.

NRB's assets top R1 billion

MARC HASENFUSS
Business Staff (58) ARCP 4/11/93

DURBAN-based niche financiers New Republic Bank (NRB) pushed their asset base through the R1 billion mark (previously R502 million) in the half year ended September.

The growth in assets came mainly on the back of the bank's acquisition of Merchant Trade Finance (MTF), effective from July this year.

The acquisition of MTF enabled the bank to diversify to include trade finance, working capital and factoring.

Also, growth in fixed and instalment loans added more than R70 million to total assets in the review period.

Net income trebled to R4,4 million — off a 47 percent jump in interest income to R58 million in the six months of trading.

A huge increase in the number of shares in issue to 24,7 million diluted the gain in earnings a share to 25,5c (previously 24,8c). The interim payout was pegged at last year's 7c a share.

■ Old Mutual acquired 5 percent of NRB's combined share and debenture capital in the review period. The bank's major shareholders are: Merhold Strategic Investments (41,6 percent) and Safrican Life Group (9 percent).

'Scope for further Bank rate cuts'

CT 4/11/93 (58)

the earnings of industrial companies.

However, he warns in his quarterly Economic Comment, this scenario "is based upon the critical assumption that there is a high turnout for the April 27 election for an interim government and that the results are accepted by the major political parties.

"Should the election be delayed or the outcome disputed, with accompanying escalating violence, the pressure on the balance of payments will continue."

Discussing the present state of the economy, Daly says its downward momentum was arrested in the first half of the year,"with a range of indicators having turned up, some quite decisively."

Official Reserve Bank figures for the second quarter "indicate a strong degree of resilience in the economy despite the violence and political tensions."

He expects a real drop in personal consumer expenditure (PCE) of only 0,5% for the year which, he says, is "substantially better" than the expected drop of 1,2%.

"An important influence here is the sharp decline in the inflation rate, which is supporting real personal disposable income growth.

"The influence of the expected sharp drop in inflation on consumers' real spending power will be even more pronounced in 1994 and could give rise to a 1,5% pickup in real PCE for next year."

He thinks manufacturing production "finally entered positive growth territory" in the third quarter and that real output growth of between 3% and 4% will be achieved in 1994.

"Industrial company earnings growth should achieve 12% next year and some 18% the next, provided further interest rate cuts take place."

AS GOLD picked up $5 on international markets yesterday, JSE shares found support from a variety of sources, with strong interest in selected stocks boosting overall turnover.

Dealers said the weaker financial rand, thin supply of scrip and gold price gains contributed to steady gains.

Industrial shares were hampered by some weak individual performances, but key shares attracted good interest from local and offshore investors, with trade in Richemont hitting over R18m in a number of large deals.

The Gold Index ended 22 points, or 1,3%, firmer at 1 725 and the Industrial Index was four points better at 4 561. The Overall Index collected 31 points to 3,945.

"The market is attracting some good buying," a dealer said, adding that buying interest was roughly three times larger than selling.

Richemont made 10c to R38,75 in strong trade, while sasol was bought unchanged at R18 on good turnover. Gencor was 15c firmer at R9,80.

Anglos was in demand as it rose R4,75 to R144 and De Beers rose 25c to R83,75.

Remgro was a weak spot in losing 50c to R26,25, with Premier off 25c to R57,75 and Altech down R2 to R85.

Sappi added 75c to R21, while Absa made 10c to R9 in a reversal of earlier losses. Engen was 60c better at R32,85.

Firstbank made R1 to R80 and Nedcor was 25c better at R25,50.

In golds, Vaal Reefs managed only a R1 gain to R354, while Kloof rose R1,50 to R42. Eastvaal was 15c better at R4,35. — Reuter

Arrears push Housing Trust to R53m loss

ROBYN CHALMERS

THE SA Housing Trust was badly buffeted by increased arrears as a result of bond boycotts and violence, and posted a net loss of R53,7m (R609 000 profit) for the year ended June 30. B/Day

MD Wallie Conradie said the shortfall could be attributed mainly to an increase to R70,6m (R7,7m) in provisions against home loan debtors. 3/11/93

The poor performance of the government-backed trust, influenced partly by the stagnation of mass housing initiatives, was evident in the steady decline in the number of home loans approved.

The trust granted a mere 500 new home loans during the year, against 9 500 in 1992 and 12 000 in 1991. This was attributed to affordability constraints flowing from the recession, higher interest rates and stricter credit criteria. (58)

Conradie said disparate subsidy mechanisms and the continued lack of a clear housing policy were hampering the lending abilities of Khayalethu Home Loans, which dispenses end-user home loan finance for the trust.

Loans worth R625m (R632m) were granted to Khayalethu Home Loans and other retail institutions.

However, the trust had reached an agreement with government to make the first-time home owner interest subsidy available to future clients of Khayalethu Home Loans. This was expected to reduce the interest rate charged on new home loans from 19% to between 15% and 16%.

A total of 8 536 site stands were sold for R52m during the year and the trust bought 928ha of land near employment opportunities and white local authority areas.

The trust was upbeat about the future, expecting the level of home loans dispensed to increase to 1 000 a month as housing initiatives took off and Khayalethu Home Loans expanded its product range to cater to all segments of the population.

Conradie said the organisation's affirmative action policy had led to an increase in the number of black employees to 30% of total employees against 25% last year. This included the appointment of nine black managers, or 20% of management.

Sanlam premium income rises 23%

B/Day 3/11/93

CHARLOTTE MATHEWS

LIFE assurance group Sanlam improved premium income 23% to R12,8bn (R10,4bn) in the year to September, with a strong contribution from individual policies sold, figures released yesterday showed.

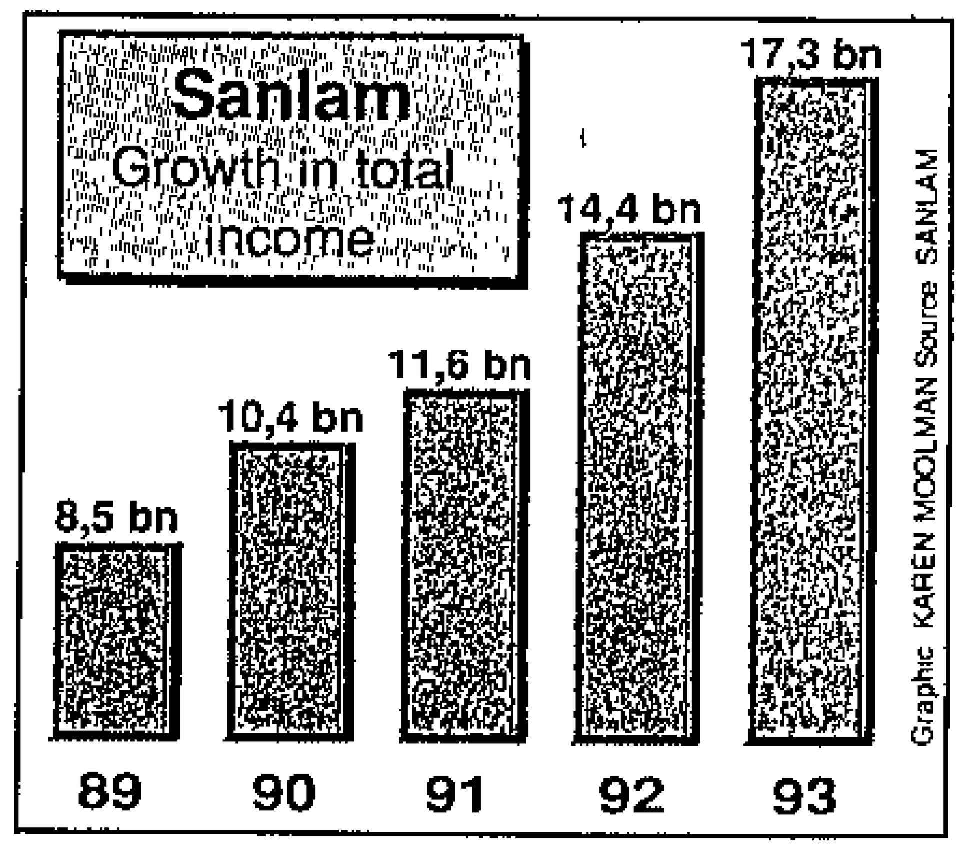
Recurring individual premiums totalled R4,7bn (R3,9bn) and single individual premiums were R3,2bn (R2,4bn), giving a 25% increase in individual premiums to R7,9bn (R6,3bn). Group business rose 19% to R4,9bn (R4,1bn). Investment income was 13% better at R4,5bn (R4,0bn). The rise in administrative expenses was held to 12%, well below the average 26% a year growth over the past 10 years. (58)

Benefits paid to policyholders increased 43% to R8,4bn.

Sanlam MD Desmond Smith said there were a number of reasons for the strong performance. "In times of uncertainty people look for some way to create certainty for themselves and to provide for their families. Life assurance is a way to create that certainty."

Many people still had discretionary cash, despite the recession, and Sanlam's brokers had been active. The decentralisation of Sanlam's activities, which began about three years ago, had strengthened management lower down, helping Sanlam increase its sales force and penetrate deeper into the broker market.

The number of retrenchments in the past year had also contributed to the in-



☐ To Page 2

Sanlam

B/Day 3/11/93

☐ From Page 1

crease in income, with many of those retrenched investing their lump sum payment in single premium retirement annuities and investment plans. Single premiums benefited from the abolition of the sixth schedule of the Income Tax Act in April, which allowed life assurers to sell policies with five- and 10-year terms. (58)

The 13% increase in investment income was below the average of 24% over the past 10 years as a result of lower interest rates and a drop in dividend income.

Sanlam held R72bn in assets on behalf of policy owners and other clients on September 30, with shares representing about 45% of the assets held. Smith said the only factor likely to affect equities was an unfavourable political scenario.

"I have little doubt that there will be a great deal of overseas interest in our stock markets. The price to earnings ratio of our markets expressed in financial rands is about 11, while that of US markets is 30, so in the eyes of US investors there is a long way to go. Looking at the medium term, I feel very comfortable with our exposure."

He said the moderate increase in administrative expenses was due mainly to the company's decentralisation, which put management in a position to control the organisation far better than in the past, as well as providing a better service.

With falling inflation and interest rates it was inevitable that the rate of increase in bonus payments to policyholders could not be sustained, Smith said.

"As some of our competitors have already done, it can be expected that Sanlam will reduce its bonus rates. The after-tax return earned by policy owners on their premiums paid should, however, still beat inflation, especially over longer terms."

Housing Trust loans sharply down

Star 3/11/93

■ BY MEG WILSON

While the housing backlog grows, so do the problems of delivery — as clearly demonstrated by the fact that the SA Housing Trust granted just 500 new home loans in the year to June, compared with 9500 in the 1992 financial year.

This took its total home loan book, mostly in the hands of subsidiary company Khayalethu Home Loans (KHL) to R625 million at end-June.

The organisation did manage to sell a total of 8500 stands, valued at R52 million, during the year, but has nevertheless recorded a net shortfall of R53,7 million, largely due to an increase in provision for doubtful debt on loans already granted, to R70,6 million (R7,6 million).

Net income before provisions was almost R17 million (R8 million) and retained income totalled R38,5 million (R92 million).

Johan Nel, GM assets and financial management, says there were three major reasons for the fall-off in number of loans granted and the decision to increase the debt provision.

These were bond boycotts, affordability constraints, and the higher susceptibility of the group's target market to the general economic decline.

(58)

According to MD Wallie Conradie, the trust has implemeted an affirmative action policy which has seen the proportion of black employees grow from 25 to 30 percent, and nine blacks appointed to management and senior management positions.

Realignment of the board of directors, to make it more representative of the market served and of major stakeholders, is on the cards.

To improve affordability, the SAHT has reached agreement with government to make the first-time homeowner bond repayment subsidy available on all new loans

The subsidy cuts the effective rate payable on a bond by about 3 or 4 percent, and this would bring the SAHT's top rate, 19 percent, into line with that of the commercial lending institutions.

The total value of loan stock in issue now stands at R584 million (R242 million), of which R224 million (R4 million) is now invested in hedge instruments.

Sanlam lifts total premium income by 23% to R12,8bn

58

CT 3/11/93

Business Editor

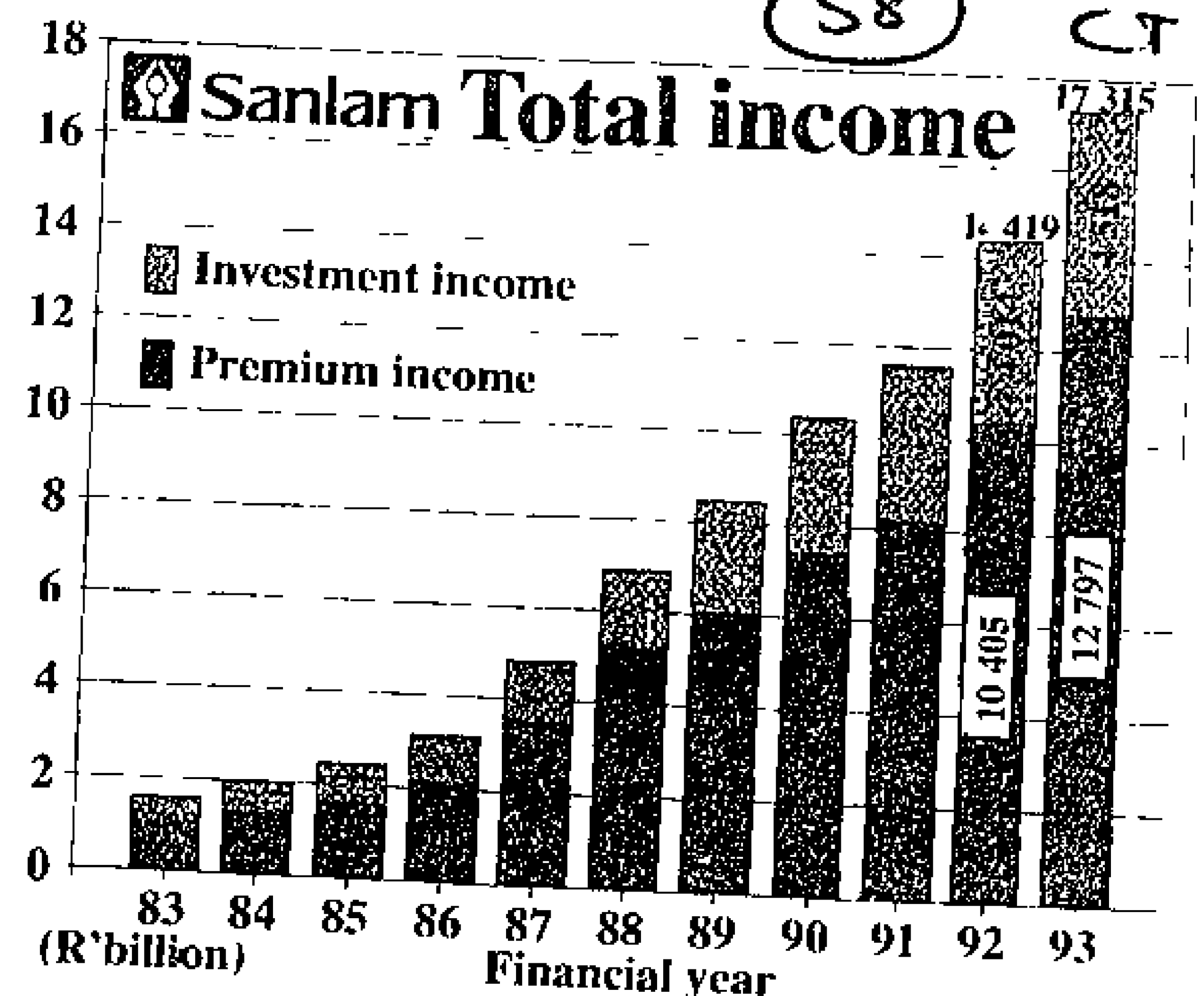
SANLAM lifted total premium income by 23% to nearly R12,8bn in the year to September 30. Of this, about 62% — R7,9bn — came from individual policies, with recurring premium business growing by a healthy 20%.

The rest of the increase came from group benefit business. Premium on this side increased by 19% to R4,9bn.

Assets rose by 20% to almost R72bn, with 45% consisting of shares. The rest were made up of public sector stocks at 22%, other interest-bearing investments at 15%, fixed property at 12% and fixed and current assets at 6%.

Investment income rose by 13% to R4,5bn. Total investment returns on policy owners' funds were 14,6% after tax, which means an average of 18,5% over the past five years.

Payments to policy owners and other beneficiaries rose by 43% to more than R8,4bn, of which R1bn was paid in death claims and the rest to policy owners still living.



MD Desmond Smith said surrenders were increasing at a lower rate — half that of the three previous years.

This was encouraging, but even so it was a pity that "economic circumstances have been forcing policy holders to forfeit longterm provisions for, in most cases, consumer spending while they are still able to earn normally".

He said the growth in group benefit business was achieved despite strong competition, some from outside the insurance industry, and an economic climate which had led to many dismissals.

Some pension funds had been dissolved when companies were liquidated.

Smith said administrative expenses had increased by only 12%. This compared favourably with rises of 32% in 1991 and 22% in 1992 when major investments in infrastructure were made.

"This confirms our expectations that the decentralisation of services to regional head offices would benefit our policy owners in every way.

"Only R4,30 of every R100 of income was spent on administrative expenses."

However, Smith warned that the days when soaring inflation pushed up bonus rates were over.

"Due to lower inflation, it will not be possible to maintain bonus rates at the same levels as in years with high inflation. As some of our competitors have already done, it can be expected that Sanlam will reduce its bonus rates.

'Further cut in Bank, lending rates possible'

(58)

Own Correspondent CT 3/11/93

JOHANNESBURG. — A further cut in Bank rate and other lending rates is still possible in the near future, says Absa in its latest Quarterly Economic Monitor.

"The continued easing in inflation, slow growth in money supply, static demand for bank credit, high real interest rates, a healthy current account surplus and an expected improvement in net reserves conspire towards a gradual easing in liquidity in the money markets."

An improved trade performance increased the surplus on the current account to R2,9bn, which was enough to increase net reserves by R1,2bn.

The bank was hopeful that a fragile upswing was in the offing after recent data provided evidence the decline in the business cycle had bottomed.

"The 0,4% negative growth forecast for 1993 is likely to move into real growth of 1,5% in 1994, followed by 2,5% in 1995." But any increase in per capita growth was unlikely next year as the annual population increase was currently more than 2%.

The economy grew 5,1% in the second quarter of this year after a first quarter increase of 1,4%. During this period exports also peformed well, rising by 45,4%, while real imports fell 11,1%.

The improved trade performance, which increased the surplus on the current account to R2,9bn, was enough to finance the capital outflows and to bolster net reserves by R1,2bn, the bank said.

On the demand side the situation was still bleak with seasonally adjusted and annualised gross domestic expenditure falling 11,5% in the second quarter, following an increase of 8,9% in the first three months of this year.

A budget deficit of R30,2bn for the 1993/94 financial year was still expected, said Absa. This was more than 8% of GDP and R5m more than budgeted.

Government expenditure remained a problem as it exceeded the budget by 8,8% in the first five months of this year. The deficit would have been higher had it not been for a higher gold price in the first half of this year and improved tax collections.

Star 2/11/93

Sanlam goes from strength to strength

68

■ BY JOHN SPIRA

Life assurance giant Sanlam, whose assets now exceed R70 billion, paid out R34 million per working day to policy-owners and other beneficiaries in the year to September.

In its 75th year, managing director Desmond Smith notes that Sanlam:

■ Paid R8,4 billion to policy-owners and other beneficiaries — 43 percent more than last year.

■ Received R12,8 billion from policy-owners and pension and provident funds in premiums — 23 percent up on 1992 and double that of 1989.

■ Earned R4,5 billion in investment income — 13 percent higher than in 1991-92.

■ Increased assets held on behalf of policy-owners and pension and provident funds by 20 percent to almost R72 billion.

Smith says the lower rate of increase for surrenders — less than half that of the previous three years — was encouraging.

"But it is a pity economic circumstances have been forcing policy-owners to forfeit long-term provisions for, in most cases, consumer spending, while they are still able to earn normally."

On September 30, shares represented about 45 percent of Sanlam's assets, stocks and loans of the public sector 22 percent, other interest-bearing investments 15 percent, fixed property 12 percent and fixed and current assets 6 percent.

Smith believes the large exposure to shares puts Sanlam in a strong position for possible advances in share prices. At the same time, the investments support economic development.

The growth in premium income will probably slow down somewhat in the current financial year, but investment conditions will, hopefully, improve.

"Owing to lower inflation, it will not be possible to maintain bonus rates at the same levels as in years with high inflation.

"As some of our competitors have already done, it can be expected that Sanlam will reduce its bonus rates.

"The after-tax return earned by policy-owners on their premiums paid should, however, still beat inflation, especially over longer terms."

Banking industry 'hurt by tactics to raise market share'

B/Day 2/11/93

BEATRIX PAYNE

TACTICS used to increase market penetration after banking rationalisation had damaged the industry in the past year, Fidelity Bank chairman Rolf Lippstreu said in the 1993 annual report.

(58)

He hoped stricter trading values would be restored to the industry as soon as possible. The lengthy rationalisation programme had initially created considerable uncertainty and unhappiness.

MD Jules Langenberg said tight control by the authorities over the country's financial resources had meant that Fidelity had had to accept difficult conditions which had placed other banks in a stronger position.

Changes to cash and liquid asset requirements had not been to Fidelity's liking, but measures had been taken which had effectively lifted this level of unproductive investment without marked performance dimunition.

The predominantly Eastern Cape-based operation had experienced a squeeze in its general banking activities over the last year due to low producer confidence.

Fidelity Bank last week reported attributable income of R12,9m for the year to September compared with R9,8m for the previous year. Earnings were 115,3c a share (93,7c) and a dividend of 34,5c a share (28,5c) was declared.

Langenberg said: "We have set our targets for growth similar to the past years and we remain optimistic that these will be achieved or even exceeded."

Inadequate capitalisation had seen the collapse of a number of banks over the last few years.

Fidelity Bank has already exceeded the prescibed capital coefficent which the authorities prescribed had to reach 8% from 25 January 1995 and intended maintaining an excess at all times.

General banking, a core activity of the bank, had grown as planned during the past year with no expansion of the branch network.

In the recent economic climate all financial institutions inevitably operated under a cloud of overdue accounts and bad debts and Fidelity is no exception, Langenberg said.

"Strict risk management combined with tight credit controls has resulted in percentages which are within the norms of the industry.

"Contingency reserves have been strengthened and while by comparison to pre-recession years, bad debts are high they have remained within similar proportion to the growth of the instalment credit book."

Strict control lifts earnings

Business Staff (58) ARG 30/10/93

JOHANESBURG. — African Life lifted earnings 23 percent a share in the six months to September while the interim dividend was increased proportionately to to 7,4c a share.

Chairman Bill Jack attributed the group's success and financial strength to strict operational and financial control.

"The ratio of shareholders' funds employed in the development of our business compared with the liabilities to policyholders as seen in the life assurance fund is very considerable and only one indication of that financial strength," he said.

Recurring premium income was 42 percent up at R66,8 million. Total premium income was 45 percent up at R74 million and new business (including single premiums) rose 72 percent to R45,6 million.

Mr Jack views prospects as good. "African Life is well placed for significant expansion in the next few years," he said.

"Over the last eight years, recurring premium income has risen by an average of 34 percent a year. If that trend continues, this year premium income will be R131,4 million."

If the improvement at the interim stage is extended through to the full year, the distribution should total 18,2c for a forward yield of 4,1 percent — a generous return for a company operating in a market which should grow strongly in the years ahead.

African Life earnings up 23 percent

Star 29/10/93

BY JOHN SPIRA

African Life had earnings per share 23 percent higher in the six months to September.

The interim dividend is up by a like figure to 7,4c a share.

Recurring premium income was 42 percent up at R66,8 million. Total premium income was 45 percent up at R74 million and new business (including single premiums) rose 72 percent to R45,6 million.

(58)

Chairman Bill Jack says a hallmark of African Life's success and financial strength is strict operational and financial control.

"The ratio of shareholders' funds employed in the development of our business, compared with the liabilities to policyholders as seen in the life assurance fund is very considerable, and but one indication of that financial strength.

African Life is well placed for "significant expansion in the next few years".

"Over the last eight years, recurring premium income has risen by an average of 34 percent a year. If that trend continues, this year premium income will be R131,4 million."

If the improvement at the interim stage is extended through to the full year, the distribution should total 18,2c for a forward yield of 4,1 percent — a generous return for a company operating in a market which should grow strongly in the years ahead.

Money supply trend 'spurred rate cut'

CT 29/10/93

JOHANNESBURG. — The return to a downward trend in broad money supply growth in the year to September helped Reserve Bank Governor Chris Stals cut Bank rate, economists said yesterday. 58

The latest Reserve Bank figures show the annual growth in M3 — the broad measure of money that covers cash in circulation and all deposits at banks — eased to 4,01% from a revised 4,3% for the year to August.

Economists said the figures were affected by the poor performance in reserves last month. They said the upward trend in demand for credit showed how weak reserves had been before their apparent recovery in the past few weeks.

Claims on the domestic private sector in the year to August rose for the third consecutive month to 8,65% (from 7,64%).

Economists expected growth in M3 from the base of the current guideline year — the fourth quarter of 1992 — to remain below the Bank's target range of 6% to 9% for 1993.

The latest figures indicated growth from the fourth quarter of 1992 to September this year firmed to 3,98% from a previous 3,03% in August.

NEWS Home-owners breathe a little easier ● Anoth

Rate cut brings relief to man in the street

Sowetan 29/10/93

58

By Joshua Raboroko

HARD-PRESSED home-owners paying bonds on their property will breathe a little easier following the announcement by four major banks of an 0,75 percentage cut in home loan rates.

The banks are First National Bank, Amalgamated Banks of South Africa, Standard Bank and Saambou.

FNB is lowering its home loan rate by 0,75 percent with effect from November 18, while Absa reduced its mortgage rate by 0,75 with effect from October 29 for new mortgage loans and with effect from December 1 on existing loans.

FNB also announced that it would drop its prime overdraft rate from 16,25 percent to 15,25 percent and Absa will also reduce its prime from 16,25 percent to 15,25 percent from November 1.

Standard Bank and Saambou have also joined the other banks by cutting mortgage bonds by 0,75 percent.

The move by the banks follows the announcement by the Governor of the Reserve Bank, Dr Chris Stals, that the bank rate had been cut from 13 percent to 12 percent with immediate effect.

An 0,75 percent cut on an average R100 000 home bond over 20 years will drop the monthly repayment from about R1 400 to R1 335,30 — a saving of R806,40 a year and R64,70 a month.

And the reduction in the prime overdraft rate will soon filter down to all other forms of credit interest.

FNB chief executive Mr Barry Swart said: "These two cuts in key interest rates will translate to substantial relief for our customers who have been hard-pressed during this five-year-long recession."

Absa's reductions will apply to all four commercial banking divisions — United, Allied, Volkskas and Trust Bank. Absa executive director Mr Alwyn Noeth said: "While we hope this will provide some relief for the beleaguered man in the street, we do not believe it will stimulate the economy."

Banks trim their home loan rates

BIDay 29/10/93

TIM MARSLAND

BANKS said yesterday they would reduce their basic home loan rates by three-quarters of a percentage point despite Wednesday's full percentage point reduction in Bank rate. They cut their prime rates to 15,25% from 16,25%.

Econometrix economist Tony Twine said that while banks had given consumers something to be pleased about, they had also used the opportunity to realign their home lending books, possibly spurred by nervousness about political stability.

On Wednesday the Reserve Bank cut its key lending rate to 12%, sparking a sharp fall in money and capital market rates.

Absa was the first bank to announce it would not pass on the full benefits of the cheaper money. Absa executive director Alwyn Noeth said the bank did not believe the cut would stimulate the economy to any significant extent. (58)

Standard Bank cut its basic home loan rate to 15,25%. However, its Achiever Plan account holders would pay 14,75%, while top clients would pay 14,25%.

FNB said clients that operated a cheque account and two other FNB facilities would pay 15%. FNB GM: banking Bob Wood said the home loan rate had been better than prime for a number of years. There was little justification for keeping the home loan rate below prime, since prime was the top rate. He said the discount offered to home owners would evap-

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BIDay 29/10/93

Home loans

From Page 1

orate as Bank rate fell further. He also pointed out that home loans were made on a long-term basis, while prime was short term.

Nedbank, Perm, Saambou, Boland Bank and the Eastern Province Building Society cut prime and home loans to 15,25%.

On the money market, rates fell sharply. The 90-day bankers' acceptance was changing hands at 10,50% compared with Wednesday's 11,15%. Dealers said the fall was in reaction to speculation that another Bank rate cut was on the cards for February. Capital markets bulls took the same view, with government's medium-dated R119 bond dropping 26 points to 11,87% and Transnet's T007 falling 28 points to 12,04%. The long-dated R150 dropped 15,5 points to 13,065%. Dealers said institutional buying after the "initial euphoria and or shock", saw rates drop sharply.

Comment Page 10

Premium income boost for Aflife

58

CT 29/10/93

Business Staff

THE African Life Assurance Company reported a 42% increase in recurring premium income to R66,8m for the six months to September helped by the successful launch of niche products, chairman Bill Jack said.

The group declared an interim dividend 23% higher at 7,4c a share.

Jack said that the growth had come from its focus on the lower income insurer, offering products such a savings plan, funeral and injury insurance for as little as R60 a month.

At the interim stage, total premium income had grown 45% to R74m, total income 40% to R86,5m and new business was up 72% compared to the same period a year ago.

Jack said that African Life's broker division did well and business was also lifted by the launch of a new niche product in August. He said plans were afoot to introduce further new products in the second six months and expand current services.

Among the new products is a single premium product aimed at the investment market which was "appropriate to the uncertain times" and offered guaranteed returns or the opportunity of benefiting from guaranteed growth.

Unlike some insurance firms that have undergone financial difficulties, African Life was exceptionally strong, he said.

"The ratio of shareholders' funds employed in the development of our business compared to the liabilities to policy holders, is very considerable."

THE STAR / FRIDAY OCTOBER 29 1993

Star 29/10/93

Rates cuts welcomed

(58)

■ BY MEG WILSON

Cuts in home loan and prime overdraft rates announced by major lending institutions yesterday will boost economic confidence and stimulate the residential property market, say analysts.

"These reductions are crucial for a recovery in our economy," said Sanlam chief economist Johan Louw.

SA Agricultural Union president Boet Fourie said the reduction in the Bank rate could bring relief to the weak cash-flow position of agriculture.

Interest payments were the largest expense item for farmers in general, and, based on the interest cost in 1982 which reached R2,8 billion, a drop of one percentage point meant a saving of more than R150 million for agriculture on an annualised basis.

The Federation of South African Labour Unions said it would definitely help to improve the financial situation of consumers.

Monthly repayment of bond over 20 years

RATE	R50 000	R75 000	R100 000	R125 000	R150 000	R200 000
18%	R772	R1 157	R1 543	R1 929	R2 315	R3 087
17,25%	R743	R1 114	R1 486	R1 857	R2 229	R2 972
16,75%	R724	R1 086	R1 448	R1 810	R2 172	R2 896
16%	R695	R1 043	R1 391	R1 739	R2 087	R2 782
15.25%	R667	R1 001	R1 335	R1 669	R2 003	R2 671

Real estate experts are predicting that the year ahead could bring an interest rate war among the banks and building societies.

The Absa group, First National Bank, Saambou, Nedbank and Standard Bank yesterday announced cuts in their bond rates from 16 percent to 15,25 percent with immediate effect.

The moves follow the announcement on Wednesday by Reserve Bank Governor Dr Chris Stals of a cut in the Bank rate from 13 to 12 percent.

This will bring the bond rate to be charged by Allied, United, Trust, Volkskas, FNB, Standard and Nedbank into line with their prime overdraft rates, which will be lowered by one percentage point to 15,25 percent with effect from Monday.

Saambou's lower rate will apply to new bond applications immediately and existing bonds will reduce by the same percentage on December 2 1993.

COMPANIES

Aflife premium income up 45%

CHARLOTTE MATHEWS

AFRICAN Life Assurance lifted total premium income by 45% to R74m in the six months to September from R51m for the same period in 1992, with a particularly good performance from the company's broker division, said MD Bill Jack.

"Many of the plans and strategies developed over the last few years have been successfully implemented and have contributed to these results," he said.

Single premium income lifted by 89% to R7,2m from R3,8m in 1992. Recurring premium income was 42% higher at R66,8m from R47,2m. Single premium income was boosted by the introduction of a single premium investment product in August. Jack said there were others to follow, which should make a significant contribution to future results. BDay

The company, which defines itself as a low premium assurer, has been putting in place a distribution system to reach the upper end of the market. 29/10/93

New business, excluding single premiums, was 70% higher at R38,4m. Including single premiums, it lifted 72% to R45,6m.

Marketing and administration expenses rose 18% to R12,6m from R10,7m. Jack said the company had successfully held down increases in expenses by creating a culture of thrift, although it was prepared in the future to spend on investment such as training.

An after-tax surplus of R7,1m (R5,5m) was attributable to shareholders. This translated into earnings of 11,1c (9,0c) a share. An interim dividend of 7,4c (6,0c) was declared, which shareholders could take in cash or in the form of two ordinary African Life shares for every 100 held on November 19. (58)

The net value of African Life's investments, including the head office building in Johannesburg, was 30% higher than the life fund's value and the policy of offering bonus shares in lieu of dividends had further improved financial protection for policyholders, Jack said.

FNB confounds expectations

Star 28/10/93

BY JOHN SPIRA 58

First National Bank increased earnings 17,1 percent to 716c a share in the year to September — a result handsomely exceeding most analysts' expectations.

Dividends for the year total 235c — 17,5 percent up on last year.

As a result of the reduced company tax rate, FNB has released R138,8 million from deferred tax, which figure (on a non-recurring basis) raises earnings to 794,8c for a 30 percent improvement on the 1991-92 result.

Pre-tax income rose 19,4 percent to R906,3 million.

Net interest income was 16,6 percent higher, with other operating income rising 18,5 percent and other operating expenditure by 19,7 percent.

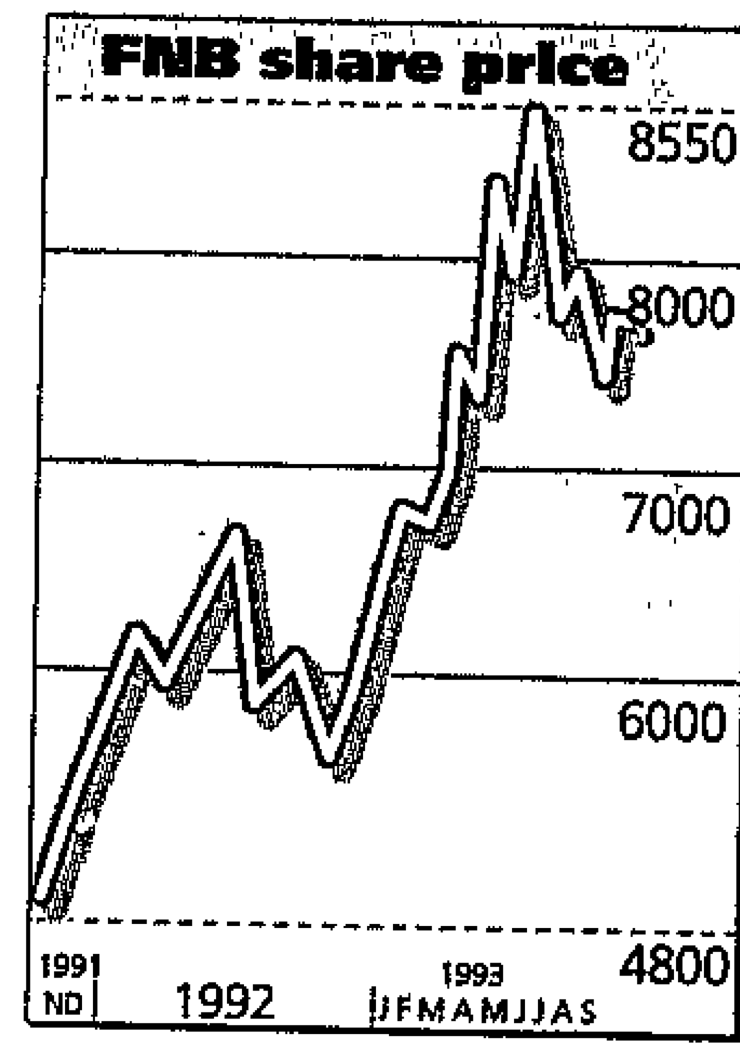
The charge for bad and doubtful debt fell from R347 million to R343,6 million.

Trading results include those of London-based Henry Asbacher from October 1 1992 and Hong Kong-based FNB Asia from April 14 1993.

Total assets rose by 29,8 percent to R53,6 billion. Advances grew 22,4 percent to R50,7 billion; deposits and current accounts were 32,6 percent up at R47,4 billion.

MD Barry Swart believes the result reflects the rewards the bank is starting to reap from its initiatives of the past few years.

He is particularly happy with WesBank (thanks to falling interest rates and a gain in market share) and FNB's



Namibian and Botswanan subsidiaries.

"Our new international operations, Henry Ansbacher in the UK and FNB Asia in Hong Kong, have proved to be very sound investments and we are likewise pleased with their contributions to the group."

Senior general manager Norman Axten says the quality of FNB's earnings is as high as ever.

Home loans rose 30 percent to R9 billion, with a further R1,3 billion in the pipeline.

FNB shares have risen strongly in recent months and the current set of figures fully justifies the advance.

The higher dividend yields 3,1 percent versus Absa's 4,8 percent, Nedcor's 2,8 percent and Stanbic's 2,1 percent.

FNB's 17 percent earnings gain compares with Absa's 12 percent for the year to March 1993, Nedcor's 19 percent for the six months to March 1993 and Stanbic's 17 percent for the year to December 1992.

Company: **First National Bank**

Sector: **Banks**

SHARE PRICE: 7600c
MARKET VALUE: R6,6 billion
YEAR HIGH: 8550c
PE RATIO: 10,6
YEAR LOW: 5500c
Net asset value: 3595c
Dividend yield: 3,1%

Year to	Net operating Income	Operating Profit Rm	Attributable earnings per share (c)	Dividend per share (c)
1991	645,6		385,1	175
1992	759,2		478,9	200
1993	906,3		688,1	235
% Change	17		14	17,5

s cuts bank rate by one percent

nd, HP rates to drop

Star 28/10/93

■ BY CLAIRE GEBHARDT

Mortage bond, overdraft, hire purchase and other interest rates are set to drop following an announcement last night by Reserve Bank Governor Dr Chris Stals that the bank rate had been cut from 13 percent to 12 percent with immediate effect.

Commercial banks reacted quickly to the news.

First National Bank (FNB) senior general manager Norman Axton said FNB would cut its prime overdraft rate by one percentage point to 15,25 percent from Monday.

An announcement on FNB's home loan rate will be made today. Rates are currently around 16 percent.

Absa and Standard Bank both said they would meet today to decide on a reduction in their interest rates, Sapa reports. Spokesmen for both said it was likely that the prime overdraft rate would be reduced in line with FNB's reduction.

REDUCTION will act as a spur to trade and economic recovery, economists predict

58

A one percentage point cut from 16 percent to 15 percent on an average R100 000 home bond over 20 years will drop the monthly repayment from about R1391 to R1316 — a saving of R900 a year or R75 a month.

And the reduction in the prime overdraft rate will soon filter down to all other forms of credit interest.

The Reserve Bank's move will be welcomed by retailers, manufacturers and businessmen who have put the blame for their recessionary woes on high interest rates.

The cut will spur Christmas trade and revive hopes that the momentum of economic recovery will continue.

Economists are predicting that most consumers are likely to use any extra money in their pockets to pay off debts.

In a statement released in Pretoria, Stals said the reduction in the interest rate was made possible by a modest improvement in the country's gold and foreign reserves.

The expected access to balance-of-payments financing from the International Monetary Fund in the near future was another reason for easing interest rates.

Other positive factors were:

■ The continued decline in the annual producer price index to 5,9 percent in August, and the recent drop in consumer price inflation to 9,1 percent over the 12 months to September 1993.

■ The relatively low rate of increase in the M3 (broad money supply growth) over the 12 months to August 1993.

■ The low demand for credit which reflected an annual increase of only 8,7 percent to August 1993.

■ The reduction in European interest rates.

IGI hassles — but it still might pay

(58) WM 8-14/10/93

Was it possible to foretell the collapse of IGI?
Reg Rumney reports

HOLDERS of IGI policies will want to know if the collapse was predictable or inevitable. It was and it wasn't. Certainly the man-in-the-street, not accustomed to reading the financial pages carefully, would not have had a hint of trouble.

Short-term insurer IGI showed no obvious signs of distress until a short time before it was put into curatorship at the end of last week.

The Financial Services Board's (FSB) Nico Fourie says the solvency margin — the litmus test of an insurer's financial health — was well above the 15 percent legal minimum in March this year. And it was, he says, stated as 41 percent in the IGI financial statement.

"The slide was fairly rapid in the last two weeks," he says.

Republic Ratings (RR) rated IGI as "speculative" a couple of weeks before investors gave their own verdict of the company by offloading the shares.

RR managing director Dave King feels exonerated. He says there was no way a member of the public could judge whether IGI was a safe investment or not. Specifically, the man in the street could not judge that IGI was following a high-risk, high-reward investment policy which if it paid off benefited shareholders and if it did not would hurt, as it did, policy holders.

Certainly, without more openness by insurers themselves, this is true.

RR does not have its own extraordinary sources of information. "We are not in a unique position to get information others can't get."

Hitting out at what he calls "vested interests", King says the South African Insurance Association (SAIA) expressly instructed insurers not to co-operate with RR.

How then, did RR rate IGI badly?

In an article published on July 15 in *Finance Week*, RR pointed out that despite good results in 1992, RR had given IGI one of its lowest ratings. This rating, it said, was vindicated when the March 1993 results were released, and IGI declared a large loss as a result of R64-million in investment write-offs.

RR concluded last year that IGI's investment portfolio was high-risk and its financial structure could not absorb investment write-offs without significantly undermining solvency.

How could RR arrive at this rating using only publicly available information and without the co-operation of the insurer?

With difficulty. For instance, the investment portfolio information from which RR concluded IGI's investments were risky, was obtained not from IGI's 1992 financial statements but from 1991 statutory returns.

Of the short-term insurers it seems that only Santam includes some information about its investment portfolio. Had IGI published its investment portfolio in the 1992 report, astute policy holders could have seen it was risky.

RR found that included in IGI's ordinary share portfolio were, among others, Tollgate, Trimtex, Spareco, Rabie Holdings, Mas Holdings, Crendell, Abacus, Audiobuild, and Time Holdings, totalling almost R70-million. Some of these had already gone insolvent, and Tollgate, Time and Abacus had seen large losses.

There were other problems with the 1992 accounts, according to RR, including a R25-million investment write-off in Abacus being reflected as an extraordinary item, instead of above the line.

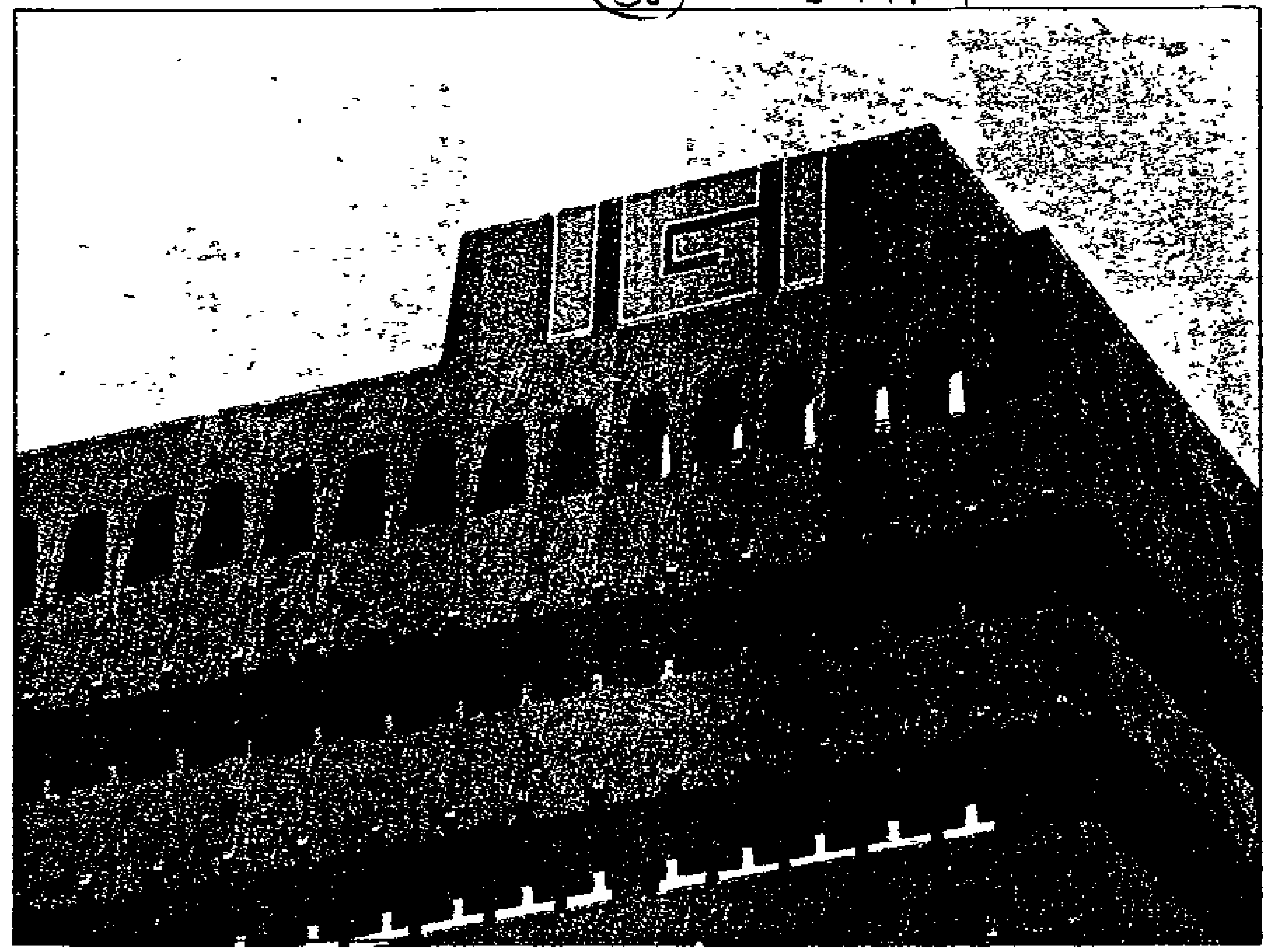
RR concluded further losses were likely and so was the need for a capital injection. At the time Fedsure and Investec were exploring a takeover of IGI parent company Hosken Consolidated Investments (HCI). This would have injected R100-million of new capital into HCI.

On August 8 the deal fell through. Instead, it was announced on August 26, HCI subsidiaries IGI Life and Saflife would sell their credit life and funeral insurance business to Fedsure for R60-million, as part of a recapitalisation of the HCI group. Another R40-million was to be injected by, it seems, a kind of management buy-out.

That Fedsure and Investec walked away from the initial deal caused disquiet about HCI's prospects and an eventual run on IGI shares at the end of September. Finally, at the beginning of this month brokers began shifting their clients from IGI to other insurers.

The Financial Services Board then stepped in and appointed a curator to run the company.

Can anything more be done to give legal protection to consumers?



Down but not out ... IGI might still be able to pay all claims — PHOTO: STEVE HILTON-BARBER

Fourie believes nowhere in the Western world can it be guaranteed that a financial institution will not fail. It is a case of *caveat emptor*. "It is important that the ordinary consumer must become a little bit more aware of who he is dealing with."

Seasoned insurance fundi Robert Shaw considers that it is impossible to predict something like curatorship, because it arises from a run on the company because of a lack of confidence.

SAIA chief executive Rodney Schneeberger says existing legislation is adequate. "It is one of the realities of life that there is no perfect system." He reckons that a rating agency cannot do much more than the FSB in monitoring financial institutions.

Holders of IGI policies, mostly ordinary consumers whose cars or homes were covered by the insurer, might not lose out.

IGI is still, it seems, solvent and there is a good chance at least all claims will be paid. The company still has a buffer in its "contingency reserves", a legal requirement brought in after the AA Mutual collapse.

Not quite AA Mutual again

Weekly Mail Reporter

IT'S tempting to see similarities between the troubles at short-term insurer IGI and AA Mutual's 1986 collapse.

Ironically, both got into serious trouble after intervention by Fedsure. Federated Insurance found R50-million underwriting losses after it acquired a controlling shareholding in AA Mutual.

Fedsure's walking away from a deal with IGI Life caused doubts about IGI which probably led to a run on the shares.

AA Life, a subsidiary of AA Mutual, was desperate to distance itself from the failing short-term insurer. IGI Life, a sister company of IGI, is equally insistent that it is not affected by IGI's curatorship.

The differences are substantial. Premiums set far too low were the cause of the AA Mutual's collapse. IGI's excessive investment portfolio was its undoing.

AA Mutual was put into liquidation. IGI's curatorship may not lead to liquidation, though IGI will not continue as it has.

The departure of AA Mutual was a boon to other insurers, who picked up business in a firmer market.

IGI's departure or scaling down will also help other insurers, though not as much as with AA Mutual whose low premiums were a source of discomfort for the industry.

Prestasi managing director Arnold van der Linde reckons IGI has been good at marketing. "They forced a lot of competition into the market, through innovation rather than low premiums."

Another difference: the AA Mutual collapse led to more regulation of the insurance industry. The IGI curatorship will not.

Banking for the people, not money

WM8-14/10/93

Weekly Mail Reporter

IN an attempt to open bank doors to South Africa's poor, the country's first mutual bank, the Community Bank of South Africa, will be launched in April next year.

Mutual banks aim to provide the very poor, traditionally considered too high a risk for equity banks, with banking services such as saving accounts, home loans and enterprise lending.

Along with its financial services, the bank will run the Community Bank Foundation, which will conduct workshops around banking in communities and get the go ahead from local organisations to set up a branch and start operating in the area. The foundation will be run as a separate company and will initially be funded by grants from overseas.

"The foundation has humanistic skills to develop the community, without it we would be just another bank," explained Community Bank chief executive Archie Hurst.

"We focus on providing communities in which there are branches with services, rather than profits for equity shareholders. People will know their savings will go back into the local community," he said.

Hurst pointed out this key difference explained the need for another bank in South Africa's heavily traded market. "Equity banks cannot divert profits to development because it is not their function," he said.

The bank will start with a capitalisation of at least R200-million which will be raised locally. Hurst did not want to say who would be putting up the money until the details have been finalised.

Bob Tucker ... Executive trustee

Ownership of the bank will first be in the hands of the Community Banking Trust, which consists of community and banking representatives, to give the bank credibility in both worlds. Prominent social worker Ellen Kuzwayo chairs the trust and fomer Perm managing director Bob Tucker serves as executive trustee.

Ownership will gradually be taken over by different communities as clients become shareholders. "When you become a client you are expected to buy shares and become a shareholder," explained Hurst. The price of a share has not been decided on, but Hurst speculated it may cost around R20.

