FINANCE - GENERAL
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Cape companies' market value tops R4-billion

Bus Argus 8/1/83

58

THE TOTAL market value of Cape Town companies quoted on the Johannesburg Stock Exchange has risen 25 percent in the past year to R4,01-billion.

By GERALD PROSALENDIS

At the end of 1981 the total value was R3,21-billion

Based on their current market value Cape Town's 10 top companies are

Rembrandt group — R1,76-billion.

Pick 'n Pay group — R472,14-million.

Woolworths-Truworths group — R341,21-million.

Cape Wine and Distillers — R238-million.

South African Marine Corporation — R230.3-million.

Picbel group — R115,44-million

Foschini — R104,76-million.

I & J — R86,8-million.

Clicks Stores — R75-million.

Anchusa Holdings — R66,9-million.

Largest increase

The company with the largest increase in market value over the past year was I & J. It grew by 63,1 percent to R86,8-million from R53,2-million.

I & J's share price rose to 310c at the end of last year from 190c at the end of 1981.

It was followed by the giant multinational Rembrandt group which showed a phenomenal 61.8 percent increase in market value to R1,76-billion from R1,08-billion.

The individual company's in the group showed the following share price increases from the end of 1981 to the end of last year.

Rembrandt Controlling Investments — 805c to 1300c.

Rembrandt Group — 1140c to 1875c.

Technical Investment Corporation — 680c to 1050c.

Technical and Industrial Investments — 675c to 1050c.

This means the group's shares quoted on the JSE have risen in value by R673,05-million, an increase that is almost double the next largest Cape Town company's total market value.

The group's current market value represents 43,9 percent of the market value of all Cape Town firms quoted on the JSE.

Lamberts Bay showed an increase in market value of 27,2 percent to R29,78-million from R23,40-million The company's share price rose to 350c from 275c.

Anchusa Holdings increased 26,9 percent to R66 9-million from R52,73-million

Clicks increased 25 percent to R75-million from R60-million.

The Rex Trueform group was up 21,7 percent, followed closely by the Pick 'n Pay group with 21,6 percent.

As expected

Cape Town stockbrokers say the increase in market value of local companies was roughly what had been expected given the strong industrial market of the past six months.

The rise was in line with the overall rise in market values on the JSE.

Some companies, such as Rembrandt and Pick 'n Pay performed exceptionally well last year with rises well above average.

Brokers differ on what to expect for 1983 though.

Some think prospects for further growth are good and there could be another increase of 25 percent or even more this year.

This depends largely on the gold price and the ability of industrial companies to attract the large amount of money still outside the market, they say.

Others are more cautious, predicting a rise of up to 15 percent or less.

● See full table of Cape companies on Page 2.

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Blacks' insurance doubled

58

Star

8/1/83

DURBAN — A leading car insurance company is to double black motorists' premiums from the beginning of next month.

Insurance statistics from the Johannesburg-based Aegis insurance company have revealed that black people — including Indians and coloured people — claim more money than they pay in premiums.

A life assurance consultant, Mr Peter Marcus, was told the new monthly figure for comprehensive cover on his 1982 Toyota would rise from R25,75 to R60,59 — an increase of 135 percent.

Mr Marcus (50) was told a white person in the same situation would pay R29,28.

The figures were confirmed yesterday by the deputy general manager of Aegis, Mr Peter Moss, who said non-white clients would be paying at least 100 per cent more. — Sapa.

Afribank's good progress

By Elizabeth Rouse

THE African Bank, founded six years ago, sheds its last paternal links this year.

Directors D Havinga, H S Liebenberg and C H Waterson resigned at the end of 1982. They had stayed on a year longer than the five years provided for in the original agreement.

Pretoria businessman Moses Maubane became the bank's general manager last year, replacing Mark Tapping, also under agreement.

The bank made its first public offer last year. Shares taken up totalled 554 457, of which 85% were taken up by blacks, bringing the bank's issued share capital to almost R2 million.

The bank has come a long way. Cash and short-term funds rose from R1 458 100 in 1978 to R5,911-million in 1982.

Advances and other accounts increased from R4,217-million to R10,848-million, pushing up total assets from just over R8-million in 1978 to R20,780-million last year.

It moved from a loss of R37 000 in 1978 to a taxed profit of R110 000 last year, of which R32 000 went into share-issue expenses.