The launch has the support of South Africa's major banking groups, which funded an investigation into the feasibility of the project and have seconded personnel to work on it.

Hurst pointed out the bank does not threaten the market share of the equity banks "because they are not active in these markets".

(58)

IGI: Counting the casualties ...

WM 8-14/10/93

The collapse of insurance giant IGI has left not only policyholders in financial limbo, but also its 1 300 employees. **Gaye Davis** spoke to one of them

HER son was recently retrenched when the company he worked for went into liquidation; he and his wife recently had a baby. Her husband is employed but earns a low wage. Her monthly salary, she says, "puts food on the table" — not for one family, but two.

But on Friday last week Miranda (not her real name) learned she might not get that salary at month's end.

She's just one of 1 300 employees left in emotional and financial limbo after the collapse of insurance giant IGI.

"We haven't been told anything; we don't know what's happening — whether we'll be paid at the end of the month or not.

"When my son's company closed down he came and sobbed in my husband's arms and said: 'Daddy, I don't have a job.' And my husband said: 'Don't worry, we're here, we're here for you.'

"My son's wife has just had a baby, we are supporting them: my salary puts food on the table.

"What are we going to do? There're thousands of people out there looking for jobs, now all of IGI's looking for jobs.

"We did hear some people (other insurance companies) were looking around — they've taken all our business, maybe they'll need extra people.

"But then they'll say: 'You need us, we don't need you,' and the salary will be lower."

All week, Miranda has been fielding calls — and abuse — from irate customers, whose policies were summarily suspended when the company was put into curatorship.

"I've been trying to keep them happy and they've been kind when I've said 'please just hang in there, hang in there with us'. Some of them have said 'we're praying for you'.

"I have to believe that something, someone, is out there and can help us, because this is a good company, it's one of the best. I've worked bloody hard, but they've appreciated me.

"None of us can believe this has happened, none of want to believe it's the end. Maybe I'm clinging at straws, but I'm talking about 12 years of my life. And we've got people who've worked here for 34 years — what does that tell you about the company?

"I joke and say I'll have cobwebs over me, they'll have to wheel me out saying, sweetheart, the doors are closed.

"But until then, I'm sticking with the company — they've treated me like a somebody."

See PAGE 19

Take an interest in bank statements

(58) WM 1-7/10/93

A recent case where a bank had to pay a client R70 000 shows the financial institutions have to be watched on how much interest they charge. **Reg Rumney** reports

CLIENTS should check their bank statements carefully to see how much interest they are being charged.

A client of First National Bank was recently paid R70 250,35 in "full and final settlement" — but minus his costs — for FNB's overcharging of interest on a R50 000 overdraft over eight years.

HHP Johansen was a client of FNB Lynnwood, and had agreed with the bank to pay an interest rate of prime plus two percent for his overdraft.

The overdraft, secured on his private home, was used to run his business, Plum Kitchens.

Over the eight years he used the overdraft, he was overcharged in interest and interest on interest to the amount of more than R70 000.

The extent to which Johansen was overcharged came to light after he approached the Interest Research Bureau (IRB), who compiled the calculations on his behalf.

Johansen first approached FNB in June this year, according to associates, and submitted calculations that showed he had been overcharged around R38 000 in interest.

Interest on this initial amount brought the sum he demanded to be repaid to the R66 000 mark then, and later to R70 000.

After more than a month, which FNB claimed it needed to check IRB's calculations, on July 8 Johansen was offered around R39 000 in full and final settlement.

Eventually, Johansen received from his lawyers a cheque for R67 250,35, his R70 000 minus the lawyers' fee.

The *Mail & Guardian* has been told that FNB bound Johansen not to speak to the media about the matter, making him sign a confidentiality agreement.

FNB general manager Norman Axten says there was no confidentiality agreement — but that FNB needed a signed letter from Johansen before it could discuss his account. Otherwise, it would be breaching client-bank confidentiality, and it is ethically bound not to do this.

IRB managing director Gerhard Steenkamp confirms that he did do the calculations which showed Johansen was owed more than R70 000.

The claim by Johansen was the first claim paid out in full, says Steenkamp. Usually the banks haggle. After FNB was first contacted, he says, the inital offer was for R38 000.

"We refused point-blank and threatened to take the matter to the courts."

A deadline was given for September 20 and on that day the bank paid out R70 250, the full amount of money claimed in interest overpaid on the R50 000 overdraft over eight years.

Since it started in January last year the IRB has made a profitable business out of getting back interest money major banks have overcharged clients.

It checks bank statements for overcharging by clients. The calculations are then presented to the bank, which then has the opportunity to find fault with those calculations.

The deals are profitable for IRB too. It charges R65 per monthly statement it investigates, or R780 a year.

Steenkamp says it has around R40-million in outstanding claims on behalf of clients against various banks.

IRB, he says, has recovered around R2-million from the banks so far, and expects that a further R4-million will be paid out by the end of the year.

Interest rate cut

58

CT 28/10/93

By AUDREY D'ANGELO and MAGGIE ROWLEY

THE Bank rate has been cut by one percent from today. The eagerly awaited cut, bringing the rate down to 12%, was announced by Reserve Bank governor Dr Chris Stals last night.

It will give a boost to the economy and put more money in home-owners' pockets.

The cut in the bank rate will result in all other interest rates coming down, including mortage bond rates — which are certain to be reduced in about a month's time.

Mr Trevor Olivier, general manager, home loans, at the Natal Building Society and Mr Barry Swart, managing director of First National Bank, said the banks' prime lending rate and the mortgage bond rate were both likely to come down to 15,25%. This meant that on a bond of R100 000 the repayment would drop to R1 300 a month — a saving of R59 a month.

Announcing the cut, Dr Stals said he had been looking for an opportunity to make it "for some time".

It was now possible because of falling inflation, lower money supply and credit demand, and "some easing of the pressure on the Reserve Bank's gold and foreign exchange reserves, which even increased during some weeks recently".

Welcomed

However, Dr Stals said, this increase in the reserves had been wiped out by the strengthening of the dollar and month-end repayments of foreign debt. "The low level of the foreign reserves continues to call for caution," he warned.

But, he said, recent cuts in European interest rates made "real rates of interest in South Africa rather high compared with similar rates in the industrial countries".

The cut is the first since February, when Dr Stals reduced the bank rate to 13% from 14%, resulting in mortgage bond rates, hire purchase rates and overdraft rates coming down.

Last night's cut has been welcomed by banks, business people and economists.

Nedbank chief economist Mr Edward Osborn said it would "help the economy enormously" by giving relief to small and medium-sized businesses, which were struggling to meet finance charges.

President of the Cape Town Chamber of Commerce Mr Roland Hudson-Bennett, said the cut was good news, not only for itself "but because of what it implies about the outlook for the economy, which enables Dr Stals to make it".

President of the Cape Chamber of Industries Mr Michael Schuurmans-Stekhoven, said he thought the cut would be the start of the upturn.

"It is long overdue and very necessary to help us out of the recession."

ce ● 'JB' first black IPM president

Millions for houses in SA

Sowetan 28/10/93

By Joshua Raboroko

A COMPANY named Shelter Afrique which is linked to the Development Bank of Africa intends to pump millions of rands into South Africa to help alleviate the housing shortage, particularly for low-income groups.

The company's managing director, Mr Ebenezer Oluseyi Lufadefu, said that as soon as a new government was installed in South Africa, they would provide homes for thousands of blacks.

Shelter Afrique, according to Lufadefu, mobilises capital from which loan and equity resources can be made available to national housing development institutions for approved schemes in African countries. (58)

The shortage of homes in South Africa has been estimated at two million units while there are an estimated three million to 10 million people living in informal settlements and backyard shacks, according to the SA Institute of Race Relations.

At a Press conference in Johannesburg after a 10-day visit, the Kenya-based Lufadefu said the Shelter Afrique delegation held discussions with government officials, including the Minister of National Housing, Mr Louis Shill, the National Housing Forum, the African National Congress and the Development Bank of Southern Africa.

After visiting squatter camps in Soweto and Alexandra, they found that low income earners needed help to obtain homes of their own, he said.

"We are quite prepared to give financial assistance for the building of houses and the provision of electricity, sewerage, storm water drainage as well as infrastructure," he said.

They would also look at projects such as provision of health services, schools and other recreational facilities.

Shelter Afrique has been active in 29 African countries which include Malawi, Zambia, Botswana, Lesotho, Uganda, Cameroon and Kenya.

Lufadefu said the violence in South Africa had to stop before any projects could be undertaken.

He was confident that a political settlement would be reached in South Africa soon.

Mr Ebenezer Oluseyi Lufadefu

Star 27/10/93

Standard Bank optimistic

BY CLAIRE GEBHARDT

The bank rate could be cut by one percentage point in November and by at least two points in the next 12 months — if the balance of payments improves, Standard Bank says in its Economic Review.

But individuals and companies will remain under pressure next year because reductions will not be big enough to restore confidence and tax cuts are out of the question. (58)

The bank bases its forecast on the rapid decline in the inflation rate to a 21-year low, and the Reserve Bank's stated desire to facilitate growth in 1994 — "a reference which suggests a willingness to lower interest rates."

Other favourable factors include access to IMF credit and the impact of a successful election on local markets.

Growth is forecast at 1,6 percent, accelerating to 4 percent or more in 1995, given a relatively painless transition.

Stals signals hope on Bank rate cut

(58) CT 27/10/93

From TIM MARSLAND

JOHANNESBURG. — Continued improvement in SA's reserves could lead to a re-evaluation of official interest rates, Bank Governor Chris Stals said yesterday.

Short-term interest rates fell across the board on an improvement in liquidity, as well as on speculation that the long-awaited Bank rate cut could materialise in the next few weeks.

Sources said banks were also considering dropping their home loan rates ahead of a Bank rate cut.

Stals said the reserves had been bolstered in the middle of the month with the improvement continuing for 10 days. There had been surplus dollars in the market which the Bank had bought, leading to an increase in the reserves.

While it was difficult to say whether the trend would continue, the month-end would be important. "We will watch developments over the next few days. We can react quickly to favourable developments." Continued improvement could lead to a reduction in interest rates.

'Home loan relief on the cards'

Stals welcomed the improvement in money market liquidity. The daily shortage, which reflects the amount that banks have borrowed from the Bank overnight, rose marginally to hold at the R2bn level.

He said the liquidity had come from the Bank's activities in the currency market and a decrease in government deposits at the Bank. But he cautioned that should the dollar continue to appreciate, the leads and lags position could go against the Bank, which would drain the reserves.

He has said previously that an improvement in reserves was needed before Bank rate could be cut. But he has also said the money market should lead the way. Market sources said Stals's requirements for a cut in Bank rate had been met. Inflation continued to decline, while reserves and money market liquidity had improved.

Standard Bank led the decline on the money market, dropping its bankers acceptance (BA) rate to 11,15% from about 11,25%.

Standard Bank treasury GM John Lloyd said the bank had dropped its BA rate to "test the waters" in a bid to tempt borrowers to use the instrument.

The reduction was also prompted by other rates being more favourable at present.

On commercial rates such as home loans, Lloyd said there could be a reduction soon, possibly in November, but the bank would have to evaluate its margins before making a decision.

Further regulation likely in financial markets

CT 27/10/93

(58)

JOHANNESBURG. — Uniform capital requirements for securities trading firms are likely to be introduced in SA's financial markets, Reserve Bank deputy governor Chris de Swardt said.

Speaking at an Association of Corporate Treasurers meeting, De Swardt said high turnovers and concomitant risk exposures in the market were not underpinned by adequate capital, which was needed to deal with market failure.

He added that the global trend was not only towards the regulation of securities firms, but also other investment firms.

"The feasibility and practicality of regulating investment business in SA, which include, among others, securities trading business, fund management, and investment advice, is being considered at the moment."

He said other regulatory changes would include the further development of the derivatives and carry markets. — Reuter

FNB expected to report big increase in earnings

B/Day 26/10/98

GRETA STEYN

FIRST National Bank is expected to announce a strong increase in earnings for the year to end-September as margins benefited from unexpectedly high interest rates while the tax rate dropped.

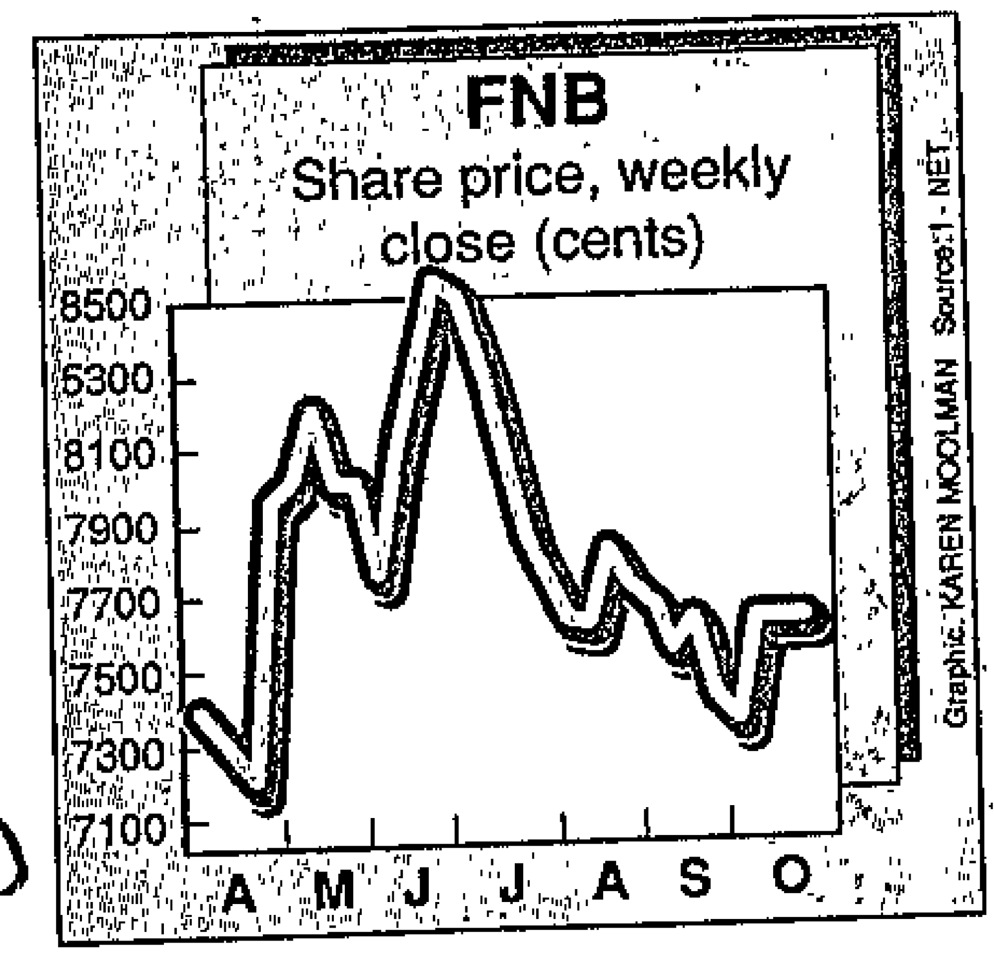
The banking sector, which is countercyclical, has taken longer to weaken because of favourable money market developments and a drop in company tax.

FNB has benefited especially from the lower tax rate because of substantial deferred tax. On the negative side are bad debts and the cost to FNB of buying UK merchant bank Henry Ansbacher. (58)

Analysts say an increase in FNB earnings per share of more than 17% seems feasible. Earnings have been diluted because there are more shares in issue, and operating profit after tax could rise by a hefty 30%. They say net interest income is likely to beat earlier forecasts because of Reserve Bank Governor Chris Stals keeping interest rates high.

Money market deposit rates have started falling in anticipation of a drop in Bank rate, but the prime overdraft rate has remained high. The net effect is comfortable margins for longer than had been anticipated earlier this year, analysts say.

Also on the plus side, the market expects a healthy real increase in non-interest income and a fall in the effective tax rate to about 37% from 41%. Operating expenditure, while expected to show a real increase, is not likely to cut into earnings significantly. But bad debts will be the spoiler, with a charge of about R400m expected after R347m last year.



The banking group is expected to declare a dividend of about 230c and give shareholders the option of scrip dividends.

The banks index, after rising strongly last year, lost some ground against the industrial index from mid-year as investors began moving out of defensive stocks into sectors that track the economic cycle.

However, banks have become more popular again because of the realisation that special circumstances have delayed the expected slowdown in earnings growth.

FNB to show high earnings

(58) CT 26/10/93

Own Correspondent

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Sanlam expects rate cut

S|Times (Buss) 24/10/93

By JEREMY WOODS

INTEREST rates will fall soon, says Sanlam's economic survey.

Chief economist Johan Louw says: "Indications are that the financial environment should be favourable for further reductions in interest rates in the next 12 months."

The downward trend in international interest rates will support the process. An increase in South Africa's foreign-currency reserves as a result of easier access to foreign capital will also help.

A reduction in bank rate before the end of this year will depend largely on whether the reserves improve.

Mr Louw writes: "We believe that we have reached the stage where reductions in interest rates are necessary to underpin a recovery in the economy."

So far as the capital market is concerned, Mr Louw believes that after the sharp decline of the past month rates will fluctuate around current levels in the coming months "though this could, of course, be influenced by foreign investors".

Overall, Sanlam believes that "rates will decline in 1994 along with the expected slowdown in the inflation rate."

Mr Louw says there have been suggestions that the downturn in the economy is levelling off. (58)

"In some circles, the opinion is even being expressed that we have already entered an upswing."

He says these views are based on the fact that gross domestic product rose by 5% at a seasonally adjusted annual rate in the second quarter of this year.

"However, if one examines total spending in the economy, there is little reason to believe that a noticeable acceleration in economic activity can be expected in the short term."

Mr Louw says unrest and violence, as well as uncertainty on both the political and economic fronts, exert a negative effect on consumer and business confidence and therefore on their willingness to spend and invest.

No significant and sustainable recovery is possible before unrest and uncertainty have abated. There should also first be an upswing in industrialised countries, leading to a revival in commodity prices, and normalisation of SA's access to foreign financial aid.

Both the lifting of sanctions and the IMF drought-relief loan of R2,9-billion "are very welcome and timely developments". But a significant economic recovery before the second half of 1994 is unlikely.

Hosken is poised for new listing

58

ARGUS 13/10/93

■ Results held for clarification of the financial standing of IGI Insurance will be announced soon.

MARC HASENFUSS
Business Staff

HOSKEN Consolidated Investments — holders of a 55,4 percent stake in IGI Insurance — will have its listing restated on the Johannesburg Stock Exchange next week.

This follows the posting of restated annual financial statements for the year ended March 1993 to shareholders. The share was suspended at the beginning of the month.

The results were delayed pending a clarification of the financial standing of IGI which was placed under provisional curatorship at the end of September.

HCI's annual statements have been restated from those set out in the preliminary report in July to exclude any value stemming from the group's holding in IGI.

The suspension will be lifted on Thursday — giving the market time to absorb the restated financial statements.

Banks set to attract huge new clientele

JOHANNESBURG. — South Africa's banking industry was likely to be transformed to include previously "unbankable" sectors of the population, said Reserve Bank deputy governor Jaap Meijer

However, Dr Meijer said this would not mean the country's commercial banks would lose their current high levels of versatility, comparative sophistication, innovation and market-driven character.

"What we are about to witness, indeed are witnessing already, would be a stalactite-stalagmite phenomenon: formal banking, using state-of-the-art technology, would be reaching down to engage and accommodate a massive new clientele "

He told a SA Interantional Trade Exhibition that private banks must continue looking into the ways in which non-qualifiers for credit under the conventional, "First World" banking system could be made to qualify, or at least qualify under non-traditional criteria

(58) ARGT 23/10/93

"We may wish to supplement our present facilities, that is through the community banking principle as already activated, and through the evolution of the stokvel and common bond approaches, rather than try to make the existing, conventional facilities serve purposes for which they are essentially unsuited "

Simultaneously, the dis- or less-advantaged communities, he said, would begin to see the merits of more actively mobilising their savings potential, and of getting around the present lack of creditworthiness of some of their individuals.

However, he warned against unnecessarily interfering with the country's comparatively advanced and sophisticated banking system as it was "a national asset of great value".

'White knights in the wings for IGI rescue'

(58) CT 23/10/93

By ARI JACOBSON

A WHITE knight may come to the rescue of the IGI insurance group, currently in provisional curatorship, according to a well-informed source.

This follows an announcement by parent company Hosken Consolidated Investments (HCI) that it would come back to the share market on Thursday. Both HCI and IGI were suspended in the wake of the provisional curatorship announcement.

The source said late yesterday that "two big players" were in the midst of discussions with the curators, about the possible purchase "of part of or all of" the IGI group.

The source said that a decision would hopefully be finalised late next week.

It is understood that the two interested parties are large organisations not involved in the short-term insurance industry and which consider the IGI group as a way of "immediately extending a presence to this industry".

IGI has about 55 branches and employs roughly 1 200 people — should a suitable buyer not be found large-scale retrenchments would follow.

Meanwhile, in a circular issued yesterday the curators pointed out that IGI policyholders will have to wait a little longer before further payments are forthcoming

Certain payments have already been made to those who had cheques issued against claims — which were subsequently withheld after the curatorship.

The curators were quick to point out yesterday that they have "confidence in the solvency of the company".

The curators warned that "due to the scaled-down operations of the company, and in order to contain costs, the curators are presently considering the closure of branch offices and the retrenchment of staff whose positions have become redundant".

Dealing in cash can be expensive

(58) ARG 23/10/93

More effort and risk involved for banks

■ Banks charge extra for handling cash because it's a high risk commodity, say bankers.

JEAN LE MAY
Weekend Argus Reporter

NEXT time you're gridlocked in a bank queue behind all those people handing bags of cash to the teller, take comfort: they're paying extra for it.

All banks levy a charge on clients for handling cash, Weekend Argus established this week.

The question arose when a Cape Town man complained that he had paid R10 000 in cash into a friend's account at First National Bank in Adderley Street, and the friend was charged R42 for the transaction

A First National spokesman confirmed that the handling fee varied between 20c and 40c for each R100 but that it was "entirely at the branch manager's discretion".

"There are charges for all bank services and cash is very expensive to handle," she said

A spokesman for the Standard Bank confirmed that it, too, charged for handling cash The rate varied from 0,35 percent to 0,6 percent, he said

He repeated that "cash was very expensive to handle", adding "Moreover we have to face Reserve Bank charges for keeping cash available"

A Nedbank spokesman was the most forthcoming.

"There is a cash handling fee and it varies from bank to bank and from client to client, from about 0,3 percent to 0,5 percent," he said.

"Organisations such as chainstores which handle large sums in cash probably negotiate a better deal, the way they do with everything else.

"For example, Pick 'n Pay would probably be charged much less if they paid large sums in cash into their account than you would"

I can believe that.

Cash was expensive to handle not only because of the time it took the tellers to count it but because of the high security costs involved, he went on.

"We have to have special safes with time locks, special arrangements to get it out of the safes when the bank opens and to put it back when the bank closes, special arrangements to transport it in expensive vans accompanied by armed security guards and special insurance.

"Cash is a high risk commodity because we're always being robbed, in spite of all the precautions. It's cash, not cheques, the robbers are after."

Picture HANNES THIART, Weekend Argus

□ **MODEL FIGURE:** With ballroom dancing and gymnastics tops on the list of her hobbies, it's no wonder Strandfontein beauty Rene Peters, 16, has no trouble staying in shape. Rene is a Std 9 pupil at Strandfontein High and is furthering her part-time modelling career through Figures School of Modelling and Deportment (Maynard Mall, Wynberg).

Kobrin's monthly turnover was R200 000, court told

JOHANNESBURG — Murdered Raymond Kobrin was a dynamic doctor whose monthly turnover was never less than R200 000, his bookkeeper told the Rand Supreme Court

Joy van Loggerenberg said yesterday her employer was always friendly.

She told Mr Justice G Gordon and two assessors she knew only of Dr Kobrin's financial position as far as his medical practice in Benoni was concerned.

Another bookkeeper handled his other business

Dr Kobrin's estranged wife, Janet Kobrin, 47, of Bedfordview, Johannesburg, has pleaded not guilty to murdering her husband on November 16 1991

His body was found in the boot of his BMW in the underground parking lot at Jan Smuts Airport two days later

Rand surge good news for travel

(68)

TOM HOOD, Business Editor ARG 20/10/93

GOOD news for travellers to Britain and importers of goods is this week's surge by the rand against sterling.

If you spend R10 000 on travellers' cheques you should get about £2 008. A week ago that R10 000 bought £1 880.

But pensioners receiving British pensions will get fewer rands on pay day and exporters will earn fewer pounds from sales to Britain.

This is because the British pound is worth R4,99 against R5,30 a week ago.

Reason for the upsurge was Reserve Bank intervention last week to support the rand against the dollar.

Dealers said the bank's action was unexpected and on such a large scale that it had achieved its purpose of creating uncertainty about the rate of the rand's decline.

Expectation of a cut in British rates has also put the pound under pressure from the dollar at a time when the rand is strengthening against the dollar.

First National Bank today forecasts the pound will be worth R5,04 by the year end — R5,39 was their estimate only a week ago.

Investec lifts earnings

Star 19/10/93

BY STEPHEN CRANSTON 58

Investec has reported a 25,4 percent increase in earnings per share to 102,2c in the six months to September.

Executive chairman Bas Kardol says poor economic conditions continued to limit demand for credit, making it difficult for the group to achieve organic growth in some areas of business.

The acquisition of London-based Allied Trust Bank in the latter half of 1992 contributed to growth in interest income, compared with the previous interim period.

Significant cost savings following the rationalisation of Investec Property and Reichmans enabled the group to put the lid on cost increases, which translated into a strong bottom line, Kardol says.

The group has declared an interim dividend of 45c — 28,6 per cent higher than the previous interim dividend.

Investec maintains its strong growth

(58) CT 19/10/93

JOHANNESBURG. — Investec Bank maintained its strong growth in the six months to end-September, generating attributable profit of R32,2m after a rise in net interest income.

An interim profit of R22,3m was earned in the corresponding six months of 1992 and R60,5m was generated for the year to end-March 1993.

Earnings a share rose 25,4% to 102,2c (1992 interim: 81,5c) and the dividend was 28,6% higher at 45c a share (35c).

Confident

Executive chairman Bas Kardol was confident a real increase in earnings would be achieved for the year, if the business environment did not deteriorate further.

Net interest income jumped 34% to R89m (R67m), while total income was up 21,9% at R140m (R115m), which the bank said was due to the inclusion of London-based Allied Trust Bank, which was acquired in the second half of 1992.

It said cost savings were achieved following the rationalisation of Investec Property Group and Reichmans, Investec's trade finance subsidiary. Reichmans acquired confirming house Gerber Goldschmidt for R20m in July.

However, Kardol said Investec Property Group and Reichmans continued to suffer from depressed market conditions. The rise in total income was hurt by a 13% increase in the provision for bad debt to R10m (R8,9m).

Kardol said interest income had reflected a slight tightening of margins and other income had shown only modest growth because of the sale of the residential property division. Poor economic conditions continued to limit demand for credit, making it difficult for the group to achieve organic growth in some areas.

Stars

Treasury, securities trading, project finance and asset management activities continued to be the star performers.

Total group assets expanded by R630m to R6,2bn (R4,4bn). Kardol said this reflected organic growth of R580m, while R50m came from buying Gerber Goldschmidt.

The bank remained well-capitalised with a risk-weighted capital asset ratio of 14,8%, above the 1995 requirement of 8%.

Holding company Investec Holdings reported a 32% hike in earnings a share to 67,9c and an interim dividend of 28c.

Re-rating ot short-term insurers imminent

Business Staff

A re-rating of the short-term insurance industry by independent Republic Ratings in the wake of the IGI collapse is imminent. (58) CT 18/10/93

As the majority of short-term insurers have to date resisted formal ratings — the true test of credit worthiness and require on-site evaluation by analysts to complement independent research and modelling techniques — the majority of the 20 companies will be rated on an informal basis, an RR spokesman said on the weekend.

Insurers slated for bid to block 'risk rating'

(S3) ARG 18/10/95

DAVID CANNING

DURBAN. — Influential members of the short-term insurance industry, now rocked by the crash of IGI, did the public a grave disservice by blatantly obstructing attempts to "risk rate" insurers.

This is the post-mortem view of Republic Ratings' David King who says there has been a noted change in attitude among short-term insurers since the crash.

Moreover, he now feels market forces are working which will minimise the possibility of a recurrence.

Mr King says the actions of the South African Insurance Association (SAIA) to resist attempts to formally rate insurers earlier this year would have been regarded as "collusive" in many other countries.

SAIA had been naive earlier this year in bowing to pressures from some executives to resist ratings which could have provided the public with an early warning signal regarding IGI.

He had in his possession a copy of a letter signed by SAIA chief executive Rodney Schneeberger, "strongly recommending" to member companies that they did not become involved in the rating process.

Mr Schneeberger also had been reported in the Press as saying also that the industry did not need to be rated because it paid the Financial Services Board (FSB) R3,5 million a year to regulate the industry.

Attempts to get Mr Schneeberger's comments were unsuccessful. A member of his staff said he was continually involved in meetings and did not have time to reply.

Mr P Klopper, executive director of the SA Insurance Brokers Association, said his body supported the concept of a good rating service, although it did not back any particular organisation to perform this task.

His group is to meet Republic Ratings on Friday to discuss the issue.

In response to Mr Schneeberger's remarks, Mr King pointed out the FSB did not exist to bail out firms or policyholders, but to set a regulatory framework.

Mr King says root causes of the IGI failure appeared to be poor investments and very poor public disclosure resulting from the fact the short-term industry never had been held "accountable" by the South African public.

"In international markets it is an entrenched principle that organisations dealing with public funds should be open to public scrutiny.

"Policyholders' interests are protected by the extensive use of independent ratings based on an extensive investigation into the adequacy of a company's reserves, its financial stability, assets quality and risk management procedures."

Mr King says most individual insurance companies now accepted the need for ratings (or at least for greater disclosure).

Undeterred by resistance, and as a guide to the public, Republic Ratings has "informally" rated companies which have not agreed to formal ratings.

Mr King explains the rankings: a "formal" ranking extends downwards from the least risky companies (denoted "AAA"), such as Guardian National, to Credit Guarantee as a single "A". There are no lesser "B" rankings at this stage.

"Informal" rankings are expressed differently, in terms of points.

Mutual and Federal heads this list as least risky, on 12 points. It has an "extremely strong capacity to ensure timely repayments of policyholder obligations".

At the lower end of the table is Afgen on only 3.

He says informal rankings also can be affected by whether the company has backing of a parent.

On a "stand-alone" basis, an excellent "AAA" ranking in the formal list equates to a 12 or 11 in the informal one. Similarly, a "BBB" relates to a 6 or a 5. However caution has to be exercised in relating the two lists.

The informal list is drawn up on the basis of a "stand-alone" situation, with a subsidiary list showing the situation taking into account links with multinational parents.

New capital inflows boost rand strength

CT 18/10/93 (58)

From TIM MARSLAND

JOHANNESBURG. — A substantial increase in SA's reserves last week allowed the Reserve Bank to intervene heavily in support of the rand.

Bank foreign exchange GM James Cross confirmed there had been a net increase in the reserves, but he would not provide details on the extent of the rise.

But he said the rise had allowed the Bank to express its policy on the rand more clearly than had been the case in recent months when reserves were in a decline.

The sources said the reserves had increased despite the Bank's repayment of loans during the month.

The intervention, which currency dealers said totalled several hundred million rands, left the money market awash with cash on Friday. This forced the Bank to step in and mop up excess liquidity after the banks' daily debt to the central Bank fell to its lowest level in 15 months at R1,1bn, compared with the previous day's R2,25bn. The daily debt has averaged R3,3bn over the past 12 months.

The Bank soaked up the liquidity by borrowing R580m back from the banks through a three-day reverse repurchase deal.

Bank money and capital markets GM Andre Kock said the R580m was drained from the market to offset government spending, which was also expected to flow into the market at the weekend.

Kock said the Bank had been forced to act to ward off the possibility of the shortage falling to uncomfortably low levels.

This shortage helped wholesale interest rates fall on Friday with call rates falling to about 11,75% from 12%.

Bank Governor Chris Stals has said the money market shortage should give an indication of a possible easing of monetary policy. He has also said the level of net reserves will influence the decision.

The rand gained more than 10c against the dollar last week to end at R3,3413 after concerted support from the central Bank.

UAL economist Dennis Dykes said he was encouraged by the Bank's comments. He said there had been substantial short-term outflows of capital over the past few months from leads and lags in the currency market. This was a function of people expecting further declines in the rand.

Leads and lags occur when importers, who sell rands to buy dollars, complete their transactions as soon as possible because of a weakening rand while exporters, who sell dollars for rands, follow the same strategy to get as many rands for their dollars as possible.

Dykes said the Bank appeared to be trying to break the psychology of market players betting on the rand continually weakening. The pattern had reversed, which itself boosted the reserves.

First National Bank senior GM Viv Bartlett said the bank wanted to see a pattern of low shortages before it would consider reducing prime and home loan rates.

He said the Bank's activities in the currency market were not inconsistent with its policy as it was trying to bring a two-way market back, rather than have the rand depreciate continually as it had over the past few months.

Ratings agency finds weak spots among insurers

S/Times (Buss) 17/10/93

(58)

GUARDIAN National is tops — and Afgen worst — in Republic Ratings' analysis of credit risk among short-term insurers.

The analysis, done in the wake of the IGI disaster, highlights significant differences in the credit standings of various companies.

Of concern is the informal risk rating given to Afgen, in which Future Bank has a 51% stake.

Without taking shareholder support into account, Afgen is given a ranking of three, defined as "inadequate capacity to ensure timely payment of policy holder obligations".

When shareholder support is taken into account, it receives a ranking of four — "vulnerable".

Guardian National takes a triple A rating in a formal evaluation — the true test of creditworthiness where an on-site investigation is used to complement Republic's

By ZILLA EFRAT

independent research.

Other formal investigations gave Credit Guarantee Insurance Corporation an AA and Regent an A rating.

Informal rankings — those done independently of the company — say Mutual & Federal, followed by Commercial Union, SA Eagle and Santam, are the soundest insurers in SA.

Informal ratings range from 12 to two and one, which imply "very high risk". No SA insurer is in the latter two categories.

Although Standard General, Allianz, AGF and General Accident are given only stand-alone ratings of four, their rankings improve when shareholder support is taken into account.

Republic Ratings managing director Dave King says his firm stresses the quality of the insurers' investment portfolios in re-evaluating them.

"On publicly available information, none of the insurers appears to have anything like the poor investment portfolio reflected by IGI. We have, however, been hampered by poor disclosure in certain instances and where companies have significant 'unknown' investments, they have been penalised accordingly."

Mr King warns, however, that because of the conditions it has to work under, informal "with support" ratings should not be used rigidly as yardsticks.

For example, it is possible with suitable co-operation that a SA operation could be accorded a similar formal rating to that of its international parent.

Mr King advises policyholders to take the ratings into account when evaluating premium quotes.

He says that in many cases premiums quoted by lower-rated companies are higher than those of highly rated firms. That "makes no sense".

"Price being a function of risk, one would expect to pay higher premiums to highly rated organisations in return for the greater 'comfort level' obtained regarding their ability to honour legitimate claims timeously."

Mr King says the root cause of disasters like IGI are poor investments and disclosure.

These came about because the short-term insurance industry was not held accountable by the public in the past.

It is an entrenched international principle that organisations handling public funds should be open to scrutiny.

Policyholders' interests are protected by extensive use of independent ratings based on investigation of the adequacy of a company's reserves, its financial stability, asset quality and risk-management procedures.

7 reasons for interest rate cut

(58)
ARG 16/10/93

In spite of the threat to foreign exchange reserves, Boland Bank says, interest rates could be easily cut.

ALIDE DASNOIS
Business Staff

THERE are seven good reasons for a cut in interest rates, says Boland Bank.

Reserve Bank governor Chris Stals has refused to lower rates because of the danger to the country's foreign exchange reserves.

But, says Boland Bank in its latest Economic Review, though there are powerful arguments in favour of maintaining interest rates at current levels, the Reserve Bank could afford to overlook the foreign exchange risks and bring real interest rates more in line with the country's economic and socio-political realities. A one percent drop in the bank rate need not be seen as a sign of the end of responsible monetary policy.

The bank lists the following points in favour of a cut

■ Real interest rates have barely changed since 1990. Though the prime rate has been cut by 4.75 percentage points to 16.25 percent since March 1991, in real terms it stayed high throughout the 1989-92 economic downturn. It's time for relief, says Boland Bank.

■ Growth in credit to the private sector has dropped steadily from 28 percent in 1988 to about six percent in the second quarter of 1993 and has lagged behind economic activity levels.

■ Broad money supply growth is well below the target of six to nine percent set by the Reserve Bank at the beginning of this year.

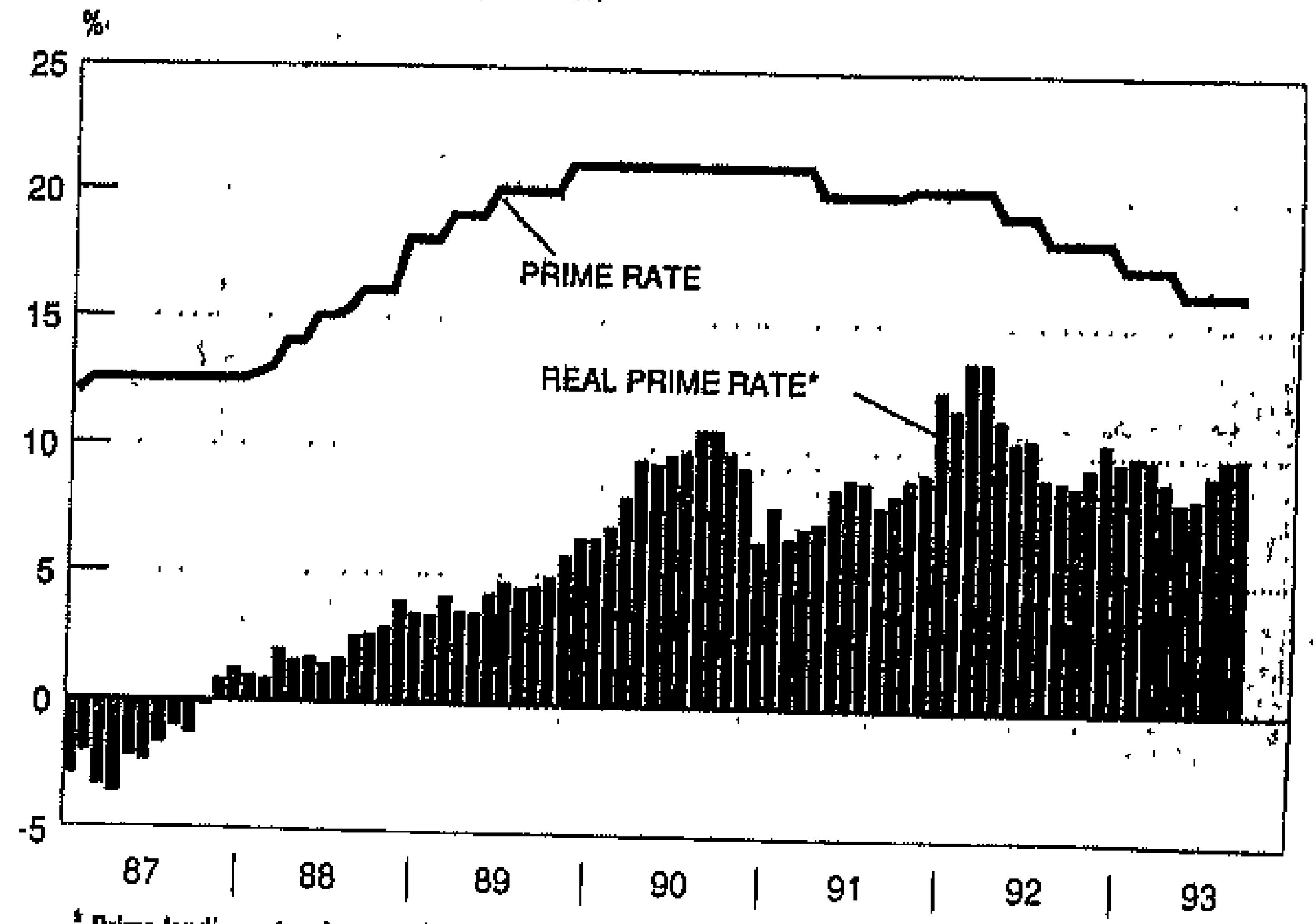
■ The drop in the inflation rate since the end of 1991 leaves the Reserve Bank with room to move — nominal interest rates could come down without affecting real interest rate policy or the need to keep inflation in single digits.

■ Figures for the first five months of the year suggest that the government deficit is improving, reducing the need for compensatory monetary policies.

■ Recent capital outflows have been provoked by heavy foreign debt commitments, political uncertainties and fears about the exchange rate, rather than by the level of real interest rates. And dropping European interest rates leave scope for a domestic rate reduction without disturbing differentials.

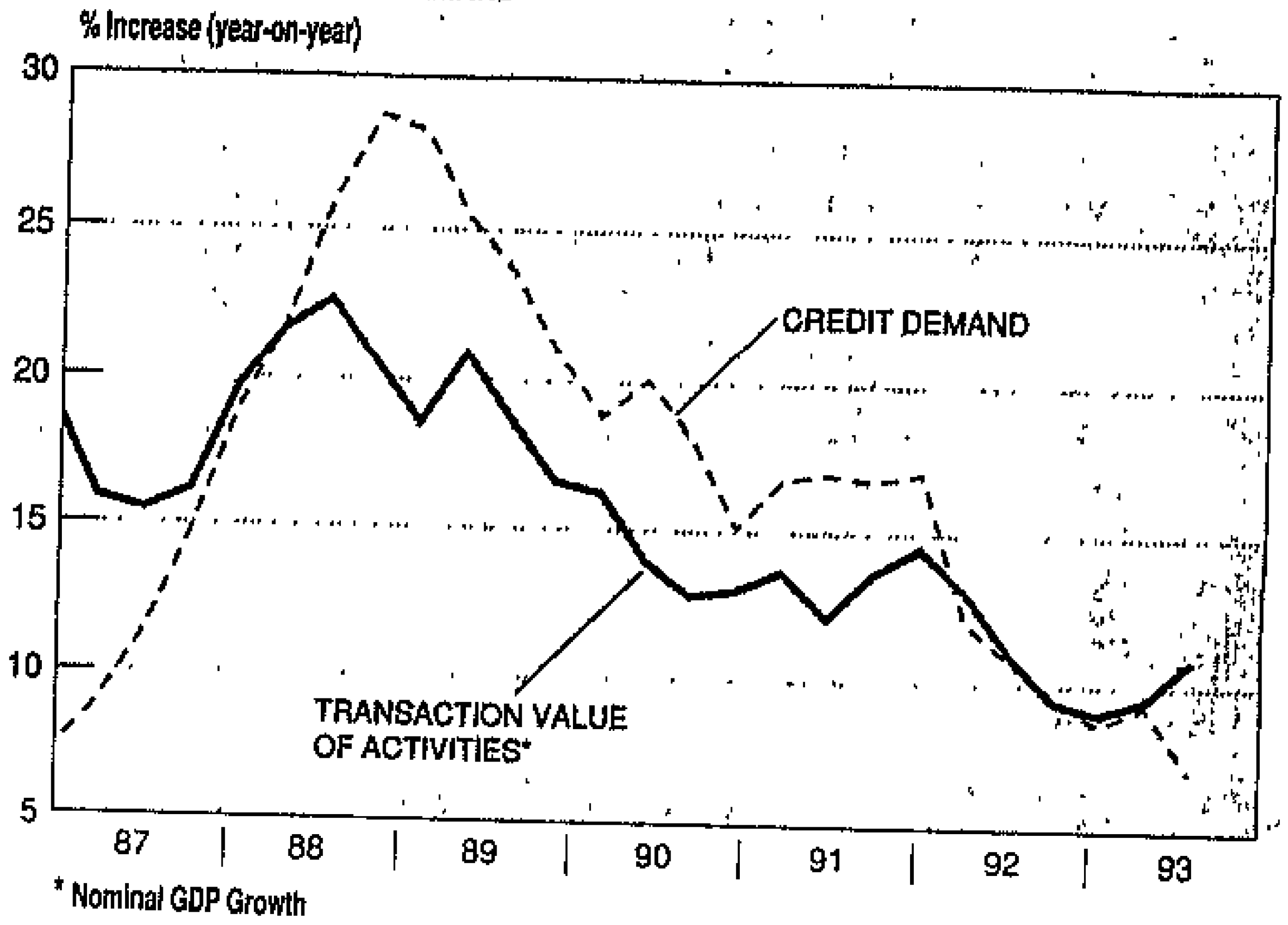
■ The value of the rand is unrealistically high and recent dips are not a cause for concern, Boland Bank says.

UNCHANGED REAL INTEREST RATES



* Prime lending rate minus production price inflation (PPI)

NO "EXCESS" CREDIT DEMAND



* Nominal GDP Growth

Economists call for cut in interest rates

CT 15/10/93 (58)

By AUDREY D'ANGELO
Business Editor

SYFRETS economist Elmien de Kock and Boland Bank chief economist Louis Fourie both forecast a 1% drop in interest rates before the year end, in spite of the threat to the Balance of Payments (BoP) from a continued capital outflow.

Listing all the arguments in favour of a further cut, Fourie says in his October Economic Review: "Maybe the time has arrived for the Reserve Bank, for once, to ignore the foreign exchange risks inherent in an interest rate reduction and bring real interest rates in SA slightly more in line with the economic and socio-political realities of the country.

"This need not be seen as a signal that the end of responsible monetary policy has arrived.

"We remain hopeful that the leading bank rate will be lowered by another one percentage point before December 1993."

De Kock says the SA economy is slowly lifting its head but the recovery is expected to be weak until there is more certainty on the political front.

Inflationary expectations have been lowered. An improvement is forecast on the BoP and this may enable the Reserve Bank governor "to cut another percentage point off the bank rate by year end.

"For 1994 we anticipate further mild downward pressure on interest rates."

Discussing SA financial markets she says: "Commodity prices are expected to show some improvement to December 1994.

"Industrial company share prices continue to discount a considerable recovery in earnings.

"There should be continuing support for the market from a declining interest rate environment and/or currency devaluation and it should be recognised that the real earnings base is in low territory.

"Overall, our market remains relatively expensive and vulnerable to political or economic disappointments and unexpected gold price weakness. We therefore maintain a cautious stance and recommend a defensive, quality-conscious approach."

De Kock says fundamentals for the capital market "remain positive, as does the outlook for inflation over the next year."

Fourie says the call for a cut in real interest rates is "fundamentally based on the desperate need for higher economic growth in SA.

He points out that although the prime rate has declined by 4,75% in nominal terms since March 1991 it has remained extremely high in real terms. "Real lending rates have remained virtually unchanged at some 8% to 10% since 1990."

Annual growth in credit has declined from 28% in 1988 to 6% in the second quarter of this year.

M3 money supply growth "is well below the Reserve Bank target range of 6% to 9%. "Lower interest rates therefore do not imply the dismantling of a conservative or responsible money supply policy but merely a logical response to the accomplishment of a set policy goal."

Inflation is under control and SA's short-term fiscal situation has shown "a notable improvement."

Capital outflows have little to do with current interest rates but are due to heavy foreign debt commitments, "exchange rate fright with corresponding payment leads and lags, and political uncertainties".

European interest rates, in any case, showed a declining trend in recent months, providing scope for a reduction in domestic rates without disturbing the differential.

Crulife costs Anglovaal R50m

CT 15/10/93 (58)

Own Correspondent

JOHANNESBURG. — Collapsed insurance company Crusader Life (Crulife) cost its parent Anglovaal nearly R50m last year, the mining and industrial group said yesterday.

Anglovaal's annual report for the year to June shows it took a R50,9m provision against losses in its troubled insurance business AVF Group.

The charge — which wiped out nearly half of Anglovaal's bottom-line earnings — was nearly all related to potential losses at Crulife, a spokesman said. He said the failed company's figures for the past year were not yet available, but the charge would fully cover Anglovaal's exposure.

The remainder of the provision covered a write-down on the UK-based Pegasus Assurance and the final costs of rehabilitating AA Life Assurance Association.

Anglovaal chairman Basil Hersov said the group's investment in life assurance "remains a problem area".

The insurance debacle marred an otherwise sound performance from the group, which arrested a three-year decline in earnings in the past year. Earnings a share rose 5% to 464c.

Forging new networks

FM 15/10/93

Development finance is available; the problem is getting it to people in need. Many traditional channels have been damaged by political upheaval and uncertainty about the future of parastatals and regional governments. So new distribution networks must be speedily established. As the IDT Finance Corp has found out, the value of funds is eroded when it waits in coffers.

Finance Corp, which provides finance to low-income groups, usually for housing, has funds of R500m, R120m of which was raised through UAL's Collateralised Housing Investment Paper (known as Chips) and the balance through general investments. To distribute them, it has helped establish 14 retail, nonprofit, community-based lending institutions since the start of 1992.

Of its total capacity, R370m has been allocated to these organisations (which have already lent R80m). Loans of R500-R12 500 are offered over 1-36 months. Interest rates are determined by the Usury Act.

A further R120m has been routed through conventional financial institutions and employers. "We will lend to the lower-income groups employed at small- and medium-sized companies," says Finance Corp GM Griffiths Zabala. Employees can repay their loans through stop orders on their pay each month. Interest rates are 22%-28%, depending on the risk rating of the employer.

Zabala says the corporation hasn't had to write off any bad debts and arrears are only about 1% of total loans. But he estimates it will take about three years for each community-based institution to break even. "They will each need an average book of R20m to be viable operations."

The Development Bank, which provides capital for structural development projects, is considering using similar grass-roots institutions, says GM Nick Christodoulou. One possibility is the Community Bank, which will be launched in April, to provide banking for low-income communities. While Finance Corp is a specialist wholesale financier of shelter, and a subsidiary of the IDT, the Community Bank will operate under the Mutual Banks Act which allows it to be owned by its members rather than shareholders. MD Archie Hurst says R200m of initial primary capital will come from nonredeemable, permanent, interest-bearing shares. The rest of its funding will come from traditional retail liability products and from the wholesale market. Banking costs will be recovered from clients.

"We aim to have R1,5bn in assets within five years, 20 branches and about 120 community outlets," Hurst says.

Funds to educate the previously unbanked population will come from grants extended by overseas development agencies, routed through the Community Bank Foundation — a nonprofit organisation — "operating independently from the bank but helping to pave the way for the establishment of branches in community areas."

To help funds keep their value while they wait to be disbursed, they could be repackaged and multiplied in the wholesale market. An insurance-type product under negotiation between Housing Minister Louis Shill and the SA Special Risks Association is an example. Funds could be used to finance an insurance package to minimise the risk of lending for financial institutions.

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Taking over

Murray & Roberts chief executive David Brink has been appointed chairman of Absa from November 1 to succeed Herc Hefer, who resigned in August.

Brink will also become M&R chairman to succeed Marius Daling, who is resigning. A M van der Colff becomes CE of M&R.

World Bank ready to make immediate loans

Star 15/10/93

BY NEIL BEHRMANN

London — The World Bank is prepared to lend to South Africa immediately and is waiting for details on projects that need to be financed.

It's a statement that contradicts the generally held view that World Bank funding was not likely to materialise in the near future.

At this week's Confederation of British Industry Conference in London, Stephen Denning, director of the Southern African Department of the World Bank, said the institution was not to blame for any lending delays.

On the contrary, large amounts were available, but there was no SA consensus on the projects to be financed.

"We have not received any requests. It was only at the recent World Bank and IMF meeting in Washington that we received delegations about possible loans from the Government, the ANC and other interested parties."

The World bank would consider loans for specific projects, but without any requests it could not act, said Denning. "Only two can tango."

He indicated that the Government, ANC and other interested parties were moving slowly in regard to funding by the World Bank, which disclosed months ago that $1 billion (R3,45 billion) would be forthcoming.

Cashbuild in good health

BY DEREK TOMMEY

Cashbuild more than doubled pre-tax income in the six months to August to R8,1 million (R4 million).

Taxed income was R4,5 million (R2,8 million). Attributable income was R3,1 million (R2,1 million) — equal to 14,5c (9,8c) a share.

A 5c dividend has been declared.

Turnover rose 22,5 percent to R251,8 million, with just under half of the percentage increase coming from six new stores. Existing stores showed a 12 percent increase.

Chairman Christo Wiese says the improvement comes from margin and expense structures returning to historic levels.

Star 15/10/93

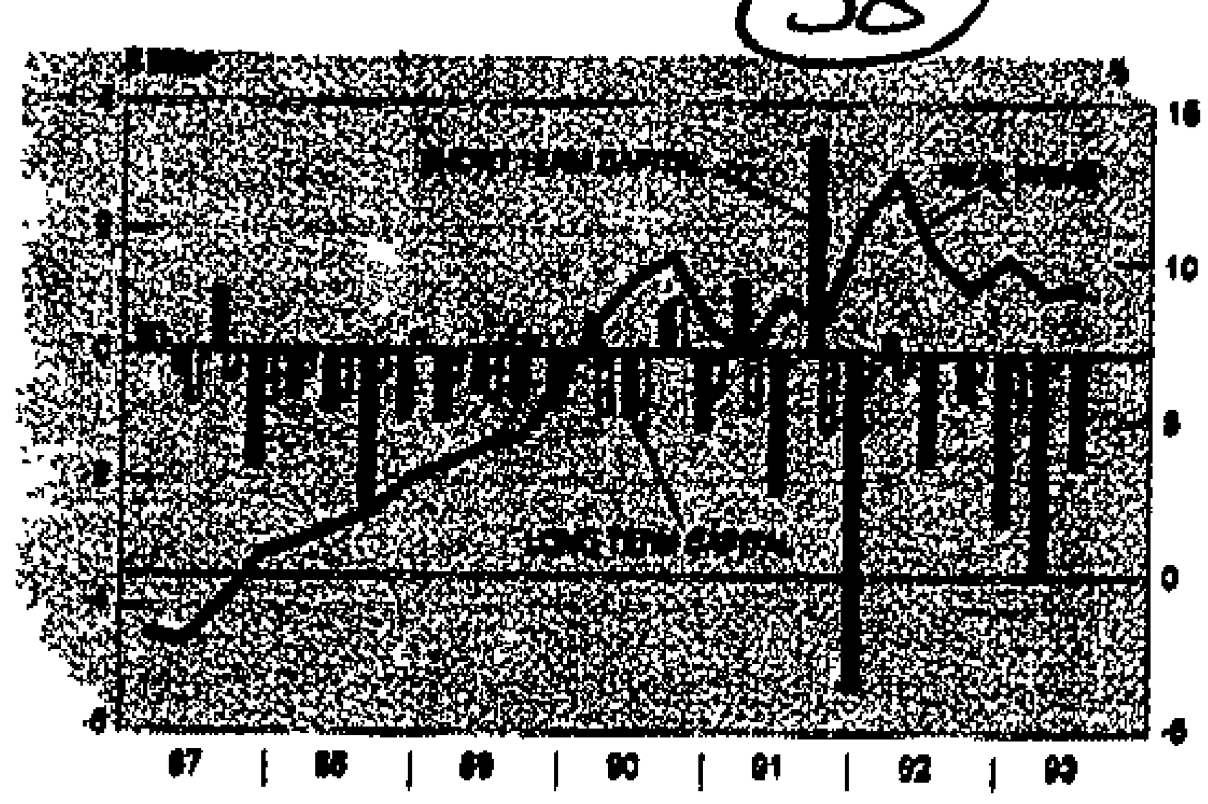
Boland champions interest rate cut

(58)

BY CLAIRE GEBHARDT

A desperate need for higher growth is cited as supporting calls for a cut in interest rates, says Boland Bank.

Its Economic Monitor cites seven reasons why the Reserve Bank should comply:



No correlation between capital outflows and real interest rates. Graph: Boland Bank

■ The real prime rate, calculated by subtracting the production price inflation (PPI) rate from the prime lending rate, has remained virtually unchanged at 8 to 10 percent since 1990, despite the 4,75 percentage point decline to the present 16,25 percent;

■ Credit demand can "afford" to increase, given that annual growth in credit extended to the private sector declined from a high of 28 percent in 1988 to an average rate of 6 percent in the second quarter of 1993;

■ M3 money supply growth is well below the Reserve Bank's target range of 6 to 9 percent set at the beginning of 1993;

■ Inflation remains under control, with the consumer price inflation (CPI) rate at 9,3 percent and the PPI rate at 6,3 percent;

■ The fiscal situation has improved, with figures for the first five months of the present fiscal year indicating a substantial improvement on the deficit outcome, compared with last year;

■ The argument goes that flows on a country's capital account are directly influenced by its real interest rate level. Of late, however, SA's balance of payments (BoP) situation has had little to do with the level of real interest rates.

Capital outflows were mainly a function of heavy foreign debt repayment commitments and exchange rate "fright" with corresponding payment "leads and lags".

Declining European interest rates provide further scope for a cut.

■ The limited depreciation of the rand exchange rate between 1986 and mid-1992 has given an unrealistically high real value to the rand.

The recent dip in the value of the currency should therefore not cause concern, given an expected improvement in foreign reserves in the wake of smaller debt repayable in 1993, the expected IMF loan, and improved foreign investor sentiment.

But while Boland says it has great sympathy with these views, it cautions that lower interest rates may contribute to a further depletion of foreign reserves.

It also notes that lower interest rates and accelerating credit growth can at best offer only a short-term solution to the growth problem.

Nevertheless, Boland believes the time may be ripe for the Reserve Bank to ignore the foreign exchange risks inherent in an interest rate cut and bring real interest rates more into line with economic and socio-political realities.

"This need not signal the end of responsible monetary policy."

Boland says it remains hopeful that Bank rate will be lowered by another one percentage point before December 1993.

Sanlam Income Trust to pay first div

(68)

CT 13/10/93

Business Staff

THE new Sanlam Income Trust, established 12 weeks ago, will pay a first dividend of 2,8c a unit.

Nearly R50m was invested in the unit trust during its first quarter.

Sanlam's Prime Growth Trust will pay an income of 10,6c a unit on November 19, making a total of 22c a unit for the past year.

Sanlam Trust will pay 31,7c a unit on November 26. The total distribution for the year to September 1 is 58,9c a unit.

Sanlam's three other unit trusts will declare their income distributions at the end of December.

Scramble as IGI faces collapse

58

ARG 2/10/93

Business Staff

GIANT short-term insurer IGI Insurance has been placed under provisonal curatorship by the Financial Service Board after rescue attempts failed and faces collapse.

Policy holders and staff have been left in the dark by a board of directors that has remained unavailable for comment, but independent brokers spent yesterday frantically swopping policies to other companies to protect the interests of clients.

Another short-term insurer, Guardian National Insurance, has stepped in to assist and will keep its offices in all main centres, including Cape Town, open all day today to help IGI policyholders.

■ For full details of the dramatic events of the collapse of the high-profile company see Weekend Argus Business, Section 3.

Southern's unit trust funds notch steady performances

(58) CT 12/10/93

SOUTHERN Life's unit trusts performed steadily in the September quarter, but the life assurer warned markets would be volatile in the run up the next year's elections.

The Mining Fund returned 28%, the Equity Fund 18,8% and the Southern Pure Specialist Fund 12,6% for the year to end September.

The Income Fund has yet to notch up a 12-month track record but unit holders were paid a dividend of 15,69c in August, bringing the total distribution to 37,24c per unit.

The probable volatility of the JSE to political shocks would mean investments and their risks would have to be well spread, Southern cautioned. — Sapa

Metfund notches up 18,7% return

Business Staff

METFUND achieved a total gross return of 18,7% for the 12 months to end September.

Hendrik du Toit of Investec Asset Management said the domestic economy was bottoming out but there was little indication of significant growth.

The 1994 recovery would most probably be derived from restocking, a higher investment rate and future growth in exports. However the uncertainty surrounding the planned elections and the recent trend towards wage discipline pointed to a rather fragile first stage of recovery.

Consequently, he said, the fund remained cautious and would be investing new cash flows in companies with the ability to maintain earnings growth in the coming year but at the same time stand to benefit from a strong economy.

(58) CT 2/10/93

During the quarter the fund sold Anamint, Gencor, its golding holdings, Investec Convertible Debentures, Metrop and C G Smith. The holdings in Anglovaal and Datakor were lightened.

Purchases were ICS, ICH, Bidcorp, Elfi Bulls, SAB and Absa.

- Metboard Income Fund put in a 17% return.

Guy Toms of Investec Asset Management said they believed the disinflation being experienced both abroad and domestically should continue in the short to medium term.

"As such bonds were likely to outperform cash and hence our investment strategy will be to remain fully invested in bonds."

No plans to lower Bank rate — Stals

(58)

CT 11/10/93

Own Correspondent

JOHANNESBURG. — Prospects of a Bank rate cut and lower interest rates this year are fading fast because short-term capital outflows continue to eat into the country's gold and foreign exchange reserves.

Reserve Bank governor Chris Stals said at the weekend that he had no plans to lower the Bank rate in the near future.

Stals said the R258m fall in reserves to R6,8bn in September was "disappointing" and pointed to the steady decline in reserves since August last year. "We will have to continue with the current monetary policy for some time."

He said short term capital outflows remained the main problem with no sign of any recovery. "It is very difficult to say if we will see any improvement in the capital account by the end of this year."

The political uncertainties in the run-up to the election next year could worsen the short-term capital outflows.

Stals said the $850m IMF drought-related facility would help matters but the money was not expected before the end of the year. He also warned that the loan would not have any effect on the money market shortage — another factor that had to be taken into account before easing monetary policy.

The only relief in the short term could come from the lack of large foreign debt repayments in the fourth quarter. The Bank was only aware of $150m that still had to be repaid in December under the current interim debt arrangment.

Stals said the practice among local borrowers of paying back foreign loans, instead of rolling them over, and replacing them with local borrowings, was draining the country of precious reserves.

"The low demand for credit in SA is making it attractive to take out short term finance from local banks instead of calling on foreign lenders."

There were also signs that leads and lags in foreign payments and receipts associated with the depreciation of the rand were continuing.

Stals said while these factors could easily be ridden out if the reserve position was good the current low level of reserves made it difficult to do this. Under these circumstances the Bank had little choice but to maintain its current policy.

While the strengthening in the financial rand in recent weeks was encouraging the position of the commercial rand was still worrying, he said. Scrapping the financial rand was not likely for some time even if the discount between the finrand and commercial rand disappeared.

FM 8/10/93 (58)

MUTUAL & FEDERAL

Really wise squirrels

Old Mutual's short-term insurance subsidiary, Mutual & Federal (M&F), has a reputation for being among the more astute players in this volatile industry. Its image was done no harm by its survival of the 1990-91 slump without incurring underwriting losses and its standing among investors is clearly evident in the premium the market places on it.

FM 8/10/93 (58)

Results over the past two years give some insight as to why M&F is able to prosper while others fail. Like most success stories, the answer is simple — good forward planning.

Activities: *Short-term insurance.*
Control: *Old Mutual.*
Chairman: *M J Levett; MD: K T M Saggers.*
Capital structure: *47,1m ords. Market capitalisation: R1,9bn.*
Share market: *Price: R41. Yields: 2,1% on dividend; 8,6% on earnings; p:e ratio, 11,6; cover, 4,1. 12-month high, R48; low, R32. Trading volume last quarter, 233 000 shares.*

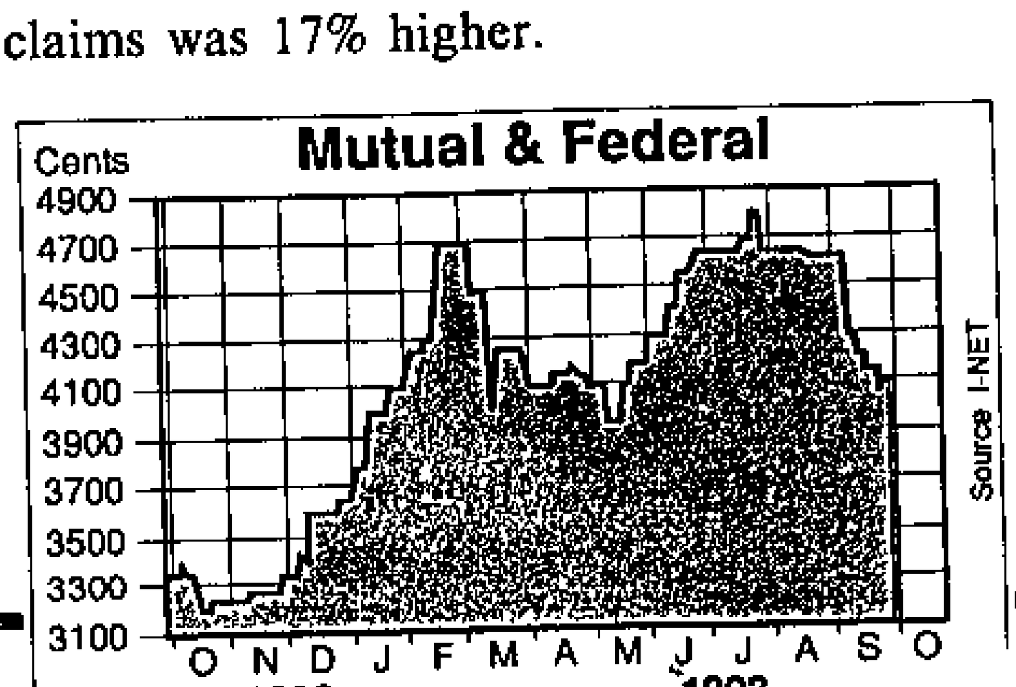
Year to June 30	'90	'91	'92	'93
Total assets (Rbn)	1,8	2,1	2,5	2,8
Solvency ratio (%)	140,0	126,7	146,5	149,9
Net premiums (Rm)	748	1 014	1 098	1 229
Underwriting profit (Rm)	11,6	19,0	52,5	66,5
Investment inc (Rm)	109,7	118,2	143,9	147,2
Pre-tax profit (Rm)	121,3	145,4	196,4	213,8
Earnings (c)	190	217	297	353
Dividends (c)	40	52	68	87
Tangible NAV (c)	2 251	2 751	3 431	3 912

It is common cause that the insurance industry has had two relatively easy years. There have been no major natural disasters and rising premiums have allowed the companies' fortunes to recover, notwithstanding a substantial increase in crime-related claims. The glaring exception, of course, is IGI.

In M&F's case, instead of simply accepting this bonanza, it immediately began planning for the next downturn. Innovatively, it created in 1992 a R60m "catastrophe reserve", which last year was topped up by a further R30m. It's interesting that these transfers were included in the stated cost of claims, which, in 1992, had the effect of reducing disclosed underwriting profit by 53%, while for 1993, the reduction was 31%.

Given that the 1993 disclosed underwriting profit was R66,6m, M&F has "insured" more than a year's profit through this reserve against the kind of claims some competitors will no doubt be citing in due course as excuses for poor results. This is not to say that M&F will be immune from the next downturn but its impact will be reduced and M&F won't be subject to the industry's characteristically extreme profit peaks and troughs.

Creation of the reserve in 1992 has also given M&F a degree of flexibility in its profit disclosures, with 1993's growth attributable entirely to the halving of the transfer to this reserve. In terms of actual underwriting results, 1993 wasn't one of M&F's best years — net premium income, after reinsurance and provision for unearned premiums, rose only 12%, but expenses and commission rose 16% while the value of claims was 17% higher.



This combination would, all else being equal, have produced a 14% decline in underwriting profit (admittedly from an exceptionally high base), but after taking into account the reduced transfer to the catastrophe fund a 27% net gain was achieved.

The R66,6m profit calculated after the transfer was a record for the group, topping the previous high of R54m achieved in 1989. This underlines two points: first, current underwriting results are unusually high and, therefore, have more down than upside potential; second, M&F is wisely squirrelling away some of these profits against rainy days.

Predicting results for a short-term insurer is a pointless exercise but, barring exceptional circumstances, shareholders can be reasonably sure dividends will grow in real terms. For the past few years, M&F has been increasing its payout by around 30% (1993's improvement was 28%) and while shareholders probably want to see the money before spending it, a continuation of the policy isn't out of the question.

The share, after a net gain of 27% over the past year (more or less matching the increase in dividends), looks fully priced on a 2,1% historic yield at a time when Liberty Life is yielding 2,5%, but it is likely to continue to attract support on the basis of superior long-term growth prospects.

Brian Thompson

Business Report

Guardbank fund tops in 12-month returns

CT 8/10/93 (58)

By ARI JACOBSON

GUARDBANK was the top unit trust performer among general funds, over one year to September, based on a survey conducted by the University of Pretoria and released yesterday.

Cape-based Board of Executors (BOE), Syfrets and Old Mutual all performed noticeably well, and notched top honours in other categories.

Based on returns over one year, Guardbank produced a 22,68% return, followed by BOE with a 22,01% return (worked out on repurchase to repurchase prices).

BOE was tops based on returns over a three year period, with a return of 21,04%, followed by Syfrets with 21%.

Over five years Syfrets led the field with a 25,95% return.

In the three-months to September troubled IGI fund and Safegro (forecast to be taken over soon by Investec) ranked among the higher returns (7,16%) in the quarter but was behind Absa (7,2%) and Southern Life (7,97%).

Old Mutual provided the highest return among select funds — a 47,68% return from its mining fund, over one year with its gold fund returning 77,88% for the same period. Guardbank Industrial had the highest return over one year in the industrial category (16,53%).

Old Mutual dominated among high income funds over one year (12,59%) and Syfrets over three years (11,38%).

Among gilt funds Metboard dominated the entire period from the quarter to September over one year, three years and five years.

Syfrets

Meanwhile, announcing quarterly results, the four unit trusts in the Syfrets stable attracted total net inflows of R738m for the year ending September 1993.

The Syfrets Growth Fund (R1,04bn), returned 17,7%, maintaining its position over three and five years with returns of 21% and 26%.

An income distribution of 2,88c per unit took the total for the year to 12,16c a unit.

The Syfrets Income Fund (R812m), produced a one-year return of 11,5%. Its five year performance was 17,5%.

An income distribution of 3,34c a unit was declared, bringing the total to 13,5c a unit.

The Syfrets Gilt Fund (R281m), posted an annual return of 11,4%. An income distribution of 33,37c a unit took the total to 131,15c a unit.

The Syfrets Trustee Fund posted a 9,7% annual return. The income distribution of 1,03c a unit took the total to 4,47c a unit.

OM fund returns 48%

Business Staff

THE current stock market is historically at very high levels but there should be a boost from "the removal of sanctions and the prospects of an economic recovery", says Old Mutual's senior portfolio manager Adrian Allardice.

Allardice was commenting after the release of its unit trust results for the year to September which had the Mining Fund returning 47,68% for the year, Top Companies 17,04%, the Industrial Fund 15,34% and the Investors' Fund returned 12,08%.

He added that the JSE Overall Index was down about 7% for the quarter to September.

Additions to the Growth Fund included Libsil, SA Bias, Sabvest, Sunbop, Clicks, C G Smith Foods and Sea Harvest.

A new counter in the Old Mutual Top Companies Fund is Siltek and the largest purchase by the Industrial Fund was Clicks. The entire holdings of Sappi and Da Gama were sold.

An additional share in the Mining Fund was Kloof while sales included Beatrix, ET Cons, Southvaal and Minorco.

The Gold Fund purchased Eastvaal, Knights and Western Areas, while sales included Beatrix, Deelkraal and Vaal Reefs.

Old Mutual's Mining unit trust gains 47%

B Day 8/10/93

CHARLOTTE MATHEWS

OLD MUTUAL's seven unit trusts returned 12,08% to 47,68% in the 12 months to September 30 on the basis of a lump-sum investment, according to figures disclosed yesterday.

Commercial Union Growth Fund made a total return of 20,68% in the same period.

Old Mutual Mining is now 47,68% higher than a year ago. Its largest new purchase was Kloof, while it sold Beatrix, ET Cons, Southvaal and Minorco. Liquidity fell to 7,6% from 10,9%. The Gold Fund added Eastvaal, Knights and Western Areas and sold Beatrix, Deelkraal, Elandsrand, Harties, Vaal Reefs, East Dagga and its entire holding in Ergo. Liquidity decreased to 8,7% from 14,6%.

Old Mutual Top Companies fund gained 17,04% on the year. It bought Siltek and eased its holdings of Sasol and Waltons. Natsel was unbundled and the distributed holdings in Impala Platinum and Palamin were sold while holdings of JCI, CG Smith and Persetec were reduced. At the quarter end the fund's liquidity was 13,5%.

Old Mutual's Industrial Fund gained 15,34% in the year to September and added Clicks to its portfolio. It reduced its stake in Absa, Waltons and Reunert and sold its entire holdings of Sappi and Da Gama. Liquidity increased to 9% from 6,1%.

The Investors' Fund, which maintains a fully invested profile, gained 12,08% in the year to September. It added Randcoal, Langeberg and Rand Mine Properties and largest purchases were Anamint, Lydenburg Platinum and Absa. Sales included De Beers, Vaal Reefs and Minorco. Fund liquidity eased to 9,2% from 10,2%.

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The bull market in bonds benefited Old Mutual Income Fund, which returned 12,59% for the 12 months to September. During the last quarter it bought R8m NCDs maturing during 1994 and 1995.

Old Mutual Growth Fund added Libsil, SA Bias, Sabvest, Sunbop, Clicks, CG Smith Foods, Crookes, Fralex, Sea Harvest and Standard Bank Property Fund. Its largest sale was Lydenburg Platinum and it sold all its holding in Sappi. Liquidity at the quarter end was 32,1%.

'IGI claims to be paid today'

CT 8/10/93

By ARI JACOBSON

A SPOKESMAN close to the IGI curators confirmed yesterday that "all cheques issued on claims" would be honoured today. 58

The curators will also today give the go-ahead on "claims authorised to be paid" to panel-beaters and other repair services, he said.

Banks to 'walk a tightrope in new SA

ARG 7/10/93

58

GUERNSEY (Channel Islands). — South Africa needs a strong banking system that enjoys national credibility and acceptability, Standard Bank retail markets general manager John Holloway told a conference here.

"This means we have to broaden the provision of our services. The pressure to serve a wider domestic market will cause other pressures on cost, profit and levels of service."

Banks would have to walk a tightrope between social responsiveness and preserving the quality of service and profits derived from serving its traditional First World markets, he said.

"The needs of the First World components of our markets remain as important as they ever were and should be insulated from any ill effects of our ventures into new markets."

Mr Holloway said South African banks were investigating new lending mechanisms such as community and group banking.

No-frills banking service centres where mass-volume transactions could be carried out were also under consideration

He added banks were faced with a huge challenge on how to deliver affordable banking services.

"I should also make it clear that the challenge is not to become bankers to the nation, nor to be a development agency. Those may be consequences of what we do, but they are not our aims."

Meanwhile South Africa's first mutual bank under the name Community Bank of South Africa will open for business in April next year with a capitalisation of R200 million.

The bank, which will be established in terms of the Mutual Banks Act published in parliament recently, will ultimately be owned by its members rather than equity shareholders. Its start-up products will include home loans, term deposits and savings accounts.

The announcement that agreement had been reached to establish the bank follows extensive investigations by the Community Banking Trust under the chairmanship of Dr Ellen Kuzwayo with Bob Tucker as executive trustee.

The investigation had the full support of he Council of South African Banks, whose leading members Absa, Stanbic, FNB and Nedcor seconded staff to assist in the investigation.

It is anticipated that the first branch of Community Bank will open in April next year. Sites being considered for branches include the East Rand, Johannesburg, areas to the south-west of Johannesburg, Cape Town and Durban. — Sapa.

Anti-squatter bid lost

JOHANNESBURG. — An urgent application by the Chartwell North Action Group to have the Zevenfontein squatter community removed from their present temporary site, north of Johannesburg, was rejected yesterday by the Rand Supreme Court. (30) CT 7/10/93

Bop IGI move granted (58)

MMABATHO. — The Bophuthatswana Supreme Court yesterday granted an application to appoint a provisional manager to control the affairs of IGI Bophuthatswana. CT 7/10/93

Buoyant returns from Guardbank funds

(58)

Deputy Business Editor

ALTHOUGH many sectors of the JSE were in expensive territory it appeared in the light of recent political and economic developments, it was reasonably underpinned, says Guardbank in its annual report. CT 6/10/93

Guardbank's Growth Fund's total return for the 12 months to end September was 22,84%. During the quarter new holdings were acquired in Amgold and Liberty Life Strategic Investments. The equity content was reduced by 1,5% to 79,23%.

Guardbank Industrial Fund put in a total return of 24,34% for the 12 months. A new holding in Liberty Life Strategic Investments was established while that in Premier was disposed of. In anticipation of softer stock markets, the equity content of the fund was decreased from 79,86% to 73,96% at September 30.

Guardbank Resources Fund achieved a total return of 24,25% for the 12 month period. During the quarter Rand Mines and Potgietersrust Platinum Mines were acquired, while Randcoal and Minorco were disposed of. The fund's equity content was decreased from 85,91% to 76,49%.

Guardbank Income Fund reported a total return of 14,02% for the 12 month period attracting a net cash inflow during the quarter of R25m with total assets of the fund increasing by more than R100m over the year from R134,1m to R234,2m. The Fund increased the maturity profile of its bond portfolio.

CT 6/10/93

Absa fund returns 11%

ABSA's General Fund put in a disappointing but still above inflation return of 11% for the year to September.

MD Ben Solomon said the performance of the trust in the past quarter had been in line with the general decline in the equities market.

(58)

The fund, he said, enjoyed a net inflow of 4 886 clients over the past quarter — representing a 17% net gain.

Total funds invested in three Absa unit trusts — the General, Industrial and recently launched Income funds — rose by R14,7m to R169,3m with just over R12m of this growth being invested in the new Income fund.

A half yearly income distribution of 2,83c a unit will be paid by the General Fund, 2,48c per unit by the Industrial Fund while the Income Fund will pay a quarterly distribution of 3,14c per unit.

Medical plans still valid

JOHANNESBURG. — IGI policy holders who hold a Medical Rescue International (MRI) plan as part of their insurance package will have this service available to them for the next few weeks at least.

MRI managing director Dr Paul Davis said yesterday that 100 000 IGI clients possessed the medical service rescue plan as part of their policies.

Many people were now panicking as they believed they were no longer covered by MRI.

Dr Davis emphasised that MRI was not part of IGI, which was under provisional curatorship while its financial situation was being investigated.

He said the IGI policy holders with the medical rescue cover would remain MRI clients until such time as they transferred their insurance policies.

It would then be established whether or not the new policy provided medical rescue cover. — Sapa

● Life policy holders cautioned — Page 12 (58) CT 5/10/95

Warning from Saflife, IGI Life

(58) CT 5/10/93

JOHANNESBURG. — Saflife and IGI Life's CE Ben Gildenhuys has advised life policyholders to guard against companies warning them to cancel their policies.

"Saflife and its principle operating company, IGI Life, remain unaffected by the recent provisional curatorship."

Gildenhuys said people with life policies must remember that the investment portion of their policy would be greatly affected by cancellation, and pointless in the light of IGI Life's continued operation.

"IGI Life remains a secure company."

- Broking firm Hosken has assured the market that its "well being is secured". Hosken Broking is jointly owned by Price Forbes and Hosken Consolidated Investments (HCI).
- A group of eight insurance broking firms have formed an action group to deal with problems arising from the provisional curatorship of IGI Insurance, and others may follow.

The action group, consisting of Absa Insurance Brokers, First Bowring, Glenvaal, Heritage Insurance Group, MIB, PFV, Prestasi Brokers and Standard Bank Insurance Brokers, represents at least R250m of IGI's total premium income of about R700m. Other insurance brokers, who will join the group, will bring the total IGI premium income represented to R450m. — Own Correspondent, Business Staff and Reuter

Norwich Unit Trust notches 22% return

CT 5/10/93

Business Staff

(58)

THE Norwich Unit Trust outperformed the JSE All Share Index for the 12 months to end September by showing a return of 22%.

Louis Fourie, a director of the Norwich Management Company, said the fund retained its emphasis on mining and rand hedge shares. During the past quarter the fund concentrated on trading certain gold shares while selling its holdings in Messina, Lonrho, Sappi and Foodcorp.

New counters included Plate Glass, Tiger Oats, Foschini and McCarthy.

Liquidity at the end of the quarter remained high at 19% as a precaution against the unclear expectations for the broad soio-economic environment and the JSE in the short term, he said.

Investment managers of the fund, Norwich Life, feel that despite the rather dull growth that is expected from the economy over the next year, the fund is well positioned to benefit from any upswing that may follow in the medium term.

During the review period the All Share Index put in a return of 20,9%.

A distribution of 7,6c per unit for the six months to September, comprising a dividend portion of 4,09c and interest of 3,51c per unit, will be paid.

IGI crash 'may increase rates'

Star 5/10/93

BY JOHN SPIRA and HELEN GRANGE

The IGI crisis means that many people may be paying higher short-term insurance premiums.

Industry sources say that since IGI's premiums tended to be below the average, policies bought to replace those held with the failed insurer would be generally at higher premium levels.

More bad news is the likelihood that the IGI fiasco will hasten the introduction of higher premium rates on all classes of short-term insurance.

SA Insurance Association chief executive Rodney Schneeberger notes that short-term insurance premiums have not risen for the past 18 to 24 months.

"An increase was therefore on the cards anyway as a result of inflation and the ongoing depreciation of the rand. I suspect the IGI collapse will bring the matter to a head."

The good news is that few (other than the 1 300 IGI employees who stand to lose their jobs) have been badly burnt.

Insurers who have soaked up thousands of IGI policies will be examining their new policyholders' claims rates this week to determine whether to adjust premium rates, insurance industry sources said yesterday. (158)

IGI policy-holders scrambled for cover when IGI was placed under provisional curatorship on Friday. But insurance sources warned that although alternative insurers had provided immediate, unseen cover to IGI policyholders, some policies could be rejected in the evaluation process to follow.

Warned

Prestasie Insurance Brokers said it transferred 12 000 to 13 000 IGI policyholders on Thursday night in anticipation of the IGI crisis.

Sapa reports that Saflife and IGI Life's chief executive, Ben Gildenhuys, warned Saflife and IGI Life policy-holders against companies advising them to cancel their policies: "Saflife and its principal operating company, IGI Life, remain unaffected by the recent curatorship imposed on IGI Insurance, and will continue to operate as before."

IGI fiasco prompts focus on regulation

(58) CT 4/10/93

Own Correspondent

JOHANNESBURG. — The placing of SA's fourth largest insurer, IGI Insurance Company, under provisional curatorship could prompt the Financial Services Board (FSB) to introduce further regulation, SA Insurance Association (SAIA) chairman Peter Martin said at the weekend.

Industry sources said IGI Insurance had about 60 000 policyholders and between R600m and R800m in premiums.

FSB executive officer Piet Badenhorst said IGI had been the subject of close supervision since 1992. "Attention should once again be drawn to the fact that although the objectives of the FSB are to promote the efficiency and stability of financial institutions and also to promote the interests of investors and policyholders, the FSB cannot provide any guarantees.

"Investors and policyholders are responsible for their decisions and should evaluate the information available on financial institutions or obtain advice before making decisions," Badenhorst said.

SA Special Risk Insurance Association (Sasria) chairman Oosie Oosthuizen, who with J Luttig has been appointed provisional curator, said the terms were clearly spelt out in the court order.

"The company will carry on, but under the directorship of myself and Luttig. We have to answer to the court on November 9 that the company is able to meet its liabilities."

The curators should be able to make a good estimate within the next month, he added.

IGI group CE Larry Nestadt has been reported as saying that the company was trading profitably in the six months to September but that its biggest problem was its poor investment policy.

It wrote off R23m in Saflife in the year to March on its investment in the Tollgate group and R56m in IGI Insurance for investments in Tollgate, Time Holdings and Abacus Industrial Holdings. Holding company HCI wrote off R40m on the settlement of a dispute with Absa over the Tollgate investment.

- T Hoare & Co Ltd (THC) will acquire the entire issued share capital of IGI Namibia Holdings Ltd from BIS Insurance Systems (Pty) Ltd.

'Current IGI claims will be covered'

By ARI JACOBSON

THERE are sufficient funds to cover current claims by IGI policyholders, was the assurance of IGI chairman Larry Nestadt at the weekend.

For those with no outstanding claims but still in possession of an IGI insurance policy, alternative insurance options had already come into force by the start of work today.

Neville Nightingale, MD of IGI's biggest customer Wesbank, said that the company was making arrangements to ensure that its 40 000 policyholders did not go uncovered.

Some policyholders avoided the problems in advance, like the 12 000 Prestasi brokerage clients with IGI, who transferred to short term insurers Aegis and SA Eagle from the start of October.

- The provisional curatorship of the IGI group means that the shareholders will carry the largest burden from the collapse of the group.

Reserve Bank will remain independent — Stals

S8 CT 4/10/93

From SIMON BARBER

ASHINGTON. — Reserve Bank governor Chris Stals sought at the weekend to reassure US investors that the Bank would remain independent under a government of national unity.

und managers and other investors who turned out in unexpectedly high numbers at the Global Access conference on institutional investment in SA in Washington last Friday made clear they viewed the dual exchange rate as a serious obstacle, notwithstanding the financial rand "kick" to bond yields for non-residents.

ut as reported on the weekend, Stals said the financial rand system had to be retained as long as the political and social instability continued. The low level of foreign reserves militated against abolishing the two-tier system.

pparently sensitive to the ANC's unwillingness to submit to IMF conditionality, Stals avoided any mention of the IMF standby facility both President F W De Klerk and Finance Minister Derek Keyes have previously said might be necessary to protect foreign reserves in the event of exchange rate reform.

Unlike the $850m contingency facility set to become available once the Fund concludes its Article IV consultations in SA this month, further Fund bridging finance would come with detailed strings attached.

Stals noted that the gap between the financial and commercial rand had narrowed in the days following the ANC's decision to call for an end to sanctions, as foreign investors bid up the finrand's value against the dollar to purchase SA equities and debt instruments.

But he warned that a "merging" of the two rates would not automatically signal the finrand's demise.

Last week's surge of foreign interest did little to improve the reserve position, because the inflows are coming in through the finrand, and finrand transactions are deliberately insulated from reserve calculations.

Stals faced complaints that the decision to allow SA resident to obtain finrands to obtain foreign currency in order to make investments overseas had disrupted the finrand market at the expense of foreign investors.

In response, he promised that SA residents would now only be allowed to make outward investments "in exceptional circumstances".

Capital flight also troubled investors, but Stals insisted the significant outflows of the past year could all be accounted for in terms of legal transactions and "we have not seen any increase in errors and omissions" in the balance of payment accounts.

If there was flight "it's illegal and we don't know about it".

More generally, Stals said the Reserve Bank's priorities were to protect the value of the rand. Monetary policy would be used "stubbornly and continuously" to fight inflation. Key objectives were to restrict money supply and domestic bank credit growth, and to increase gold and foreign exchange reserves.

Looking ahead to a government of national unity, Stals said "we feel relaxed" but he emphasised that the Reserve Bank could only retain its independence if it had government's support.

The Reserve's principal tasks would be stopping government from printing money to meet political expectations and to maintain "realistic" interest rates.

It would insist on the continued freedom to intervene in capital markets.

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IGI under curatorship

ARG 2/10/93

From page 1

to 40 cents a share by the time its listing was suspended on the JSE at the request of its directors yesterday.

The holding company shares fell from R1,80 to 20 cents.

In a statement Mr Badenhorst said the FSB had been watching IGI since August when the company reported that it was not sure whether its assets complied with statutory financial requirements.

By September 24 IGI advised the position was worse.

IGI, assisted by the FSB, tried unsuccessfully to find a suitable investor or to restructure itself.

The curators have to report to the Supreme Court by November 9 on the ability of IGI to meet commitments to policy holders and creditors; on any irregularities which may have occurred or offences committed; and on the viability of the company.

Mr Badenhorst said the FSB's objectives were to promote efficiency and stability of financial institutions and to promote the interests of investors and policyholders.

But he warned the FSB could not guarantee the objectives could always be met.

■ Meanwhile a group of Cape Town policy and shareholders in health assurer Crusader Life which was placed under curatorship two months ago have won a battle with the company's curators.

The shareholders, who want Crulife liquidated as soon as possible before losses mount further, have been opposed in their quest.

The curators also unsuccessfully attempted to prevent the liquidation application being moved from the jurisdiction of the Supreme Court in Johannesburg to Pretoria this week.

IGI: insurers step into the breach

Star 2/10/93

(58)

LEIGH ROBERTS
and MAGNUS HEYSTEK

MANY insurance companies are to open their doors today to offer assistance to policyholders hit by the IGI Insurance Company crisis.

IGI, the fourth largest short-term insurance company in South Africa, was yesterday placed under provisional curatorship, leaving more than 60 000 people potentially without short-term cover.

After days of uncertainty and several failed rescue plans, IGI was placed under curatorship after an application by the executive officer of the Financial Services Board (FSB), P J Badenhorst, was granted in the Pretoria Supreme Court.

As 50 percent of the business of IGI was "personal lines business" — cover usually provided to the man in the street — Badenhorst said he was aware that a large number of policyholders would consider it prudent to arrange for immediate cover with an alternative insurer.

Discussions

He said discussions had taken place between the industry and the FSB and an assurance had been given that local insurers would be able to provide cover to existing policyholders of IGI.

Inquiries for assistance, with details of local insurers who are registered to provide such cover, can be made to The South African Insurance Association at (011) 838-4881; The South African Insurance Brokers Association at (011) 833-2180; or the Short-term Insurance Brokers Council of South Africa at (011) 422-2858/9.

The shares of IGI, as well as of parent company Hosken Consolidated Investments, were yesterday suspended on the Johannesburg Stock Exchange.

Prior to suspension, HCI traded at 20c after opening the day at 200c. HCI earns a major portion of its annual income from the IGI company.

The two curators, C J Oosthuyzen and C Luttig, will immediately take control of IGI and must submit a report on the financial state of IGI by November 9.

Larry Nestadt, group chief executive, said in an exclusive interview yesterday: "This is a sad moment. We tried to rescue the company, but the problems were too great."

"The great tragedy is that the com

● TO PAGE 2

Star 2/10/93

IGI crisis

● FROM PAGE 1.

pany was trading profitably and is not insolvent. The problem was that we couldn't withstand the run on the company which started a couple of days ago," he said.

Nestadt, who this week took over as chairman of IGI, said the company's single biggest problem was its poor investment policy.

"Our biggest concerns now are for our policyholders and employees." He added that because the company was still technically solvent and had adequate reserves, there was no reason why it would not be able to service claims.

He said that policyholders with annual premiums should therefore be covered.

As to the threat of liquidation, Nestadt said that this was unlikely if the business was run properly.

According to a statement by the FSB, the short-term insurance industry has experienced "fierce competition" over the past three years which resulted in many insurers making underwriting losses. Companies had had to draw on their reserves or approach shareholders for additional capital. (58)

On September 24, the management of IGI advised the FSB that recent financial adjustments affected the financial situation of IGI negatively.

Existing shareholders were not prepared to inject additional share capital and efforts to find a suitable investor to structure a rescue package underwritten by major short-term indurers failed.

After discussion between representatives of shareholders of IGI and FSB, it was decided that the best option was to approach the Supreme Court for a provisional order for curatorship.

Guardian National Insurance Company last night announced that its offices would remain open all day today, as well as tomorrow, to provide cover for people fearing that IGI would not be in a position to meet its financial commitments in the event of claims.

If IGI is liquidated, policyholders with claims against IGI would be treated as normal creditors and could wait several years to get their capital back.

Old Mutual's empire

(58)

ARGT 2/10/93

TOM HOOD, Business Editor

■ Old Mutual is believed to have set up an overseas empire spanning 20 countries.

INSURANCE giant Old Mutual has stolen a march on its competitors by silently setting up an overseas empire stretching into more than 20 countries.

This is the belief of company analysts, who estimate the South African giant could have many more policy holders outside the country than inside.

With the ending of sanctions South African companies can drop their modesty and pursue expansion almost anywhere.

Liberty Life, which has a strong foothold in Britain, has said it intends to be more aggressive in the pursuit of new business.

However, Old Mutual has belied its sometimes stodgy appearance and managed an expansion into many countries under the nose of anti-apartheid vigilantes who were not shy to picket and expose businesses connected to South Africa.

Top officials were reported to have visited the Chinese capital Beijing last month to study prospects, although this could not be confirmed at the Pinelands HQ — which is hardly surprising because offshore business is virtually regarded as a cloak and dagger operation.

A trip to mainland China should be no difficult task for Old Mutual because a Mutual presence in Hong Kong has operated in the name of Finexco (HK) Ltd from Causeway Bay.

Mutual could raise the eyebrows of many of its own employees as well as competitors on learning that it has had an "Asian Headquarters" from Hong Kong for years.

From there it runs important businesses in Malaysia and Thailand. These are listed as Finexco (M) Sdn Bhd in Kuala Lumpur and Finexco Administrative Services (FAS) BV in Bangkok.

Mutual has also kept quiet about its presence in the Middle East, chiefly in the United Arab Emirates and Saudi Arabia.

It operates under the banner of Finexco (Gulf) in Dubai and Finexco in Jeddah.

Analysts believe Mutual's two main money spinners are Finexco International and Providence Capitol, both based in tax-free Guernsey. Both companies have boards of directors dominated by top South Africans.

Finexco describes itself as international financial consultants with 60 consultants in more than 20 countries.

It claims to be in the fields of banking and capital deposit accounts, company formation, house purchase finance, tax and school fees planning, retirement planning , trusts, life and medical insurance, planning for an expatriate's return home and offshore funds.

It was founded more than 10 years ago and since 1986 has been a wholly owned subsidiary of Fairbairn International financial services group which, in turn, is owned by Old Mutual.

Finexco emphasises it has adopted a strict code of business practice and was the first international consultancy to adopt such a code.

Of the four directors, three are well-known in Cape Town — Joe Hermann, Brian Marquard and Ralph Roseman.

Three — Mr. Hermann, Mr Marquard and Mr Roseman — are also on the board of Providence Capitol, an investment arm which runs a wide range of international unit trusts — numbering more than Old Mutual has at home.

Its chairman, Mike Levett, is also Old Mutual's chairman.

Providence is reported to have assets of about R6 billion under management — a tidy sum for an offshore business. Its total assets have jumped by 30 percent this year and 200 percent in three years — a big achievement when measured against the difficult time experienced by British life assurers.

Insurance giant IGI topples

(58) ARG 2/10/93

GIANT short-term insurer IGI has been placed under provisional curatorship after failed attempts to get a white knight to rescue the company.

■ An insurance giant has fallen — and a number of others may go down with it.

BRUCE CAMERON
Business Staff

And chief executive of the Financial Services Board Piet Badenhorst indicated last night a number of other companies in the short-term business were making underwriting losses because of tough competition over the past three years.

They were being forced to draw heavily on reserves or asking shareholders for extra capital.

Meanwhile insurance companies and brokers have moved to shift IGI business to other insurers to protect policy holders. It is still not clear however how much protection against loss is available to policy holders or the extent of IGI's problems.

In a day of drama, both IGI short-term insurance and its holding company Hosken Consolidated Investment had their listings on the Johannesburg Stock Exchange suspended as their share prices fell through the floor.

As rumours spread about the imminent demise of IGI the Financial Services Board (FSB) shut off its attempts to find a rescuer for the company and made an urgent application to the Pretoria Supreme Court to place IGI under provisional curatorship.

IGI itself went to ground, claiming its top executives were in conference, leaving thousands of policyholders and its staff in doubt about the future.

General staff were no wiser at the week's end as to what their future would be, but many feared they would soon be without jobs.

Mr Badenhorst said 50 percent of IGI buiness was in "personal lines" which provided cover to individuals.

He said these policy holders should "arrange for immediate cover with an alternative insurer."

The country's biggest insurance broker, Absa-bank Insurance, confirmed that it had already shifted business from IGI to other companies.

Mr Willie Heine, general manager of Absa Insurance, said: "no client cover is in any jeopardy.

"Alternative arrangements have been made for existing clients of ABSA brokers whether it be a personal policy, motor policy or commercial business."

Meanwhile chief executive of life assurance company IGI LIfe and its holding company Safrican Life Investment Holdings (Saflife), Ben Gildenhuys, gave the assurance that his companies were in fine fettle and should not be confused with IGI Insurance.

Although IGI Insurance holds a 41 percent share in Saflife the position of Saflife would not be affected as the "companies are freestanding and operate in totally different markets."

First public signs of problems in IGI came recently when rating company Republican ratings downgraded the company to a "speculative rating."

The share price started to drop rapidly and from R7,50 at the beginning of the year had dropped

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"branches of CNA.

Sage unit trust focuses on financial institutions

Star 2/10/93

SAGE Group has extended its range of unit trusts with the launch of an innovative specialist trust focused on the financial services sectors and an income fund.

Sage Financial Services Fund is the first unit trust in South Africa focusing specifically on investments in financial institutions and should provide a diversified entry into the growth, stability, strength and institutional continuity of major banking, insurance and related investments.

Sage Income Fund will aim for competitive income returns, while also seeking security of capital and potential for appreciation.

The Financial Services Fund is targeted at both individual and institutional investors, while the Income Fund is structured for investors requiring regular income and for those seeking a temporary shield from a potentially volatile equity market.

"With the foundation provided by the broadly based Sage Fund, which pioneered the SA unit trust industry, and Sage Resources Fund, with its specialist focus on natural resources, we have broadened our scope of products and created a diverse family of funds," says Bernard Nackan, managing director of Investors Mutual Funds Limited, the Sage unit trust management company.

"With the launch of our new funds and the recent repositioning of the unit trust and investment management activities in Sage Life, Sage is well positioned to expand both via direct unit trust sales and through the unique niche of investment linkages available on the comprehensive range of Sage Life products," adds Nackan.

Sage Financial Services Fund's launch portfolio reflects total assets of about R28,7 million with a current equity content of approximately 75 percent spread across leading banking, life assurance, short-term insurance and financial services companies.

"Our research at Sage has indicated that investors would respond positively to a vehicle that could offer a meaningful spread of investments in the financial services sectors. For the individual investor to achieve a portfolio spread in such sectors would require an investment of almost R60 000 to purchase 100 shares in each of the 14 companies held in the initial Sage Financial Services Fund portfolio," says Nackan.

Sage Income Fund's launch portfolio reflects total assets of approximately R45,8 million, invested in a spread of RSA stocks. The two new funds add to the approximate R1 billion aggregate asset base in Sage Fund and Sage Resources Fund.

Dirk Stofberg, executive director of Sage Capital Managers and portfolio manager for the equity trusts, points out that the country's financial services sector has become a major growth element in the economy.

Safe haven

58

"With the lifting of sanctions and the return of SA to the world economic community, we anticipate the country will play a significant role — as a centre for channelling funds — in the development of sub-Saharan Africa. The sophistication of products and services of SA's financial groups, together with the developed communications infrastructure and the prospect of enhanced real economic growth, should herald a period of continued attractive growth for these organisations."

"Lappies" Labuschagne, executive director of Sage Capital Managers and portfolio manager of the Income Fund, says the increased volatility of investment markets has underlined the need for a safe haven for investors. "Sage Income Fund provides not only a haven from time to time, but also a higher-income product per se in an environment of real interest rates."

As with the existing Sage equity trusts, Sage Financial Services Fund has a maximum 5 percent initial charge, which decreases as the amount invested rises. The initial charge for Sage Income Fund is set at 1 percent. In Sage Financial Services Fund, income will be distributed half yearly, and in Sage Income Fund it will be quarterly.

For both funds, units can be bought on a lump-sum basis — subject to a minimum initial investment of R1 000. Units can also be bought monthly, with R100 the minimum investment for each fund.

Momentum yields a

THE HENLEY CERTIFICATE IN MANAGEMENT

Insurance shock

CT 2/10/93 (58)

IGI is placed under provisional curatorship

By ARI JACOBSON

IN a shock announcement last night publicly listed IGI Insurance Co Ltd, which provides insurance for the man in the street, was placed in provisional curatorship.

And the JSE listings of both IGI and its holding company Hosken Consolidated Investments (HCI) were suspended at the request of the directors.

Registrar of Insurance, Mr Piet Badenhorst, said last night IGI had failed to comply with the critical solvency margins of an insurance company.

This was because of certain write-offs that stemmed from hundreds of millions of rand lost through failed investments in Tollgate Holdings, Abascus Holdings and Time Holdings.

He suggested IGI policy-holders should arrange for immediate cover with an alternative insurer.

HCI executive chairman Mr Larry Nestadt said there were "adequate reserves to meet the claims of policy-holders" and added that the move was aimed "at preventing a run on the group".

The IGI share price plunged from R2,50 on Wednesday to 40c at the close of trade last night.

Mr Nestadt said "the biggest blow" to the group's ability to generate new business and maintain old business was the recent adverse report by Republic Ratings, which independently rates companies.

Assets

Republic Ratings downgraded IGI to the speculative grade, on concern about its investment portfolio and fears that it might not have disclosed certain contingent liabilities.

According to its last financial report for the year to March 1992, IGI had amassed assets of R1,1 billion.

Mr Badenhorst said that provisional curatorship "was the best available option to protect existing policy-holders".

However IGI's life insurance division, Safrican Life (Saflife), is considered to "have assets worth about R450m that are perfectly safe and solvency is no problem", marketing director Mr Peter Atkinson said last night.

The performance of IGI came under scrutiny recently when Investec-Fedsure and then short-term insurer Mutual & Federal turned their backs on its business.

IGI has still not submitted its financial statements for the year to March 1993 and has exceeded the six-month period allowed before financial results must be reported.

● HCI is ultimately controlled by the directors and was headed up, until a few weeks ago, by chairman Mr Mike Lewis.

IGI has some 55 branches and employs about 1 200 people. No decision has yet been taken on their future. About 60 people are employed at the Cape Town branch.

Trading in shares of IGI suspended

BRUCE CAMERON, Business Staff

TRADING in shares of short-term insurers IGI was suspended today while the future of the company remained in doubt. (58) ARG 1/10/93

The shares were suspended at the request of the directors of the company as the price plummeted to below 70 cents.

No comment could be obtained from company headquarters where the board was in a meeting all morning.

Staff were in the dark, with secretaries saying: "I wish they would tell us what is happening."

A Cape Town spokesman for the company said the local office was waiting for the outcome of the meeting in Johannebsurg.

The office had been told yesterday afternoon that there were "serious problems" but had been given no indication of what was to happen. In the meantime business was continuing, with payments being made.