Afribank chairman Sam Motsuenyane, while pleased with the bank's performance, has a word of criticism in his annual report.

"I must record my deepest concern regarding the unnecessary stumbling-blocks constantly being placed in the way of the growth and development of our bank by the bureaucracy which pervades our economic life.

"It is grossly unfair that Afribank, although a full member of the financial institutions of our country, should be denied access into the central business districts of our cities when her competitors are allowed free entry into the black townships."

Banks cut prime rate to 17 pc

ARGUS 13/1/83

58

THE five major commercial banks today announced a one percentage point cut in their prime overdraft rates to 17 percent.

The cut by Barclays, Nedbank, Standard and Trust will be effective from January 24.

Volkskas's cut will be from January 25.

The prime rate has now fallen three percentage points since November.

WIDELY PREDICTED

A cut this month has been widely predicted but bankers said last week that much depended on the size of the domestic money market shortage.

This stood at R389-million yesterday, well down from the R856-million a week ago, Reuter reports.

MONEY

Mr Rob Abrahamsen, managing director of Nedbank, the first to make the announcement, said the reduction signalled an expectation that the present upward pressure on money market interest rates would prove to be temporary.

ALL CLIENTS

The bank believed that towards the end of the month, market conditions would lead to rates in line with the new prime.

The one point reduction would be applied to all clients with overdraft facilities.

Mr Donald Swanepoel, managing director of the Trust Bank, said in Cape Town: "There is a most definite levelling off of interest rates.

"But that does not mean that we are at the end of the recession.

"The improvement in the price of gold will help, but we cannot afford an upswing in our economy until our balance of payments is in the black.

"We can improve our balance of payments only with exports and the amount of exports depends on the state of overseas economies, particularly that of the United States."

How big SA loan split IMF

Star

By John D'Oliveira, The Star Bureau

WASHINGTON — The South African application for a 1 000-million dollar loan from the International Monetary Fund split the fund's executive directors as few previous decisions had done.

This is confirmed by the confidential minutes of the November 3 meeting at which the directors agreed to the South African request.

The minutes reveal for the first time the positions adopted by the different IMF executive directors on the highly contentious South African loan.

The Centre for International Policy, a non-profit organisation in Washington which studies the role of the IMF and the World Bank, clearly had access to the minutes and in a statement yesterday detailed the positions taken by the executive directors.

Each represents a percentage of the IMF votes depending — roughly — on the size of the economy of the country.

The board does not take a formal vote. Each executive director makes a speech indicating his position and at the end of the discussion the chairman takes the sense of the meeting.

CHOSE NOT TO SPEAK

At the meeting on November 3 the executive directors representing the United States (19,64 percent of the votes), the United Kingdom (6,86 percent), Germany (5,07 percent) and France (4,51 percent) spoke in favour of the loan.

So did the executive directors representing the group of countries dominated by Canada, the Netherlands, Italy and Belgium.

Japan, Spain and a group of Latin American countries including Mexico, Venezuela, Brazil and Argentina, as well as Australia, New Zealand and the Scandinavians did not speak at the meeting, thus effectively withholding their votes.

"No" votes came from Saudi Arabia, Libya and other Arab countries, India, Bangladesh, Sri Lanka, China and black Africa.

Four countries — Ireland, Jamaica, Greece and Malta — asked their executive directors to place on record their opposition.

In the end those in favour totalled 51,9 percent and those opposed 21,4 percent.

'SA will seek new loan from IMF'

14/1/83

The Star Bureau

WASHINGTON — A Washington organisation which keeps track of the International Monetary Fund and the World Bank predicted today that South Africa would soon return to the fund for another 1 000-million dollar loan.

In a statement commenting on the minutes of the November 3 meeting, at which the IMF executive board agreed to South Africa's request for a 1 100-million dollar loan, the Centre for International Policy said South Africa did not really need the fund's emergency aid.

The centre said that in a 1980 analysis it had stressed that South Africa placed a high value on any form of international co-operation.

It said South Africa would approach the IMF "sooner rather than later" in the event of its feeling the financial pinch.

IMF loans conferred an aura of international approval, which the South African authorities used to convey that criticism of apartheid was futile.

Watch on apartheid

The Star Bureau

WASHINGTON — In further dealings with the International Monetary Fund, South Africa's labour situation — especially its restrictive system of influx control — will come under increasingly close scrutiny.