The spokesman said no one had been retrenched as yet but he could not say what the position would be.

Following on the heels of the collapse of health insurer Crusader Life two months ago, IGI saw its share price collapse to below 70 cents today from R7,50 after rumours of problems.

The slide in the company's fortunes came with an announcement last month by Republic Ratings that it was downgrading the company to a "speculative rating".

A statement on the company was expected to be issued by the Financial Services Board (FSB) today.

Neither FSB short-term insurance manager Nico Fourie nor IGI executive chairman Larry Nesbatt was avaialble for comment.

Their respective secretaries said both were tied up in meetings about the company's problems.

Mr Nesbatt took over as both managing-director and executive chairman of the company recently.

Former executive chairman Michael Lewis, who is still a director, could not be contacted for comment either.

IGI's financial status has been in question for some time in the wake of several investments which turned sour, mainly in liquidated Tollgate and Interboard.

Stals set to follow market

58 ARG 30/9/93

□ Reserve Bank would like to see lower interest rates

WASHINGTON. — Reserve Bank Governor Chris Stals said the central bank would like to see lower interest rates in South Africa, but would wait for the market to take the lead.

He said after Finance Minister Derek Keys' address to the annual meetings of the World Bank and the International Monetary Fund Washington the country's foreign reserves had stabilised in the past three months.

While in the past 12 months there was a capital outflow of R5 billion, which had reduced domestic money market liquidity, there had beeen improvment.

The country's reserves would also be bolstered by the inflow of funds from an imminent IMF loan under its Contingency and Compensatory Facilitating Fund.

The currently weak reserves, in conjunction with an expected government budget deficit of around 8 percent, forced the Reserve Bank to maintain a cautionary stance toward dropping its lending rate to the commercial banks.

Dr Stals would not be drawn on forecasting the effect on interest rates of the $850 million CCFF loan.

The IMF loan would replenish the country's foreign reserves depleted by the drought-induced import bill of about R3 billion.

Dr Stals reiterated that in spite of the encouragingly low levels of inflation and money supply, the weak foreign reserve position was his main concern in determining the level of the Reserve Bank rate.

The financial rand had strengthened since African National Congress president Nelson Mandela's call last Thursday for the scrapping of economic sanctions against South Africa.

"However, many decisions are taken overnight, the markets take time to adjust," Dr Stals cautioned. "It would be extremely difficult for the Reserve Bank to go against the trends in the market."

But he noted that the yield on South African bonds had fallen by between 60 and 70 points. This was an indication interest rates were tending lower. — Sapa.

Money supply growth turns around

S8

CT 28/9/93

From KELVIN BROWN

JOHANNESBURG. — Growth in broad money supply turned around in the year to August, reflecting a fall-off in pressure on SA's reserves and some growth in credit extension.

Reserve Bank figures released yesterday showed that the annual growth in M3 — the broad measure of money supply covering cash in circulation and all deposits at banks — rose to 3,92% in August from a revised 1,60% for the year to July.

There was also a turnaround in growth measured from the guideline base — the fourth quarter of 1993. The seasonally adjusted percentage change in M3 increased to 2,55% after falling by 0,65% in July.

Economists said the main reason for the uptick appeared to be a fall-off in short-term capital outflows. Although the reserve position worsened in August, most of this was due to a R700m foreign debt payment. Excluding this, the reserve position appeared to be stabilising.

Some of the increase in the M3's growth rate could be accounted for by an increase in credit extension, analysts said. The Bank reported that claims on the domestic private sector rose to 7,64% in the year to July, after increasing to 7,02% in June.

UAL economist Dennis Dykes said M3 growth was moving to more realistic levels after several months of unusually low figures. "This could mean the start of a turnaround in the figures."

He expected broad money supply growth to firm this month as there was little reason for an increase in the amount of money flowing out of the country, "while we could also see some capital inflows after the lifting of sanctions".

Sanlam chief economist Johan Louw said it was still premature to say if the increase in money supply reflected an improvement in the economy. "It is more likely that it reflected a slower outflow of short-term capital."

Bonanza for SA's financial markets

CT 28/9/93 (58)

By ARI JACOBSON

SA's financial markets yesterday rose to a chorus of overseas support for local industrial shares and bonds, triggered by the news that sanctions would be lifted.

The financial rand firmed to its strongest level in 18 months — up 19c from a weekend close of R4,51 to the dollar to R4,32 — before easing back to close out at R4,34/$.

Market players said the finrand's buoyancy was supported by weekend reports quoting both ANC leader Nelson Mandela and State President F W de Klerk as saying they favoured abolishing the finrand as soon as possible.

The favourable reception the country's ambassadors received at the International Monetary Fund (IMF) conference in the US over the weekend, the end of the sanctions era and the talk of eradicating the dual exchange rate system added up to a heartening day on the local market, dealers said.

But they added that gains were largely speculative and were likely to be reversed as euphoria died down.

They pointed to continuing violence as a major obstacle to renewed investment interest.

On an upbeat JSE, the Industrial Index ended 81 points, or 1,9% firmer at 4 446 and the Overall Index rose 65 points to 3 795. The Gold Index was three points lower at 1 595 as the sharply firmer finrand put a lid on gains.

Reuter reports that market mainstay De Beers surged 6,6% or R5 to R81 on turnover of R5,75m — the highest value traded during the day — while stablemate Anglos followed suit, gaining R4,50 or 3,56% to R131.

Iscor jumped 6,4% to R1,33. Barlows rose R1,40 to R40 as shares worth R4,81m changed hands.

M-Net rose 20c to R5,70c, and Wooltru R3,25 to R85.

A trader said he had seen offshore interest in Lonrho, but this had waned during the day. The rand hedge counter finished 20c off at R8,20.

On the gold board, Vaal Reefs slipped R3 to R305 and Kloof sagged 25c to R42,75.

● Barnato Exploration Ltd said negotiations concerning involvement in gold prospecting ventures in Ghana were continuing.

Finrand to stay — for now

By MAGGIE ROWLEY

THE possibility of a single exchange rate system in the near future was squashed yesterday by the SA Reserve Bank's GM exchange control John Postmus.

"It's practically impossible in the immediate future," he said in an interview.

Postmus said that the scrapping of the two-tier system, re-introduced in 1983, "would be tantamount to lifting exchange controls on non-residents and a major withdrawal of capital would follow".

Postmus said that SA's foreign reserves were not strong enough to cope with this outflow.

"We should only look to abolish the finrand once an acceptable environment has been created to attract non-resident investments to the country and a positive capital inflow has been restored."

He said a once-off loan from the IMF would be insufficient to counter the expected capital outflows. The finrand was currently trading at a discount of about 20% to the commerical rand and if the dual system were abolished this would have a sharp "detrimental effect" on the value of the commercial rand.

Business Repo

Fidelity Bank, EPBS discuss merger

(58)
CT 28/9/93

By ARI JACOBSON

FIDELITY BANK and EP Building Society (EPBS) could soon merge, based on a joint announcement yesterday that shareholders "should exercise caution in dealing in their shares".

The CE's of the two respective PE-based institutions, Jules Langenberg of Fidelity Bank and Trevor Jennings of EPBS said that "discussions are at a preliminary stage and that a further announcement could be expected in October".

The trend to merge and acquire in the banking industry has been accelerated by the Deposit Taking Institutions Act, introduced in February 1991, which has set out more stringent capital requirements at banks and at the same time loosened up on ownership laws.

Jennings said the implementation of the Mutual Banks Act would place EPBS in a position to expand its operation by offering bank products.

"We have decided that the most effective way to achieve this objective is by merging with a bank."

Langenberg said that the group had shown consistent earnings growth and that the future growth plans included an expansion of its product range.

EPBS has slightly over R1bn in assets while Fidelity has R700m. However, including off-balance sheet assets, Fidelity has nearly R1bn in assets, Langenberg said.

Finrand to go

Govt, ANC clash on foreign loans for SA

58

CT 27/9/93

From GRETA STEYN and SIMON BARBER

WASHINGTON. — The financial rand (finrand) looks set to go as the government and the ANC called at the weekend for the unit to be abolished.

In what seemed to be a joint policy arrangement the ANC said stability under a strong democratic government would enable South Africa to do away with the dual unit.

President F W de Klerk later told businessmen at the World Economic Development Congress that he was anxious to end exchange controls as soon as possible because it was "fundamentally important to open up our economy".

The ANC released a policy statement saying foreign investment through the finrand had no impact on foreign currency reserves and merely facilitated disinvestment.

"The two-tier system must therefore be abolished at the earliest opportunity."

Questioned later, Mr De Klerk said an International Monetary Fund standby facility — in addition to the $850m loan nearing finalisation — would be one of several prerequisities for such a step.

In asserting the need for further IMF finance, Mr De Klerk appeared to put the government on a collision course with ANC

ANC DIDN'T DO IT ALONE — DE KLERK

See PAGE 2

economics chief Mr Trevor Manuel, who said the organisation was unwilling to seek IMF assistance beyond the loan, known as the Commodity and Contingency Financing Facility (CCFF) now under discussion.

Speaking ahead of a meeting yesterday with the World Bank's vice-president for Africa, Mr Edward Jaycox, Mr Manuel said: "World Bank finance is not on the agenda."

He spelt out a cautious approach to foreign loans, conveying a fervent wish to avoid the World Bank and the IMF calling the shots on economic policy.

The CCFF requires an undertaking from the borrower to "cooperate" with the IMF.

Mr Michael Camdessus, IMF managing director, indicated after meeting the ANC that an announcement on the loan could be made "within days".

Mr Jaycox said earlier this year $1bn in World Bank finance was available for South Africa.

But Mr Manuel expressed fears that South Africa might plunge into another debt crisis

In a reference to the strings attached to IMF and World Bank loans, Mr Manuel said South Africa should guard against losing its sovereignty in dealing with the Bank and Fund.

But he did not rule out using World Bank finance in the long term.

Mr De Klerk told the development congress that the government and the ANC had reached broad agreement on specific economic policies, including the need for the contingency facility and the terms of a final debt rescheduling to be announced today.

● South Africa is no longer a pariah state, the influential New York Times declared yesterday, citing Mr Nelson Mandela's call to end sanctions, and the passing of the TEC bill last week.

Sasria may insure mortgage lenders

ROBYN CHALMERS and TIM COHEN

HOUSING Minister Louis Shill's new risk intervention scheme to protect mortgage lenders from defaults in the low-cost housing market could make use of the SA Special Risk Insurance Association (Sasria).

Sasria GM Mike Strydom confirmed that the political risk insurance organisation had held informal talks with Shill, who was looking for advice on methods to guarantee loan amounts. B/Day

"Sasria is already involved in this market to an extent in conjunction with the Urban Foundation's home-loan guarantee scheme. The scheme provides insurance for defaults as a result of politically motivated rent boycotts under specific conditions," said Strydom. 27/9/93

Shill declined to disclose details of the Sasria involvement, saying the deal was still being negotiated. But he suggested the scheme could make a big impact on SA's huge housing shortage.

The aim of the financing scheme is to secure much-needed finance for people on low incomes who have been unable to secure home loans from traditional lenders.

The threat of bond boycotts, violence and defaults have made financial institutions reluctant to increase their home loan exposure in the low-cost housing sector, which stands at about R8bn. (58)

The new financing mechanism, expected to take the form of a loan guarantee fund, is aimed at mobilising up to R2bn a year in

☐ To Page 2

Mortgages

B/Day 27/9/93

☐ From Page 1

credit from banks for low-cost housing.

Industry spokesmen believe that a portion of Sasria's R4bn assets could be used as security against defaults, particularly if politically motivated violence diminishes.

The use of Sasria as a guarantee mechanism was mooted in the De Loor report last year, which suggested that the association's funds be used to insure financial institutions which lend to low-income end users and cover losses from bond boycotts.

National Housing Forum co-ordinating committee chairman Matthew Nel told a news conference on Friday that guarantee mechanisms aimed at boosting end-user finance had been discussed with government, but declined to comment further until he had seen Shill's scheme.

The forum called the conference to protest against Shill's unilateral announcement of an agreement on housing policy, which resulted in the Housing Arrangements Act being legislated last week.

The Act created a national housing board, which Shill said would deal only with policymaking, financing and setting of standards.

Government would follow very carefully the principle of quid pro quo. "Additional benefits will be offered to those people who recognise their responsibility and are in turn prepared to make an effort in meeting obligations," he said.

Lenders faced politically based problems, Shill said. "The banks have to face normal commercial risks. It is up to us to ensure that the risks that go beyond commercial risks are removed. (58)

"I can't give you details at this particular stage. In the fairly near future I believe we will be able to indicate to you that we have been able to set up a structure which brings back the private sector into housing finance in SA."

SA community bank on the way

C|Press 26|9|93

(58)

By ALI MPHAKI

New trust set up as forerunner

THE first community bank in South Africa could come into existence in a few months' following the formation of a community banking trust under the chairmanship of Dr Ellen Kuzwayo with Bob Tucker as chief executive.

The trust comprises leading figures from a broad spectrum of the formal and informal savings and lending institutions, as well as prominent members of community and civic associations.

This follows a detailed investigation led by Tucker, the former managing director of the Perm, Cas Coovadia, general secretary of the Civic Associations of Johannesburg and Hank Jackelen, an international authority on community banking, into the credit needs of low income earning members of the community.

The findings of the investigation were submitted to the Council of South African Banks (Cosab), which then agreed to support a detailed study into the feasibility of a community bank in SA.

Membership of the trust is broadly based, which indicates the recognition of the need for the study to be as inclusive as possible.

Further members will be added to ensure that it continues to reflect a non-partisan character and an adequate geographic representation of all communities concerned.

Coovadia is already heading an investigation into the manner in which a community bank can be "deeply rooted in individual communities". He is also investigating how these can take "real ownership" of the delivery of banking products and services within their respective communities.

Archie Hurst, an Absa group executive, has been nominated by Cosab to head this investigation. He will be supported by experts from a wide range of community organisations and the formal banking sector.

Members of the trust include Lillian Baqwa, Moses Mayekiso, Ishmail Mkhabela, Sheila Sisulu, Israel Skosana, Dudu Letlhuku, Dr Tanya Abrahams, Rev Beyers Naude, Bishop Smagaliso Mkhatshwa, Eric Molobi and Shirley Moulder.

Begorra! Mutual goes Irish

(58)
ARG 25/9/93

UNKNOWN to its million policy holders, Old Mutual this week opened a second European HQ — in Dublin, the Irish capital.

The South African insurance giant's Old Mutual International already operates from a large decentralised office block in Hook, in the Southern English county of Hampshire.

The new building was to be officially opened by Ireland's Finance Minister Bertie Ahern, according to Old Mutual chief operating officer Gerhard van Niekerk on Tuesday, before he left on an overseas holiday.

Ironically, Ireland was one of South Africa's harshest enemies in the apartheid era, so a ministerial presence shows a South African company is now highly welcome, especially one of Mutual's stature and reputation in the business world.

However, not even Mutual's Corporate Business Communications Department in Pinelands knew about the official opening in Dublin, although efforts were made later to find out about it.

"The Minister of Finance, Mr Ahren, was present, but I am un-

Shh! It's a secret, but Old Mutual has expanded its European interests even further...

TOM HOOD, Business Editor

able to ascertain at this stage if he was the actual person who did the official opening of the new building," said a spokesperson.

So well are overseas investments kept under wraps that the Pinelands HQ did now know if the official opening took place on Wednesday or Thursday

Requests to Mutual for information were referred to London, which reported "some delay in getting information from Old Mutual International in Ireland" which would be "almost certainly available from Old Mutual HQ in Cape Town."

The attraction of Dublin as a base for Old Mutual is that Old Mutual International's new unit trust and insurance companies may now market products throughout the European Community.

Until disclosures in Weekend Argus last Saturday, policyholders said they were completely unaware of the extent of the company's European operations.

Some said they did not even know Mutual bought a British insurance company, Providence Capitol, a former Slater Walker company, eight years ago. They claimed they were never informed in company reports to policyholders.

Mr Van Niekerk stressed this week that no money belonging to South African policyholders was used to fund overseas operations.

However, Mutual has been able to attract cash that South Africans held overseas and is believed to have used the proceeds from Zambia when its business there was taken over by the State.

After eight years' operations, no dividends have been repatriated to South Africa.

Mutual is also cagey about disclosing figures of its overseas operations, beyond claiming assets of $25 billion for Old Mutual International. However, this figure is believed to include South African assets, which are worth at least $28 billion at the current rate of exchange.

Absa in bond about-turn

CT 24/9/93

Own Correspondent

JOHANNESBURG. — ABSA did an about-turn in the home loans battle yesterday and announced it would no longer carry bond registration costs, valuation fees and bond transfer costs from the end of the month. (183) (58)

Standard Bank followed suit, saying it would discontinue its four-month campaign of paying registration and valuation fees.

Last month Absa said it would waive these fees, prompting Standard Bank to continue its campaign, which had been due to end on July 23.

Absa said it did not consider it prudent to maintain its leading market share "at all costs". Marketing development general manager Mr Tienie van der Berg said lack of growth in the residential property market had led institutions to offer incentives to attract home loan applications. But they had affected the profitability of the loans.

Standard Bank home loans general manager Mr Duncan Reekie said the move did not signal the end of competition. The offer to pay bond costs had been justified, but in the long-term "it would have a negative impact".

Top managers up stake in Saambou

By ARI JACOBSON

CT 29/9/93 (58)

SAAMBOU BANK will increase its earnings by 50% in the financial year to March 1994 and to back this prediction senior management has taken up a 7% stake in the publicly-listed group in recent times according to MD Johann Myburgh.

Speaking at a media luncheon in Cape Town yesterday, he said that the group had benefited from a niche focus on "the salaried client" and a broader focus as a general bank.

As for the shareholding taken up by management, Myburgh mentioned that this had been purchased from the Amalgamated banks of SA (Absa), which held 12% of Saambou — the rest (5%) has been sold to Fedlife to increase its stake to a 42% holding in the Saambou group.

"We were encouraged by Fedlife to take up the management stake," said Myburgh.

Fedlife appeared as a white knight to take up a 31% stake in the group, worth R55m, to avert a hostile takeover of Saambou in February 1991.

This bid was led by Trafalgar Portfolio Managers (TPM), who were ultimately financed by Bankorp's merchant banking arm, Senbank.

Open market

TPM managed to amass some 2% of Saambou shares on the open market and there was a further 10% on its side, through the purchase of Sanlam's holding of 10% in Saambou. Sanlam was a major stakeholder in Bankorp.

The TPM-Senbank bid had a further 10% available through the purchase of Saambou previously held by Volkskas. Investec, who initially financed this purchase won the right to vote on these shares, even though the shares were finally financed by Senbank.

Investec's support for the Fedlife-Saambou combination helped to overcome the hostile takeover.

Troubled Bankorp was taken over by Absa in April 1992. Absa finally distanced itself from the failed takeover bid this year by selling off its 12% holding to Saambou management and the Fedlife group.

All's well with Ella

(58)

ST 23/9/93

Business Staff

GOOD news for Crusader Life Assurance investors is that the Equity-Linked Life Annuity (Ella) scheme will continue to pay out annuity payments to investors, according to a statement released by UAL Merchant Bank and the joint provisional curators.

The statement says that discussions are underway to ensure that the interests of Ella investors are protected.

"The objective is to ensure that notwithstanding the provisional curatorship of Crusader, the Ella scheme will continue to operate".

Community Bank by next April

(58)

By ROBYN CHALMERS

JOHANNESBURG. — Agreement has been reached on the establishment of the Community Bank in April next year with capitalisation of R200m, following a detailed investigation by the Community Banking Trust.

Speaking at an Institute of Housing of SA workshop yesterday, Absa group executive Archie Hurst said Nedcor, Standard Bank and Absa had undertaken to support the new community banking initiative. CT 23/9/93

Hurst said the Registrar of Banks had given its stamp of approval to the naming of the bank. Ownership of the bank would be held by the trust initially and passed on to the community over a period of time.

The bank would have two arms, said Hurst, community banking and the community bank foundation.

"The foundation will be grant-funded, initially by overseas agencies, and will be an independent entity."

Business Editor

Why Irish eyes are smiling

58 CT 22/9/93

OLD Mutual's new companies and unit trusts in Ireland are "just an extension of the business we are already doing in the UK", CE Gerhardt van Niekerk said yesterday.

But they offer policy holders and investors a better tax deal than they can get in the UK and Van Niekerk expects rapid growth.

He thinks they will attract investors from the UK, which has "a penal tax rate compared with the Continent", as well as from other EC countries.

Emphasising that they have not been set up with money from SA, Van Niekerk said the fact that the SA connection could be acknowledged openly showed how the situation had changed since 1985, when Old Mutual bought Providence Capital (UK).

"Now we can use our own name. The Dublin-based unit trust operation is Old Mutual Fund Managers and the insurance company Old Mutual International."

He said Dublin was an offshore financial centre offering favourable tax treatment similar to that in the Channel Islands. "It is part of the European Community, which means that market is open to us."

Crulife: Application opposed

(58) CT 22/9/93

Own Correspondent

JOHANNESBURG. — The application for the provisional liquidation of Crusader Life (Crulife) was "misconceived and ill-founded", the company's curators said in opposing the application.

The application was brought in the Rand Supreme Court this month by a group of Cape Town-based shareholders — Top Dog Nominees Company, Wild Almond Investments and Martin Harris — on the grounds that the company was insolvent and had lost 75% of its share capital.

The application was opposed by Crulife curators Mr Willem Pretorius and Mr Billy van der Merwe, by Crulife's majority shareholder Anglovaal and by Registrar of Insurance Mr Piet Badenhorst.

In a report annexed to the papers, Mr Badenhorst said if Crulife was put under liquidation "the interests of the policyholders, which it is submitted are paramount, will be adversely affected".

'Concern' about IGI leads to re-rating

(58)

CT 21/9/93

By AUDREY D'ANGELO
Business Editor

REPUBLIC Ratings has downgraded its informal rating of IGI Insurance Co into the speculative grade, on concern about its investment portfolio and fears that it may not have disclosed certain contingent liabilities.

IGI's new executive chairman, Larry Nestadt, said yesterday that the company was "undergoing a major reconstruction and management restructuring" and arrangements were being made for a capital injection.

"Hopefully, we may be re-rated soon."

Nestadt said the group was able to meet all its liabilities.

A statement issued by Republic Ratings yesterday said that in the wake of numerous enquiries from policy holders it had decided to make IGI's downgrading public.

Republic Ratings director Dave King said this was primarily because of "ongoing concerns the agency has regarding IGI's investment portfolio as well the fact that Hoskens/IGI may not have disclosed certain contingent liabilities — an example of which has already surfaced in the wake of the Tollgate collapse.

"Despite recent assurances regarding the strengthening of the group's capital base, Republic can see no evidence that the necessary additional capital has been raised as yet," King's statement continued.

King considered the sale of the group's credit life and funeral insurance business to Fedsure for an effective R60m as going concerns and constituted an asset swap rather than additional capital.

"There has also been no confirmation that the R40m which was to be raised by management has been injected yet."

King says Republic's attempts to obtain greater clarity "have been hampered by a lack of information."

Nestadt — a former executive director of Investec Bank whose appointment as executive chairman of Hosken Consolidated Investments and its operating subsidiaries IGI Insurance and Safrican Life Investment Holdings was announced on August 27 — said:"An investment of fresh capital is being made at the moment. All the I's are being dotted and the T's crossed.

"I know there are people out there who are concerned. But, hopefully, this initial announcement will satisfy some people and the others will be satisfied when the announcement of the capital injection is made."

Nestadt said IGI had made poor investment decisions in the past and had diversified too much.

But all non-core activities would be sold, hopefully at good prices. This matter was currently in the hands of merchant bankers and an announcement would be made in the next few weeks.

IGI would then concentrate on its core business.

IGI ended the year to March 31 with a loss of R19,3m. An extraordinary loss of R63,9m was due mainly to the write off of investments in Tollgate Holdings, Time Holdings and Abacus Industrial Holdings.

Saflife reduces staff

SAFRICAN LIFE Investment Holdings (Saflife) is cutting staff at both head office and branch level as part of a rationalisation process following the sale of its funeral and credit life business to Fedsure, CE Ben Gildenhuys said yesterday.

Saflife is a subsidiary of IGI Insurance Co. Its operating company is IGI Life.

In a statement issued yesterday Gildenhuys said IGI Life "is moving ahead with a new business philosophy and a new set of priorities".

A major refocusing effort was under way, with particular emphasis on commercial operations — the servicing of a workforce through large corporations."

The company would concentrate particularly on blue collar workers in the economically active black population."

Gildenhuys said changes within Saflife meant a certain amount of rationalisation at both head office and branch level."

Absa improves capital ratio

JOHANNESBURG. — Absa Bank has improved its statutory capital ratio to 7,8% by raising a R700m 10-year subordinated convertible loan, qualifying as statutory secondary capital over the entire period, it said yesterday.

Some R576m has been contributed by investors who will receive the interest payable by Absa Bank over the period, yielding them an effective 13,95%.

The bank's holding company Absa, contributing the balance of R124m, has thereby acquired the right to convert the loan into ordinary shares in Absa Bank at the end of the 10-year period, when the shares held will constitute primary capital.

This will preclude the need for Absa to undertake a rights issue for some years, it said.

(58) CT 21/9/93

"Taking into account Absa's expected growth in assets and the retained income over the next couple of years the bank will be comfortably placed in terms of its future capital requirements," Absa spokesman Gavin Webster said. — Sapa

'Ella nesteggs are secure'

(58) ARG 21/9/93

Business Staff

INVESTORS in UAL's equity-linked life annuity (Ella) scheme need not fear for the security of their nesteggs as a result of joint underwriter Crusader Life Assurance going into limbo.

This assurance was given yesterday by Vaughan Heberden, marketing manager of UAL subsidiary Investment Planning Services.

The life assurer was placed under provisional curatorship last month and trading in its shares on the JSE suspended.

Joint curators Willem Pretorius and Billy van der Merwe have said Crulife would not transact any new business until at last after the November 9 return date for the provisional order.

Mr Heberden said Ella annuity funds, estimated at around R200 million, were in a dedicated account under the title Equity-linked Life Annuity under the control of UAL Merchant Bank, a division of Nedcor. Monthly annuity payments were continuing as normal.

Legal advice given UAL was that Crusader had no legal claim to the funds.

Although he believed the situation at Crulife was not as serious as rumoured, Mr Heberden said in the "very unlikely" event of the assurer being liquidated, UAL would take all legal steps necessary to ensure the independence of Ella funds.

New Ella business was now underwritten by Southern Life Association and UAL hoped this week to be able to announce the transfer of the underwriting liability for existing annuitants to Southern.

"We are meeting the (Crulife) curators to clear up once and for all the status of Ella funds and to learn just what is happening at Crulife before we make a statement to annuitants later this week."

Crusader Life policyholders, meanwhile, are unhappy with the lack of communication from the curators since their appointment on August 25. The curators do not accept phone calls from clients, institutions or the Press. Only faxed inquiries will be responded to.

A policyholder, who requested anonymity, told The Argus he felt it was iniquitous the curators were witholding information about the status of policies and not responding to rumours of alleged irregularity in the conduct of the business.

■ IGI Life has unveiled a major refocusing effort, with particular emphasis on its commercial operations.

"Traditionally, we've been market leaders in commercial operations, where we have shown flexibility and rapid product innovation," says Ben Gildenhuys, chif executive of Saflife, IGI Life's holding company.

"One of IGI Life's blue-chip business segments has been blue-collar workers among blacks."

However, Republic Ratings has downgraded insurance firm IGI's informal credit rating into the speculative grade.

Republic Ratings director Dave King said there was no evidence IGI had strengthened the group's capital base and the credit rating agency had been hampered by the lack of information on the insurance group.

"The downgrading was primarily as a result of ongoing concerns which the agency has regarding IGI's investment portfolio as well as the fact that Hoskens/IGI may not have disclosed certain contingent liabilities."

RMBH assets R12,5bn after major acquisitions

(58)

CT 21/9/93

Own Correspondent

JOHANNESBURG. — RMB Holdings (RMBH), the pyramid company of a financial services group including assurer Momentum Life and Rand Merchant Bank, has lifted its total assets at June 30 to R12,5bn from R2,9bn at June 1992 after a year of acquisitions and restructuring.

RMBH improved attributable income to R44,4m (R37,0m), which includes a R36,14m contribution from 68,2%-held Momentum Life. The balance was contributed by RMBH's other investments, including 71,4% of Australian Gilt Securities and 25,1% of Hollandia. Last week it announced it had taken 20% of NBS.

Earnings rose by 20% to 80,6c a share from 67,2c in the same period in 1992. On a pro forma basis, assuming Momentum Life was included in the previous year's results, RMBH's earnings a share would have been 31% higher. A dividend of 32c (26c) a share was declared.

Momentum Life increased total income to R1,65bn in the year to June from R1,48bn in the same period in 1992. While premium income lifted by 24% to R1,1bn from R895m, investment income declined by 8% to R539m from R587m. Investment income was affected by lower interest rates, a fall in company profits and a weak property market, Momentum Life executive deputy chairman Blignault Gouws said.

Momentum Life's net taxed surplus attributable to shareholders more than doubled to R53,0m from R21,0m, of which R26,4m was contributed by 100%-owned Rand Merchant Bank and R26,6m by Momentum Life's other business. The sharp increase in the surplus was mainly due to the consolidation of the disclosed net income of RMB, Aegis and other subsidiaries for the first time.

Earnings a share were 41% higher, on an increased number of shares in issue, at 42,4c from 30c previously. A dividend of 23c (16,5c) a share was declared.

Marketing and administration expenses lifted by 9,6% and Gouws said the management budget for the current year is being held at the same level as in 1993. The number of employees was reduced to 1 217 from 1 397 during the year.

Momentum's total assets under management have risen to R15,1bn from R12,1bn, with a sharp increase in off-balance sheet assets managed on behalf of clients to R3,5bn from R1,6bn.

Gouws said Momentum is taking a number of steps which will change the face of the company over the next few years.

"We are going upmarket and moving towards larger units, which is inevitably the A-income group," Gouws said.

Star 2/19/93

Life in Momentum after revamp

(58)

Momentum Life's restructuring has produced a 41 percent rise in earnings to 42,4c a share. The dividend has been raised 39 percent to 23c.

Chairman Laurie Dippenaar is optimistic for 1993-94.

In the past year, costs rose by just 9,6 percent, staff count fell from 1 400 to 1 200, work processes were revamped, a decision was taken to go up-market. Lapses halved.

Dippenaar characterises 1994 as a phase of consolidation after the dramatic stuctural changes of 1993.

Based on figures just released, the P/E ratio drops from 24,8 to 19,5 (sector average of 16,1).

The much improved results appear to have been anticipated, with a further strong advance in earnings clearly expected in the current year.

RMBH lives up to expectations

Star 2/9/93

BY JOHN SPIRA

Listed last November, RMB Holdings (RMBH) has fulfilled expectations, with net income for the year to June a salutary 11 percent ahead of forecast.

Attributable net income grew by 20 percent to R44,4 million, versus the forecast of R40 million. Per share earnings rose by a like percentage to 80,6c, while the payout is up from 26c to 32c.

Features include:

- A 15 percent improvement in 68 percent-owned Momentum Life's earnings.
- A 24 percent increase in the profit of Rand Merchant Bank (RMB), wholly owned by Momentum.

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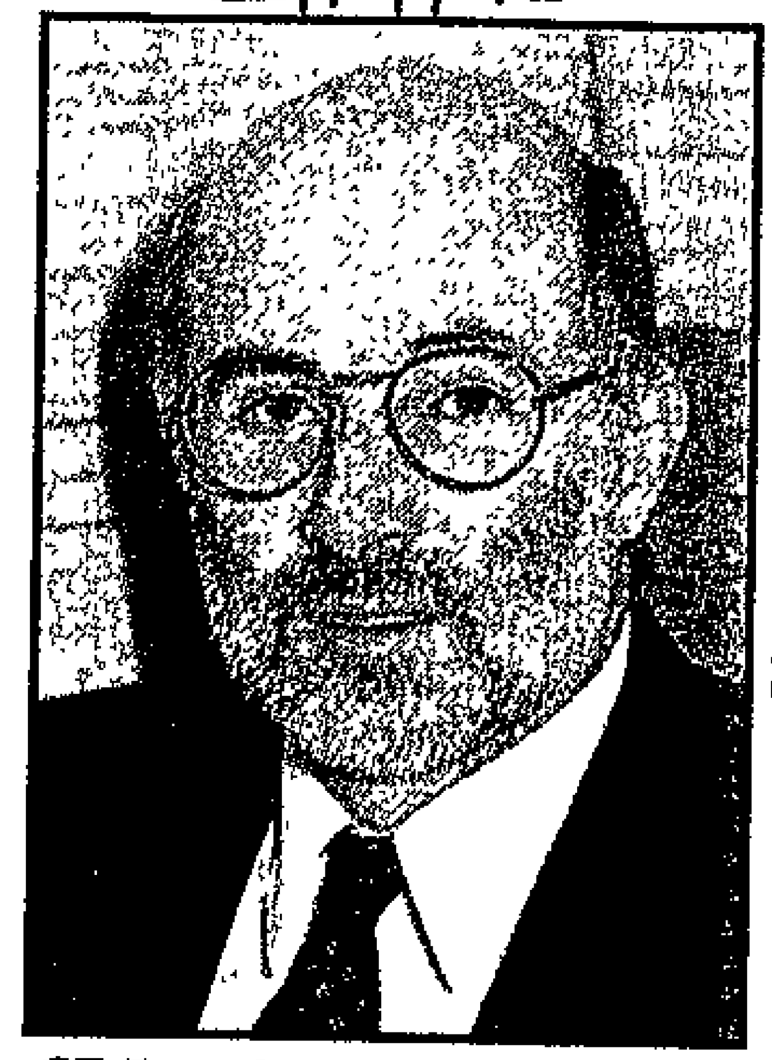
Had Momentum (a controlling interest in which was acquired in July 1992) been included in RMBH's 1992 figures, 1993 earnings would have risen by 31 percent.

Total assets exceed R16 billion, of which 51 percent comprises insurance, 21 percent relates to banking, 21 percent to off-balance-sheet assets managed on behalf of clients and the balance to portfolio management.

The income side of the picture is vastly different, with only 41 percent coming from Momentum and 41 percent from banking.

Deputy chairman GT Ferreira views Momentum's under-performance as a huge opportunity.



GT Ferreira . . . Momentum has great potential.

"Momentum has great potential. Taking the mean return on assets of the JSE's life assurers, Momentum's contribution to group earnings could more than double in the next two to three years."

Had the 20 percent cross-shareholding deal with NBS covered a full 12 months, RMBH's earnings would have been 10,9 percent higher.

The market has gone some way to discounting Momentum's recovery potential and the benefit of the NBS deal in the RMBH share price.

The 2 percent yield is well below the insurance sector's 3 percent average, while the 19,5 P/E ratio is three points higher than the average.

Annual compound growth 21 percent

RMB's earnings rise by 24 percent

Star 20/9/93

(58)

RMB has reaped rewards by concentrating on classic merchant banking activities

BY STEPHEN CRANSTON

Rand Merchant Bank (RMB), a subsidiary of RMB Holdings, achieved a 24 percent increased in profit to R44 million in the year to June.

The average annual compound growth over five years has been 21 percent.

MD Paul Harris says that despite the growth of the greater RMB Holdings group — which has swallowed Momentum Life and recently took a 20 percent stake in NBS — the bank itself remains focused on classic merchant banking activities.

"We are conscious of the need to maintain our focus and over the years we recognised that it was important to pay attention to the qualitative aspects of the bank."

Banking services, financial structuring and trading activities in capital and derivative markets are the three main sources of revenue.

Harris says the group thrives on complexity and has built up a niche through its special projects in tailoring debt structures to suit individual client needs.

Paul Harris . . . conscious of need to maintain focus.

The bank has picked up a fair portion of unbundling work and sees it as a continuing trend. Many potential foreign investors have banged on the door and should provide an increasing workload.

The deregulation of the JSE should offer RMB the opportunity to participate directly on the exchange.

"Change is certainly going to come, but it would be a mistake to buy a broking firm and turn it into a division of the bank.

"Corporate cultures are different and it would be difficult to absorb brokers into a traditional bank reporting structure.

"It might be more sensible to look for a partnership or alliance with a stockbroker."

The lending side of the business was very tough as demand for credit was low. Good companies tended to become more liquid during the year, paying back a number of loans.

Assets increased by 13 percent to R3,32 billion, but advances were relatively flat.

To build up for the future RMB has invested in a new computer system, with top-notch hardware and computer language, and results are flowing through.

It has trebled its training budget and appointed a new training officer. It also recruited eight "exceptional youngsters" for its Class of 93 to put through an intensive training programme.

A manager has been appointed to ensure a more cohesive marketing drive and to alert clients to the full range of services available.

The bank is also improving its communication channels and taking advantage of the opportunities offered by the Momentum and NBS distribution networks.

Harris says RMB's recent growth is sustainable, provided that it does not become complacent and continues to adopt a deal-making mentality.

"We don't have the muscle of those merchant banks that are divisions of large banking groups, so we have to work harder."

RMB lifts net income 24% to R44m

(58) CT 20/9/93

Own Correspondent

JOHANNESBURG. — Rand Merchant Bank, the unlisted subsidiary of RMB Holdings (RMBH), has lifted net income 24% to R44m in the year to end-June 1993 from R35,5m.

This was the 15th consecutive year of profit growth for the merchant bank, which became a wholly owned subsidiary of Momentum Life when the insurance group was acquired by RMBH last year. RMBH was listed in November.

MD Paul Harris said the bank's profit had risen at an average yearly compound growth rate of 21% in the past five years.

The bank reported separately from RMBH for the first time, but few financial details were released.

RMB did not declare a dividend for the period, and would postpone the payout until the group had completed its planned restructuring, signalled in last year's annual report, a company spokesman said. The group has given no indication of when the restructuring would take place.

RMB's retained income at year-end fell to R1,84bn from R2,79bn, after a transfer to the general reserve of R45m (R21m).

Assets grew 12,4% to R3,32bn (R2,95bn). Harris said: "The lending side was very tough as demand for credit was low."

Good companies tended to become more liquid over the year, paying back a number of loans, he added. As a result, assets rose but advances were relatively flat. Figures on assets and advances were not provided.

RMB had not been immune to the banking industry's worsening bad debt experience, Harris said, but the provisions remained well within RMB's limits.

He did not expect the bank's bad debt experiences to worsen in the year ahead.

On the international front, RMB Holdings was considering setting up an operation in the Far East, although a move into the region was not imminent.

Locally, he hinted that there could be greater operational ties with the NBS group. At present there is only the recently announced 20% cross-shareholding.

Sanlam expects interest rate cut

B/Day 20/9/93

LINDA ENSOR

CAPE TOWN — The Reserve Bank should cut official interest rates as soon as possible as the next economic upswing could be sluggish and hesitant, Sanlam chief economist Johan Louw said in the latest issue of the assurer's Economic Survey.

He said he expected a 1% cut in Bank rate to 12% before the end of this year as SA's foreign reserves were expected to improve.

Louw said the downward trend in the inflation rate and the sluggish demand for credit had made further cuts in interest rates possible. The only real obstacles were the unfavourable state of the capital account on the balance of payments and the low level of foreign reserves.

The capital account should improve because of a deceleration of capital outflows from this month after the repayment of nearly R570m in terms of the debt standstill agreement in August. In the seven quarters to end-June, the total net outflow of capital not related to reserves amounted to about R16,4bn.

Also contributing to improved foreign reserves was the favourable trend in SA's net foreign trade, estimated to have continued into the third quarter. Louw said significant surpluses on the current account for the rest of the year were expected.

An average inflation rate of just less than 10% for 1993 was forecast with further falls likely next year. Louw believed that the fight against inflation should be waged on a broader front, by improving productivity, moderating wage increases and strengthening competition. Without these steps, he added, the price SA would have to pay for lower inflation could be too great.

(58)

Little or no growth in GDP was expected this year and, depending on political developments, economic activity would only increase gradually during 1994.

Louw said growth outside the agriculture and mining sectors had been disappointing and there were few factors contributing to a significant and self-sustaining growth phase in the next few months. He thought it might take several months before a broadly based upturn developed.

A further real depreciation of the rand was not expected as the real effective rand was slightly undervalued, Louw said. The weighted value of the rand would depreciate in line with the inflation differences between SA and its most important trading partners over the next 12 months.

The rand was expected to weaken significantly against the US dollar. A lesser weakening of the rand against the Europenan currencies and the yen was forecast.

Crulife's annuities at risk

S/Times (Buss)

By JULIE WALKER

MORE than R190-million invested in Crusader Life's and UAL's Equity-Linked Life Annuity (Ella) is under dispute. 1/9/93

Crusader Life, placed under provisional curatorship, says there is little value for shareholders.

(58)

UAL markets and administers Ella, but is unable to promise that payments on the annuities will be maintained.

UAL general manager Mike Farrell says Crulife played a small but important part in Ella. UAL holds, invests and administers the Ella money. Crulife's role as a life office was necessary for the compulsory purchase of retirement annuities.

If the curators claim that funds in Ella comprise part of Crulife's asset base and obtain a court order for UAL to part with the money, it will be obliged to do so. If the curators do not act, UAL will continue to administer Ella as intended, says Mr Farrell.

Eric Craig, national life chairman of the Insurance Brokers Council, says it is paramount that policyholders should be protected. The council will intercede on their behalf if asked by the insurance authorities.

Several brokers have announced the replacement of risk cover formerly done through Crulife with other insurers. But Ella is an investment, not a risk policy.

An Ella policyholder tells Business Times that he is outraged because UAL cannot give any assurances about his annuity payments.

"I am a pensioner and I put all my money into this respectable fund backed by UAL and Crulife. This is old people's money and it is disgusting that a group the size of Nedcor (UAL's owner) cannot guarantee our money."

Mutual to invade Europe

(58) ARG 18/9/93

OLD MUTUAL has quietly put its artillery in place for a secret invasion of Europe.

The insurance giant registered two companies and 21 unit trusts on the Dublin Stock Exchange this month — gaining the right to market insurance policies, retirement annuities, unit trusts and its full range of products throughout the European Community.

The companies, now quoted daily in the London Financial Times, are Old Mutual International Fund Managers Ltd, a unit trust operation, and Old Mutual International Ltd, a life assurance company.

"There is now nothing to stop Old Mutual marketing any of its products throughout Europe," claimed an independent insurance consultant.

Mutual was reported by a London correspondent to be planning to list one of its many British subsidiaries on the London Stock Exchange this month. But confirmation of this has not been obtained.

Approached this week at his Pinelands headquarters for an interview to discuss overseas developments, chairman Mike Levett replied with a "no comment" message issued via his secretary.

However, a broker said Mutual no longer needed a London listing. Ireland was an ideal springboard for expansion in Britain and the Continent and Dublin was campaigning to become the premier

■ South Africa's biggest insurer, Old Mutual, has suddenly appeared among international giants in stock exchange lists.

TOM HOOD, Business Editor

offshore financial centre for life insurance groups in Europe.

Questions about offshore earnings are likely to be asked at Mutual's annual general meeting to be held soon at Pinelands.

A Cape Town policy-holder commented: "Money belonging to policy-holders must have been sent out of the country to start these overseas businesses. I have not seen any profits being repatriated for our benefit. These profits could have kept dividends on retirement annuities in line with inflation, but instead dividends have been reduced."

Little is known in South Africa about Mutual's overseas empire.

Reports give little information — in sharp contrast to the well-publicised and successful foreign activities of rival Liberty Life.

However, a document circulating in London — with Mutual's famous three anchors insignia — is headed "Old Mutual Overseas" and claims "assets over $25 billion."

There is no breakdown or indication as to whether these include any South African assets — Mutu-

■ To page 4

RMB exceeds (58) growth target

ALIDE DASNOIS, Business Staff

RAND Merchant Bank (RMB), the merchant bank subsidiary of listed Rand Merchant Bank Holdings (RMBH), beat its target growth rate of 20 percent, reporting a 24 percent rise in net profit to R44 million in the year to end-June.

Assets rose 12,4 percent over the year to R3,32 billion. All RMB's divisions made a positive contribution to profits, MD Paul Harris said. ARG 18/9/93

He said the bank's corporate finance activities benefitted from the trend to unbundling over the past year. Trading operations had an excellent year with market volatility yielding profit opportunities.

Demand for credit was low over the year as good companies tended to become more liquid.

Mr Harris said he was optimistic that the bank's growth record could be maintained.

The declaration of a dividend by RMB has been postponed.

NBS HOLDINGS

Changing profit mix

FM 17/9/93

(58)

Activities: *Home loans, banking, insurance and related financial services.*
Control: *Norwich Life (26,3%).*
Chairman: *B C McCarthy; MD: J W Gafney.*
Capital structure: *73,7m ords. Market capitalisation: R1 179m.*
Share market: *Price: 1 600c. Yields: 2,9% on dividend; 8,6% on earnings; p:e ratio, 11,6; cover, 3,0. 12-month high, 1 825c; low, 1 025c. Trading volume last quarter, 711 716 shares.*

Year to March 31	'90	'91	'92	'93
Total assets (Rbn) ...	5,76	7,46	9,07	10,97
Advances (Rbn)	4,62	6,00	7,51	8,75
Deposits (Rbn)	5,26	6,88	8,25	10,01
Attrib income (Rm) ..	44,6	56,3	73,3	91,3
Return on assets (%) .	0,77	0,75	0,81	0,83
Return on equity (%) ..	14,5	15,0	15,8	16,0
Earnings (c)	76,6	96,6	115,6	137,6
Dividends (c)	29	34,5	40	46
Tangible NAV (c)	530	644	731	861

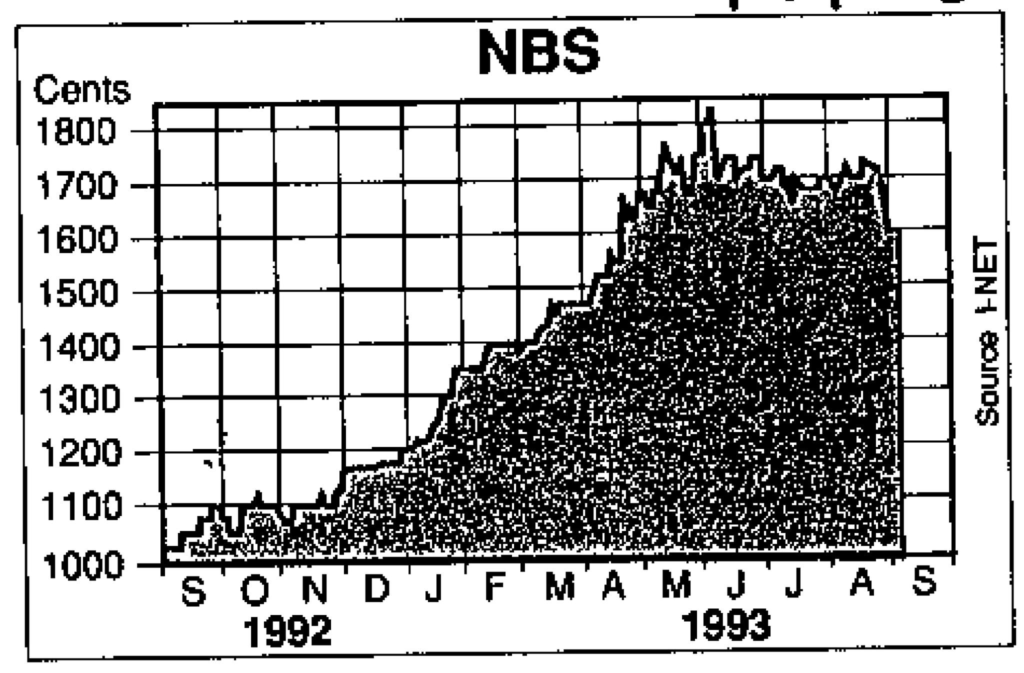
One of the few reliable constants in the fluid world of banking and financial services is change — particularly as deals between the various players often have the potential of spawning further deals and regroupings within the broader industry.

For NBS Holdings, an example was its 1991 acquisition of a 39% stake in French Bank from Barlows, which in turn acquired 18% in NBS. With effect from the start of NBS's current financial year it acquired joint control of Aegis Insurance in partnership with RMB's life assurance subsidiary, Momentum Life. Given these relationships, it was logical, when Barlows decided to unbundle, that its remaining holding in French Bank should go to NBS (as it did; also from the start of the current financial year) and that RMB would be a prime candidate to take over Barlows' stake in NBS.

The latter deal is still under wraps, but is expected to form part of a more broadly based transaction that will see cross-holdings established between RMB and NBS. At the time of the cautionary announcement last month, company executives were adamant this did not presage any merger between the two groups or their respective business interests. That may well be true for now. But what of the future?

The fact that the industry is in almost constant flux obviously does not make the life of the company analyst any easier. On the other hand, NBS, since its listing has built up a reputation for being able to derive real value from the various transactions in which it has been involved, which, in turn,

FM 17/9/93



has contributed to its very high investment rating within the sector.

Though the share, at R16, is 225c off best, it has appreciated by 45% since the *FM* reviewed the 1992 annual report, pushing the dividend yield down to 2,9% — ahead of the Banking sector's index yield of 3% despite the strong influence on the index by the likes of FNB and SBIC.

Equally important in the improved share rating were last year's excellent results and prospects of more good things to come this year. The banking division's performance was particularly impressive, with a 41% improvement in its contribution to the bottom line despite an increase of almost R18m in bad/doubtful debt provisions and the write-off of a further R18m in costs relating to what CE John Gafney calls "the re-engineering of our business processes," an exercise which led inter alia to the retrenchment of 400 employees.

More positively, it is said to have had a major impact on the cost base of this division. New chairman Brian McCarthy believes the benefits will be felt for some time to come.

The difficult environment in which these results were achieved is reflected in the continued escalation of provisions against bad and doubtful debts, from R52,8m in 1992 to R70,6m. After write-offs which included R32,1m attributable to losses on the sale of repossessed properties, the year-end balance in respect of doubtful debt provisions had increased to R131m (1992: R96m), equivalent to 1,47% (1992: 1,26%) of gross advances.

This year will see a significant shift in the profit mix in favour of insurance following the Aegis deal. The directors note that, had this deal been effective last year, the direct contribution to earnings from the insurance sector would have been 29% instead of the actual figure just over 19%.

Coupled with the expanded licence obtained by wholly owned NBS Insurance, McCarthy forecasts the contribution from insurance could exceed 35% of total earnings this year.

Another achievement that may be relevant to this year's results is that dividend cover has reached 3,0 — the target set at the time of the 1987 listing. This should make it easier to maintain acceptable dividend growth even if earnings growth slows.

However, the market's present rating of the share indicates that no such slow-down is anticipated — the question now is whether

(58)

the group can continue to satisfy these expectations in what will remain a demanding business environment.

Brian Thompson

RUHOLD Fm 17/9/93

More useful disclosure

Activities: *Financial services and the manufacture of flexible packaging products.*
Control: *Directors 49,3%.*
Chairman: *J Rubenstein; MD: A C Alves.*
Capital structure: *33,2m ords. Market capitalisation: R26,6m.*
Share market: *Price: 80c. Yields: 10,0% on dividend; 24,8% on earnings; p:e ratio, 4,0; cover, 2,4. 12-month high, 130c; low, 50c. Trading volume last quarter, 93 000 shares.*

Year to February 28	'90	'91	'92	'93
ST debt (Rm)	28,6	36,8	24,5	37,4
LT debt (Rm)	—	8,6	7,3	8,1
Debt:equity ratio	1,23	1,03	0,82	1,6
Shareholders' interest	0,70	0,65	0,69	0,62
Return on cap (%) ..	29,6*	20,7	25,4	31,4
Turnover (Rm)	42,7	40,8	71,3	79,1
Pre-tax profit (Rm) ..	3,1	4,6	6,3	7,8
Pre-int margin (%) ..	24,0	26,8	19,9	18,0
Earnings (c)	7,4*	15,3	16,8	19,8
Dividends (c)	6*	6	7	8†
Tangible NAV (c)	70	108	117	84

* Annualised. † Excluding special dividend of 40c.

(58)

A glance at the annual report reveals much about what's been happening at Ruhold. This company has consistently produced good earnings growth — EPS increased 18% to 19,8c in the year to February 1993 — but its performance was for too long clouded by lack of information on the diverse activities.

But this has changed and the markedly improved disclosure gives better insight into

Fm 17/9/93

the group as an investment opportunity.

The five-year review — a first — allows for interesting analysis, helped by adjustment of certain key ratios to compensate for the disparate interests of financial services and packaging. (58)

Gearing, for example, jumped to 162% (1992: 82%) because borrowings increased to R45,6m. Some of this reflects the 26% growth in the finance debtors book, to roughly R37m. After stripping out the 80% of the finance assets which are bank financed, remaining debt is R17,4m. With equity adjusted accordingly, this gives what director Thierry Dalais describes as a more appropriate 83% gearing for the packaging operations.

Still, even the adjusted gearing is high for industrial activities. The payment of a special dividend of 40c at the interim stage reduced cash resources, indirectly affecting gearing.

Chairman Jeff Rubenstein says the special dividend was paid because resources exceeded optimal short- and long-term needs. He is confident gearing will remain prudent given the nature of operations.

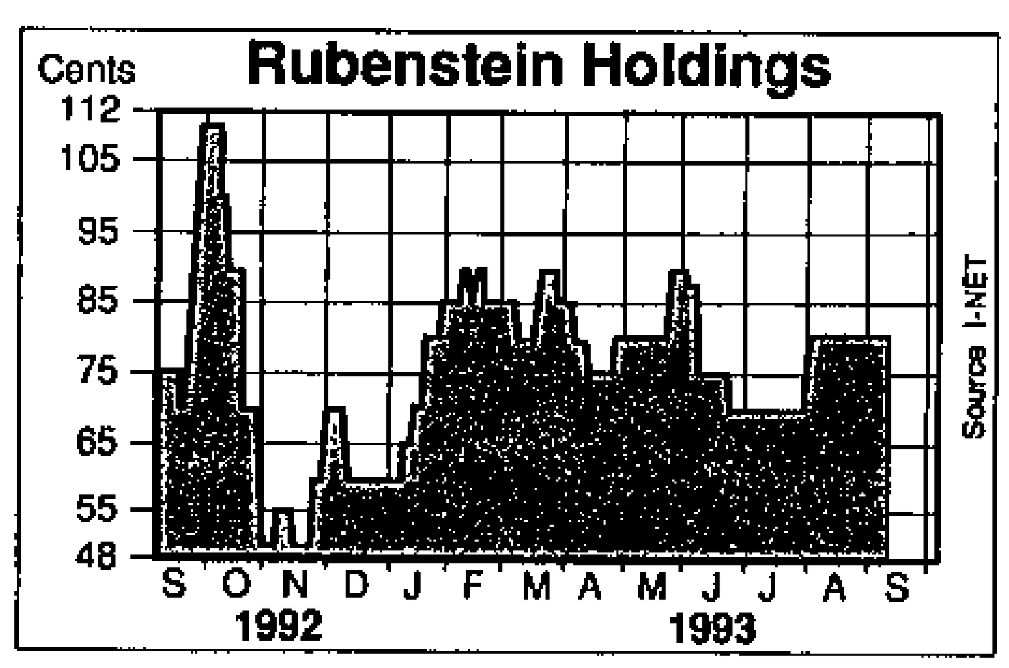
Turnover, disclosed for the first time, rose 11% to R79,1m. This includes gross interest received and net sales. Improved efficiencies, reduced costs and tighter working capital management saw operating income rise 23% to R7,7m.

After the share of associate Plastech's losses of R815 000, net ordinary income was R6,5m. The lower company tax rate resulted in a downward adjustment in the deferred tax liability of R1,2m, treated as an extraordinary item.

Partial divisional information gives insights into the performance of the individual operations, though more could be disclosed without undermining competitive advantages.

The niche-orientated financial services division, which makes a significant contribution to earnings (figure not disclosed), maintained its good bad debt record though, on the downside, strict controls may have curtailed turnover.

Ruhold's packaging operation employs two-thirds of total assets, suggesting this is the group's core business. The recent drive by management to "rigorously pursue" export markets in Europe appears to be paying off and Rubenstein says markets have grown in line with expectations. Synergistic acquisitions which will enhance earnings and cash flow are being sought.



Dalais says early indications for 1994 reflect tough trading conditions, particularly in the packaging division. Lower volumes are putting margins under pressure, though concentration on productivity and manufacturing efficiencies should help. The unusual mix, he says, presents several possibilities and he believes Ruhold could sustain earnings growth. (58)

The share, at 80c, is off its annual high of 130c, though its performance is much in line with that of the Financial and Industrial index. With Ruhold's activities strongly dependent on economic activity, investors may prefer to wait for interims before committing new funds.

Marylou Greig

DATES TO REMEMBER

Last day to register for dividends:
Friday Sep 24: Alexander 22c; Ass Mang 600c; AVI 195c; Distil 31c; Fralex 12,5c; Grinaker 13c; ICH 15c; Johnnies 90c; KWV Bel 39c; Safren 190c.
Meetings:
Monday Sep 20: Af Cable (S) (Vereeniging).
Tuesday Sep 21: Oakfields (S).
Wednesday Sep 22: Lindum Reefs (Randfontein); Ohio (Sandton); Revere Resources (Roodepoort); Sho-Craft (Roodepoort).
Thursday Sep 23: ABS (S) (Sandton); Dabi (Durban); Hyprop (S) (Sandton); Keeley Group (Sandton); Kelgran (Sandton); Longrail (Alrode).
All meetings are in Johannesburg unless otherwise stated.
S = Special meeting.

Insurance share prices increase decelerates

CHARLOTTE MATHEWS

THE pace of share price increases in the JSE's insurance sector has shown signs of slowing in recent months, after strong buying in 1992 and after the first half of 1993 saw the insurance index outperform the all-share index. B/Day

The main constituent of the insurance index is Liberty Life Association, which has a 66% weighting. The other major constituents are short-term insurer Mutual and Federal, which makes up about 9%, Metropolitan Life with 6%, and Southern Life with 19%. 17/9/93

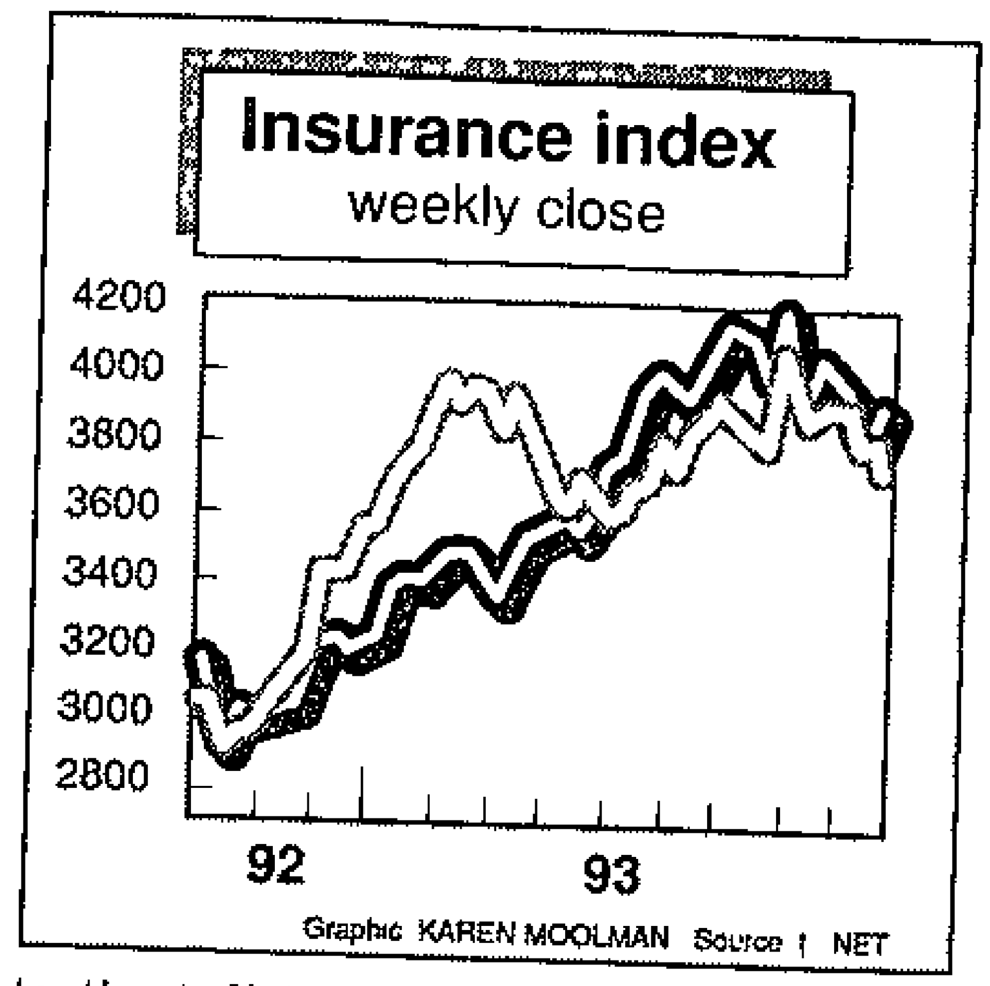
The insurance sector has a 5,7% weighting in the all-share index and Liberty Life forms 3,7% of the all-share index.

Analysts suggested a number of reasons why the insurance sector had failed to maintain its steady growth in relation to the JSE's all-share index, including signs of a lifting of the recession, the increasing expensiveness of insurance shares and Liberty's listing of certain of its investments through Libsil. Until recently, another factor had been the sharp rise in gold shares, making the all-share index relatively more buoyant than the insurance index. 58

"Many investors may consider insurance and banks have performed well over the past 18 months and cannot see them going further, so they have decided to get out and go back to industrials," an analyst said.

"I think that generally the financial cycle has started to turn downwards," another analyst said. "The banking and insurance sectors are counter-cyclical, so they perform less well when the economy shows signs of picking up."

Another analyst said Liberty lost some of the strength it showed earlier this year after it announced two months ago its intention to list some of its investments separately as Libsil. This move was perceived to be giving away some value in Liberty. Liberty's shares closed at R65,00 yesterday, R8,00 below their high of R74,00 at July 30.



Other factors that had affected the index recently were that Mutual and Federal showed only 14% growth in net income after extraordinary items in results reported in August, while the change of ownership in Metlife had weakened the share price, the analyst added. Southern Life's shares have improved recently after a poor performance earlier in the year.

An analyst said future earnings growth by the insurance companies was unlikely to be of the level of around 20% seen in the past two years, if inflation stayed low, and the scope for share price increases would be limited to earnings growth.

In the past six months share prices have been advancing by up to 40% while earnings growth in the insurance sector has been 22% to 25%, making insurance shares relatively expensive.

St Lucia: Govt will not rush

Political Staff

THE government would not be rushed into a decision on mining at St Lucia, Mineral and Energy Affairs minister Mr George Bartlett said yesterday.

He could not say whether the decision would be taken before the April 27 election.

He had not yet studied the final CSIR report issued on Tuesday which suggested that at least part of St Lucia be returned to its original inhabitants. CT 16/9/93

The decision "rests with the cabinet".

The inhabitants were forcibly removed in the '50s and '60s.

Liberty Life still the best

Star 15/9/93 (58)

INVESTORS battling to assess a company's worth might find this recent survey a useful reference point.

■ BY THABO LESHILO

Liberty Life remains by far the best company in South Africa, according to findings by the research company Campbell Belman.

The insurance giant scooped the honours for the most well managed and most financially sound company. It also topped the categories for effective chief executive and for consistently yielding good results in the survey of top shares on the JSE.

Last year, the company was voted the best for good management, financial soundess, consistent results and for attracting top staff.

Gordon ... top marks for a chief executive.

Called the "Company Confidence Predictor", the poll is conducted among insurance fund managers, financial editors, economists, market commentators and stockbrokers.

The participants have either a general interest in the financial markets or a special interest in specific companies. This is reflected in the results.

They were asked to rank 32 characteristics in terms of their importance for evaluating listed companies. Then, they had to rank the companies as either "excellent" or "very good" in terms of the characteristics.

When the poll was conducted in May, the seven most important criteria — with ratings of over 70 percent — were "financially sound" (92 percent), "well managed" (84 percent), "reports reflect performance" (76 percent), "consistently yield good results" (75 percent), "responds quickly to market changes" (75 percent), "strong products" (73 percent) and "effective chief executive" (73 percent).

Afrox came out first for reporting results that truly reflect performance while the SAB was voted number 1 for inherently strong products. Edgars was the quickest to respond to market changes.

Interesting to note though is that while previously excluded, "having an effective chief executive", is now viewed as one of the most important factors, demonstrating a high regard for leadership.

Comparison

"In addition", the researchers said, it "provides a regular formal focus for the management of companies to assess their performance as known by them against the perceptions of the market".

The survey is a useful tool as it shows what leading investment analysts regard as the most important factors for evaluating listed companies.

"It should be noted that companies that are not selected as excellent cannot be deduced to have been judged poor. They are literally simply not regarded as excellent," said Belman.

RMBH, NBS in share swap deal

B/Day 14/9/93

SHARON WOOD

RAND Merchant Bank Holdings (RMBH) and NBS Holdings have acquired 20% stakes in each other in a R510m share swap deal.

The deal, giving them strategic but not controlling interests in each other, has its roots in the Barlow Rand and Sage Group unbundling. They hold 18% of NBS and 20% of RMBH respectively. (58)

Sage sold its RMBH investment because it wanted to use the proceeds to buy back its 49% stake in Sage Life from Absa, it said. In a separate announcement, Sage said it would raise about R200m by disposing of its RMBH interest and its 40% shareholding in Imperial Car Rental.

Other aspects of the deal are that Norwich Life, which has a strategic cross-shareholding with NBS, will take up 2,8% of RMBH, and the Eskom Pension Fund will obtain 11% of NBS.

RMBH MD Paul Harris said the two main parties, NBS Holdings and RMBH, had undertaken not to increase their respective holdings beyond 20%.

The main objectives were to take advantage of the synergy between the two groups and secure their independence.

Harris said RMBH and NBS had worked together in the past, not only acquiring joint control of Aegis, but in banking as well. "The simultaneous desire by Sage and Barlows to sell was a great opportunity to consolidate relationships," he said.

NBS MD John Gafney said the transaction fulfilled many of NBS's long-term objectives. These included securing continued independence, expanding the group's range of financial services and diversifying its source of earnings.

RMBH was strong in merchant and wholesale banking, while NBS was well-placed in retail banking and insurance. "The parties will be able to refer considerable volumes of business to each other."

Sage sold its 11-million RMBH shares to NBS for R15,15 a share and Barlows sold its 18% stake in NBS to Eskom and RMBH for R16,75 a share. RMBH and NBS had placed their shares with institutions.

NBS shares closed at R16,00 yesterday and RMBH shares ended at R16,25, 25c down on the previous day's close.

Had the transaction been in place in RMBH's year to end-December 1992 and NBS's year to March, RMBH's earnings a share would have increased 14,1% to 83,9c and NBS's would have decreased 6,1% to 129,2c. It would have increased the net asset value of RMBH 12,7% to 478c a share and decreased NBS's 10,4c to 771c a share.

Gafney said the deal was not expected to significantly affect NBS's 1994 earnings.

Two directors from each company would join the other's board.

Crulife: Stall in annuity payments?

(58)

CT 14/9/93

JOHANNESBURG. — Crusader Life (Crulife) policyholders received a further jolt this week when holders of Equity-Linked Life Annuity (Ella) were told they might not receive annuity payments after August.

UAL, which markets Ella, could give no assurances if it did not reach agreement with Crulife's provisional curators on Ella's status, director Mike Farrell said.

Crulife was placed under provisional curatorship on August 25 at the Financial Services Board's (FSB) request. This followed an announcement that it would transact no new business and no value was attributable to ordinary shareholders.

In a letter to Ella's policyholders, Farrell said UAL's legal advisers were evaluating the Pretoria Supreme Court order appointing provisional curators to Crulife. The evaluation would be completed by end-October.

The matter had not been discussed with the curators, but he assumed annuity payments would continue as the curators had said claims would be processed.

NBS and RMBH establish a new financial alliance

Star 14/9/93

(58)

BY STEPHEN CRANSTON

A new financial alliance has been formed by NBS and Rand Merchant Bank Holdings (RMBH) in a R510 million share deal.

They will hold 20 percent of each other.

According to RMB MD Paul Harris there is no intention of taking the relationship any further at this stage.

The shareholdings came on the market because Sage needed to dispose of its 20 percent holding in RMBH to finance the buy-back of 49 percent of Sage Life from Absa and because Barlow Rand wanted to sell its 18 percent holding in NBS.

Barlows is disposing of non-core interests as part of its unbundling process.

Sage sold its 11 million RMBH shares to NBS for R15,15, a discount on the ruling market price of R16,50, but nonetheless giving it a handsome profit.

Barlows sold its stake in NBS to RMBH and the Eskom Pension Fund for R16,75 a share, a 75c premium on the ruling share price, also giving it a substantial profit.

As well as the cross shareholding, the deal gives Norwich Life a 2,8 percent holding in RMBH, and the Eskom Pension Fund a 10,8 percent holding in NBS.

The stake held by directors and management in RMBH has been reduced from 46,2 to 39,5 percent.

NBS MD John Gafney says the transaction fulfils many of NBS's long-term objectives, including securing continued independence, expanding the range of financial services and diversifying the source of earnings.

RMBH is strong in merchant and wholesale banking, and controls life assurer Momentum Life, while NBS is strongest in retail banking and insurance.

The parties intend to refer considerable volumes of business to each other.

They already have joint control of short-term insurer Aegis.

Had the transaction been in place during RMBH's year to December and NBS's year to March, RMBH's earnings per share would have increased by 14,1 percent to 83,9c and those of NBS would have fallen 6,1 percent to 129,2c.

The deal would have increased the net asset value of RMBH by 12,7 percent to 478c and decreased that of NBS by 10,4 percent to 771c a share.

Gafney says while there would have been an element of dilution in 1993, the deal is not expected to have a significant impact on 1994 earnings.

Two directors of RMBH join the NBS board and two directors of NBS join the RMBH board.

National blackout 'unlikely'

CT 13/9/93

(58)

Own Correspondent

PRETORIA. — Eskom said yesterday it was unlikely that employees with right-wing sympathies would conspire to shut down South Africa's electricity supply.

Sunday newspaper Rapport said yesterday right-wing employees were prepared to plunge the country into darkness as part of the Seven Plagues policy announced earlier this year by AWB leader Mr Eugene Terre'Blanche.

An Eskom spokesman said measures in place at the country's 25 power stations and the loyalty displayed by Eskom employees meant a national power cut was unlikely.

"There is no one person who can pull one switch that would cut the country's electricity," the spokesman said.

To effect a national blackout all the power stations, each with up to 15 units, would have to be shut down, he said.

Foreign credit to SA banks dries up

58

CT 13/9/93

LONDON. — Foreign credit lines to SA banks have tightened recently as political violence continues to take its toll on investor confidence, bankers say.

"Very few (banks) want to increase their SA exposure, and this is reflected in both the pricing and availability of creditt lines," said one banker, adding that perception were unlikely to change overnight. "This will remain an issue for the foreseeable future until there is a clear demonstration that the political situation is resolved," he said.

Another banker said a surge in bloodletting since an election date was set had sent potential investors to the sidelines.

"Business has indeed slowed down since a flare-up in violence in the last couple of months, but nevertheless natural trade flows continue," he said.

Others add that investors are unlikely to respond hastily to news that the ANC will call for the lifting of all remaining financial sanctions by the end of the month.

They say political instability is forcing investors to adop a wait-and see attitude and inflows are only likely to filter through after the April 27 elections or when violence, which has claimed over 10 000 lives in the past three years, dies down.

End loans to SA (ELTSA) co-ordinator David Craine said the ANC's call for an end to sanctions would have a positive impact on future, rather than fresh, investment.

"It will open up prospects for the Bretton Woods institutions, which will in turn affect SA's balance of payments problems," he said.

SA's gold and foreign exchange reserves have fallen steadily in the past two years with the August figure standing at R7,03bn — barely enough to cover 1½ months of imports — from R11,5bn a year earlier.

Craine said SA's access to IMF and World Bank facilities would eventually usher in private investment. But he cautioned uncertainty related to ongoing violence could temper inflows.

He said it was likely that foreign firms would develop partnerships with local companies first.

Wingate control goes to bank

By CHERILYN IRETON

MERCANTILE Bank has entered the professional banking and finance market with the acquisition of a company that deals exclusively with accountants. S Times

The niche banking group will pay R7,8-million for 51% of Wingate Holdings.

Wingate Holdings through subsidiary Wingate Finance is involved in the provision of medium-term finance for the accounting profession. It has a low-risk profile, says Mercantile Bank managing director Derek Cohen.

The deal is being financed by a mixture of cash and the issue of redeemable debentures. It is subject to Reserve Bank approval. 58

Mercantile's net qualifying capital and unimpaired reserves have increased by R7,8-million to R22-million since January. [BUSS]

Unlisted Mercantile has been operating since 1989.

Wingate, which was controlled by senior partners of accounting firm Levenstein & Partners and its management, has a R35-million book. Mr Cohen says the due diligence report shows that Wingate is a well-run company. It has expansion potential because it operates only in the Johannesburg area. It will be developed through Mercantile's branch network. There is no intention to change Wingate's style. 12/9/93

Mercantile will have three Wingate directors — Mr Cohen, Alistair Laughland and Adam Cowell. Jeff Levenstein will sit on the Mercantile board with Wingate managing director Ronnie Waldman as alternate.

X

Lapse of faith in assurance

(58) WM 10-16/9/93

Is the assurance industry overselling its products? The latest lapse rates raise the suspicion it does, reports Reg Rumney

AN astonishing 60 percent of the policies sold by major life assurer IGI Life were simply abandoned by policyholders in 1991.

This is one sorry tale told by the 1991 lapse rates, released by the Registrar of Insurance, and printed in insurance newsletter *Extra Cover*.

Lapse rates can be calculated in several ways. In essence they usually show how many policyholders, as a percentage of total policies sold, have simply given up paying premiums.

This normally happens in the first few years of those policies, before they have even a small "surrender" value. Combining lapses and surrenders gives a higher figure for the abandonment of policies.

With the exception of Sanlam, all the assurers' lapse rates for 1991 have risen.

The lapse rate of IGI Life, which with R892-million in assets is the 11th largest life assurer in South Africa, stands out.

Mike Lewis, chairman of IGI Insurance, controlling shareholder of IGI Life, puts the blame squarely on the recession.

IGI Life, he says, markets mainly to blue collar workers. This group has been hardest hit by lay-offs as a result of recession, so it is understandable that insurance policies have been allowed to lapse.

Such a high lapse rate can be blamed equally on overenthusiastic life insurance salesmen, prompted by greed to sell policies to people who cannot afford or who do not need them.

The huge waste involved in lapses could be curtailed if greater care was exercised in issuing policies in the first place, goes the argument. Policies should be issued only to those who can reasonably be expected to maintain them.

Lewis denies incorrect polcies were sold. "We're very strict about that." And it cannot be said, he contends, that the consumers buying IGI Life's policies do not need the basic cover, such as funeral insurance, these people buy. "Also, the sums insured are not that high."

The figures are improving, he says, with fewer policies being sold in the present straitened circumstances and buyers being more selective.

"The recession may have been a contributing factor," notes Professor George Marx of the University of Pretoria's insurance and actuarial science department. He says that at one extreme high lapse rates can be blamed on recession, as the insurance industry tends to do. On the other hand, high lapse rates can be blamed on the sale of incorrect policies.

He adds that no proper scientific investigation has been undertaken into the reason for lapse rates.

Yet the amounts wasted through lapses each year are mind-boggling. Marx himself has said the insurance public loses around R1,5-billion a year through lapses.

What applies to lapses also applies to surrendering policies, which can be an expensive exercise, and should not be encouraged by brokers as an easy way out if paying premiums becomes difficult.

"We have little control over what happens in the sales sitution," says Old Mutual product research manager Piet Spreewenberg.

He also notes that limited research among coloured policy owners shows that lapses tend to occur when policies are not needs-specific.

"Often where a policy doesn't address a specific need, such as to build up capital for a deposit on a house, there is a tendency to let the policy lapse. This applies especially to lower income groups."

Sanlam policy services general manger Izak van Rensburg agrees the incorrect selling of policies, where sellers go for volume regardless, can be to blame for a high lapse rate.

"The chances of lapses are so much higher with direct marketing, where there is no real needs analysis," he reckons.

Sanlam, he says, has heavy penalties for brokers with high lapse rates, despite the recession tending to increase those lapse rates.

For instance, the broker loses bonuses for the same amount of business with a high lapse rate. Also, commission can be held in reserve.

"We can even take back more than 100 percent of commission paid out."

Never surrender

SURRENDER: In assurance jargon when a person ends a life assurance policy before the end of the term of the contract, say 20 years. The amount the policyholder is paid is called the "surrender value" and this is the value of the policy after the insurance company deducts its expenses.

LAPSE: In assurance jargon a policy lapse is similar. But the charges outstanding exceed the premiums paid and the surrender value is zero. This is usually the case within the first few years of the policy.

COMPANY	LAPSE RATE
Sanlam	9.0%
Liberty	12.5%
Commercial Union	13.1%
Southern	14.1%
Old Mutual	15.1%
Fedlife	15.6%
Momentum	15.6%

Source: Extra Cover insurance magazine

How the companies compare ... Recession or salesmanship?

Neglecting consumer interests

"OVER the last decade or so I have become increasingly disturbed at the direction the industry has taken. It has seemed to me that in the relentless pursuit of growth and/or profits, it has tended more and more to neglect the best interests of the consumer.

"Selling life assurance imposes a special responsibility and duty of care on the industry, as what happens to individuals' savings can materially affect the quality of their lives, particularly in their old age.

"Whereas the industry adds value with protection policies for many people, it actually subtracts value with its savings products...

"Many life sales people are paid entirely or largely by commission. If they succeed in selling a policy, they earn generous commissions. If they fail to sell, their employment contracts may be cancelled.

"Such a system, although very efficient for the institutions and for the policyholders who stay the distance, is a recipe for overselling.

"The salesperson is rewarded largely for the quantity, rather than the quality, of sales.

"The best advice he can give to consumers is often not to buy at all; but how can the salesperson afford to give such advice? One has to look no further than the termination rates of policies to appreciate the extent of mis-selling that takes place..." — Joel Joffe, former deputy chairman of UK life company Allied Dunbar, and now a consumer lobbyist, at the 5th International Life Insurance Conference in London in March this year.

CRUSADER LIFE Fm 10/9/93

Twist and shout

Crusader Life under-rated some of its products and allowed large borrowings against policies. As a result, there will be no white knight charging to its rescue and at least some policyholders are likely to lose money.

Among the week's developments (58)

- ☐ Competitors are saying privately, but firmly, that they cannot use their own policyholders' funds to bail out Crulife's mistakes;
- ☐ The remaining 90 staff of Crulife were paid, as were retrenchment packages to those who have lost their jobs;
- ☐ There are now suggestions that Crulife's curatorship will change, at the insistence of creditors, to provisional liquidation;
- ☐ Southern Life has confirmed it is waiting for a due diligence investigation into the matching of assets and liabilities in the UAL equity-linked schemes previously underwritten by Crulife, amounting to more than R190m, before accepting the risk;
- ☐ Disagreement has emerged in the Life Offices Association on the issue of commissions applicable to business moved by intermediaries from Crulife to other assurers;
- ☐ It's become clear some policyholders obtained cover from Crulife at rates other assurers would not contemplate. They will, if still insurable, face increased premiums if their business is switched elsewhere; and
- ☐ A policy designed to allow large earners to provide for tax has compounded Crulife's negative cash flow. (58)

The Financial Services Board insists a life office should never be allowed to become insolvent. But that, say industry sources, implies a life office can be allowed to market unprofitable or poorly constructed products. Says one: "The board will lose this debate. There will be no rush of buyers for Crulife itself but where there are blocks of business which can be profitably maintained, other offices will be interested."

Old Mutual chairman Mike Levett issued a brisk "no comment" to suggestions his firm, or subsidiary Nedcor, might be an interested buyer because of OM's existing investment in Crulife. Southern Life director Chris Liddle says his sole interest is in getting the report on the UAL equity-linked portfolio.

Louis Prinsloo, responsible to the curators for daily issues at the beleaguered life office, says he cannot at this stage estimate the flow of business away from Crulife to other assurers: "I don't know if it is 20% or 50%." That is understandable, because the first sign that a policy has lapsed or is being replaced is when the premium flow ceases.

When policyholders move, existing policies are usually made paid-up and, at the office where they make a new application, they are brand-new clients. They face different premiums, often much higher and — bearing in mind that Crulife specialised in health products — the potential for being loaded or even declared uninsurable.

Says Liddle: "More lenient conditions may apply if an intermediary brings a large block of business. That could be treated like a group scheme."

A further complication: there is an assurance industry arrangement called the Replacement Agreement, usually known as the twist agreement. It was designed to stop intermediaries from placing clients with life office A, getting the upfront commission, then switching them to life office B to earn another commission.

The twist agreement is silent on what should happen if a life office gets into dire straits and the clear duty of the broker is to arrange alternative cover. (58)

Inside the LOA there is disagreement whether the agreement should be waived for intermediaries acting for Crulife clients. In this argument, the broker is put to extra trouble and this can justify double commission. Another view is that brokers who directed clients to a poor investment have no-one but themselves to blame if it brings extra work. Some large offices are known to oppose any waiver of the twist agreement.

The arithmetic is sensitive. A broker who has introduced a client to Crulife will, after three years, be totally clear of obligations to the life office. Yet even then there are clauses, to protect policyholders, which deter brokers from switching.

But "twists" often occur in less than three years. Certainly, Crulife has policies on its books of short currency. In these cases, the company has incurred the upfront commission. According to the agreement, when a switch is made, the company claims a percentage of the commission from the intermediary and claims "damages" from the company which has taken the business on to its books. There is a standard clause obliging a client to reveal if an application for cover is a replacement for cover elsewhere.

If that arrangement would work smoothly (it doesn't), Crulife could see its cash flow improve and liabilities diminish. So far, Crulife has given little attention to damages it may be owed by other assurers, says Hans Klopper of joint curator Hofmeyr Van der Merwe.

And Prinsloo does not think the twist agreement will have much effect: "Crulife has picked up acquisition costs, of which brokerage is a component paid in advance." If everything were perfect, he suggests, commission recovered from intermediaries would enhance amounts recovered from other life offices. That won't happen.

Another issue is borrowings against policies. There is division in the LOA about this practice because, where multiple borrowings are permitted, it is seen as near-banking and a possible method of tax avoidance.

Crulife went to an extreme. It encouraged provisional taxpayers with potentially large liabilities to Revenue to invest on a recurring basis. After the first 13 months, premiums could be taken as a loan and loans could be taken on a recurring basis.

The system, of course, resulted in tax deferral. Where it backfired was that the commitment to make a loan — and pay upfront brokerage — would usually exceed cash flow from the policy in the first year.

Small wonder, then, that Crulife headed for disaster and the predators are interested only in the good flesh that's left. ■

Fm 10/9/93

Fm 10/9/93

UNIBANK FM 10/9/93

Niche returns

(58)

A few years ago there was a proliferation of smaller banks. Some had capital bases of less than R10m, yet engaged in a wide range of activities. Then the Reserve Bank began insisting on greater capital adequacy — and that helped to persuade them to concentrate on specialised niches as well as build up solid capital bases. Some have managed change successfully and show high returns on assets.

Unibank is a good example. Owned by First National (about 25%), Fedlife (24%), E G Chapman (17%), OK Bazaars (10%) and Yabeng Investment Holdings (10%), it last year earned 1,6% on assets, taking second place in Aiken & Peat's annual ranking. Last week it announced a R20m rights issue, to bring its capital base up to R52,5m

The aim, says MD Gerrit van der Merwe, is for a base of R100m within three years. "This will enable us to focus on our strengths relative to larger banks — the ability to structure a deal around the client's needs, to communicate easily with the client, and to

Cont →

FM 10/9/93

keep the decision-making process short."

Unibank hopes to become listed at that time: "This will allow a true market value to be placed on our shares, provide tradability, and make it easier to raise more capital."

Unibank is known for a conservative approach. A capital-to-assets ratio of 10% is above both the current Reserve Bank requirement of 6% and the international standard (from 1995) of 8%. Exposure to any single borrower or depositor is held to 10%. Also, 25%-30% of assets are kept in cash.

Its main niche is asset-based finance for medium-sized corporates, as well as financial services and special investments for wealthy individuals. Assets are roughly allocated into "buckets": 40% in conventional asset-based loan finance for companies and individuals, with a maturity of 12-60 months, and 40% in its specialised "private label" credit card business. A further 20% is in mostly commercial mortgages, but excluding building projects. (58)

Private label credit cards are distributed by retailers, with the bank providing the finance and managing the accounts. "These bring in a lot of clients in the emerging middle-income market, to whom we then cross-sell other products," he says.

Total assets are estimated to be about R473m, up from an audited R208m in September 1991. Van der Merwe believes the bank can support assets of up to R600m. Return on capital is estimated to be about 22% this year and income growth 41%. ■

Recession could be abating - expert

Sowetan 9/9/93

Major financial dose

THE African Development Bank is pumping millions of dollars into Southern Africa to nurture the infrastructure of countries in this region.

Following a $50 million financial injection for the construction of major roads in Namibia and Botswana the ADB, together with the African Development Fund, has given Zimbabwe $58,5 million to help rehabilitate the railway infrastructure in that country. These construction projects are aimed at building road and rail links between all Southern African countries.

This is in line with the Southern African Development Community's policy to develop economic growth and financial viability of the region and regional integration.

(58)

Academic's doctorate withdrawn

JOHANNESBURG. — Turfloop vice-rector Gesler Nkondo has confirmed that his doctorate has been withdrawn by Yale University in the United States. (54) ARG 9/9/93

The doctorate was awarded in 1979 and was recalled in 1989. Professor Nkondo said queries had been raised by a researcher in 1989 over his doctorate.

Action on 'cavalier' Crulife

58

CT 9/9/93

A GROUP of Cape-based Crusader Life shareholders have brought an urgent application for the troubled life office to be wound up.

Papers submitted to the Rand Supreme Court on Tuesday by the shareholders alleged the company had been guilty of gross irregularities in financial reporting, with directors showing a "cavalier attitude" towards their duty to make proper financial disclosures.

The case, which is being opposed by Crulife curators, is scheduled for September 22.

The curators were appointed last month after disclosures that it had moved from a reported R30m surplus last year to an actual R58m deficit this year because of past under-disclosures.

The case has raised widespread concern about the supervision of life offices and the management of risk.

Since then, Crulife has lost 75% of its share capital, which shareholders on Tuesday claimed indicated that it was now insolvent.

Stanbic gets international credit rating

SHARON WOOD

STANDARD Bank Investment Corporation yesterday was awarded a "B" rating from international bank rating agency IBCA, becoming the first SA banking group to get an international credit rating.

The rating puts them in line with National Westminster Bank, Banque Nationale de Paris and BankAmerica and above Chase Manhattan and Citicorp, which have ratings of B/C and C respectively.

The bank also got a legal rating "2T", which gauges the support a bank could expect in extreme circumstances from its home country's central bank.

The "B" rating is based on the banking criteria, including the soundness of the bank's asset portfolio and a comparison of its performance against its peers.

The "2" of the legal rating shows that there is no legal obligation on the Reserve Bank to support the group, but IBCA believed state support would be forthcoming. The "T" indicated the existing or potential transfer risk in the light of SA's current political situation. B/Day

Stanbic senior GM Graeme Bell said the bank had not been assigned long- or short-term ratings because IBCA had not yet done a country rating. A country rating probably would be done next year and depending on the rating, Stanbic would decide whether to go ahead with applying for a short- or long-term rating.

Bell believed the time was right to get an international rating, given that the group had entered the international financial market and the political situation was getting better.

Of the "big four" banks Stanbic is the only one that has not applied for a domestic rating. 9/9/93

"Getting an international rating has been the bank's primary objective and now a local rating may follow," Bell said. (58)

He said IBCA's report stated that its management controls, information systems and risk management procedures were comparable with the best in Western Europe and North America.

IBCA said the ratings it had assigned to Stanbic reflected its "undoubted" strength in domestic terms and its inevitable dependence on the fate of SA as a whole.

SA insurance is 0,86% of world's

B/Day

CHARLOTTE MATHEWS

SA ACCOUNTED for 0,86% of world insurance business in 1991 and 78% of the insurance business of the African continent, according to Swiss-SA Reinsurance Company's latest study on world insurance in 1991. 7/9/93

The size of SA's insurance market ranked it between Sweden and Belgium. In Africa as a whole, total insurance business in 1991 was worth $15 707bn, 1,11% of the world total of $1 414,4bn. SA accounted for $12 204bn. (58)

SA's non-life business in 1991 was worth $2 529bn, or 0,38% of the world total, while life insurance premiums were worth $9 675bn or 1,30% of the world total. In Africa non-life business was worth $5 381bn and life business was worth $10 326bn.

"The high share of the African market accounted for by the life sector (65,7%) is due to the dominance of the SA market and the extraordinarily large demand for life insurance among that country's white population," Swiss-SA Re said.

In the rest of Africa non-life insurance accounted for more than 80% of the market, it said. A preponderance of non-life insurance was evident in the smaller and less-developed markets. The highest share of non-life business in 1991 was in Libya with 97,5%, followed by Algeria and Iceland with 97,1% each. The lowest share of non-life business was in South Korea with 19,7%, followed by SA with 20,7% and Japan with 26,7%.

SA ranked second in the world after South Korea in insurance penetration in 1991. Insurance premiums as a percentage of SA's GDP in 1991 were 11,3%, against 11,6% in South Korea.

As a rule, the less-developed countries had a low level of insurance penetration, Swiss-SA Re said, but SA and South Korea were exceptions. In SA an unusually high amount was spent by the white population on life insurance, while in South Korea private households made large savings and life insurance companies functioned similarly to banks.

Libvest offers investors a capitalisation award

BDay 6/9/93

CHARLOTTE MATHEWS

LIBERTY Investors (Libvest), which has an indirect interest in assurance group Liberty Life Association, has declared an interim capitalisation share award worth 12,5c a share, based on Friday's closing share price, and a cash alternative of 12c a share for the six months to August.

Libvest owns 50% of the equity of unlisted Liblife Controlling Corporation, which in turn owns 52,4% of Liberty Holdings (Libhold).

Libhold owns 52,6% of Liberty Life Association.

Libvest's capitalisation award follows an earlier announcement by Libhold that it would award capitalisation shares in the ratio of 1,25 new Libhold ordinary shares for every 100 Libhold shares held.

Libhold shareholders may instead elect to receive an enhanced interim cash dividend of 220c a share.

Libvest will receive shares in Libhold or an interim cash dividend through its interest in Liblife Controlling Corporation.

Libvest is, therefore, offering its own shareholders the choice between a new Libvest share for every 100 Libvest shares held or an interim cash dividend of 12c, 50% higher than the 1992 interim dividend of 8c a share.

Libvest shares closed at R12,50 on Friday. (58)

Libvest chairman Donald Gordon said the dividend for the second half is also expected to be no less than 12c a share.

"It must be stressed that this enhanced interim dividend and capitalisation award must not be assumed as a precedent and will not necessarily be continued in the future," he said.

In the six months to August Libvest's taxed profit attributable to shareholders was R32m, 18,3% above the R27,1m shown in the same period in 1992. This translated into earnings of 15,6c (13,2c) a share.

Libvest's total assets at August 31 were R2,2bn, against R1,97bn in the same period in 1992, equivalent to a net asset value of R10,54 a share, against 947c previously.

COMPANIES

Unibank gears up for rights issue

UNIBANK has finalised terms for a rights issue which will take its capital to R52,5m.

"This marks the beginning of our next growth stage," said MD Gerrit van der Merwe. "Now we are looking at a capital base of R100m in the next three years."

Unibank acquired the assets and liabilities of the 130-year-old, King William's Town-based British Kaffrarian Bank three years ago.

BDay 6/9/93

Van der Merwe said the current capital base could support assets of more than R600m without exceeding cautious parameters.

(58)

The major shareholdings in Unibank would change slightly after the rights issue, but First National Bank would still hold 25,01%. Fedlife's holding would be 24,41%, E G Chapman's 17%, OK Bazaars' 10% and Yabeng Investment Holding Company, which has taken over the Bophuthatswana National Development Corporation's interest, would hold 10%.

Assets of R208,2m at the end of the first year, September 30 1991, grew to R367,5m last year and in the first nine months of the current financial year topped R432m.

Unibank ranked second in Aitken & Peat's 1992 survey of the top ten banks' return on assets with a figure of 1,62%.

Van der Merwe said Unibank was aiming for a 22%-25% return on shareholders' funds, but this had been lower in the growth phase. It had nevertheless improved from the first year's 14,4% to 20,17% at the end of the first nine months of the current year. Net income after tax improved from R1,7m in the first year to R4,6m last year and the bank was looking at about R6m this year, he said. — Sapa.

variation is second highest after Nepal, as shown above. Compared with Chile's single rate or Mexico's five, SA's trade regime looks extremely unwieldy, says the World Bank.

Unibank hones its target

S/Times (Buss) 5/9/93

By CHERILYN IRETON

UNIBANK, which prospered on the foundations of the 130-year-old British Kaffrarian Bank, is increasing its capital base by more than 60% in an attempt to become an important niche player in financial services.

Heavyweight shareholders have put up an additional R20-million to enable the bank to support assets of more than R600-million. The injection lifts Unibank's capital base to R52,5-million.

Managing director Gerrit van der Merwe says: "This marks the beginning of our next growth stage — from small bank to significant niche player."

After the rights issue, Unibank's principal shareholders will be First National Bank (25,01%), Fedlife (24,4%), EG Chapman (17%), OK Bazaars (10%) and Yabeng (10%).

The Bophuthatswana National Development Corporation (BNDC) and Fabcos have sold their 7% stakes. Fabcos is concentrating on its investment with FNB in Future Bank and the BNDC stake has gone to listed investment holding company Yabeng.

Mr van der Merwe says that as more people use banks, new risks emerge.

"To be successful, we must have a larger base to carry that added risk."

Unibank's target is a capital base of R100-million in the next three years. It will then seek a JSE listing. (58)

For the time being Unibank will continue to keep 40% of its assets in short-term lending. This is the bank's core business and includes 12- to 60-month financing of movable assets.

Another 40% of its business is in the private label credit-card market. Unibank has 150 000 card holders — many through its Bonus Card scheme.

The remaining 20% of its funds will be aimed at the mortgage market. This includes exposure to the commercial market and will soon include housing loans of between R250 000 and R500 000.

Mr van der Merwe says: "The typical borrower will require other services like insurance and vehicle finance. Our intention is to make the package profitable rather than the individual product.

"We are not trying to reinvent the wheel. Where possible we will use the existing banking infrastructure for things like savings accounts. But in certain areas we are seeking clients who feel comfortable outside the large-bank environment.

"We will be able to serve that client quicker and more effectively than some of our competitors can."

He believes that as in Zimbabwe, banking will be seen as the catalyst for upgrading living standards.

"There is a huge educational problem and there is no doubt that our risk profile will change. We will have to manage our risk prudently. We are sticking to our rule that no single borrower has more than 10% of our capital."

Every R100 Unibank lends is secured by assets of at least R10. This compares with a Reserve Bank requirement of R6 for every R100. Although the Reserve Bank will lift its requirement to 8% by 1995, Unibank will maintain its 10% rule.

In the 10 months to July, Unibank made a taxed profit of R5,5-million. Its assets were R472-million compared with R208,2-million at September 30, 1991.

The return on investment was 1,65% at the end of July.

Mutual ready to evict strikers

ARG 4/9/93

INSURANCE giant Old Mutual was set to evict striking workers who have occupied the reception area and main banking hall of its head office in Pinelands for most the this week.

The company obtained a second Supreme Court order after workers defied an interdict telling them to leave the building and not interfere with other employees and clients.

About 350 workers went on strike on Monday over wages and conditions of service

Banks step up bond costs cutting

ARG 4/9/93 (58)

Business Editor

THE "battle of the banks" for home loans is intensifying.

Absa bank is offering to pay bond registration costs and waive valuation fees on all home loans issued by its member banks.

This could be a move in the direction of free transfer of bond business between banks.

"If the idea spreads it means banks will have to fight to keep their bond business on the basis of added value and service instead of being able to lock in clients for the bond's life by making bond registration expensive," said Scott McRae, chairman of a franchise network.

FNB was the first bank to adopt a no-bond-costs policy two years ago and continued its campaign for about eight months.

FNB apparently still waives bond costs in isolated cases.

The Perm brought in a similar policy of waiving registration costs and valuation fees last June and would reportedly continue to do so even though profit margins were being squeezed.

Mr McRae urged other banks to do the same in the interests of making home ownership more affordable and encouraging open competition between the banks.

"The general consensus is that bond rates should be lower and that the banks should take the initiative and not wait for a lead from the Reserve Bank.

"Hopefully increased competition will produce just that."

South African banks had a long way to go before they reached the competitiveness found in the United States, where actual home bond "sales" at special discounted interest rates were held.

Also so-called "closing costs" similar to bond registration were waived so commonly they did not even require more than a casual mention in advertising.

Unibank rights issue finalised

(58) ARG 4/9/93

JOHANNESBURG — Unibank has finalised terms of a rights issue which will take the bank's capital to R52,5 million.

"This marks the beginning of our next growth stage," says managing director Gerrit van der Merwe. "Now we are looking at a capital base of R100-million in the next three years."

Unibank acquired the assets and liabilities of the 130-year-old, King William's Town based, British Kaffrarian Bank three years ago.

Mr Van der Merwe says the current capital base can support assets of more than R600-million without exceeding cautious parameters.

The major share holdings in Unibank will change slightly after the rights issue, but First National Bank will still hold 25,01 percent. Fedlife will hold 24,41 percent, E G Chapman 17 percent, OK-Bazaars 10 percent and Yabeng Investment Holding Company.

Assets of R208,2-million at the end of the first year September 30, 1991, grew to R367,5m last year and, in the first nine months of the current financial year, topped R432m.

Hopes for interest rate cuts revived

58

CT 3/9/93

Own Correspondent

JOHANNESBURG. — Hopes for a reduction in short-term interest rates rose yesterday when the banks' daily debt to the Reserve Bank fell below the R2bn level for only the third time in as many months.

The daily debt, known as the shortage, peaked at R4,8bn at the end of last month after averaging about R3,5bn for the month. This debt arises after banks borrow money from the central bank when they are unable to raise it elsewhere.

But interest payments on government debt, which Reserve Bank money and capital markets GM Andre Kock said was R2bn, entered the market on Wednesday.

Dealers said the R2bn came on top of about R1,5bn in government spending, which gave liquidity a further fillip.

However, Kock said tax payments had drained some of the liquidity. Dealers believed further tax payments over the next few days would have an adverse effect on the shortage, but Kock said he doubted whether much more than R400m remained to be paid into government's coffers.

Banks say a daily shortage below R2bn is needed before they will cut short-term interest rates such as home loans.

Crusader Life reassures on 'valid claims'

CT 3/9/93 (58)

Own Correspondent

JOHANNESBURG. — Valid claims submitted to Crusader Life Assurance Corporation (Crulife) would be settled immediately, joint provisional curators Billy van der Merwe and Willem Pretorius said yesterday.

This ends an anxious week for brokers and policy holders after the August 25 announcement that Crulife had been placed under provisional curatorship. Crulife's shares were suspended from the JSE and an actuarial investigation was launched.

The basis for determining surrender and loan values of policies is still being investigated, and requests for the surrender of policies and policy loans were suspended.

Premiums paid before August 25 were not refundable and premiums paid after that would be kept in a separate account. Only if directed by the Supreme Court would these premiums be refundable.

The curators said the company would continue conducting business, with the exception of transacting new business. They asked for all enquiries to be addressed in writing to the company.

Concern

Life Underwriters' Association of SA (Luasa) executive director Hennie Oosthuizen, whose organisation represents independent brokers, said members' main concern was whether payment would be made for claims arising now.

He had received calls from Luasa members who had been asked by Crulife policyholders to place their policies elsewhere. Brokers are discouraged from switching policies and do not earn commission for doing so. "The circumstances for Crulife are abnormal and for the time being we believe that agreement should be waived to accommodate policy holders," Oosthuizen said. However, Luasa was not recommending this to members as it might cause a flood of replacements.

Life Offices' Association executive director Jurie Wessels said he sympathised with brokers, but the agreement stood.

BANKING Fm 3/9/93

New frontiers

58

Mercantile Bank has steadily expanded its nontraditional retail business. For two years it has been lending to people regarded as unbankable by many institutions. The book of retail division Bifco, soon to be renamed Mercantile Savings & Loans, has risen from about R35m, when Mercantile took over Bifco from Investec in January 1991, to R130m last month. The number of customers has risen from about 10 000 to 45 000.

In June it started taking retail deposits (previously funds were raised only on the money market) and it will introduce savings-linked insurance products.

Mercantile MD Derek Cohen describes the operation as "falling somewhere between the main commercial banks' retail operations and community banks or *stokvels*."

Derek Cohen ... *going for the banking gap*

Bifco started 12 years ago as a finance company providing loans for home improvements to lower-income groups. When Mercantile took it over, it increased its range of services and now offers a variety of banking and personal-finance products. Its book is split almost equally between home improvement loans and personal loans, "most of which relate to family needs such as education or consumer purchases," Cohen says. It has entered the HP market, providing finance mainly for furniture, white goods and, sometimes, cars.

"The lower-income market is largely untapped as other banks have burnt their fingers and moved out," Cohen says. "This market doesn't operate in the same way as conventional retail banking. For example, monthly payments may be delayed by borrowers accustomed to making lump-sum payments at longer intervals. This probably has to do with the *stokvel* system. A borrower pays when it's his turn to receive the *stokvel* money."

Mercantile's merchant banking division will tailor products for the lower-income market, which Mercantile Saving & Loans will distribute. Cohen believes that, once aid funds start flowing into SA from international organisations, the division's capacity to "handle large volumes of small accounts could be used to channel matching funds to desirable community projects in an economically feasible way."

Fm 3/9/93 (58)

Though Cohen admits the lower-income market could be relatively high risk, he reckons that if it is properly managed and procedures are explained to clients, bad debts have proved no higher than in other sectors of retail banking. On the other hand, administration costs are higher and larger volumes are needed to ensure profitability.

Though Mercantile Savings & Loans has branches only in Johannesburg, Germiston, Durban and Cape Town, there are plans to spread its branch network "in response to demand." Clients can make payments through Nedbank branches. Introduction of a smart card, probably next year, could help collections and contain administrative costs. ■

CRUSADER LIFE

Fm 3/9/93

Who'll play the White Knight?

(58)

By putting in curators to run Crusader Life, the Financial Services Board (FSB) could have rung the death knell of the life assurer. Yet the board has everything to lose, nothing at all to gain, if Crulife goes belly up. Indeed, there are all the signs that a rescue operation will be mounted, unless the official valuation shows a hopeless position.

In fact, should there be any attempt to convert curatorship to liquidation proceedings, it's likely the board would resist the move, though it won't comment on this.

Though the FSB applied for curatorship, it was instigated at Crulife's suggestion. The board of Crulife was coming under pressure, partly through its involvement with UAL in an equity-linked retirement annuity fund.

Crulife had apparently suggested that the involvement should be ended but would then have had to "release" about R197m of assets from its own books to another insurer. Crulife had to stall for time and agreed with UAL that the transaction should take place only after the Crulife official valuator reports.

It was partly because of this situation that Crulife suggested to the FSB that it should apply for judicial management. But there's no provision in the Insurance Act for judicial management, so the company had to allow the FSB — which has the necessary powers — to apply for curatorship instead.

Few benefits

Moving from curatorship to liquidation would not assist policyholders and the only people likely to benefit would be the liquidators. Instead of suffering the curators' daily fees, policyholders could see as much as R4,5m go to the liquidators when underlying assets are sold off.

That aside, the FSB is a new regulatory body. It has already seen the Masterbond and Supreme debenture schemes turn into fiascos, and has been blamed unfairly because investors, who did not know the basic rules of risk and return, lost money. It has been forced to put short-term insurer President into liquidation. Almost the last thing it now needs is the liquidation of a life office.

By Tuesday, Crulife's remaining 90 staff were in rebellious mood, demanding reassurance about pay. This posed a difficulty for the curators because the court order had been hastily drafted and was ambiguous about staff rights. At noon, the curators called a meeting to assure staff that they would get their dues, though it may take a few days.

Even that poses a legal conundrum. The Insolvency Act would make the staff preferential creditors — except that Crulife has not been declared insolvent. The 1943 Insurance Act enshrines policyholders' rights. If there are no shareholders' funds left, the question arises whether staff or policyholders take preference. The curators insist that wages must be paid from premium flow, which is what normally happens in a life office. But Crulife's circumstances are not, by any yardstick, normal.

Liquidation must rank in the list of options. Assurance is all about credibility and perceived ability to pay. Crulife, in fewer than six months, has gone through an exceptional reversal of fortune:

- ☐ A financial statement bullish about the company's prospects;
- ☐ The resignation of chairman Don Rowand, followed by brother and MD Bob;
- ☐ Disclosure of problems in UK associate Pegasus (strenuously denied by Pegasus);
- ☐ The appointment of a new executive chairman, Dave de Beer, sent in by ultimate holding company Anglovaal;
- ☐ A JSE cautionary which was swiftly followed by suspension of Crulife shares;
- ☐ An admission by the holding company that there is little or no value in the shareholders' fund, though a Rowand family trust had previously off-loaded Crulife shares to Old Mutual;
- ☐ A decision not to accept any new business (had any been forthcoming); and then,
- ☐ Last week's curatorship.

Perhaps the ultimate irony is this week's decision by Standard Bank Insurance Brokers to remove about R10m of premium business — for both Rowands at one time worked for SBIB.

There is so far no report from the official valuator. Nor have curators Billy van der Merwe and Willem Pretorius issued any statements. So the extent of the damage is not known.

Nor is it at all clear how there was an R80m turnaround within one year in the company's value — not all of which can be blamed on Pegasus. There are unconfirmed stories that Crulife was one of the life offices which ventured into near-banking by allowing loans against policies on a scale and on terms which went against the spirit of the conduct code of the Life Offices Association. If so, it'll be difficult to match assets and liabilities — policyholders who took loans are not, in the circumstances, expected to rush in to make repayments.

But management says the effect of these borrowings is not material. "Ask instead," one executive suggests, "why we seem to own expensive apartments in London."

The Office for Serious Economic Offences (Oseo) says that so far no complaints have been filed against management but adds: "It would not be surprising if a complaint came in." For that to happen, the curators would have to report to the FSB which would then have to request Oseo to open a case file.

Meanwhile, the share dealings are being probed by the Securities Regulation Panel, which could refer them to the Attorney-General.

Regulatory disaster

Curatorship implies there will be no more help from parent Anglovaal. De Beer is referring all queries to the curators. Even if Anglovaal is taking this attitude to protect itself from further loss, following earlier problems at AA Life, its unhappy attempt to emulate big brother Anglo and move into life assurance will do its image no good.

Should the curators recommend liquidation, it will be a devastating blow for the official regulators, whose primary responsibility is to make sure that life offices remain able to pay their debts. It's possible, even probable, that the board would oppose by legal means any attempt to liquidate, preferring instead to find either a suitable takeover partner or devise some formula through which the company can continue to trade as a closed trust for policyholders.

But the emergence of a white knight depends on the financial findings. Crulife had extensive investment arrangements with UAL, which is part of Nedcor, itself controlled by Old Mutual. Since Old Mutual has already picked up a slice of Crulife at a price which now seems improbable, would it pick up the rest? There is market speculation that it could, given its role of market leader, rather than see a life office go down.

Till the full financial position is explained, policyholders will have to sweat it out. ■

LAW OF CHEQUES

Bankers beware

Banks which disregard restrictive markings on cheques — notably "not transferable" — have had another shock from the Appeal Court. Volkskas lost an appeal in an action brought against it, as collecting bank, by Bonitas Medical Aid, for R2m damages.

This was the amount of a cheque drawn on Nedbank by Medscheme (which administers Bonitas), crossed "not transferable" and payable to Volkskas itself. The intention was to invest the money with Volkskas at 17,5%.

Despite the crossing and the statutory requirement that medical aid funds may invest surplus funds only with registered banks or building societies, a commission agent from Eurotrust collected the cheque from Medscheme and presented it at a Volkskas branch

Insurer tops in performance stakes

62

ARGT 2/9/93

Business Staff

JOHANNESBURG. — Commercial Union has achieved highly commendable investment results over the past 10 years — returns which have elevated it to the undisputed top position in the most recent First Bowring investment performance survey.

The survey focuses on the gross investment returns of insurers and investment companies for pension funds where the investment managers have full discretion over the distribution of assets.

Using several different bases the First Bowring survey spotlights money-weighted returns over periods ranging from one to 10 years on the assumption that cash flows increase at 14 percent a year.

Commercial Union's performance is all the more meritorious for the fact that its position has fallen below second on only one occasion in the past 10 years (and even then it achieved a creditable third position).

Taking second and third positions overall are Southern's SHOP portfolio and Board of Executors Investors fund.

However, these figures cover relatively short periods

And since pension fund investments are long term in nature, they are not as indicative of performance as the statistics covering longer periods.

Of those insurance-managed portfolios extending over the full 10-year period, second to Commercial Union is Metropolitan, followed by Liberty, the two Sanlam funds, Sage and Norwich.

The two Old Mutual funds returned disappointing figures, as did the Southern Managed fund and Momentum.

The value of the assets under insurer management analysed by First Bowring totals R37,2 billion, with Sanlam 100 the largest at R12,6 billion.

This is followed by Sanlam 200 (R7,8 billion), Old Mutual Multi (R7 billion), Liberty (R3 billion) and Southern Managed R1,5 billion).

Commercial Union and Momentum are both at around the R1 billion mark.

Of the investment houses, the leading performers are RMB, Investec, Fairheads, SMB, BoE and Foord and Meintjies.

An interesting conclusion to emerge from the survey is that the investment houses appear to be making significant inroads into an activity which has traditionally been the terrain of the life assurers.

The 10 investment houses featured manage a total of R21,8 billion — not far short of the R37,2 billion under the umbrella of the 14 insurance funds.

Significantly, SMB handles a substantial R8,2 billion, UAL R5,2 billion, Syfrets R2,8 billion and BoE R2,7 billion.

A possible reason for the gravitation of pension funds towards the investment houses is that their average performance has been marginally superior to that of the insurers in most of the periods analysed in the survey.

'A loan at the press of a button'

CT 2/9/93 (88)

By ARI JACOBSON

IMAGINE sitting in front of your insurance consultant or bank manager, asking for a loan, he presses a few buttons and then with the necessary clearance you walk out with the cheque, that is part of the future vision of Fedsure group CE Arnold Basserabie.

"Look that is a bit far-fetched but all players in the financial services industry should be looking along those lines in the future."

Basserabie was interviewed during a whistle stop visit to the Cape.

He said that in time "the information contained in a business could be as valuable as the business itself".

Basserabie explained that this revolved around being able to design a financial product adapted to an individual and accessing this information in "rapid response time".

The more discerning individual will be looking for "flexibility", he said.

"This will make information technology increasingly important in determining the future success of a financial institution."

He warned that this would mean vast expenditures on information systems and administration networks, but this should be based on economic feasbility studies.

Basserabie added that "customermised services" would be a feature of the evolving financial services era.

Plans shelved for 'President'

(58) CT 2/9/93

By MAGGIE ROWLEY
Property Editor

POOR investor confidence has forced Sanlam Properties to put its multi-million rand plans for the development of the old President Hotel site in Sea Point on ice.

MD Johann Treunicht confirmed sales in the first phase of 59 super luxury residential units, construction of which was completed this week, had gone very slowly with only 10 units having been sold to date.

The project, he said, had been aimed at the investment community and when it was launched the property market, particularly the upper priced sector, had been extremely buoyant and investor confidence both locally and internationally had been strong.

"Even ahead of the launch we had a very lengthy waiting list.

"Since then, however, investor confidence has taken one knock after another with the walkout at Codesa, Bisho, Boipatong, the assassination of Chris Hani, and the occupation of the World Trade Centre to name but a few.

"The overseas buyers just disappeared and the prices at the top end of the SA property market have softened incredibly with local buyers adopting a wait-and-see attitude."

Treunicht said they had not totally abandoned plans to develop the site as initially envisaged and would not downgrade the project. They would continue with development once investor confidence picked up and the first phase was sold out.

"We believe in the long-term potential of the project as the site is one of the most valuable in Cape Town."

Plans for the hotel component have also been put on hold.

"Although there are a number of international hotel groups interested in a management contract the capital for the project will be put up by Sanlam.

"With an election around the corner, the current uncertainty and hotel occupancy rates as low as they are we can not justify to policyholders our putting R200m to R300m into a hotel to come on stream in 1996 which might stand empty.

"But we are not a forced seller and can afford to hold the site to develop it to its full potential.

"However, even if the economy turns it is going to require political stability and certainty before investors will be ready to come back into the market in any great numbers," he said.

Violence at Old Mutual

58

Staff Reporter

MOTOR car tyres have been slashed, property damaged and catering staff assaulted during a sit-in by striking workers at Old Mutual's head office at Pinelands. CT 2/9/93

Early this morning a contingent of police were monitoring the situation as union representives were locked in talks with management over wages, job security and housing bonds.

The sit-in is in defiance of a Supreme Court order on Monday, when the demonstration started.

Transport and General Workers' Union organiser Mr Thami Makeleni said the workers would not leave until their demands were met.

Last night workers at the building were awaiting a decision from management on whether a subsequent contempt of court order issued would be acted on by the company.

Measuring money management

Star 1/9/93 (58)

BY JOHN SPIRA

Commercial Union has achieved highly commendable investment results over the past 10 years — returns which have elevated it to the undisputed top position in the most recent First Bowring investment performance survey.

The survey focuses on the gross investment returns of insurers and investment companies for pension funds where the investment managers have full discretion over the distribution of assets.

INVESTMENT houses are making inroads into a market that has traditionally belonged to life assurers.

The table shown here (several different bases are used in the survey) spotlights money-weighted returns over periods ranging from one to 10 years on the assumption that cash flows increase at 14 percent a year.

Commercial Union's performance is all the more meritorious for the fact that its position in the table has fallen below second on only one occasion in the past 10 years (and even then it achieved a creditable third position).

Taking second and third positions overall are Southern's SHOP portfolio and BOE Investors fund.

However, these figures cover relatively short periods and since pension fund investments are long term in nature, they are not as indicative of performance as the statistics covering longer periods.

Of those insurance-managed portfolios extending over the full 10-year period, second to Commercial Union is Metropolitan, followed by Liberty, the two Sanlam funds, Sage and Norwich.

The two Old Mutual funds returned disappointing figures, as did the Southern Managed fund and Momentum.

The value of the assets under insurer management analysed by First Bowring totals R37,2 billion, with Sanlam 100 the largest at R12,6 billion, followed by Sanlam 200 (R7,8 billion), Old Mutual Multi (R7 billion), Liberty (R3 billion) and Southern Managed R1,5 billion).

Commercial Union and Momentum are both at around the R1 billion mark.

Of the investment houses, the leading performers are RMB, Investec, Fairheads, SMB, BOE and Foord and Meintjies.

Money weighted returns and ranking over n years to 30 June 1993
Cash flows increasing at 14,0% pa

INSURERS	10 Years %	9 Years %	8 Years %	7 Years %	6 Years %	5 Years %	4 Years %	3 Years %	2 Years %	1 Years %	Ave Pos
BOE (INVESTORS)		—	—	—	—	—	—	—	—	31,1 (3)	3,0
Commercial Union	22,3 (1)	22,3 (2)	21,8 (2)	21,1 (1)	21,1 (3)	21,3 (2)	20,8 (1)	22,4 (2)	23,0 (1)	33,3 (2)	1,7
Federated	18,7 (8)	18,7 (9)	18,3 (8)	18,0 (8)	18,1 (7)	18,4 (8)	18,1 (7)	19,0 (6)	17,6 (7)	23,8 (11)	7,9
Liberty (LEM)	21,0 (4)	21,2 (5)	21,1 (4)	21,0 (3)	21,3 (2)	21,1 (3)	20,3 (3)	21,2 (3)	20,9 (4)	29,6 (5)	3,6
Metropolitan	21,6 (2)	21,7 (3)	21,5 (3)	21,1 (2)	21,4 (1)	21,4 (1)	20,5 (2)	20,7 (4)	19,6 (5)	26,4 (9)	3,2
Momentum	19,4 (6)	19,2 (8)	18,2 (9)	17,0 (10)	16,8 (10)	16,6 (10)	15,4 (10)	15,9 (11)	15,4 (11)	28,3 (7)	9,2
Norwich	18,3 (9)	18,4 (10)	18,0 (10)	17,7 (9)	18,0 (8)	18,5 (7)	18,3 (6)	19,7 (5)	21,3 (3)	36,7 (1)	6,8
Old Mutual (Multi)	17,9 (10)	17,7 (11)	16,8 (12)	16,0 (12)	16,0 (12)	15,5 (12)	14,2 (12)	14,9 (14)	13,6 (13)	22,1 (12)	12,0
Old Mutual (Omni)	—	—	16,0 (13)	15,2 (13)	15,2 (13)	15,1 (13)	14,2 (13)	15,1 (13)	13,6 (14)	22,1 (13)	13,1
Sage Managed	21,5 (3)	21,3 (4)	20,6 (5)	19,9 (5)	19,6 (5)	19,5 (4)	18,4 (5)	18,0 (9)	15,7 (10)	19,5 (14)	6,4
Sanlam (100)	20,3 (5)	20,3 (6)	19,7 (6)	19,0 (6)	18,9 (6)	18,7 (5)	17,8 (8)	18,7 (8)	18,2 (6)	28,4 (6)	6,2
Sanlam (200)	—	23,7 (1)	22,5 (1)	20,7 (4)	20,2 (4)	18,5 (6)	18,5 (4)	18,9 (7)	17,4 (8)	26,5 (8)	4,7
Southern (Managed)	17,8 (11)	17,6 (12)	17,1 (1)	16,4 (11)	16,3 (11)	15,8 (11)	14,5 (11)	15,2 (12)	14,4 (12)	24,1 (10)	11,2
Southern (SHOP)	—	—	—	—	—	—	—	23,8 (1)	22,9 (2)	30,1 (4)	2,3
Standard General	19,4 (7)	19,3 (7)	18,7 (7)	18,2 (7)	17,9 (9)	17,4 (9)	16,4 (9)	16,0 (10)	15,9 (9)	17,3 (15)	8,9
No of managers	11	12	13	13	13	13	13	14	14	15	
Mean return	19,8	20,1	19,3	18,5	18,5	18,3	17,5	18,5	17,8	26,6	
Std Deviation	1,5	1,9	2,0	2,0	2,0	2,1	2,3	2,8	3,2	5,1	
Maximum return	22,3	23,7	22,5	21,1	21,4	21,4	20,8	23,8	23,0	36,7	
Minimum return	17,8	17,6	16,0	15,2	15,2	15,1	14,2	14,9	13,6	17,3	
INVESTMENT HOUSE	%	%	%	%	%	%	%	%	%	%	
AFC	—	—	—	—	—	—	19,3 (4)	19,8 (5)	18,3 (8)	23,1 (9)	6,5
BOE	—	21,1 (1)	20,4 (3)	19,7 (4)	19,9 (5)	20,2 (4)	19,4 (3)	20,4 (4)	19,7 (7)	29,1 (3)	3,8
Fairheads	—	—	—	—	22,0 (2)	22,8 (2)	22,7 (1)	23,5 (2)	22,0 (3)	26,9 (5)	2,5
Foord & Meintjies	—	—	21,5 (1)	20,7 (2)	20,6 (3)	20,5 (3)	18,7 (5)	19,2 (6)	20,1 (6)	28,7 (4)	3,8
Investec	—	—	—	—	—	—	—	—	24,8 (2)	34,5 (1)	1,5
RMB	—	—	—	—	—	—	—	25,4 (1)	24,8 (1)	30,3 (2)	1,3
SPM	—	—	—	23,3 (1)	23,7 (1)	23,5 (1)	22,2 (2)	22,3 (3)	20,3 (5)	25,2 (6)	2,7
Syfrets	—	—	—	—	—	—	—	—	21,0 (4)	24,7 (7)	5,5
UAL	—	—	20,5 (2)	20,0 (3)	20,3 (4)	20,1 (5)	18,4 (6)	18,7 (7)	17,6 (9)	24,2 (8)	5,5

Inroads

An interesting conclusion to emerge from the survey is that the investment houses appear to be making significant inroads into an activity which has traditionally been the terrain of the life assurers.

The 10 investment houses featured manage a total of R21,8 billion — not far short of the R37,2 billion under the umbrella of the 14 insurance funds.

APPOINTMENTS

Mark Kosmas, alternate director, Baker Street Associates.

Andrew Drysdale, art director, Wilson, Keller & Associates.

Steven Mills, assistant general manager: investments, Norwich Life.

Harry Calver, director, LTA Limited.

Call to devalue rand

Business Staff (58)

IS the Reserve Bank following an appropriate exchange rate policy? ARG 1/9/93

The Board of Executors (BoE) yesterday came out strongly on the side of the "devaluation" lobby when it accused the Bank of defending "a fundamentally overvalued currency".

Senior portfolio manager Rob Lee has called for a one-off structural devaluation of the rand.

Writing in BoE's Investment Outlook, Mr Lee says the Bank's apparent lack of support for "quite orthodox market-driven reforms" runs completely counter to its professed claims of adhering to the free market.

Mr Lee says a realistic exchange rate policy is a key starting point in structural adjustment.

"We have to restructure by abolishing the finrand, and eventually all exchange control, and reducing tariff protection in line with GATT and eliminating export subsidies.

"If the Bank mistakenly sees such reforms as a threat to its anti-inflation drive, it is a sad reflection on the narrowness of its economic thinking."

Mr Lee says the effect on the exchange rate of a devaluation would not be passed on to prices, but would be absorbed because of the weakness of the economy.

"It will change the way that goods are priced in respect of exports rather than imports."

■ Comprehensive strategies to promote growth and jobs in South Africa are still missing.

The warning was delivered yesterday by Dr Anton Rupert at the annual meeting of the Small Business Development Corp. in Johannesburg.

Much had been written about the need for policies to maximise employment growth, narrow income differentials, redress inequalities in access to public services and facilities, and redistribute land, productive assets and income.

"Governments themselves cannot create economic growth or real jobs. Their goal should be to pursue policies that allow the economy to grow through the energies of private enterprise," he said.

"The key ingredient of a viable, self-sustaining growth strategy is to revive the private sector by creating a favourable climate.

"Economic growth depends foremost on the enterprise of individuals. Governments can facilitate progress, but people make things happen."

In all the high growth economies of the world, small business acted as the dominant force in job creation, he said.

Crulife: Provisional liquidation bid

(58) ARGUS 1/9/93

BRUCE CAMERON
Business Staff

AN application to place health insurer Crusader Life under provisional liquidation was today lodged in the Johannesburg Supreme Court by Cape Town shareholders and policyholders.

The move follows the shock announcement on August 3 that Crulife would conduct no new business.

After initial investigations on the application of Registrar of the Financial Services Board Piet Badenhorst, the position of the company was found to be so tenuous that it was placed under provisional curatorship.

Financial Services Board insurance manager F J Opperman has already given an assurance that policy-holders will, in terms of the law, be given preference over other claims if Crulife is liquidated.

The Anglo Vaal subsidiary, which until a few months ago was considered a blue chip investment, is subject to a number of inquiries, including a Johannesburg Stock Exchange investigation into insider trading of the shares shortly before the announcement of the collapse.

The shareholders decided to make the move after accounting firm Price Waterhouse Meyernel assessed the position of the company.

The application was lodged by shareholders Top Dog Nominees and Wild Almond Investments, with a combined 178 000 shares, supported by other Cape Town shareholders owning 557 000 shares and shareholder and policyholder Martin Harris, a Cape Town businessman.

SA banking on Croeser

(68) CT 1/9/93

From SHARON WOOD

JOHANNESBURG. — Government yesterday appointed Finance Department director-general Gerhard Croeser as a roving ambassador to market SA to international banking and investment communities.

Croeser, whose five year term as director-general expires in April 1994, will take up his new Zurich-based post in October this year, after the annual meetings of the International Monetary Fund and the World Bank.

His activities will extend to the east and to north America where he will keep bankers, financial institutions and investors well informed on SA's current position and new developments.

A Finance Department statement said Croeser had developed top-level international banking and investment contacts over the last few years and his contacts in SA would ensure that the lines of communication remained open and up-to-date.

Croeser stresses good international financial relations are critical to SA's economic growth and development.

"I see this opportunity as an exceptional privilege to be of further service to SA through an enhanced and high profile involvement abroad during this difficult period of transition," he said.

His wife, Hanlie Croeser, also employed by the Finance Department as economist and researcher, would assist him professionally, the statement said.

Absa goes on hunt for greater market share

Star 30/11/93

■ BY DEREK TOMMEY

The giant Absa group, formed by merging four major banks, is making a strong drive to obtain new business, says chief executive Danie Cronje.

Because a sharp increase in tax payments offset a number of positive developments, the increase in group profit figures for the six months to September is pedestrian.

But Absa expects to do much better, if not this year, then next year.

Cronje says the merger is substantially complete and the group is now seeking increased market share.

Absa's profit figures for the six months to September show that the group is starting to make progress.

Although the growth in assets — the key to banking profits — grew by only 2 percent, pre-tax earnings rose 16 percent to R524,4 million (year ago, R451 million).

But unfortunately for Absa and its shareholders, tax payments rose by 30 percent to R230,9 million, so taxed profit rose only 7 percent to R293,5 million (R273,7 million).

Attributable profit increased by just 4 percent to R305,3 million, equal to 54c (51,9c) a share.

Absa is paying an unchanged interim dividend of 17c a share. 58

Factor

A major plus factor for the bank was the sharp drop in the bad debt charge by 33 percent to R279,4 million.

Provision for bad debts in recent years has been a major drag on the profit of all banks, not just Absa.

Cronje says the bad debt charge is conservative and in line with that in the industry.

Another plus factor was the small 4,4 percent increase in operating expenses to R1,92 billion, which was below the inflation rate.

A major reason why Absa is ready for expansion is that it has greatly increased its capital adequacy.

It raised R700 million and then R300 million by way of a 20-year subordinated loan.

This addition lifted the capital-to-asset ratio to 7,9 percent.

Cronje says that Absa should at least maintain market share for the remainder of the financial year.

But demand for credit is likely to remain low and he does not expect any significant asset growth.

"Consequently, it may be difficult to achieve higher attributable income than that posted in 1993."

But any increase in retail advances — mortgages, HP financing and small company loans — could have a marked impact on profitability.

Absa loans surge by R3,6 billion

(58)

ARG 30/11/93

TOM HOOD, Business Editor

A R3,6 billion surge in lending is reported by Absa, the country's largest banking group, in its interim report today.

Total advances rose to R66,8 billion at September, 4,7 percent ahead of the R63,8 billion recorded a year ago.

The bulk of this cash was advanced to the corporate sector and to home buyers — Absa is the largest provider of home loans.

But all the gains were achieved since the group's March year-end, when the total book amounted to R63,2 billion and the total owing actually dipped by R500 milion in the six months to March.

Executive director Alwyn Noeth said corporate advences grew by 13 percent but retail advances (bonds and overdrafts) grew by "a disappointing" 3 percent.

The group, formed by merging four major banks, had tightened up its credit control procedures and this had definitely affected the growth in advances.

Absa also reports a modest rise in deposits. These stand at R72,4 billion, having risen R541 million in the half-year to March and by R1 080 million in the six months to September.

The group had increased the call component of deposits to balance any drop in interest rates while credit balances on cheque accounts had increased substantially.

Chief executive Danie Cronje says that Absa should at least maintain market share for the remainder of the financial year.

But demand for credit is likely to remain low and he does not expect any significant asset growth.

"Consequently, it may be difficult to achieve higher attributable income than that posted in 1993."

But any increase in retail advances — mortgages, HP financing and small company loans — could have a marked impact on profitability.

A major success in the half-year was the sharp drop in the bad debt charge by 33 percent to R279 million. This meant the bad debt ratio of 0,85 percent to total assets was in line with other major banks.s

Provision for bad debts in recent years has been a major drag on the profit of all banks, not just Absa.

Although the growth in assets — the key to banking profits — grew by only 2 percent, pre-tax earnings rose 16 percent to R524 million from R451 million a year ago.

But tax payments rose by 30 percent to R231 million, so taxed profit rose only 7 percent to R293 million (R273 million).

Attributable profit increased by just 4 percent to R305 million, equal to 54c (51,9c) a share. This means an unchanged interim payout of 17c.

Business Report

Absa hit by high tax bill

(58) CT 30/11/93

By MAGGIE ROWLEY
Deputy Business Editor

DUE in the main to a 30% hike in the tax bill, Absa's attributable earnings were substantially eroded to 4% growth in the six months to September 1993.

Pre-tax earnings were up 16% at R524,4m but net income after tax of R293,5m, showed only a 7% increase.

Although the company rate of tax was reduced from 48% to 40% during the period under review, there was no reduction in the group's effective tax rate in respect of SA normal taxation mainly as a result of the disposal of dividend earning investments which were not producing realistic returns against the background of the group's substantial losses says chief executive Danie Cronje.

Dividend

This was compounded by the sharp increase in the value added tax rate and the introduction of the secondary tax on companies.

In spite of attributable income rising only 4% to R305,3m from R293,8m, equal to earnings per share of 54c (51,9c), the interim dividend of 17c, covered 3,2 times (3,1 times) has been maintained.

Cronje said the increase in earnings was achieved in spite of a low 2% overall growth in total assets resulting from ongoing efforts by management to improve the quality of its advances book.

This improvement in asset quality, he said, was reflected in a reduction of more than 33% in the group's debt provisions which fell to R279,4m.

The bad debt charge remains conservative and, in relation to average advances, was in line with the industry.

Ongoing rationalisation and tight control saw growth in operating expenses contained at well below inflation rising only 4% to R1,9bn (R1,8bn).

Growth in advances was up a moderate 5% at R66,8bn, due to difficult business conditions, the continued restructuring and the development of congruent sytems and procedures which had absorbed substantial management attention and resources during the period under review.

However, Cronje said that with the exception of the continuing development and implementation of universal banking systems, the consolidation and rationalisation processes were now substantially completed. The group was now concentrating its efforts on advancing its buisness activities on a broad scale and had already met with a degree of success in realising a 13% growth in corporate advances.

Growth

During the period under review, Absa had improved its capital adequacy by raising a R700m 10-year subordinated loan, compulsorily convertible into ordinary shares of the bank by Absa itself at the end of the period.

Cronje said a further R300m had been raised in a similar manner since the review period and the bank was now adequately capitalised to support continued growth for some time.

Discussing prospects, Cronje said the group was arresting the decline in its market share of retail advances and, on a broad basis, expected to at least maintain market share over the rest of the financial year.

He warned, however, that demand for credit was likely to remain low and no significant asset growth was anticipated which would make it difficult to achieve an increase in attributable income for the current year.

the release of the October Business Confidence Index yesterday. Picture: ABDUL SHARIFF | Barber noted that Anglovaal subsidiary | rect questions of management.

Overseas holidays becoming cheaper

B/Day 9/11/93

STEPHANE BOTHMA

OVERSEAS holidays will become more affordable to South Africans next year because of weakening European currencies and the effects of the worldwide recession on the international hospitality industry.

Prices had already fallen in rand terms, Insight International Tours international marketing director Chris Newman, currently visiting SA, said yesterday.

Portugal, Spain, Italy, Britain and Ireland had been hardest hit by currency fluctuations, making tours to those countries more affordable for South Africans.

"In the US the dollar has strengthened against the rand, but this has been offset by the effects of the recession. Hotel prices have tumbled and operators have been able to negotiate extremely reasonable rates," Newman said.

Insight SA GM Ockie Fourie said travel agents had reported massive growth in the number of South Africans travelling overseas this year. Sales were up 60% off an already sizeable base, he said.

"This is partly attributable to increased competition between airlines seeking to break into the SA market following the lifting of sanctions. This has seen air fares tumble to 1986 levels, making travel a lot cheaper."

Despite the tough economy, the first-class travel market had been firm, although growth had been limited. There was strong growth in the lower cost sector.

IMF satisfied with SA economic consensus

B/Day 9/11/93

GRETA STEYN

THE IMF was satisfied that enough consensus existed between the key political parties and Cosatu on sound economic policies to go ahead with granting the Contingency and Compensatory Financing Facility, assistant director for Africa Leslie Lipschitz said yesterday.

Speaking in a Worldnet satellite link-up arranged by the US Information Services yesterday, he said there was "little to suggest" that anything would go wrong when the IMF board met at the end of the year. There was agreement between the different groupings on the bottom line on government spending, although of course there was disagreement on priorities.

The IMF had had talks with government, parliamentary parties, the ANC, PAC, Inkatha and Cosatu. The groups had then been brought together in a multilateral forum and, individually and together, had agreed on the need to avoid a debt trap.

On SA's economic outlook, he said the IMF believed SA had the potential for an economic miracle of southeast Asian proportions. However, structural change would be necessary on several fronts. On the fiscal front, SA's deficit of 7% of GDP could be reduced only by two percentage points as a result of a cyclical upswing, while the effect on unemployment would also be small. "The SA economy is not amenable to expansionary stimulus from fiscal and monetary policy," he said.

World Bank vice-president for Africa Edward Jaycox said he wanted to "plead for an early involvement in SA by the bank. The sooner the better". SA had to identify projects and ask for funds.

Jaycox noted the ownership of major productive assets was closely held and probably not politically sustainable. The bank was looking at mechanisms to ensure a more equal ownership of productive assets. Land reform and anti-trust policy could be part of the policy package. Anti-trust policy would have to be studied with a view to arriving at a less concentrated ownership structure.

Jaycox was emphatic SA would not have access to "soft" finance from the bank. The criterion was an income per capita of less than \$700, while SA's was \$2 500.

Questioned on conditions attached to loans, Jaycox said conditionality was usually a problem only in countries whose economies had been "run into the ground". Lipschitz added it was often a case of "shooting the messenger" but said policy programmes had to be designed and owned by a country, otherwise they fizzled out.

● See Page 10

Swedish models for SA — via Volvo

EDWARD WEST

VOLVO Car Corp is to resume sales of its cars in SA early next year through an agreement with Combined Motor Holdings (CMH), CMH chairman Maldwyn Zimmerman said yesterday.

The Swedish car maker has decided to re-enter the local market with two top-of-the-range Volvos, the 960 and 850, after quitting SA in the 70's for political reasons, he said. B/Day

CMH, which has motor dealerships with Nissan, MMI, Delta, Mercedes-Benz and Toyota franchises, would form a wholly owned subsidiary to distribute the fully built imported cars in Johannesburg, Pretoria, Durban and Cape Town. 9/11/93

Although the prices of the cars had not yet been determined, they would be competitively priced compared with other models of similar specifications.

Volvo Cars intercontinental president Helge Alten said initial sales volumes were expected to be low by European standards, but longer-term sales prospects were good. (67)

Zimmerman said initial sales targets had not been established. The decision to import only top of the range Volvo cars was taken because high tax and import duties precluded the viability of importing fully built vehicles of lower specification, he said.

Premium income surge puts Metpol in top 10

(58) ARG 1/12/93

BRUCE CAMERON
Business Staff

LIFE assurer Metropolitan Life has seen all round growth pushing it into the fifth biggest collecting of recurring premium assurance and into seventh place on total premiums.

Shareholders have benefitted with dividends increased by 22 percent from 55c in 1992 to 67c (an interim dividend of 24c and a final dividend of 43c). Earnings a share were also up by 22 percent from 85c to 105c.

The dividends were better than those projected to shareholders when it was decided earlier this year to make holding company Methold the first black-controlled listed company on the Johannesburg Stock Exchange.

MD Marius Smith said so far only R10 million of the R140 million shares had been sold to black investors but the sell-off was on schedule.

He expected more shares to be sold with a second prospectus having beeen issued a few weeks ago and with Methold shares now trading at a discount instead of the premium on the issue price.

He expected that when all the shares were sold off 60 percent would be held by individuals and the rest by black-owned institutions or by insitiuutions that administered black funds, such as pensions.

Premium income grew by 23 percent to exceed R1 billion for the first time. Mr Smith said this was pleasing in the light of the unfavourable economic climate and "the unrest in certain of our focus markets".

Benefits paid to policyholders were up 14 percent but Mr Smith said the amount of R432 million included surrenders. He declined to give the total figure but said the surrenders were up to a worrying high of 55 percent on the previous year.

However, against industry trends policy lapses had dropped significantly. This was because the company was targetting its markets better and because a lot of business was through stop orders.

Investment income increased by 11 percent in spite of decreasing interest rates and slower dividend growth.

Operating costs increased by only 15 percent while total assets increased by 19 percent to R5,7 billion.

Mr Smith said as the economy was showing definite signs of emerging from recession, the year ahead would see "momentous political developments which may well be accompanied by heightened political tensions and continued unrest in our focus markets.

"However, the directors are confident that the company will continue to expand its business and increase shareholders' earnings."

P T O

Absa shares take a dive

B/Day 1/12/93

SHARON WOOD

BANKING group Absa's share price dropped 70c (7,8%) to R8,30 yesterday following the release of its disappointing interim results on Monday.

Dealers said they had cut their year-end earning forecasts from 15%-20% to 4% — the increase Absa posted in the half year to September.

Sentiment was split on whether Absa could regain the lost market share which had pulled it back in the first half.

Davis Borkhum Hare analyst Graham Baillie said the 33% cut in bad debt provisions and low increase in operating expenditure had left a "solid" 17% rise in pre-tax income, against Nedcor's 3% rise and FNB's 19% hike.

58

But another analyst said he was wary of the drop in bad debt provisions, suggesting this had been "a cosmetic way of showing an increase in pre-tax profits". Had the provisions remained the same, Absa would have made a loss, he said.

Baillie said the share was underrated, with its price:earnings ratio of 6,8 far below the banking sector average of 15.

The share price drop was "probably a temporary aberration because investors took fright." It was a "wonderful opportunity" to buy the share.

But others said the the share would not be an institutional investment until Absa posted a string of sound earnings performances. The bank's management also remained a market concern.

One analyst said Absa should unbundle, given its poor showing so far.

Metpol hoists earnings 22%

Star 1/12/93

By STEPHEN CRANSTON

Metropolitan Life (Metpol), the life office catering predominantly for the black market, increased earnings per share by 22 percent to 105c in the year to September.

The dividend has been raised by the same percentage to 67c.

MD Marius Smith said yesterday it had been a crucial year because control passed from Sanlam to Methold, a company in which all shareholders are black. (58)

Other milestones were that premium income exceeded R1 billion for the first time, rising 23 percent to R1 001 083, while total assets grew 19 percent to R5,73 billion.

An encouraging feature of Metpol is that the bulk of its income is derived from recurring premium income, rather than from single premium income, which promises a more stable flow of funds in the future.

Recurring premium income increased 19 percent to R922,1 million.

This was achieved despite a 10,6 percent decline in home service (funeral insurance) recurring premiums to R60,5 million

Based on recurring premium income, Metpol is now the fifth-largest life assurer in SA.

This represents 92 percent of the company's total premium income, compared with an industry average of 60 percent.

Single premium income is, nevertheless, increasing fast. It rose by 89 percent to R79 million.

Smith says surrenders of individual policies is at an unsatisfactory level. He says, however, that surrenders are inevitable because of the current level of retrenchments.

Nevertheless, the level of withdrawals fell from 16,5 percent to 16 percent of premium income.

There was an encouraging fall in the number of death claims, indicating improved mortality rates.

Death claims fell from 22,2 percent of premium income to 19,5 percent.

In its asset distribution there was a marked shift away from equities, which accounted for 36 percent of assets, compared with 39 percent a year ago, to bonds which, increased their share from 20 to 25 percent.

COMPANIES

Leap in Metlife premium income

CHARLOTTE MATHEWS

LIFE ASSURER Metropolitan Life's (Metlife) premium income in the year to September passed R1bn for the first time, a 23% improvement on 1992, despite an extremely difficult market, Metlife MD Marius Smith said yesterday.

He attributed the company's success both to stronger support generated in its target market by the sale of part of Sankorp's holding to black shareholders, the increased productivity of the sales force and its successful range of products. B/DAY

Total income grew 19% to R1,4bn from R1,2bn with premium income at R1,0bn (R816m) and investment income 11% higher at R394,7m (R357,0m). 1/12/93

Recurring premium income contributed 92% of total premium income. It rose 19% to R922,1m from R774,3m, of which R663,8m (R558,6m) was from individual premiums and R258,3m (R215,7m) from group schemes. (58)

Based on recurring premium income Metlife has jumped two places to become the fifth largest insurer in SA, Smith said.

Single premium income rose 89% to R79m from R41,7m.

The disclosed surplus lifted 21% to R70,9m from R58,5m and earnings a share were 22% higher at 105c from 86c previously. The total dividend for the year is 67c (55c).

Total assets at end September were R5,73bn (R4,8bn). The mix of the group's investment portfolio has changed slightly over the past year, with about 36% (39%) market value now invested in equities, 17% (19%) in property, 25% (20%) in bonds and the remainder in money market investments and cash.

Smith said Metlife focused on certain chosen markets. About 93% of its new business came from the black market.

Metlife's business is no longer dominated by cash premiums. About 87% of premiums are paid by employer stop orders, 9% by bank stop orders and 4% in cash.

Responding to a recent press report that the offer of Metlife shares to the black community was moving slowly, with only R9m of the R140m worth of shares on offer sold since May, Smith said the shares had not yet been marketed to the black community and the reaction of small investors was in line with expectations.

OM's offshore operations going strong — Levett

TOM HOOD
Business Editor

(58) ARG 2/12/93

ANYONE hoping to find details of Old Mutual's vast British operations being reported at today's annual meeting would be disappointed.

Chairman Mike Levett, speaking at the AGM in Pinelands, reported merely that he was "pleased to report that our overseas subsidiaries have continued to show satisfactory growth".

Investigations by Weekend Argus uncovered the opening of large office buildings in England and Ireland, the listing by Old Mutual of life assurance and unit trust companies on the Dublin Stock Exchange in September, offices as far afield as Athens and Hong Kong and a value of $25 billion claimed for Old Mutual Overseas.

Mr Levett said the Providence Capitol Group (which he did not explain) provided assurance and investment products "to a wide international market and now includes operating companies in the United Kingdom, Guernsey and, most recently, Ireland.

"Our overseas experience continues to provide us with many insights to the benefit of our members and clients and southern Africa."

One such experience had been Old Mutual's exposure to the Financial Serices Act in Britain.

This legislation, aimed at benefiting the ordinary investor, had succeeded in doing precisely the opposite, said Mr Levett.

"There is still no certainty about appropriate levels of disclosure, while the extensive requirements stipulated by the Act have proved extremely expensive for assurers to maintain.

"The cost, inevitably, has reverted to the ordinary investor. Furthermore clients may well have been denied effective access to products and suppliers because of the proliferation of rules and regulations.

"In South Africa we would be wise to take note of the singular lack of success in regulation overseas. We must proceed with extreme caution before tampering with this country's highly successful financial services industry."

Mutual's activities in Africa were well established, servicing the individual and group markets in South Africa, Zimbabwe, Namibia, Kenya and Malawi, he added.

The recent approval of the transfer of Mutual's Kenya business to a local subsidiary provided "an excellent platform" for business development in that country.

Demands that insurance giants devote part of the billions of rands in their coffers to social upliftment were answered by Mr Levett.

Through the deployment of its resources — total assets exceed R98 billion — Old Mutual played a significant role in the promotion of the country's economic growth.

It was clear the country needed to pay increasing attention to development projects.

These initiatives would require finance capital and the insurance industry should play an active role in this area.

However, Old Mutual's primary responsibility was to policyholders and retirement fund members.

"As a result our desire to participate in development projects must be tempered by the need to optimise investment returns for our members, within appropriate levels of security."

Land Bank loans down

(58) (B) CT 2/12/93

PRETORIA. — Land Bank loans to the agricultural sector declined by R797m to R8,42bn in the year to October 1, latest bank statistics show.

Land Bank short-term agricultural production credit via co-operatives fell the most, dropping R1.12 billion to R4.046 billion.

The statistics show short-term finance to individual farmers rose to R168.41 million from the previous level of R69.66 million.

Land Bank risks are, however, falling, according to a bank official.

"With a noticeable increase in demand for farm property as a result of the more favourable climatic conditions prevailing since last summer, the Land Bank's exposure to risk through land loans is declining progressively," said Freddie van Staden, the bank's general manager. — Sapa

FM 3/12/93

SAAMBOU

Firmer capital base

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Saambou's turnaround has been impressive and, though off a low base, the rapid growth in earnings the bank has recorded since financial 1992 was bound to put a strain on capital resources at some stage. Accordingly, Saambou had been considering holding a rights issue but this plan was frustrated as the market failed to rate the share in line with its appreciation.

Plans for the issue have now been scrapped, with group MD Johan Myburgh saying about R40m capital has been obtained. Details are vague; Myburgh says an announcement will be made soon once formalities have been completed.

FM 3/12/93 58

The additional capital will raise Saambou's capital to asset ratio from the interim 6,4%, just above the 6% requirement for the year, to over 8% at year-end. That will put Saambou in line with the 8% capital requirement which comes into effect in 1995.

It will also offer an expanded capital base to underpin growth, which Myburgh expects to at least match the first half. Year-end predictions for EPS of 15c and a dividend of 3c remain on track, he says. That shows the extent of Saambou's recovery — at the 1992 year-end EPS were a negative 59c and the dividend was passed.

Pre-tax income growth of more than 200%, absurdly high as it may seem, has been tempered by the transfer of R5m to a general risk provision. Officially, the provision is for possible changes in operating risks due to the "abnormal economic and sociopolitical uncertainty." Unofficially, it's a tax equalisation reserve, and it follows the R6m which was provided for the same reason in financial 1993.

Saambou's strategy of concentrating on individual business seems to be paying off. Myburgh says personal loans grew by 45% over the first half and are expected to grow by a similar amount in the second half.

Less successful have been attempts to restrain growth in home loans. "We have not been aggressively chasing mortgage business and have cut back on advertising, but a lot of business continues to come to us," Myburgh says. Home loans grew 15% to R3,3bn, about 80% of advances. Myburgh would like to see this percentage reduce to about 60%, and plans to focus on individual and group business to reach the target mix.

After negative asset growth in the second half of financial 1993 as Saambou concentrated on improving the quality of assets and selling nonperformers, it's encouraging to see the asset base increase to R4,7bn over the first six months. This is 5% higher than at the previous interim and about 8,8% more than at year-end.

With abnormal write-offs and restructuring costs through the book, the resumption of asset growth, backed by additional capital, should ensure earnings growth. The share was looking undervalued at year-end when it traded at 90c, but despite appreciating by about 28% since then and trading on a firmer p:e ratio of 12,2, it still offers value.

Shaun Harris

Full of surprises

FM 3/12/93

58

A lot of the surprise, some would say shock, that greeted Absa's worse-than-expected 4% increase in earnings comes from everybody getting their estimates wrong. The market, which up to a week ago was predicting earnings growth of 10%-14%, clearly overestimated the banking giant's ability to recover.

Absa management, on the other hand, seems to have underestimated the adverse effects the two earlier mergers would have on profitability. Still hanging over this week's interim results — and over investors' perceptions of the share — is the ghost of the merger with Bankorp, a spectre that is proving remarkably resilient.

BOGGED DOWN

Six months to	Sep 30 '92	Mar 31 '93	Sep 30 '93
Interest inc (Rbn)	1,79	1,89	1,83
Taxed inc (Rm)	274	364	294
Attributable inc (Rm) .	294	423	305
Earnings (c)	51,9	68,9	54,0
Dividends (c)	17	26,5	17

One direct effect of the Bankorp acquisition is that Absa acquired a large tax loss, which at year-end amounted to about R600m. This resulted in a deferred tax asset which is amortised as losses are used, with no release of income. This, with the disposal of underperforming dividend-income investments, the increase in Vat, and the introduction of STC, increased Absa's effective tax rate to 44% and raised the tax charge by 30% to R231m.

CE Danie Cronje points out that while competitors enjoyed a release of income from deferred tax adjustments, Absa missed that benefit. That obviously had a dramatic effect on taxed income, which advanced only 7%, but was largely offset by Absa's unexpected reduction in its bad debt provisions. Once again the market was wrong, expecting bad debts to rise — instead Absa reduced provisions 33% to R279m.

This could prove contentious. First National Bank is the only other major commercial bank to reduce its provisions, and then by a mere 1%. Nedcor increased its provisions by 22%, Standard Bank by 27%.

Cronje argues that previous provisions were ultra-conservative as they were not sure what might come out of risks picked up in the merger; that the book has been cleaned up and the quality of assets improved; that Absa's big home loans book carries less risk; and that the bad debt charge, 0,86% of average advances, is in line with the industry.

Whatever the reasons, investors will inevitably note that this sharp reduction came at a fortuitous time for Absa. Had bad debts remained the same as for the previous interim period, earnings this time would have fallen by as much as 44%. In any event, the bottom-line result is more flattering than the underlying performance.

Cronje admits the mergers have slowed down growth and resulted in loss of market share. Lost retail business shows most tellingly in the poor 2% increase in net interest income. Against this, the 15% growth in corporate advances is hardly significant.

But Cronje, while not expecting to better financial 1993's R684m attributable income, believes Absa is through the worst of its mergers indigestion. Operating expenses, up only 4%, are under control, and benefits of rationalisation are starting to come through.

Absa also raised a R1bn subordinated loan, placed over a broad spectrum of institutional investors (whose identity is confidential but presumably included major shareholders Sanlam and Rembrandt). That will raise Absa's capital:assets ratio to a comfortable 8,8% and should therefore avoid any need for rights issues for a number of years.

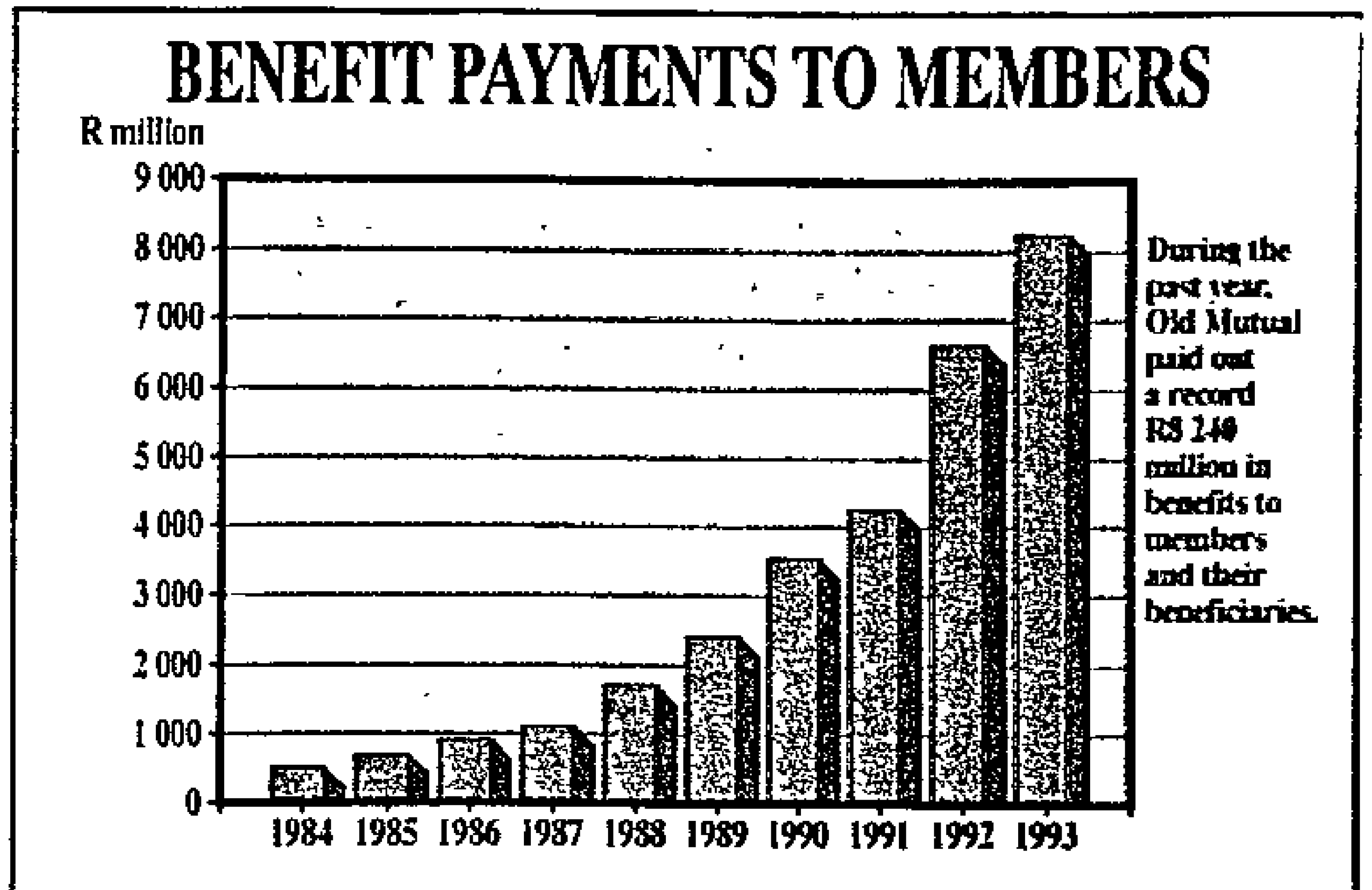
Cronje says, though, that following international merger trends, it could take another two-and-a-half years for Absa to start getting the ratios recorded by competitors. "We would have liked to see a quicker recovery, but it's difficult under present economic conditions," he says.

The market still seems confused about Absa. Buy and sell signals are likely to come out of broking firms. The long view taken by some is that Absa is a good buy now, but other analysts believe investors should get out if the price remains above R8.

Initial market reaction, though, was to knock 70c, nearly 8%, off Absa's share price when results were released on Tuesday. Until results show clear signs of recovery, especially in asset growth, there seems little reason to queue up for the share. *Shaun Harris*

Absa's Cronje ... *mergers have slowed growth*

(58) CT 3/12/93



Year of progress — with Old Mutual in lead

THE past year saw Old Mutual at the forefront of many new and very exciting changes which affect the life assurance industry. The burdensome regulations of the 6th Schedule of the Income Tax Act, which controlled certain life assurance investments, have been relaxed. In addition, the society assisted in having life assurers' taxation rates of members funds set at more suitable levels. Both these opportunities have allowed Old Mutual to provide its members with new investment options and the potential for even greater returns.

Old Mutual was instrumental in achieving the abolition of the 6th Schedule which led to a dramatic simplification of the administrative process of the assurance business. Feedback from Old Mutual's intermediaries, on both the agency and broker sides, was overwhelmingly positive.

Old Mutual offers a range of products over different terms. The comprehensive Flexi-product series is constantly being updated and has proved itself thoroughly with almost three million policies issued.

The most exciting new package launched in the past financial year was Flexi Family Cover, a comprehensive product providing protection for the whole family with special emphasis on funeral cover. Flexi Family Cover was launched in the second half of this year and has been enthusiastically received.

Over the past year, the number of claims paid by the comprehensive medical insurance package FlexiCare has increased by a staggering 430%, providing ever-increasing financial support to Old Mutual members who have suffered medical setbacks in times when medical aid benefits are being limited and subscriptions increasing.

The total cover provided by FlexiCare has almost reached R3-billion, indicating the growing tendency for individuals to provide for their own medical expenses and thereby lessening the burden on the State. The package is continually being improved and updated as innovations are added to benefit clients.

Of those South Africans who bought a retirement annuity last year, more than 40% chose a FlexiPension retirement annuity from Old Mutual. This year a unique computer-based sales aid, OMU-SALES, was developed to determine accurately an individual's retirement needs and make provision for them.

FlexiIndependencemaker is a new package designed to assist financial planning for women.

Another highlight was that more than 1 000 of the society's intermediaries were awarded the International Quality Award for outstanding service to clients. This prestigious and demanding award is presented by the American Life Insurance and Marketing Association.

Focus on international ties

THE South African life assurance industry is sophisticated by world standards. For this reason Old Mutual has established key links to international markets, with the ultimate goal of benefiting its members and the countries in which Old Mutual operates. Chairman Mike Levett focused on Old Mutual's international oper- [illegible]

land and referred specifically to exposure to the Financial Services Act in Britain. "Financial Services legislation was aimed at benefiting the ordinary investor. It has, however, succeeded in doing precisely the opposite. The extensive requirements stipulated by the Act have proved extremely expensive for assurers to [illegible]

Insurance giant Old Mutual's R100 bn in assets breaks records

IN A YEAR that was marked by recession and slow economic growth, Old Mutual set a record for the life assurance industry by breaking through the R100-billion barrier soon after the year-end declaration of assets of R98-billion in June. Assets under management — that is, assets which are managed on behalf of members and clients — reached R100-billion on August 31 1993.

Old Mutual's chairman Mike Levett, addressing policyholders at the society's 148th Annual General Meeting, said such growth was indicative of the trust that millions of people, from all walks of life, were placing in Old Mutual to turn their dreams, hopes and plans into reality, through the present and future benefits of life assurance.

Quality of life

Mr Levett said the measure of Old Mutual's long-term investment capability was the value which policyholders and beneficiaries received when policy contracts were fulfilled. "During the year, Old Mutual paid out a record R8 240-million in benefits. This was 17 times the amount paid out 10 years ago and an average of R32-million every working day.

Furthermore, most of these payments were made to members during their lifetimes, directly improving the quality of their lives.

"Old Mutual's continued growth is also reflected in the 20% increase in premium income to R12 292-million. Striking features of this year's results were the 34% increase in single premiums, and the increase in recurring premiums to R7 350-million. Investment income increased to R5 090-million, despite the decline in South African interest rates and recessionary pressure on corporate earnings and rental income. As a result, Old Mutual's total income increased to R17 382-million — an increase of 17% over the previous year."

MIKE LEVETT: Chairman of Old Mutual.

A significant feature of this year's results, he said, was the success achieved in controlling costs. "Our consistent focus on efficiency resulted in an increase of only 14% in operating expenses, including selling expenses, which contrasts favourably with the 20% increase in premiums income."

Mr Levett also commented on Old Mutual's track record of long term investment performance and of exercising sound financial management. "As a mutual society, operating in uncertain times, Old Mutual is very aware of the need to continue building reserves.

Sustained growth

"These are essential to safeguard present and future commitments to members and clients and to finance expansion and development. Assets under management are in actual fact liabilities and commitments made to policyholders and clients. To this end, the society has and will continue to apply focused financial discipline to ensure long-term profitable growth."

Mr Levett added that the society's sustained growth was remarkable when looking back over a longer period. Although South Africa was facing tremendous change, Old Mutual remained committed to its vision of providing financial security and helping members to make the most of their lives. The society's motto "A certain friend in uncertain times" was now as relevant as ever as the organisation moved forward into the future.

OM Kenya chairman says SA can lead

THE challenges presented by a changing world must be seen as opportunities, Mr Sam Waruhiu, chairman of Old Mutual's Kenya board, said while seconding the address of Old Mutual's chairman Mike Levett at the life assurer's 148th annual general meeting in Cape Town.

Mr Waruhiu said "I strongly support the statement that change is a challenge Africa, like other parts of the world, is undergoing constant change.

"The social-political changes in South Africa are being matched by the change from one-party political systems and centralised economies into multi-party political systems and market economies in the rest of Africa.

"The world is being regionalised into the European Community, the North and Central American Trade area, and the Asian Pacific Rim economic organisations. Africa must follow suit if we are not to lag behind.

SAM WARUHIU: Chairman of Old Mutual Kenya.

"Old Mutual has been a leader in promoting economic growth in South Africa. That leadership could be extended northwards into the rest of Africa. Indeed, as the rest of Africa returns to market economies and stable governments, opportunities and challenges will present themselves.

"Old Mutual is known for its wide range of investment products. Speaking of East Africa, I know that there is no competitor that can offer any worthwhile competition to Old Mutual.

"It is my wish to urge that Africa should forge ahead to develop herself in just the same way as others are busy developing themselves. Old Mutual, as the largest life insurance body in Africa, can be a vehicle for the development I have in mind."

members and the countries in which Old Mutual operates Chairman Mike Levett focused on Old Mutual's international operations at the society's Annual General Meeting which was held recently in the garden municipality of Pinelands in Greater Cape Town

Levett said "Old Mutual's activities in Africa are well-established serving the individual and group market in South Africa, Zimbabwe, Namibia Kenya and Malawi An application for the transfer of our Kenya business to a local subsidiary, which was recently approved, will provide an excellent platform for business development in that country Our overseas subsidiaries also show satisfactory growth"

Mr Levett commented on the value of the insight gained internationally via subsidiaries in Great Britain Guernsey and Ireland precisely the opposite The extensive requirements stipulated by the Act have proved extremely expensive for assurers to maintain and the cost, inevitably, has reverted to the ordinary investor"

Based on this experience Levett cautioned against tampering with South Africa's highly successful financial services industry

Old Mutual, in line with its expectation of increased international investment in South Africa, has begun a process of international benchmarking to ensure that the organisation meets the standards of the world's best assurers "We are exchanging management information with leading international assurers to assess sales productivity, information technology effectiveness and administration efficiency," Mr Levett said

presented ... American Life Insurance and Marketing Association

Striking features of this year's results were the 34% increase in single premiums, and the income increased to R1 382-million — an increase of 17% over the previous year."

relevant as ever as the organisation moved forward into the future.

themselves Old Mutual, as ... insurance body in Africa, can be a vehicle for the development I have in mind"

Old Mutual is in tune with pace of change

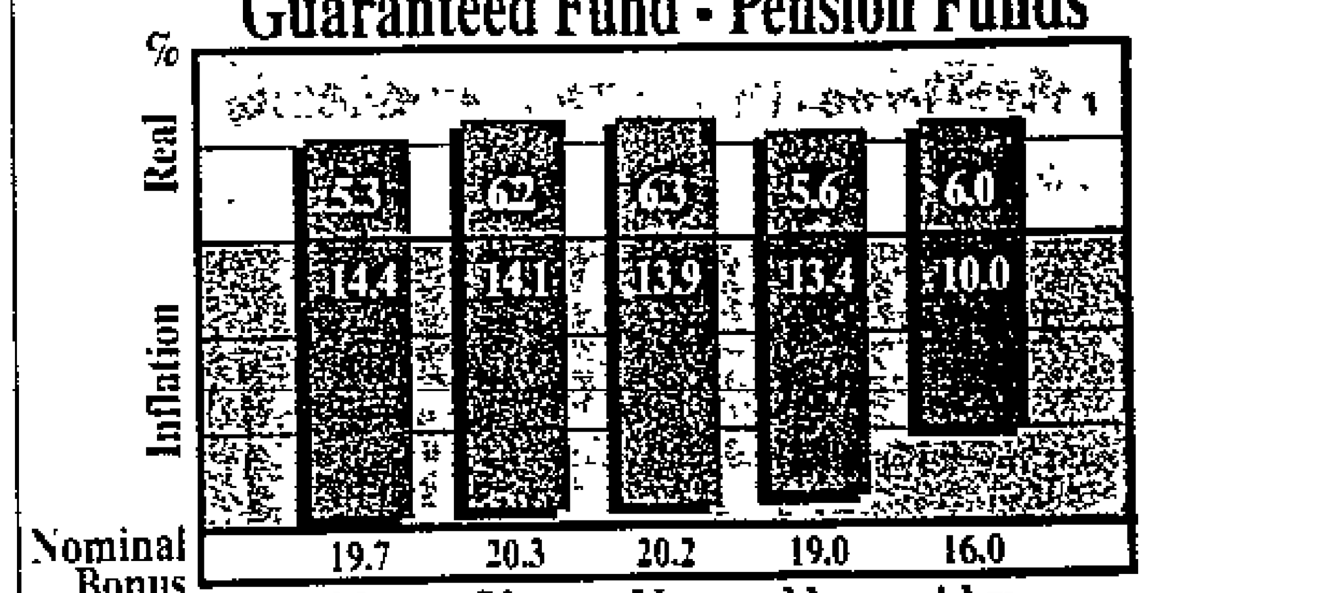
SOUTH AFRICA is moving forward at a rapid pace and Old Mutual is part of that change. Looking back over the 148 years of Old Mutual's existence in South Africa, change has ever been present For Old Mutual, change means new opportunities to achieve its mission to help members provide for their financial security, thereby enabling them to make the most of their lives.

Old Mutual's chairman Mike Levett, speaking at the society's 148th Annual General Meeting, commented on the remarkable achievements that had been made in South Africa "There are many encouraging signs Despite the evident problems facing us, we should be mindful of how much has been achieved and how quickly it has been achieved South Africa's people are taking the time to find each other and are discovering that, together they can create better solutions — for the benefit of all"

As an indication of their commitment to South Africa, Old Mutual and Nedcor sponsored the Professional Economic Panel to develop strategies to assist in improving the total economic situation, thereby creating an environment for a sustainable economic upswing. The detailed proposals of the panel were practical guidelines for the creation of an economic climate in which business enterprise will flourish

"Old Mutual is rooted in Southern Africa," Mr Levett said "And, because our primary responsibility is to our policyholders and retirement fund members, we want to contribute to the development of the region as a whole In this area our international experience continues to provide us with many insights, to the benefit of our members and clients in Southern Africa."

HISTORY OF BONUS RATES
Guaranteed Fund - Pension Funds



While the above graph illustrates the returns for pension funds, the bonus rates for provident funds show a very similar picture with marginal differences for periods longer than three years — the result of different tax and prescribed asset requirements prevailing at the time.

Guaranteed Fund a bonus for pension and provident members

DESPITE adverse market conditions, the Old Mutual Employee Benefits' Guaranteed Fund again produced excellent returns and declared an inflation-beating bonus during the past year

Speaking at the society's Annual General Meeting, chairman Mike Levett described the existing employee benefits environment as volatile. The Guaranteed Fund offers security and has historically yielded inflation-beating returns as an investment vehicle while also eliminating fluctuations associated with market-linked vehicles This year's bonus declaration of 16%, compared with last year's 20%, represented an outstanding real return.

"The reduction in the nominal return compared with 1992 should be seen against a sharp decline in both our inflation rate and the nominal returns on asset markets over the past few years"

Levett noted that with the rate of inflation having declined from 15.1% in June 1992 to 10% at the same time this year, the effective rate of return achieved was 6% — 22% up from last year's inflation-adjusted gain of 4.9%. The effect of the bonus is that another R1.5-billion has been added to the value of pension and provident funds participating in the Guaranteed Fund.

This, he said, was in line with the Guaranteed Fund's broad investment strategy to achieve real long-term returns for investors. While this necessitates maximum exposure to growth assets, the structure of the fund ensures smooth returns compared to the fluctuations characteristic of market-linked investment vehicles

He also believed that Old Mutual's uncompromising attitude in terms of maintaining an appropriate level of reserves — the core success factor in any guaranteed fund — was one reason why a growing number of funds had selected the Pinelands-based life office.

ARG 3/12/93 (58)

Advertising Feature

Insurance giant Old Mutual's R100 bn in assets breaks records

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Old Mutual's chairman Mike Levett, addressing policyholders at the society's 148th Annual General Meeting, said such growth was indicative of the trust that millions of people, from all walks of life, were placing in Old Mutual to turn their dreams, hopes and plans into reality, through the present and future benefits of life assurance.

Quality of life

Mr Levett said the measure of Old Mutual's long-term investment capability was the value which policyholders and beneficiaries received when policy contracts were fulfilled. "During the year, Old Mutual paid out a record R8 240-million in benefits. This was 17 times the amount paid out 10 years ago and an average of R32-million every working day.

Furthermore, most of these payments were made to members during their lifetimes, directly improving the quality of their lives.

"Old Mutual's continued growth is also reflected in the 20% increase in premium income to R12 292-million. Striking features of this year's results were the 34% increase in single premiums, and the increase in recurring premiums to R7 350-million. Investment income increased to R5 090-million, despite the decline in South African interest rates and recessionary pressure on corporate earnings and rental income. As a result, Old Mutual's total income increased to R17 382-million — an increase of 17% over the previous year."

MIKE LEVETT: Chairman of Old Mutual.

A significant feature of this year's results, he said, was the success achieved in controlling costs. "Our consistent focus on efficiency resulted in an increase of only 14% in operating expenses, including selling expenses, which contrasts favourably with the 20% increase in premiums income."

Mr Levett also commented on Old Mutual's track record of long term investment performance and of exercising sound financial management. "As a mutual society, operating in uncertain times, Old Mutual is very aware of the need to continue building reserves.

Sustained growth

"These are essential to safeguard present and future commitments to members and clients and to finance expansion and development. Assets under management are in actual fact liabilities and commitments made to policyholders and clients. To this end, the society has and will continue to apply focused financial discipline to ensure long-term profitable growth."

Mr Levett added that the society's sustained growth was remarkable when looking back over a longer period. Although South Africa was facing tremendous change, Old Mutual remained committed to its vision of providing financial security and helping members to make the most of their lives. The society's motto "A certain friend in uncertain times" was now as relevant as ever as the organisation moved forward into the future.

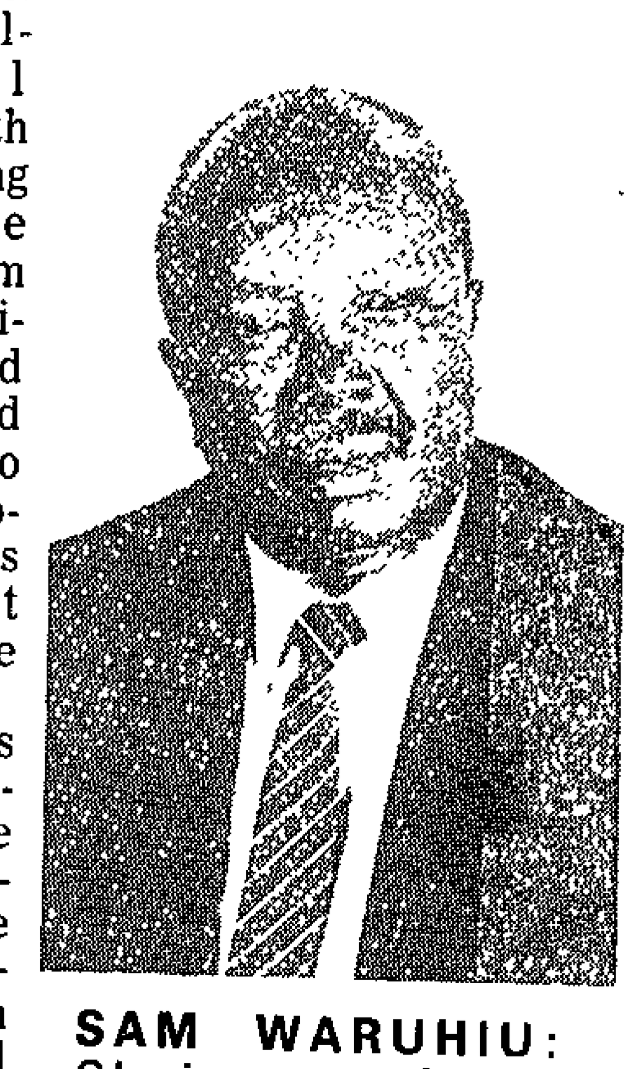
OM Kenya chairman says SA can lead

THE challenges presented by a changing world must be seen as opportunities, Mr Sam Waruhiu, chairman of Old Mutual's Kenya board, said while seconding the address of Old Mutual's chairman Mike Levett at the life assurer's 148th annual general meeting in Cape Town.

Mr Waruhiu said: "I strongly support the statement that change is a challenge. Africa, like other parts of the world, is undergoing constant change.

"The social-political changes in South Africa are being matched by the change from one-party political systems and centralised economies into multi-party political systems and market economies in the rest of Africa.

"The world is being regionalised into the European Community, the North and Central American Trade area, and the Asian Pacific Rim economic organisations. Africa must follow suit if we are not to lag behind.

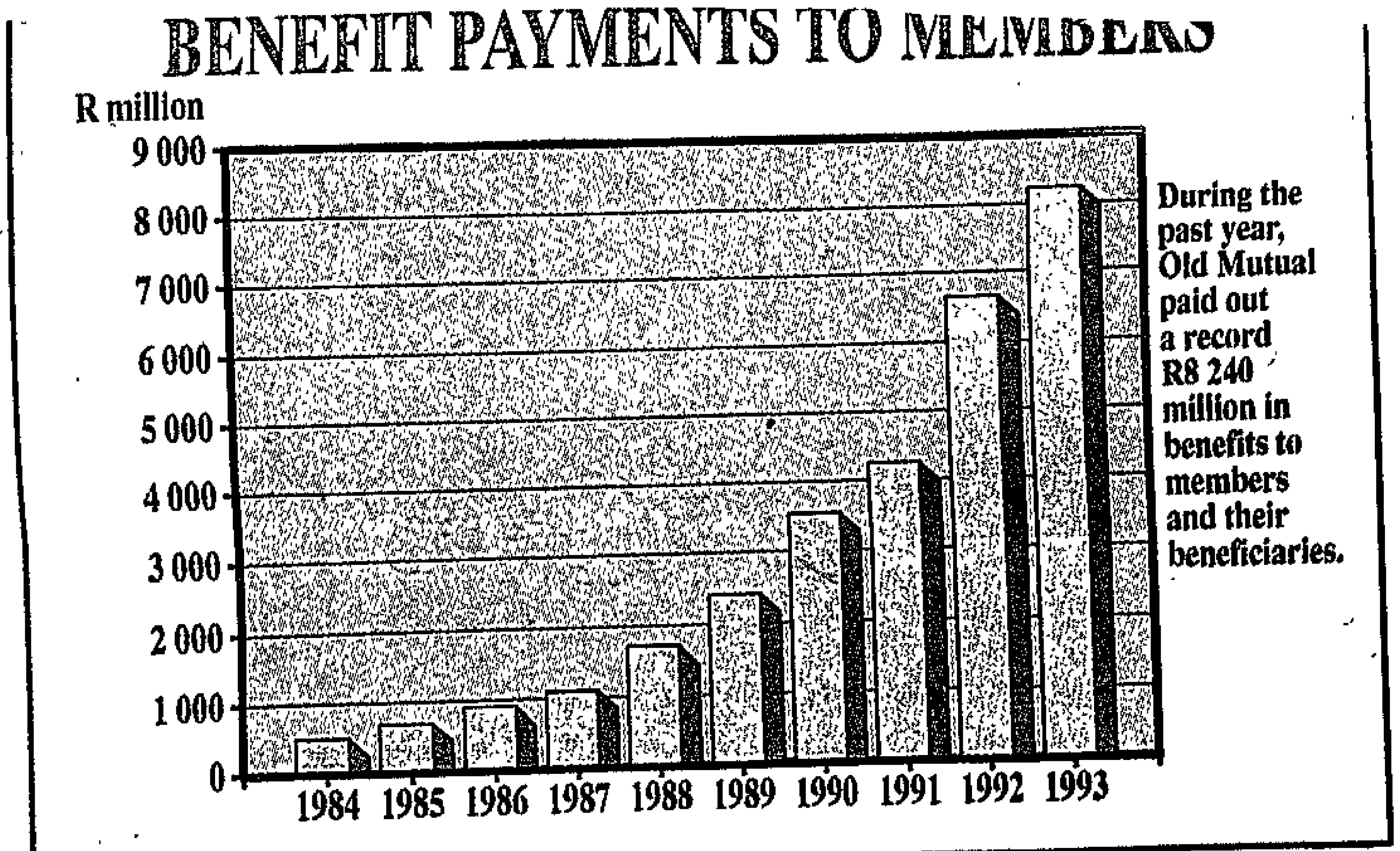


SAM WARUHIU: Chairman of Old Mutual Kenya.

"Old Mutual has been a leader in promoting economic growth in South Africa. That leadership could be extended northwards into the rest of Africa. Indeed, as the rest of Africa returns to market economies and stable governments, opportunities and challenges will present themselves.

"Old Mutual is known for its wide range of investment products. Speaking of East Africa, I know that there is no competitor that can offer any worthwhile competition to Old Mutual.

"It is my wish to urge that Africa should forge ahead to develop herself in just the same way as others are busy developing themselves. Old Mutual, as the largest life insurance body in Africa, can be a vehicle for the development I have in mind."



Year of progress — with Old Mutual in lead

THE past year saw Old Mutual at the forefront of many new and very exciting changes which affect the life assurance industry. The burdensome regulations of the 6th Schedule of the Income Tax Act, which controlled certain life assurance investments, have been relaxed. In addition, the society assisted in having life assurers' taxation rates of members' funds set at more suitable levels. Both these opportunities have allowed Old Mutual to provide its members with new investment options and the potential for even greater returns.

Old Mutual was instrumental in achieving the abolition of the 6th Schedule which led to a dramatic simplification of the administrative process of the assurance business. Feedback from Old Mutual's intermediaries, on both the agency and broker sides, was overwhelmingly positive.

Old Mutual offers a range of products over different terms. The comprehensive Flexi-product series is constantly being updated and has proved itself thoroughly with almost three million policies issued.

The most exciting new package launched in the past financial year was Flexi Family Cover, a comprehensive product providing protection for the whole family with special emphasis on funeral cover. Flexi Family Cover was launched in the second half of this year and has been enthusiastically received.

Over the past year, the number of claims paid by the comprehensive medical insurance package FlexiCare has increased by a staggering 430%, providing ever-increasing financial support to Old Mutual members who have suffered medical setbacks in times when medical aid benefits are being limited and subscriptions increasing.

The total cover provided by FlexiCare has almost reached R3-billion, indicating the growing tendency for individuals to provide for their own medical expenses and thereby lessening the burden on the State. The package is continually being improved and updated as innovations are added to benefit clients.

Of those South Africans who bought a retirement annuity last year, more than 40% chose a FlexiPension retirement annuity from Old Mutual. This year a unique computer-based sales aid, OMU-SALES, was developed to determine accurately an individual's retirement needs and make provision for them.

FlexiIndependencemaker is a new package designed to assist financial planning for women.

Another highlight was that more than 1 000 of the society's intermediaries were awarded the International Quality Award for outstanding service to clients. This prestigious and demanding award is presented by the American Life Insurance and Marketing Association.

Focus on international ties

THE South African life assurance industry is sophisticated by world standards. For this reason, Old Mutual has established key links to international markets, with the ultimate goal of benefiting its members and the countries in which Old Mutual operates. Chairman Mike Levett focused on Old Mutual's international operations at the society's Annual General Meeting which was held recently in the garden municipality of Pinelands in Greater Cape Town.

Levett said: "Old Mutual's activities in Africa are well-established, serving the individual and group markets in South Africa, Zimbabwe, Namibia, Kenya and Malawi. An application for the transfer of our Kenya business to a local subsidiary, which was recently approved, will provide an excellent platform for business development in that country. Our overseas subsidiaries also show satisfactory growth."

Mr Levett commented on the value of the insight gained internationally via subsidiaries in Great Britain, Guernsey and Ireland, and referred specifically to exposure to the Financial Services Act in Britain. "Financial Services legislation was aimed at benefiting the ordinary investor. It has, however, succeeded in doing precisely the opposite. The extensive requirements stipulated by the Act have proved extremely expensive for assurers to maintain and the cost, inevitably, has reverted to the ordinary investor."

Based on this experience, Levett cautioned against tampering with South Africa's highly successful financial services industry.

Old Mutual, in line with its expectation of increased international investment in South Africa, has begun a process of international benchmarking to ensure that the organisation meets the standards of the world's best assurers. "We are exchanging management information with leading international assurers to assess sales productivity, information technology effectiveness and administration efficiency," Mr Levett said.

TEC holds first meeting with powers still murky

B/Day. 6/12/93

ADRIAN HADLAND

THE Transitional Executive Council (TEC) meets for the first time in Cape Town's parliamentary complex tomorrow morning with the full extent of the council's powers still unclear and untested.

While the ANC has claimed the council, during its short five-month tenure, will be able to prompt or reverse government decisions on issues such as finance, foreign affairs and defence, President F W de Klerk reiterated last week that government would not be bypassed.

According to the TEC Act, the council's primary objective is to "promote the preparation for and transition to a democratic order in SA".

Associated with this central objective are a number of powers such as its access to information.

From the deployment of troops to applications by town councils for loans, the signing of new international treaties or the functioning of SA's arms industry, the TEC must be informed and involved.

The TEC is also at liberty to investigate any matter connected with its duties and has the authority to summon officials to answer allegations.

Even this fundamental power is, however, limited. The council is not entitled to information, the Act states, if it invades the privacy or endangers the life of any person "when weighted against the need or necessity for disclosure".

The need or necessity clause also applies to information that could lead to currency or property speculation.

The TEC has no access to any government "special or secret account" unless the auditor-general has found unauthorised expenditures.

Other powers are scattered throughout the seven areas — defence, intelligence, finance, local and regional government, foreign affairs, law and order, and status of women — which will be overseen by the TEC and its subcouncils.

Local councils cannot dispose of assets without TEC consent.

All policing agencies will be subject to a TEC code of conduct and backed up by an independent national complaints body. The TEC also has the power to overturn a decision by President De Klerk to impose a state of emergency.

Any military force can be restricted to barracks or suspended, and the subcouncil is at liberty to investigate "the future of the arms and related industries".

All armed forces are required to register all members within 21 days and then provide monthly updates.

The TEC can review the deployment of any force and may, subject to Defence Ministry consultation, "order the discontinuance of such deployment".

The TEC's finance subcommittee takes on a number of watchdog duties and powers. These include representation on all regional and government budgeting committees, perusal of all fiscal transfers, investigation of corruption and inefficiency, consent to the appointment of senior public servants, and an advisory function with regard to government privatisation initiatives.

The level and composition of any taxes to be collected by "any government" during 1994/95 is also subject to TEC scrutiny.

MMF not viable, says auditor-general

CAPE TOWN — The annual report of the Multilateral Motor Vehicle Accidents Fund for 1991/92 was tabled in Parliament on Friday, just over a year after it was finalised and officially accepted by the MMF executive committee.

It included a qualified report from the auditor-general, referring to his special report on the MMF, published earlier this year, which indicated the possibility of fraud involving millions and a massive surplus of liabilities over assets.

"In the light of the potential fundamental influence of the above issues on the financial statement, I am not able to express an audit opinion on the financial statements," he said. B/DAY

The auditor-general said there was a R2,999bn surplus of liabilities over assets, and an underwriters' loss for the year of R663m. 6/12/93

This, together with the increase in annual losses, indicated indisputably that the fund could not continue to exist as a viable undertaking unless urgent rectifying steps were taken. 58

According to the fund's balance sheet, its liabilities increased from R2,1bn at the end of its 1991 financial year to R2,999bn on April 30 1992. — Sapa.

Absa and Standard set up links with Russian banks

JOHN DLUDLU

EIGHT leading Russian banks have established correspondent links with Absa and Standard Bank, but the SA banks have ruled out closer ties.

The links would allow direct contact between the institutions, the SA banks said, and the exchange of technical information and the processing of trade documentation.

SA banks to date have used their European offices and American banks to do business with their Russian counterparts.

Absa senior manager for international trade Johann Stander said the links would strengthen bilateral trade, while Standard Bank said current trade volumes had prompted the move.

Bilateral trade soared to R700m in 1992, compared with R34,5m in the previous year.

Standard said the move was part of its plans to investigate investment opportunities abroad. So far it had established more than 2 000 correspondent links with overseas banks.

But both banks ruled out joint ventures with Russian banks or plans to establish branches in Russia because, they said, current trade volumes were still too low. BDay

The current economic uncertainty in Russia, sparked off by recent political turmoil, had also prompted the SA banks to hold back, a source said.

The "precarious state" of Russian foreign exchange reserves had dampened plans for closer ties, he said. "This is exacerbated by the bungling decisions of the Russian central bank, which have left the financial system in a chaotic state."

Russian Federation Chamber of Commerce and Industries in SA chairman Vadim Mejnikov said there was significant interest among Russian banks in establishing agents in SA. 7/12/93

This follows the recent signing of a trade and economic co-operation pact between SA and the Russian Federation. (58)

Finrand: Bumpy ride to elections

58

CT 8/12/93

JOHANNESBURG. — The financial rand is set for a bumpy ride in the run-up to elections, analysts say.

They add that the commercial rand is unlikely to come up with many surprises, but will probably maintain its gradual depreciation against the dollar and the trade-weighted basket of six leading currencies.

Absa international economist Charles Jonker said the financial rand — a barometer of foreign investor sentiment — would slip to around five on the dollar early next year due to "extreme political uncertainty" ahead of elections.

However, once elections were out of the way and assuming prudent economic policies under a new democratic government, sentiment could turn "extremely positive" as an expected flood of foreign investment materialised, Jonker said.

The finrand has gained almost 15% so far this year, thanks to the lifting of economic sanctions and SA's re-acceptance into the global economy.

Southern Life economist Sandra Gordon said the often-volatile unit was likely to continue to trade at a discount of between 15% and 25%.

"The financial rand will probably take a dent ahead of the elections, but should stabilise after that," she said.

One foreign exchange dealer at a merchant bank said the financial rand's discount was likely to move closer towards 30% ahead of the elections.

"We expect greater volatility ahead of April 27 in a market which is already thin and illiquid," he said.

Jonker expected the commercial rand to keep up its gradual depreciation of between 7% and 9% against the dollar next year.

However, he said the unit's fall against the trade-weighted basket — consisting of the dollar, pound, mark, yen, lira and guilder, whose weightings are not disclosed by the Reserve Bank — was likely only to be in the region of 5%.

From a current R3,36, he forecast a rand/dollar rate of R3,50 by April next year, and around R3,60 by August. By year-end the local unit would probably have lost another 10c to R3,70 against the US currency.

However, he said fear of heavy Reserve Bank intervention, as seen in early October, was likely to prevent the rand from "getting out of control". — Reuter

Wiese moves in on Boland Bank

B/Day

Business Day Reporters

PEPKOR chairman Christo Wiese effectively took control of Boland Bank yesterday after a series of deals in which 30% of the bank's issued share capital changed hands. 9/12/93

Wiese — who already owns 20% of the small Cape-based bank — said he had bought the bulk of the shares on the open market. It was not clear who the sellers were. About 4,6m shares worth R43m changed hands at 920c a share — 5c off its high — and 4,4-million preference shares worth almost R43m and priced at 960c were also traded. (58)

Wiese said he had come close to securing overall control of the bank, but he had no plans to increase his stake further. He had earlier denied that he was seeking control of Boland. He said the bank had lacked a "directional stakeholder" for some time.

After Wiese increased his stake from 9% to 20%, making him the largest shareholder, the share moved off its October 725c low. An analyst said if Wiese had lifted his stake substantially, it would mean the bank was independent of the large financial controlling groups in SA.

Sanlam previously held the biggest stake (11,29%). Other major shareholders were Remgro, Absa, Momentum and the Mines Officials' Pension Fund, none with much more than 10%. With Sanlam and Rembgro working closely with Absa, the major groups collectively held 31,7%.

Wiese takes over Boland

(58) CT 9/12/93

Own Correspondents

JOHANNESBURG. — PEPKOR chairman Christo Wiese has effectively taken control of Boland Bank after a series of deals yesterday in which 30% of the bank's issued share capital changed hands.

Wiese — who already personally owns 20% of the small Cape-based bank — said last night that he had bought the bulk of the shares on the open market, and said it was not clear who the sellers were.

About 4,6m shares worth R43m changed hands at 920c a share — 5c off its high — and 4,4-million preference shares worth almost R43m and priced at 960c were also exchanged.

Wiese said he had come close to securing overall control of the bank in yesterday's buying, but that he had no plans to up his stake further. He had earlier denied that he was seeking control of Boland.

The bank had lacked a "directional stakeholder" for some time, though he had no firm plans on how his holding would influence the bank's running. A full announcement would be made later this week.

The share has moved decisively off the 725c low reached in mid-October after Wiese upped his stake in the bank from 9% to 20%, making him the single biggest shareholder.

An analyst said if Wiese had lifted his stake substantially, it would mean the bank was independent of the large financial controlling groups in SA.

Sanlam previously held the biggest share (11,29%). Major shareholders beside Wiese were Remgro, Sanlam, Absa, Momentum and the Mines Officials Pension Fund, none of which held much more than 10%.

There was no obvious controlling shareholder, but with Sanlam and Rembrandt working closely together with Absa, the major groups collectively held 31,7%.

The bank reported a 10% rise in earnings a share in the six months to September, but failed to detail its bad debt charge and income tax payments.

Wiese now in control of Boland Bank

(58)

ARG 9/12/93

TOM HOOD, Business Editor

THE INDEPENDENCE of Boland Bank has been secured against takeover bids by marauders.

This is the thinking of bank executives and retailing chief Christo Wiese, who has emerged as the controlling shareholder of Boland Bank after a third of its share capital changed hands for R86 million on the Johannesburg Stock Exchange yesterday.

The bank maintains the view that there is a place for niche banks and that the alliance with Mr Wiese as a dominant shareholder will safeguard it from being absorbed by bigger groups.

Mr Wiese, chairman of Pepkor Group and a director of the bank, previously owned 20 percent of the bank's shares and market speculation is that be bought many of the 8 million traded yesterday.

More than 4,6 million ordinary shares worth R43 million were sold for R9,20 a share, up 20c on the day. Another 4,5 million preference shares worth R43 million were sold at R9,60 each.

Mr Wiese said he woould make a full statement later today about his motivation.

His stake in the Paarl-based bank is believed to exceed the combined 32 percent of the shares held by Sanlam, Rembrandt and Absa.

Sanlam was previously the largest single shareholder, with about 11,3 percent.

Bankers see his controlling shareholding as a powerful safeguard against a new takeover bid for the medium-sized bank.

Amalgamated Banks of South Africa, under its previous management, was earlier thwarted in attempting a takeover.

A bid by The Board of Executors was sunk a year ago when Boland's major shareholders got together and fought off the BOE.

Earlier, Mr Wiese said he was not seeking control of Boland. The bank had lacked a "directional shareholder", but he had no firm plans to influence the running of it.

At the latest count, Rembrandt held 10 percent of the shares, Absa 9,7 percent, Momentum 9,3 percent, Sechold 7 percent and the Mineworkers Pension fund 3 prcent.

The bank's interim results last month disclosed total income of R121 million, up from R104 million, for the half-year to September.

Net profit jumped from R10 million to R16 million before the payment of R4,7 million in preference dividends.

The ordinady dividend was raised to 25c from 23c, while a 56c total was paid out last year.

COMPANIES

Wiese takes control of Boland

BIDay 10/12/93

Business Day Reporter

PEPKOR chairman Christo Wiese has emerged as controlling shareholder in Boland Bank, amassing just over 60% of the Cape-based bank's issued share capital.

Wiese, formerly a member of Boland's board, said board changes were likely.

It emerged yesterday that Wiese, who owned 20% of the bank, had bought additional Boland shares in the open market, though he had said he had not gained a controlling stake. But deals over the past few weeks, culminating on Wednesday with the purchase of 4,6-million shares, had left Wiese with 8,1-million of the bank's 13,45-million issued ordinary shares.

Wiese said the transactions had been cleared with the Reserve Bank, and had the backing of Boland's other major shareholders, Sanlam, Rembrandt Group, Absa and Momentum Life. (58)

The Paarl-based bank reported a 10% rise in earnings a share in the six months to September, but failed to detail its bad debt charge and income tax payments in its income statement. Analysts said Boland's low level of disclosure in the past had made it difficult to assess whether its provisions for bad debts had been adequate.

Shift in control of Boland Bank

(58) ARC 10/12/93

MARC HASENFUSS
Business Staff

RETAIL tycoon Christo Wiese has snapped up a 60 percent controlling stake in Boland Bank in a move that has been welcomed by the Paarl-based bank's senior management.

A joint statement today by Mr Wiese and Boland Bank confirmed market rumours.

The statement revealed that over the past few weeks Mr Wiese had amassed 8,1 million of the bank's 13,45 million ordinary shares. He previously held about 10 percent of the shares.

The single biggest transaction, of about R43 million, took place on Tuesday, when he bought 4,6 million shares at 920c each .

Mr Wiese, chairman of the Pepkor group, bought the shares in his personal capacity.

He said that in view of the legal restriction that no individual or institution may own 30 percent or more of any bank, Tuesday's transaction was cleared beforehand with the Reserve Bank.

All the transactions were entered into with the approval and full support of the other major shareholders and management, Mr Wiese added.

New Year could be a happy one — Sanlam

(58) ARG 10/12/93

TOM HOOD
Business Editor

THE New Year can be faced with far greater optimism and confidence after five years without growth in the South African economy, Sanlam said today.

"If the political climate improves further, general economic activity should increase noticeably in 1994," says chief economist Johan Louw in Sanlam's latest Economic Survey.

"It is clear the downswing that began in the first quarter of 1989 has reached its lower turning point and that the economy now finds itself in the early stages of a cyclical upswing."

The recovery, largely stimulated by the agricultural sector, showed a gradual rippling effect outwards to the other sectors, he says.

What was also encouraging, was that the government sector's contribution had shrunk in the past year, creating more scope for the private sector.

A positive real growth rate of about one per cent would possibly be attained this year and that could increase to approximately two per cent next year.

"The significant drop in the inflation rate in recent years on both production and consumer levels, is another factor that could contribute to the expansionary phase which the South African economy has now entered, being stronger and more lasting than previous upswings during the past decade," says Mr Louw.

Although Sanlam expects the inflation rate, as measured by the year-on-year increase in the consumer price index, to rise somewhat in the last quarter this year, owing to technical reasons, the downward trend should manifest itself again early in 1994.

"As a matter of fact, we expect the inflation rate to drop sharply — to below 7 percent in April next year when the effect on the increased VAT will disappear from the consumer price index (price increases on the production level are considerably below 6 percent already).

"Given the maintenance of fiscal and monetary discipline, and assuming that normal weather conditions will prevail, we expect single-figure inflation rates — the lowest since the early Seventies — to continue into 1995. What will happen after that is difficult to predict," Mr Louw adds.

South Africa had a net outflow of some R50 billion during the period 1985 to 1993, owing to balance of payments transactions, Sanlam says.

"This has placed a strong damper on the growth potential of the South African economy — and therefore also on its ability to create jobs," says Mr Louw.

Sanlam said it showed that South Africa's foreign trade account performed remarkably well virtually throughout the sanctions era.

"Even during the recent severe recession overseas, satisfactory export figures were achieved while the import bill remained high."

Unfortunately the large surpluses recorded on the current account of the balance of payments had to be applied in full to finance "the massive net outflow of foreign capital — which increased further during recent years owing to the unstable political situation."

Sanlam: R1bn buying spree

(58)

CT 10/12/93

By MAGGIE ROWLEY
Property Editor

SANLAM Properties has been on a shopping spree this year boosting its property portfolio by mo-e than R1bn to R7,5bn.

And, according to communications manager Gerrit Boonstra, other major projects are underway or in the pipeline.

These include a R22m revamp of the Parow Centre — work on which has already started — and new head offices for Wooltru in Cape Town and Foschini in Parow.

In addition Sanlam is planning to reposition the Golden Acre to capitalise on changing retail trends in the Adderley Street precinct.

Boonstra, said a survey was currently being undertaken and development decisions regarding the Golden Acre were likely to be made next year. It was possible neighbouring landowners would be canvassed for possible joint development, he said.

Other new projects in the Western Cape include a second office block at Sanlam's Santyger development adjoining Tyger Valley shopping centre where the first phase, a regional head office for Sanlam, is well underway.

Property portfolio now R7,5bn

The second office block of 3 969m², he said, would be built on spec and was due for completion in September next year.

In his annual review Fanie Lategaan, GM investment, said that notwithstanding the lack of good new development opportunities, Sanlam Properties had approved 31 transactions during the year.

These included new developments, the purchase of completed buildings, extensions to existing buildings and the purchase of prime sites for future development.

He said while new property development and investment opportunites were adversely affected by a poor demand for rental space and virtually no real growth in rental income, in most cases, new developments purchased by Sanlam had been substantially pre-let.

The commercial and industrial property market was further weakened by the unstable political environment which had undermined business confidence.

However, in spite of the adverse conditions, Sanlam Properties had performed better than the rest of the property market, he claimed.

The commercial and industry property market, he said, had started showing signs of strengthening in recent months but an upturn was not expected before 1995 and would be dependent on political conditions improving.

He said about half of the company's investments were made in completed buildings and this trend was expected to continue in 1994.

In all, projects totalling R430m were presently under construction with another nine in an advanced planning stage.

He said the purchasing of undeveloped land was restricted to a few prime sites and represented about 3% of Sanlam's portfolio. Strategic land holdings in the Cape including a 10ha site in Milnerton zoned for light industrial/business park — work on which would begin next year — and the 11ha Santyger site near Tyger Valley.

Other projects in the Western Cape include the upgrading of West Gate Mall, which is due for completion in March.

BOE buys stake in Boland Bank

CT 15/12/93 (58)

By AUDREY D'ANGELO
Business Editor

Bill McAdam

Christo Wiese

THE Board of Executors (BOE) has acquired 30,1% of Boland Bank. The deal has been completed a year after an earlier attempt was, according to CE Bill McAdam, "thwarted by a broadside fired by a group of the bank's main shareholders."

Yesterday's announcement that BOE had bought more than 7m redeemable/compulsorily convertible participating preference shares in the Paarl-based bank for R74m follows the acquisition of 32% of the bank's total issued share capital by Pepkor chairman Christo Wiese, in his personal capacity, last week.

Wiese increased his holding from 10% to 60% of the ordinary shares in the bank.

McAdam said yesterday that the acquisitions were unrelated, although they had been negotiated at about the same time.

No arrangements had been made for BOE and Wiese to act together but "it is highly probable that synergies will emerge between the organisations and it would make commercial sense to discuss these possibilities in due course."

BOE's attempt to take a stake in Boland Bank last year followed an attempt at a hostile takeover by Amalgamated Banks of SA (Absa).

McAdam said at the time that BOE understood Boland Bank's business and both were old Cape companies.

He said yesterday that BOE and Boland Bank management had been left last year "with a very good feeling about each other."

BOE had bought its stake "as a strategic investment with no preconceived plan.

"But I am sure that we shall sit down and talk when we get back to business next year."

In a statement issued yesterday McAdam said that "the two institutions, although differing in culture, have remarkably similar values."

There were now "exciting possibilities to form a powerful banking and financial services force."

The statement says Bo land Bank, which has total assets of R4bn "has achieved steady growth in the past and has previously lacked directional shareholders. Until a year ago shareholders could vote only 1% irrespective of the number of shares held."

Nedcor confident it can maintain growth

KELVIN BROWN

THE immediate challenge facing Nedcor was acceptable financial performance against a backdrop of declining margins in an unfriendly expansionary environment, outgoing CE Chris Liebenberg said in the group's annual report. To achieve this Nedcor would have to place strong emphasis on cost effectiveness and non-margin income, he said. BDay 15/12/93

SA's fourth largest financial institution in terms of total assets increased net income 19% to R486m in the year to end-September. Earnings a share were up to 251c from 215c. "We are confident that, despite what will be a difficult year ahead, Nedcor will maintain growth in earnings," Liebenberg said. (58)

Asset growth was concentrated on low-risk areas, creating the capacity to take advantage of any likely economic upswing, he said. Margins were affected by the further decline in interest rates, but also benefited from the reduction in reserve and liquid asset requirements.

"Slack demand for credit brought competitive pressure to bear on the writing of new business volumes, but the group nevertheless made good progress in increasing market share in instalment finance and retail banking products, while retaining and maintaining our share of the corporate market."

The charge for bad debts increased 22% to R282m. The general risk provision was increased R11m to R278m on an after-tax basis.

There was a positive turnaround in residential properties in possession and in other problem areas, Liebenberg said. But a more conservative view had been adopted on several property developments of Syfrets, Perm and the Cape of Good Hope Bank, resulting in provisions against these exposures being increased.

MMF reserves reach R300m

CHARLOTTE MATHEWS

THE Multilateral Motor Vehicle Accidents Fund (MMF) had, since April, accumulated about R300m of the R800m in reserves it required to settle a full year's claims, CE Willem Swanepoel said this week. B/Day

This was was in line with the Melamet commission's recommendations on funding third-party motor accident claims. Previously government provided cash as claims arose, leading to a R3bn deficit in pre-funding. 17/12/93

From April 1993 the portion of the fuel price going towards the MMF had been increased to 9c/l from 6c.

But inflation in the MMF's costs had been 25% to 30% a year, because of increases in medical costs and generous court settlements.

"The benefits paid by the MMF are luxurious by Third World standards," Swanepoel said. "The choice is either an increase in the petrol price or a cut in benefits." (58)

From May 1994 the MMF would be handling 30% of non-hit-and-run accident claims, Swanepoel said. To do so, it would increase its staff by 20 or 25 from the present 140.

The MMF had always handled hit-and-run claims, while several short-term insurers had been allocated the non-hit-and-run claims which arose on certain days of the month.

Swanepoel stressed the fund was not taking away any of the claims presently allotted to other companies but said it was inherently unsound for an insurer to delegate this function to outside parties. "It means other people are sitting with your staff and your chequebook and this has been part of the problem of the MMF."

AVF GROUP FM 17/12/93

Too many black holes

58

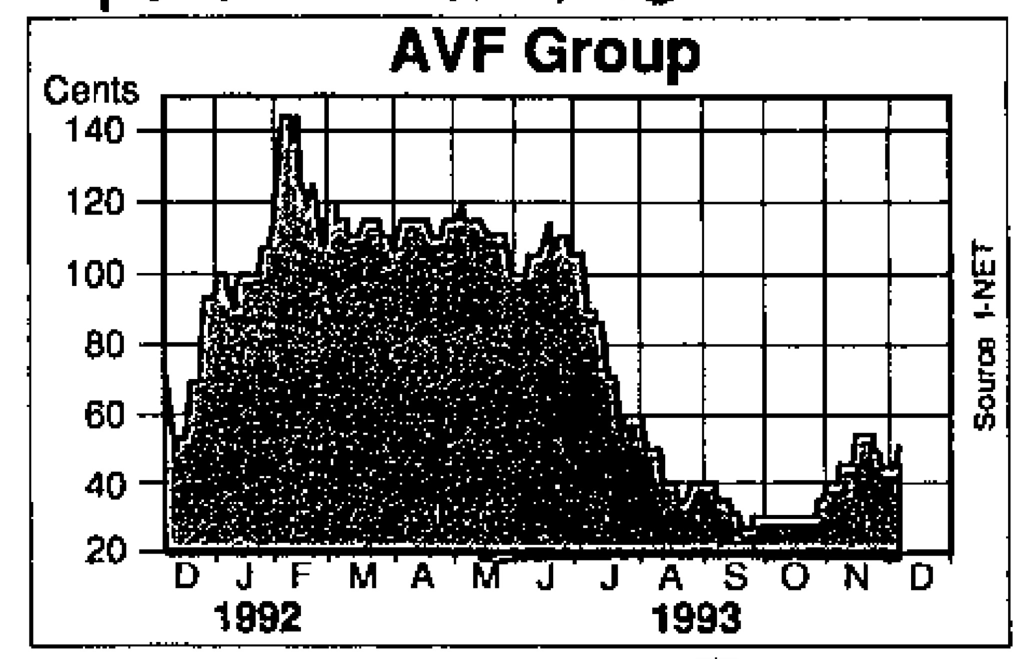
Activities: *Life assurance and financial services.*
Control: *Anglovaal 59%.*
Chairman: *C S Menell; MD: D D Barber.*
Capital structure: *129,3m ords. Market capitalisation: R65m.*
Share market: *Price: 50c. Yields: 9,6% on earnings; p:e ratio, 10,4. 12-month high, 145c; low, 25c. Trading volume last quarter, 1,6m shares.*

Year to June 30	†'91	'92	‡'93
Total assets (Rm)	483	699	73,3
Pre-tax profit (Rm)	(33,4)	(90,4)	0,4
Attributable inc (Rm)	(16,9)	(80,4)	15,8
Earnings (c)	*—	(74,1)	4,8
Dividends (c)	9,8	—	—
Tangible NAV (c)	73	(26)	58

† 14-month period. * EPS not calculated as it was not possible to allocate a special provision of R40m between current and prior periods. ‡ 1993 figures exclude 87%-held Avins and its subsidiaries, AA Life Assurance and Crusader Life Assurance.

For two years the *FM* has complained about being unable to get a clear view of the AVF Group and subsidiary Anglovaal Insurance Holdings (Avins), which in turn holds 61% of Crusader Life (now under curatorship) and 100% of AA Life.

FM 17/12/93



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First comparisons after listing were bedevilled by different reporting periods, then by management's decision not to provide comparative figures due to write-offs relating to AA Life. Accounts for financial 1993 are even worse and, for analysis, are of little use.

AVF chairman Clive Menell says in the annual report that results for Avins have not been consolidated because directors decided the investment in Avins "has no value in the foreseeable future." This was because the Crulife debacle left little or no value attributable to Avins and because, though AA Life was trading satisfactorily, no income would be attributable from the unlisted assurer to Avins due to "the substantial overhang of preference share finance."

Waiting for curator's report

All that leaves in the 1993 accounts is AVF's 36% in the Board of Executors (see separate report), equity accounted, as well as net interest earned by AVF, less expenses. That could not have been significant, as R5,9m of AVF's R6,2m profit for the year comes from BOE. EPS is calculated as 4,8c, against 1992's 74c loss. One wonders what EPS would have looked like if Avins were included in the calculation.

Audited results from Avins have not yet been produced due to developments at Crulife. AVF is waiting for a report from the curators on Crulife's ability to meet its liabilities, on any possible offences which may have been committed by the management, auditors or actuary of Crulife, and on the future profitability of the business. Presumably, when this report is received, the annual results of Avins will be published. That should make interesting reading.

After the suspension of Avins' and Crulife's shares, only AVF continues to trade. Naturally, trouble in underlying investments is reflected in the price, now well below the 60c at which AVF shares traded before being suspended in July.

It would be encouraging to find some recovery prospect in the share, but, with the extent of problems in Crulife and AA Life not yet known, and the poor disclosure provided by AVF, that's not possible.

So far, BOE has been the only successful part of Anglovaal's venture into financial services. The insurance interests have, at best, provided some speculative interest for investors. Until meaningful accounts are provided, there seems little point in considering the shares. *Shaun Harris*

'Financial statements must be comparable overseas'

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17/12/93

JOHANNESBURG. — The SA Institute of Chartered Accountants has published a draft revision of reporting financial statements aimed at making information internationally more comparable.

SAICA technical director Monica Singer said the revision sought to bring the presentation of financial statements by SA companies in line with the standards of the International Accounting Standards Committee.

"As SA companies will again compete in international capital markets for funds, it is important that they present their financial information in a manner comparable with other foreign companies."

The revision published Wednesday deals with the replacement of what is known as statement AC103 relating to extraordinary items and prior year adjustments.

The proposed revision prescribes the classification, disclosure, and accounting treatment of certain items in the income statement so that all enterprises prepare and present an income statement on a consistent basis.

It requires the classification and disclosure of extraordinary items and the disclosure of certain items within profit or loss from ordinary activities.

It also specifies the accounting treatment for changes in accounting estimates, changes in accounting policies, and the correction of fundamental errors.

The revision proposes income and expenses resulting from events such as the discontinuance or restructuring of a part of the business, and the disposal or provision for loss in value of investments and properties are no longer to be disclosed as extraordinary items. — Sapa

Anglovaal, UAL in bid to rescue embattled Crusader

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ARGT 17/12/93

Business Staff

ANGLOVAAL and UAL Merchant Bank have proposed a rescue deal to the curators of Crusader Life, which is threatened with liquidation.

Anglovaal, parent company of Crusader, said it submitted the proposal "in an endeavour to minimise any losses of the policyholders of Crusader".

The curators have not yet accepted the proposal, which also needs acceptance by Crusader's creditors and the sanction of the Supreme Court.

The plan was being discussed with the curators and Anglovaal said it could not disclose more information at this stage. Valuation data was also being updated.

The the court return date has been postponed to March 29.

Shares to surge in '94 — Mutual

(58) CT 18/12/93

By AUDREY D'ANGELO
Business Editor

THE Old Mutual Unit Trusts investment team expect the share market to rise next year, despite concerns about the new SA, senior portfolio manager Adrian Allardyce said at a presentation on futures and options yesterday.

Pointing out that the economy is recovering and looks as though it will do well in 1994, Allardyce said interest rates would continue to fall. And sentiment in the stock market had been driven up by foreign investors, who, on balance, would be strong buyers.

"There will be uncertainty, and sellers. So it will be a bumpy but upward ride."

This meant that derivatives, particularly options, would play a useful hedging role.

Discussing share values, Allardyce said he thought blue chip shares were now fully valued although a lot of good shares were still cheap. He did not think the market would go down but he would not be surprised to see it run out of steam "although I have been surprised before."

Foreigners, who had been net sellers since 1989, had turned positive. "I expect this trend to continue in 1994. These are significant volumes relative to the trade taking place in SA. This will be one of the most important factors into 1994."

Discussing market sectors, Allardyce said he expected gold to trend upwards, but not a major bull market in the metal.

Commodities were barely recovering but the share price looked interesting. People always speculated, causing the share price to move ahead of a recovery in the commodity price.

Companies which would benefit from the electrification of townships and the building of mass housing should do well. This was why the share price of Reunerts had "moved up very sharply".

He expected the building sector to do well in 1994 and 1995 — and up to 2004 if Cape Town got the Olympics. The furniture sector would also benefit.

Pointing out that Old Mutual unit trusts had remained fully invested while some other trusts were creating liquidity, Allardyce said "just about everything has beaten cash this year.

"It has not been a case of cash is king but cash is trash."

It would be interesting to see comparative liquidity levels at the end of December.

"I expect big changes in the rankings (of unit trusts). A lot of people shot ahead at the beginning of the year but I think it could prove to be the old story of the tortoise and the hare."

Allardyce said Old Mutual unit trusts "did well in the last quarter".

Unit trusts are now allowed to invest in futures and options. Allardyce and Old Mutual Unit Trust derivates specialist Rowan Williams-Short said they expected to make use of this from early in the new year.

Williams-Short said: "Old Mutual welcomes the opportunity to use derivatives in its range of unit trusts. In particular the possibility of hedging certain positions without incurring the loss of the actual scrip is seen as a great step forward for the industry.

"Also, given the high liquidity of the SA futures market, derivatives will provide a useful alternative to gaining equity exposure for our unit trusts."

More and more homes lost in tougher times

S I Times [Buss] 19/12/93

By DON ROBERTSON

THE impact of rising unemployment, township violence and the recession on consumer income has led to a sharp increase in the number of injunctions against home owners.

Since the beginning of the year legal action by financial institutions against delinquent home owners has soared, although exact numbers are unknown as banks and building societies refuse to disclose the extent of repossessions. All agree, however, that numbers are increasing.

In a random reading of the Government Gazette — October 8 — notice was given of almost 400 injunctions taken against home owners with dates set down for the sale by auction of the properties.

The Nedcor/Perm group headed the list, followed by Absa, NBS, Standard Bank and First National Bank. The numbers reflect exposure to various sectors of the property market.

Hugh Maclachlan, divisional director of the Perm, says that although the number of injunctions is increasing, only between 25% and 30% of them actually result in homes being repossessed and auctioned. In most instances, home owners manage to find sufficient funds to meet arrears.

Trevor Olivier, general manager of mortgage lending at the NBS, agrees and says that in many instances it has been necessary to take this action to "persuade" occupants to make up the arrears. But with a judgment in hand, it is then possible to evict them if they fail to meet their commitments.

For many years, the Perm has had a bigger exposure to the black housing market than most other institutions and it has been hit by large-scale layoffs — as high as 60% in some communities.

However, between 90% and 92% of all home owners are fully paid up, which, in the circumstances, is extremely good, says Mr Maclachlan. (58) (423)

According to Mr Olivier, repossessions numbered only a "few dozen" three years ago. Now they have risen to hundreds.

In many instances people in trouble sell their homes before action is taken.

This, he says, benefits financial institutions, as they do not have to repossess the house and are spared holding costs before the home is sold on auction.

Bond boycotts, township violence and instances where home owners refuse to move even after a judgment has been handed down, have had a serious impact on the ability of financial institutions to make loans available to blacks.

"As a result NBS and many others have withdrawn from the provision of funds for mass-housing schemes as we are unable to see what is happening to our security," says Mr Olivier.

"We were among the first to lend money to the black community, but it has backfired on us to some extent as a result of a handful who have let us down."

A spokesman for Absa, which will not disclose the number of homes it has repossessed, says the recession and high level of retrenchments have been the main cause of legal action taken.

There appears to be an equal split between repossessions of white and black homes.

Rise in complaints to ombudsman

CHARLOTTE MATHEWS

THE harder line taken by insurance companies on disability claims helped to produce a sharp increase in the number of complaints handled by the life assurance ombudsman in the year to December 1992, according to the ombudsman's eighth annual report, released yesterday. B/Day

In the 12-month period ombudsman Judge Gerhardus Kotze handled 718 complaints from the public, a 62% rise on the previous year. The 632 cases finalised included 109 disability claims.

Kotze said it was no secret that the disability market was an area of concern to the life industry. 21/12/93 (58)

"For many companies this class of business seems to continue to produce adverse results. It may be that one consequence of this state of affairs is a tightening of claims control and procedures."

He criticised the vague and ambiguous marketing literature of some companies who launched health plans, and urged the industry to adopt a standard procedure on paying interest on late satisfaction of claims.

Kotze said misunderstandings about health plans resulted in an increasing number of complaints about health care products being directed to the ombudsman. A number of clients with health plans had been under the impression that they had taken out conventional medical aid cover.

On the payment of interest, Kotze recommended that life companies paid interest whenever there was a delay in settling claims.

He said he had received complaints arising from the fact that a policy was not fully understood.

Several complaints were received from investors in Masterbond and Supreme Bond which would not normally be handled by the life assurance ombudsman since they did not relate to life assurance policies. However, in some cases the representatives who had sold the investments had used the letterheads of life assurers.

Insurance sales reps get the thumbs down

(58) CT 21/12/93

LIFE Assurance Ombudsman Judge Gerhard Kotze handled 718 complaints from the public in the year to December 1992 — 62% more than the previous year.

Of these 632 were finalised during the year with nearly half being concluded wholly or partially in favour of the complainant.

Kotze says in his annual report that the number of complaints of "misleading, unethical or negligent conduct" by insurance sales representatives was unacceptably high.

Many of the complaints were about health care products. Criticising vague and at times ambiguous marketing literature, Kotze says that many people with health plan policies were under the impression they had taken out conventional medical aid cover.

Calling for the wording of policies and of correspondence between life assurers and clients to be simpler "and more user-friendly," Kotze says: "The life industry is increasingly targeting a less sophisticated client market and it is important that both correspondence and policy wordings be drafted in a manner which is within the reading capacity of the average client."

Kotze says he received several complaints from investors in Masterbond and Supreme Bond Sales representatives had used life assurers' letterheads in correspondence about these investments and so he had to act.

His right to do so had been challenged by at least one company and in future he would take on such cases only "where it is felt the representative acted within the scope of his employment and negligently advised on a (financially suspect) investment". — Business Staff and Reuter.

Insurance premiums set to rise

CT 21/12/93 (58)

Own Correspondent

JOHANNESBURG. — Insurance premiums may be increased sharply in the first quarter of next year owing to the countrywide escalation in crime in recent months, major short-term underwriters warned yesterday.

"October and November have seen an astonishing increase in the level of crime, out of all proportion to our previous experience, not only in Johannesburg but in Pretoria and the PWV region," Guardian National managing director Mr Keith Nilsson said.

"One of our branches in Johannesburg handled R2,5 million in motor theft claims in October and R1m in the first week of November."

Santam insurance general manager Mr Leon Britz said the rand value of Santam's motor theft claims rose 60% to R41,2m in October and November, from R25,8m for the same period in 1992.

Hollard Insurance managing director Mr Miles Japhet said thefts, vehicle hijackings and household robberies had increased by as much as a third since August.

This was echoed by Commercial Union short-term insurance managing director Mr Jimmy Morrow.

Another reason was that the rand value of vehicle claims had been inflated by the increasing cost of repairs and write-offs.

Mr Nilsson said some of the increase in vehicle thefts could reflect many people's problems with hire purchase repayments.

Similarly, the number of fires at small businesses and dwellings had increased, some possibly due to arson.

Mr Morrow said Commercial Union would increase its motor vehicle insurance rates and there was pressure in the industry to raise household and commercial rates.

● **Insurance sales reps get the thumbs down — Page 12**

Demand for credit will increase, predicts FNB

B/Day 21/12/93

KELVIN BROWN

FIRST National Bank Holdings (FNB) was budgeting for a real increase in attributable income as demand for credit was likely to improve in the low interest rate environment in 1994, said FNB chairman Basil Hersov in the group's annual report.

Earnings per share for the financial year to end September were up 17,1% to 716c while the return on shareholders' funds rose to 22% from 19% in 1992.

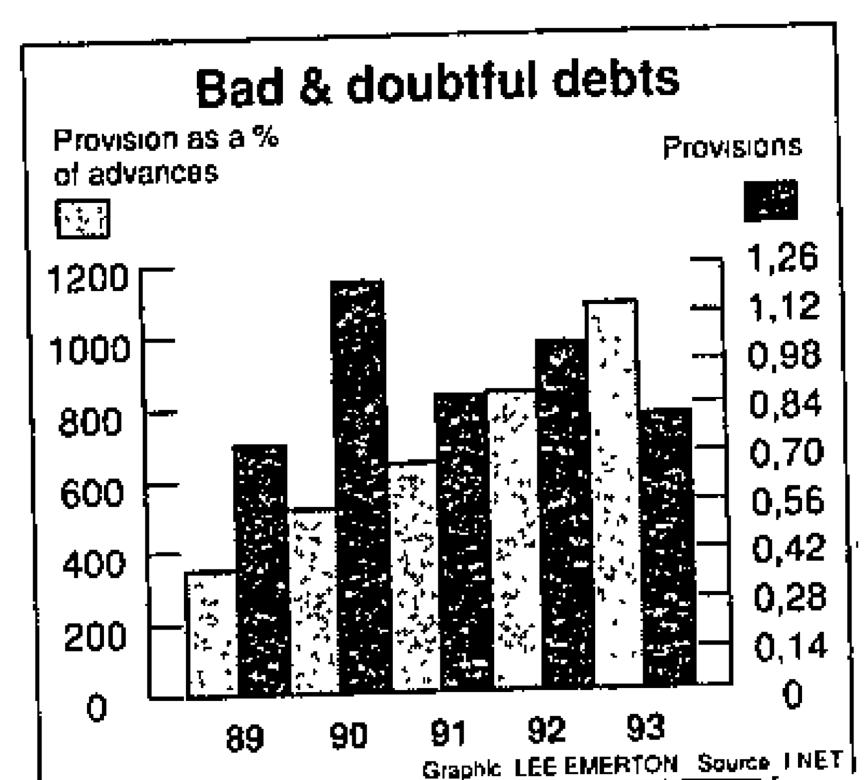
The group viewed the outlook for the domestic economy more positively than it did this time last year due to more favourable political prospects for the country, Hersov said.

FNB had increased market share in the home loan, instalment credit and advances areas during the past financial year, MD Barry Swart said in the report.

"A number of our individual borrowers, and those in the small to medium corporate sector, have continued to face financial difficulties during the longest sustained, harsh economic conditions ever experienced by those in management positions in SA today."

The charge for bad and doubtful debts was marginally reduced by 1% to R343,6m. FNB's widely diversified portfolio was in good condition as risk management procedures made it possible to identify deteriorating credit risks at an early stage, Swart said.

Demand for credit remained modest with the exception of mortgage lending and instalment debtor finance, he said. (58)



"Despite the depressed national economy, political uncertainty, increased violence and fierce competition, our home loan book has shown excellent growth and has contributed significantly to the bank's asset growth."

The philosophy of bond boycotts and threats of further boycotts limited FNB's ability to increase home loan lendings to disadvantaged communities, he said.

The instalment credit market, in which the Wesbank division operated, showed minimal growth during the past financial year.

Reductions in capital expenditure by the corporate sector substantially depressed the demand for finance in this area.

"Wesbank's aggressive marketing campaigns have allowed the division to sustain growth against this trend, in both the corporate and retail sectors, and to further increase market share."

Retrenchment insurance takes off

CHARLOTTE MATHEWS

NEARLY 20 000 people have taken up retrenchment insurance offered in the last two months by Beares Group to cover outstanding balances on goods bought on credit. B/Day

The policy, underwritten by Standard General Insurance Company, settles a customer's account if he or she is retrenched and it remains settled even if a new job is found.

Retrenchment insurance is available to anyone in employment but not self-employed. A balance of R2 000 can be covered for a monthly premium of just over R4. 22/12/93

Beares said the response illustrated concern about job security in the depressed economy. More than 60% of its business is done in the black market where the threat of retrenchment is greatest. (58)

Institutions to merge into new banking group

BIDAY. 22/12/93

Own Correspondent

PORT ELIZABETH — Two financial institutions based in the city, Fidelity Bank and EP Building Society, will merge in February next year to form the eastern Cape's largest independent banking group.

The merger is still subject to approvals from regulatory authorities and the members of Fidelity and the building society.

Circulars to members will be posted on or before January 21 and special general meetings will be held on February 14.

Fidelity will be the listed controlling company and the building society will house the merged operations. It will be known as Fidelity Bank. (232)(58)

Fidelity MD and the new Fidelity Group CE designate Jules Langenberg said shareholders and clients would benefit from the merger. He said rationalisation and redundancies would be inevitable, but "the remaining staff will be employed by a strong, independent banking group, offering enhanced career opportunities".

The new group would have a total capital base of more than R125m and total assets exceeding R1 700m.

Although the size and capital adequacy of a banking group was of prime importance to investors, the only test from a shareholder's point of view was an improved bottom line, Langenberg said.

Fidelity's Koos Roets would become general banking activities MD and the building society's Trevor Jennings group services MD.

Fidelity's main shareholders, the Board of Executors and Fedlife, will eventually hold between 27,7% and 30% of the new Fidelity Group.

□ In September this year the building society reported that it had reached R1bn in assets. Fidelity Bank's annual report showed continued strength in the six years years since its listing.

Saflife reports a loss after R24,4m provision

B/Day 22/12/93

CHARLOTTE MATHEWS

SAFLIFE, the holding company of life assurer IGI Life, reported a R25,7m net loss for the six months to September after a R24,4m provision against investments, compared with a R10,6m net profit in the same period in 1992, according to figures released today.

Gross premium income in the six months dropped by 13,5% to R93,8m from R108,5m in the same period in 1992 and net premium income was 21% lower at R79,1m from R100,2m previously. Investment income fell 27% to R25,9m (R35,7m) after withdrawals of pension and other investment funds.

A normal trading loss of R10,4m was incurred but was partly offset by the release of R9m from the assurance fund as a result of the reassurance of the group's funeral and credit life business with Fedlife.

After the R24,4m provision, tax and minorities' share of profits, a net loss before extraordinary items of R25,9m was shown, compared with 1992's profit of R9,1m. (58)

This translated into a loss of 87,7c a share, compared with 1992's earnings of 30,7c a share. The dividend was passed, against a dividend of 17,5c paid in the six months to June 1992.

The directors of Saflife said they had decided to make the R24,4m provision, which included reduced future rentals on certain IGI Life properties and other group investments, in view of "events that have occurred within the group".

Saflife CEO Ben Gildenhuys said the losses on the investments had been dealt with prudently. This and the rationalisation of the business and staff, had put the company in an "eminently viable" position.

Saflife is 41,3% held by IGI Insurance Corporation, which was placed under curatorship in October after attempts to find new capital were unsuccessful.

An extraordinary credit of R47,9m was earned on the effective disposal to Fedlife of Saflife's funeral life and IGI Life's credit life business through a reassurance premium equivalent to actuarial liabilities of the business.

Fedlife is making a goodwill payment of R59m to Saflife and IGI Life in return for the effective acquisition of the businesses but R10m has been retained until the outcome of certain performance guarantees given to Fedlife for the period to June 1995.

Saflife's directors warned of a contingent liability arising from a claim against two subsidiary companies for damages. Litigation is proceeding. The subsidiaries, Traduna and Safegro, are being sued for R35m by Golden Arrow Retirement Plan for losses arising from investment of its assets.

Saflife's directors said they were confident the group's trading results would improve in the second half of the financial year.

Metlife, Stangen, Liberty on top

Star 22/12/93

■ BY JOHN SPIRA

Metropolitan Life, Standard General and Liberty emerge with distinction from First Bowring's most recent Investment Performance Survey.

The survey illustrates the gross investment returns of insurers and investment companies for pension funds where the investment managers have full discretion over the distribution of assets.

The accompanying table reflects money-weighted returns over the last N years to September 30 1993, where N varies from one year to ten years. (58)

A monthly investment increasing at 14 percent a year is assumed.

The ranking of the companies for each period, as well as the average overall position, is also shown.

The market value of assets included in the survey totals R61,1 billion, R39,3 billion of which relates to the insurers and the balance to the investment houses.

Among the latter, Investec, Rand Merchant Bank and Standard Merchant Bank were the top three.

MONEY WEIGHTED RETURNS IN RANKING OVER N YEARS TO SEPTEMBER 30, 1993

Cash flows increasing at 14% per annum

INSURERS	10 Years %	9 Years %	8 Years %	7 Years %	6 Years %	5 Years %	4 Years %	3 Years %	2 Years %	1 Year %	Average position
BOE (Investors)	—	—	—	—	—	—	—	—	—	21,4 (2)	2,0
Commercial Union	20,1 (3)	19,8 (5)	18,9 (6)	17,9 (6)	17,8 (5)	16,7 (5)	15,6 (6)	15,6 (7)	12,9 (8)	12,3 (14)	6,5
Fedsure	17,7 (8)	17,5 (9)	16,9 (9)	16,5 (8)	16,6 (8)	16,3 (8)	15,7 (5)	15,8 (5)	13,3 (6)	15,6 (9)	7,5
Liberty (LEM)	20,1 (4)	20,1 (3)	19,9 (2)	19,6 (3)	19,8 (3)	18,9 (3)	18,0 (3)	18,2 (4)	16,9 (2)	19,9 (4)	3,1
Metropolitan	20,9 (1)	20,9 (2)	20,5 (1)	20,1 (1)	20,4 (1)	19,7 (1)	18,8 (1)	18,5 (3)	16,7 (4)	20,2 (3)	1,8
Momentum	18,2 (7)	17,7 (8)	16,5 (10)	15,3 (10)	15,2 (11)	14,1 (11)	12,8 (11)	12,6 (12)	11,2 (9)	17,3 (6)	9,5
Norwich	16,6 (9)	16,4 (10)	15,9 (11)	15,3 (11)	15,5 (10)	15,0 (10)	14,2 (9)	14,3 (8)	13,5 (5)	18,2 (5)	8,8
Old Mutual (Multi)	16,6 (10)	16,2 (11)	15,1 (13)	14,3 (13)	14,[illegible] (13)	13,0 (13)	11,8 (13)	12,0 (13)	9,5 (14)	13,6 (11)	12,4
Sage Managed	20,1 (5)	19,7 (6)	18,7 (7)	17,8 (7)	17,6 (7)	16,6 (6)	15,1 (7)	13,8 (10)	10,4 (12)	9,2 (15)	8,2
Sanlam (100)	18,6 (6)	18,3 (7)	17,5 (8)	16,5 (9)	16,3 (9)	15,1 (9)	13,8 (10)	13,5 (11)	11,1 (10)	12,4 (13)	9,2
Sanlam (200)	—	21,6 (1)	20,0 (2)	18,2 (5)	17,8 (6)	16,5 (7)	14,8 (8)	14,2 (9)	11,1 (11)	12,6 (12)	6,8
Sanlam (Focus)	—	—	19,2 (5)	18,3 (4)	18,3 (4)	17,2 (4)	15,9 (4)	15,8 (6)	13,3 (7)	15,9 (8)	5,3
Southern (Managed)	16,5 (11)	16,2 (12)	15,5 (12)	14,7 (12)	14,6 (12)	13,3 (12)	11,9 (12)	12,0 (14)	10,0 (13)	13,9 (10)	12,0
Southern (SHOP)	—	—	—	—	—	—	—	19,8 (1)	16,9 (3)	17,2 (7)	3,7
Standard General	20,2 (2)	20,1 (4)	19,7 (4)	19,4 (3)	20,1 (2)	19,1 (2)	18,6 (2)	19,2 (2)	20,8 (1)	26,0 (1)	2,3
INVESTMENT HOUSES											
AFC	—	—	—	—	—	—	16,8 (3)	16,6 (6)	13,7 (8)	14,3 (7)	6,0
BOE	—	19,7 (1)	18,9 (3)	18,1 (4)	18,4 (5)	17,8 (4)	16,7 (5)	17,0 (5)	15,0 (5)	18,0 (4)	4,0
Fairheads	—	—	—	—	19,9 (2)	19,7 (2)	19,0 (2)	18,3 (2)	15,0 (6)	12,5 (9)	3,8
Foord & Meintjies	—	—	20,3 (1)	19,4 (2)	19,5 (3)	18,5 (3)	16,8 (4)	17,3 (4)	17,0 (3)	19,8 (2)	2,8
Investec	—	—	—	—	—	—	—	—	21,3 (1)	26,0 (1)	1,0
RMB	—	—	—	—	—	—	—	21,5 (1)	19,5 (2)	19,4 (3)	2,0
SPM	—	—	—	—	—	—	14,9 (7)	13,8 (8)	10,7 (10)	13,7 (8)	8,3
SMB	—	—	—	21,5 (1)	21,8 (1)	20,6 (1)	19,1 (1)	18,3 (3)	15,2 (4)	14,6 (6)	2,4
Syfrets	—	—	—	—	—	—	—	—	14,1 (7)	11,5 (10)	8,5
UAL	—	—	19,0 (2)	18,4 (3)	18,8 (4)	17,5 (5)	15,9 (6)	15,6 (7)	13,3 (9)	15,0 (5)	5,1

R2,9bn gives SA a major boosting

(58)

ARG 23/12/93

The Argus Foreign Service

WASHINGTON. — South African investment received a major boost today when the International Monetary Fund unanimously approved an $850 million (R2,9 billion) loan and major United States investment banking firms announced their return to South Africa.

Merrill Lynch and Lehman Brothers, two of the world's biggest investment banking firms announced they would immediately lift their restrictions on doing business with South Africa.

And it emerged that several other large Wall Street investment firms such as Goldman Sachs, Smith Barney, Kidder Peabody and Bear Stearn, had also begun trading with South Africa over the last few weeks without formal announcements.

International sources said the IMF loan was a signal to international investors that South Africa was a safe place to invest.

Mr John Marsh, president of Saicor Securities, a Wall Street firm specialising in South Africa, said the IMF loan would also improve the investment climate by strengthening the financial and commercial rand and by taking off the pressure on South Africa to keep up interest rates to attract foreign investment.

He forecast an "exponential" boom in US investment because of the involvement of big Wall Street firms and said his only concern was whether there was enough product in South Africa to satisfy demand.

South Africa formally returned to the world of international financial organisations yesterday when the IMF Board unanimously approved South Africa's application for a $850 million "compensatory and contingency facility" (CCFF) mainly to compensate for loss of export earnings and excess cereal import costs as a result of the 1992/1993 drought.

The loan was South Africa's first from the IMF since 1982 and will help the country over its current foreign exchange problems.

Lehman Brothers, one of the world's largest investment banking companies, announced yesterday that it would immediately lift its restrictions and begin doing business with South Africa.

A spokesman for another large Wall Street investment firm, Goldman Sachs, said yesterday that the company had formally lifted its restrictions on South Africa business last week without announcing it.

Wall Street sources said Bear Stearns, Kidder Peabody and Smith Barney had also resumed business with South Africa but this could not be confirmed.

- American computer giant IBM is returning to South Africa after pulling out seven years ago.

After months of speculation, IBM revealed it will pay R110,5 million for a 24 percent stake in Information Services Group (ISG). ISG is the holding company of ISM, which was formed by a management buyout when IBM disinvested.

Futurebank posts its first profit

B/Day 23/12/93

KELVIN BROWN

A SHARP rise in income in the year to September saw Futurebank post its first profit, of R2m, since it began trading in March last year.

The bank — owned by First National Bank and the Foundation for African Business and Consumer Services — recorded a loss of R2,6m in the first seven months of operation.

Net interest income rocketed almost 200% to R20,6m (R6,9m) as interest income doubled to R46,6m (R22,2m) offsetting a rise in interest expenditure to R26,1m (R15,4m).

Operating expenditure firmed to R16m from a previous R8m while the bank almost doubled its bad debt provisions to R4,2m (R2,4m). (58)

On the balance sheet side, deposits and loans fell slightly to R197m from R216m while cash and short-term funds fell to R5,2m from R10,2m.

Its branches doubled with the opening of three offices in Durban, East London and Pietersburg.

Banks seek those willing and able to repay financing

BDay 24/12/93

JOPIE VAN HONSCHOOTEN 58

AVAILABILITY of finance is not the current problem facing financial institutions involved in housing for the developing SA market. The challenges are to get the money out efficiently and then get it back on time without dispute, and to reduce the cost of doing business by spreading the risk.

Only by meeting these challenges can a critical mass of viable loans be made and this will start normalising a very troubled market.

Mortgage lending in a developing market can take place only where a critical mass of people is employed and can afford housing. No amount of financial engineering will transform the intrinsically unaffordable into the affordable.

A certain segment of the economically active population offers the greatest potential in the affordable housing market. That segment, representing about 43% of the country's economically active population, is concentrated in the income range which can afford a loan ranging from R10 000 to R60 000.

In dealing with this segment of the developing market, banks have recognised several things.

First, there is a need to reappraise the definition of security. Security is not necessarily nor exclusively bricks and mortar, north-facing and well-furnished. Rather, security is that which is regarded as needing to be preserved and valued. Many "township" structures meet the technical specifications for security but, because of prevailing circumstances in certain areas, the average person would not want to preserve or even value them.

Second, banks recognise that they face a malaise, sometimes referred to as a culture of entitlement, which results in non-payment for housing and services. This malaise is reinforced by unrealistic expectations remaining unfulfilled and often being exploited by political aspirants.

The malaise cannot be counteracted by top-down action: what has some effect is banks working as equals with those in the market — including, not excluding them. Such direct involvement by financial institutions entails eliminating layers between the bank and the customer.

Third, the principles of sound lending cannot be abandoned — they are as practical and prudent in the segments of the developing market as in any other. One of these is the principle of the borrower having equity in the product financed.

In addition to serving the segment of the developing market which it identifies as potentially profitable, the bank is involved in several housing initiatives.

Through the Association of Mortgage Lenders, the major banks participate in the National Housing Forum. This draws together all parties involved in the housing process, including political groups and civic associations, to build a national accord.

Bilateral discussions between the association and the SA National Civic Organisation have taken place. These were not fireside chats but attempts to reconcile widely divergent views on questions such as the cost of educating future borrowers and regulating the position of defaulters.

Banks are also involved in co-operative approaches to meeting the housing finance challenge, thus spreading risk. Some of the initiatives are the Community Banking Project; supporting the Central Johannesburg Partnership, an inner city initiative; and retail lending institutions financed from various sources.

Mortgage lending in a developing market can take place only where a critical mass of people is employed and can afford housing.

Financial institutions are also rethinking where and how banks can provide sustainable housing finance to the developing SA market.

They have re-evaluated measures to manage risk, bearing in mind that the range of risk is broader. Banks emphasise the character of borrowers and their capacity to generate the cash flow to repay loans as elements of creditworthiness. Banks are looking at options such as starter housing and affordable shelter. Where depositors' money cannot be risked, banks are considering supporting non-bank structures with infrastructure and technical help.

Given the complexities of this market, certain product features for the market are essential. They include a cash deposit; instalment insurance against cash flow risk; and wider tenure options which would allow graduation from rental to ownership.

Housing in SA is politicised; it is inadequate; and those in most need are almost alienated from the institutions which can help provide it. The problems surrounding housing demand collaborative solutions.

The flow of funds into housing finance in the developing market has been less than impressive, superficially because of violence, instability and boycotts. But even if these were removed, enormous problems would remain. Many are not physical but perceptual, the inevitable result of prolonged exclusion from the housing process.

Not least of the problems is the fact that the expectations of banks are at variance with those of the dwellers. The banks' view is that, as custodians of depositors' funds, they will invest where risk is low and manageable and return high.

The developing market's expectations are based on need. This market simply views banks as having access to funds and therefore as a crucial component in meeting housing needs.

Also, having been excluded from home ownership, the newly entitled home owner has scant understanding of obligations. For example, a newly entitled mortgagor accustomed only to a fixed monthly rental, does not easily relate to an increased bond instalment due to rising interest rates nor to the full obligation for maintaining the property.

This lack of understanding particularly affects banks since they, rather than builders and developers, have a sustained relationship with the buyer. The financier tends to become the target of confusion, anger and frustration.

The area of housing finance for the developing market has no straightforward solutions. Given the responsibility of managing depositors' funds, banks are actively and constructively seeking ways of providing housing finance on a sustainable basis to those able and willing to repay.

☐ **Van Honschooten is divisional GM, community banking services at Standard Bank.**

BOLAND BANK FM 24/12/93

Who's the boss?

(~~232~~)(58)

By acquiring 63% of the voting ordinary shares, Christo Wiese has patently bought unfettered control of Boland Bank for at

Boland's Wiese ... *calling the tune*

FM 24/12/93

least the next 15 months (*Fox* Dec 17). And, on the face of it, his purchase seems to have been in co-operation — if not in concert — with his corporate adviser The Board of Executors (BOE). While Wiese was acquiring his stake, BOE was buying 63% of the compulsorily convertible preference shares.

Yet there is no indication that an offer is to be made to minorities, either because Wiese alone now has voting control, or because he and the BOE together control more than 50% of Boland's total permanent equity.

Wiese is chairman of Pepkor and the IDC and his other directorships include the Reserve Bank. He and BOE deputy MD Phil Biden deny there was collaboration or that their respective purchases were planned in concert. Both assert that no agreements exist between any of the parties involved. But both say they were aware of each other's puchases, and that they intend to work closely with Boland's management. (~~232~~)(58)

Biden points out BOE had talks with Boland Bank more than a year ago about a possible merger between the two. He emphasises these talks were well publicised at the time. The talks came to nothing, he says, but they showed that in BOE's opinion the bank was undervalued, and that view hasn't changed. Wiese, until he joined the Reserve Bank board, was a director of Boland and held a 10% stake in the bank for years.

Securities Regulation Panel (SRP) CE Doug Gair confirms BOE was told the SRP had ruled (and this was presumably passed on to Wiese) that an offer to minorities was required only if any party acquired more than 35% of the total permanent issued capital.

As the *FM* noted last week, the SRP's decision that there need not be an offer to minorities seems strange considering that Wiese has acquired 63% of the issued voting shares. When the convertible prefs are converted, his stake in the permanent capital

FM 24/12/93

will be diluted to less than 35%, but that won't happen before April 1996.

In defining circumstances that trigger a mandatory offer to minorities, Rule 8.1 (a) of the Takeover Code says an offer is required when: "... any person holding less than the specified percentage acquires, whether by a series of transactions over a period of time or otherwise, securities which (taken together with securities already held by such person or held or acquired by persons acting in concert with him) carry the specified percentage or more of *the voting rights* of a company." (58) (~~232~~)

A complicating factor with this deal is its status under the Banks Act. Section 37 requires the Registrar of Banks to approve any transactions in which more than 15%, then 24% and finally 49% of the equity of a bank is acquired by any persona. Above 49%, ministerial approval is required. Wiese says the Reserve Bank approved his transaction.

Until Boland's constitution was changed in March, nobody could hold more than 10% of its issued shares. As soon as he could, he bought the second 10%. Then, in the past few weeks, he acquired the balance, all through the market, until all the major stakeholders — Rembrandt, Sanlam, Momentum Life, Absa and Sechold had sold out completely. While Wiese was lifting his holding in ordinary shares to 63%, BOE was buying 63% of the prefs from these shareholders.

Whatever the full diluted holdings may be, for at least the next 15 months, Wiese will be in a position to call the tune at Boland — even though he says he doesn't intend to join the board.

This is not to say the outcome will be adverse. Boland's earnings have shown negative real growth over the past 10 years. Under Wiese's direction, and with the synergies that BOE's entrance could create, earnings capacity could improve materially. The bank could be one of the better performers for the next few years and further mergers and acquisitions may occur.

The SRP requires that a mandatory offer to minorities is priced at the "highest price paid by the offeror or any person acting in concert with it for securities of that class within the preceding 12 months." Wiese paid a top price of 920c a share and the BOE 960c for the prefs. By this week the market price was R11. I would not be a seller if an offer to minorities eventuates.

But the principle is clear. Control of Boland has changed. If all classes of shareholders are to be treated with the equity demanded by the Takeover Code, then an offer to minorities must be made. *Gerald Hirshon*

NEDCOR

Fm 24/12/93

Closing in on big rivals

Activities: *Banking, trust and related financial services.*
Control: *Old Mutual 52,6%.*
Chairman: *J B Maree; MD: C F Liebenberg.*
Capital structure: *195m ords. Market capitalisation: R5,2bn.*
Share market: *Price: 2 675c. Yields: 2,9% on dividend; 9,4% on earnings; p:e ratio, 10,7; cover, 3,2. 12-month high, 2 700c; low, 1 625c. Trading volume last quarter, 1,8m shares.*

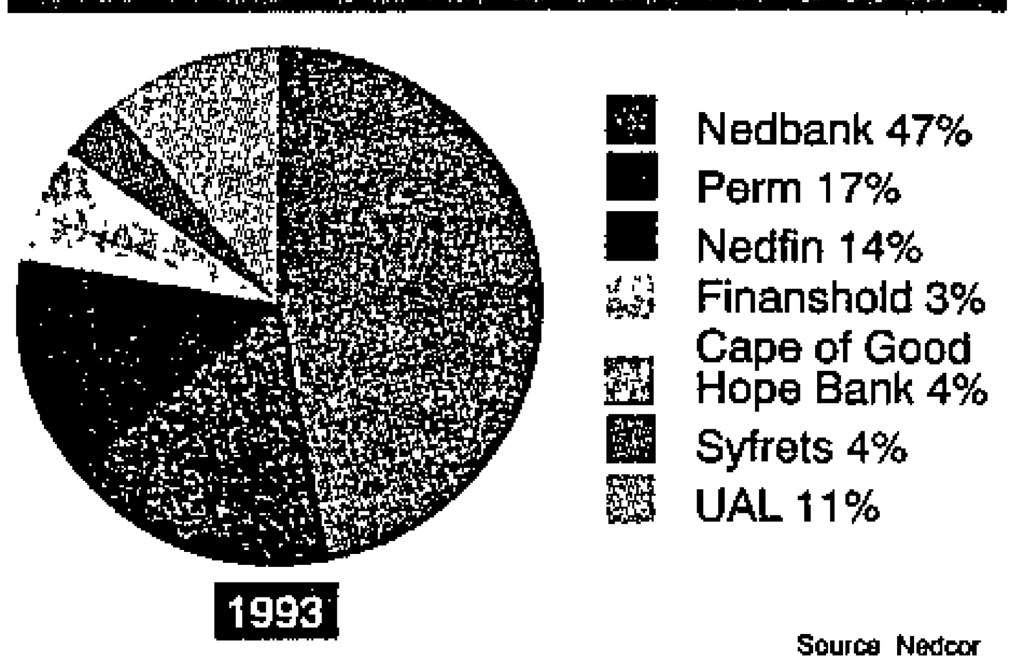
Year to Sep 30	'90	'91	'92	'93
Total assets (Rbn) ...	35,1	41,6	47,3	51,7
Advances (Rbn)	24,4	30,8	34,7	40,0
Deposits (Rbn)	28,9	35,4	40,6	45,4
Pre-tax income (Rm)	506	588	761	806
Taxed income (Rm) .	287	344	408	486
Return on average total assets (%)	0,89	0,90	0,92	0,98
Cap:assets ratio (%)	—	7,4	8,0	9,4
Earnings (c)	154	185	215	251
Dividends (c)	51	57	66	77
Tangible NAV (c)	851	998	1 138	1 328

Investors who noted Nedcor's turnaround of the Perm a year ago and took advantage of the share's relatively cheap ratings have been well rewarded. Over the year the price has appreciated 62%, compared with Standard Bank Investment Corp (SBIC)'s 39%, First National Bank (FNB)'s 35%, and Amalgamated Banks of SA (Absa)'s 6% decline.

Benefits of a two-year rationalisation and the cleaning up of the Perm's book helped make Nedcor the star banking share of 1993. The question now is whether Nedcor can continue to outperform shares of other members of the banking sector's big four.

The 6% increase in pre-tax profit to R806m does not look impressive compared with some others in the sector. The same year-ends make comparisons with FNB inevitable. The rival raised pre-tax income 19%. But that is largely a reflection of bad debt provisions and tax management. FNB reduced its bad debt charge by 1%; Nedcor increased its provisions by 22% to R282m, taking the wind out of its 12% rise in total

Breakdown of taxed profit (R486m)



Nedcor's Liebenberg ... *strong capital ratios*

income.

Nedcor, which decided to take its R53m deferred tax benefit below the line (competitors tended to include all or part in earnings), appears extremely conservative in its provisions. This should help sustain earnings growth in the 1994 financial year.

Another factor that should smooth growth in the long term is Nedcor's policy of only recognising income from a few large project finance deals to the extent of the cost of funding these. CE Chris Liebenberg says the full benefits to be derived from the deferral of tax payments on these deals will start flowing through from 1995.

The capital base has been strengthened through the capitalisation issue offered to shareholders at the interim, which to a minor extent helped grow shareholders' funds by 18% to R2,59bn (the rest came from retained income). In addition, the private placing by subsidiary Nedcor Bank of subordinated debt instruments of R300m, which qualify as secondary capital, has raised the capital:assets ratio from 8% to 9,4%, comfortably ahead of the required 7% at the beginning of next year.

Liebenberg says it's gratifying that the strong capital adequacy ratios have been achieved without a rights issue. "The group still has capacity to increase its secondary capital base when necessary," he says.

Another notable trend flowing from rationalisation is Nedcor's tight control of expenses. These increased by 13% to R1,89bn in 1993, compared with a 15% increase at the interim and 17% increase at the previous year-end. At its year-end, FNB increased operating expenses by nearly 20%.

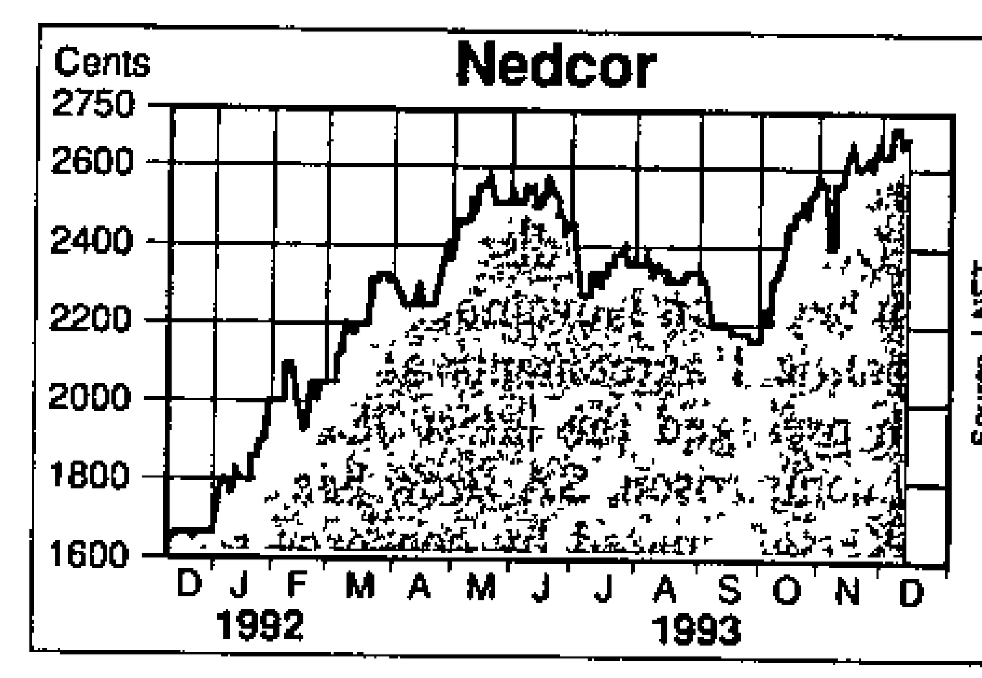
With strengthened capital reserves and spending under control, Nedcor can at least

(58)

compete with the other big banks and take advantage of any economic upturn. It also has a few advantages that could give it the edge in certain areas, such as the Perm's experience in and exposure to the black market, especially in penetrating the vast "unbanked market" which still deals largely in cash. Chairman John Maree says that, in preparing for "the changed SA," the group will benefit from the Perm's pioneering work.

Nedcor has also completed the first phase of converting to its new open systems technology, which includes a strategic partnership with international market leaders IBM and Microsoft. Incoming CE Richard Laubscher (Liebenberg retires in February) says the new system will provide more powerful computer processing power at lower cost. The estimated R80m to be spent on new technology over three years is still within budget.

The international presence is being strengthened by expanding operations in Hong Kong, London and New York, and through a joint venture with the Société Financière pour les Pays d'Outre-Mer group of banks, which operates in 14 sub-Saharan countries.



It would probably be unrealistic to expect the price appreciation seen in 1993 to be repeated in the coming year. But, based on results and future developments, Nedcor's share should hold its own in the sector and could even go a bit further, which makes it attractive on current ratings. *Shaun Harris*

ISG Fm 24/12/93

Under IBM's shadow

IBM, the world's largest computer company, could soon announce its return to SA through an investment in local distributor Information Services Group (ISG), formerly IBM SA. For now, ISG CE Brian Mehl won't comment.

As the *FM* went to press, it seemed IBM's reinvestment could take one of three paths. First, and least likely, its acquisition of ISG

Motor insurance 'set to rise next year'

(58) CT 28/12/93

Staff Reporter

A 10% increase in motor vehicle insurance premiums was announced yesterday by SA Eagle Insurance — and the hike is the first in what is expected to be a general increase in the coming year.

A dramatic upsurge in vehicle theft and hijacking since September has sent claims soaring and fuelled fears of widespread premium increases.

Commercial Union short-term insurance managing director Mr Jimmy Morrow said yesterday his company would probably also be increasing private motor vehicle premiums by between 10 and 15% in the first quarter following a "tremendous upsurge" in recent claims.

SA Eagle Insurance managing director Mr Peter Martin, who is also the South African Insurance Association chairman, said: "September and October this year have shown unprecedented increases in hijacking and theft. Hijacking has increased by 60% and commercial vehicle theft by 75%, compared with the same period last year".

Mr Martin said he also expected new year premium increases of up to 25% on commercial business, which has been underrated for some time but kept at "unrealistic levels" through competition in the industry.

Hollard Insurance managing director Mr Miles Japhet said their premiums would not be increased until it was clear that the 30% increase in claims for vehicle theft experienced since September was more than a short-term phenomenon.

Foreign investors prompt JSE surge

CT29/12/93 (58)

By ARI JACOBSON

THE Overall Index on the JSE has surged some 15% or 633 index points in December as foreign investors snapped up 'cheap' SA shares.

The gold index is some 18% higher at 2 157 and the industrial index about 13% up at 5 487 for December.

Stockbrokers canvassed yesterday about the future direction of the JSE indices were "mixed" in opinion, with some predicting a "correction" and others expecting the market to "power ahead".

The festive season is normally considered a respite worldwide for share markets. This year however, global enthusiasm about an economic upturn has set world share markets soaring to record levels.

The quest for value in SA has been helped by the discount on the financial rand and 'cheap' SA shares, which have in general being ignored for a considerable time by the rest of the world.

For instance, gold shares and related mining house shares are on PE ratios of between 25:1 and

Index up by 15% in December

30:1 worldwide. This compares to Anglos, for example, which has risen sharply in recent months but is still only on a PE ratio of about 18:1.

However, most stockbrokers are becoming wary as the old year comes to a close. None were willing to be quoted but all admitted being surprised by the strong market.

One dealer admitted: "I am worried". He said that the Gold Index was reflecting a gold price of about $400 an ounce and that in general the economic upturn in SA would have a slower impact on a country which is still struggling with a political transition.

"There has to be a correction," he said.

He suggested that blue chips would have to "shed" some weight, as would gold shares if the bullion price does not rise.

However another analyst was more optimistic, pointing out that "we have not seen any of the big American money yet.

"Just look at the massive moves in blue chips in recent times and think what will happen to the value of second-tier stock, which overseas fund managers have avoided up to now."

He added that "only a small amount of economic growth will be required to boost turnover of companies and increase profits, as local companies are lean".

He said that an "unknown" is the possibility that confidence "can be knocked overnight".

He liked infrastructure stocks moving into 1994, such as construction and engineering companies and added that rand-hedges "may have had their day".

A technical analyst was quick to point out that the short-term moving average on the JSE had jumped "too far" from the long term moving average.

"A spike away from the long term moving average means it is time for betting your bottom dollar there will be a correction."

COMPANIES

Santam pays out R3m a day

JOHN DLUDLU

SHORT-TERM insurer Santam had paid out about R3,1m in claims every day in the financial year to September, company chairman C H J van Aswegen said in his annual review.

More than 266 000 claims had been handled — an increase of about 7% on the previous financial year. This had been caused by an increase in the crime rate after the "slight respite" of the previous year, Van Aswegen said.

Fire claims had increased more than 49%, which was disturbing. "Arson is not entirely absent, but it's sometimes difficult to prove," he added.

He noted that the motor portfolio had not been satisfactory. "Premium adjustments were necessary," he said.

Motor vehicle theft claims had risen 2% in number or more than 31% in monetary terms during the period under review. This had resulted in daily payouts of R400 000, he said. All motor vehicle claims — including theft, accident, overturning and windscreens — had risen 10% in number (or 22% in monetary terms).

This was well above the rate at which the company premiums were increased.

He noted that overseas insurance markets had come under severe pressure in recent years, for reasons which included natural disasters. BDGM

"As a result reinsurance rates are climbing up sharply as insurers want to limit their exposure in any one geographical area." 30/12/93

Santam had managed to secure favourable reinsurance rates overseas.

However, he expected the trend towards high premiums to continue in the year ahead.

He added that if overseas underwriting rates continued hardening, SA insurers stood a good chance of benefiting by covering SA risks that had previously been covered by overseas insurers. (58)

"The capacity does exist in SA to insure all but the very large risks."

Santam's after-tax income for the year to September rose to R107,9m, compared with R78,8m reported in the previous financial year.

Banks borrowing more

TIM MARSLAND

BANKS' overnight loans from the Reserve Bank jumped to R4,703bn yesterday — bringing the rise this week to R1,5bn and forcing some banks to pay punitive rates for the money. B/Day

Dealers said banks borrowed money from the central Bank when they were unable to get it elsewhere. Normally, they were charged Bank rate, currently 12%, for the funds.

They also had to hand in assets as collateral. To get the 12% rate, banks had to hand in government debt maturing in less than two years.They could hand in other longer dated government paper, but were charged 13% 30/12/93

Dealers said at least one bank was currently paying the punitive 13% rate.

High December outflows of capital were blamed for the rise in the shortage. Almost R1bn was due to flow out of the country this month in the form of loan repayments and servicing.

Dealers said liquidity would remain tight at least until the middle of next month. But some respite would come from a drop in notes and coins in circulation as holidaymakers returned and handed the money back to banks (58)

The Bank said yesterday there was R13,976bn in notes in circulation but dealers said this would fall to about R11bn in the next few weeks. Banks "buy" notes from the central Bank and, when customers withdraw notes from the system, a drain results in the money market.