The confidential minutes of the executive board's meeting on November 3, at which the board agreed to South Africa's request for a R1 180-million loan, make this absolutely clear.

Copies of the minutes have been made available by unofficial sources.

The minutes show that the board was split as never before on the South African loan — although board members opposing the loan confined their comments almost exclusively to economic and fiscal arguments.

One of the major issues raised by executive directors opposing the loan as well as by some who supported it was that South Africa had not made enough changes to apartheid and was not doing enough to deal with the problems of influx control.

South Africa's IMF representative, Dr Gideon Brand, explained actions that South Africa had taken to increase the supply of skilled labour and to open

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Equal rates for riot risk

Sunday Times Reporter

ALL races will pay the same rates for insurance against political riots from April 1.

The South African Special Risks Insurance Association decided to scrap the discriminatory rates after being approached by the Umzinto North Town Board in December.

The town board made representations to the association, saying that "the application of discriminatory rates based on colour was highly objectionable".

The board refused to take out special cover because of the discrimination.

The rates for political-riot insurance against material damages are all risks of a private residential nature within a black township 0,125 percent, in an Indian or coloured township, 0,075 percent and in other areas 0,025 percent.

All risks other than of a purely private residential nature within a black township are 0,5 percent, in an Indian or coloured township 0,3 percent and in other areas 0,1 percent.

From April 1 the standard rates for all races will be 0,025 percent for private and residential risks and one percent for commercial and industrial risks.

63,4 + 29 = 92,4

SECTION A.

1.1 ? E?

JSE's biggest movers

ARGUS 18/1/83

58

By Alec Hogg

JOHANNESBURG. — Biggest percentage changes in share prices on the Johannesburg Stock Exchange in the past week, with suggested reasons were:

Wit Cons (Mining holdings), up 425c to 1 050c.

The company, which holds 1,7-million Duiker shares as its major asset, is a thin market, and the price surge indicates renewed buying interest on small volume.

Salect (Engineering), up 6c to 17c.

After struggling to break the 12c mark, Salect suddenly jumped on heavy trade last week. After peaking at 23c, the share fell back to its current level.

It has been suggested that a takeover is imminent, but this has not yet been substantiated.

Some say the takeover price will be 83c, but the market does not take this speculation seriously.

HEAVY VOLUME

Sappi RP NPL (Paper and packaging), down 2c to 3c.

The fall also came on heavy volume, and indicates the market is not impressed by the terms offered on the redeemable preference side of the Sappi rights issue.

The nil paid letters allow investors to participate in the proposed rights issue despite not owning any ordinary share.

In contrast to the NPL's issued for the redeemable prefs, the market is obviously attracted by the participating prefs part of the rights issue. The price of those NPL's is 150c.

Lucem options (Industrial holdings), down 10c to 10c.

These options allow holders the right to buy Lucem ordinary shares at 240c in June of either this year, next year or 1985.

With the Lucem ordinary shares currently languishing at 70c, the price would have to more than treble for the options to be of any use at all.

RE-RATING

Trumcor (Industrial holdings), down 15c to 17c.

Little reason can be found beyond a re-rating of the share.

In November Trumcor paid a special dividend of 18,5c, which lent buoyancy to the share price for some time.

Carrigs (Diamnonds), up 15c to 48c.

A highly speculative counter, Carrigs fluctuates like a yo-yo. The only fundamental reason for the recent rise is the improved prospects for the diamond market.

Wit Deep (Mining holdings), up 1 250c to 4 000c.

The company, which is heavily invested in Driefontein Consolidated, Elandsrand and Western Deep Levels, has had steady demand over the past week, with the price responding because of the shortage of scrip.

MARGINAL

South Roodepoort (Golds), up 125c to 460c.

One of the most marginal of the gold mining operations, this share has responded sharply to the improved prospects for the metal's price.

Duiker (Mining holding), up 160c to 600c.

The company has substantial investments in coal and asbestos, two sectors which have been strong on the exchange in recent weeks.

Solarsh NPL (Engineering), up 1c to 4c.

Even at this level, the nil paid letters are at variance to the ordinary shares. The letters entitle holders to participate in the Solarsh rights issue of new ordinary shares at 20c.

In effect, holders of the letters are buying Solarsh ordinaries at 24c, which is at a premium of 25 percent on the current share price of 30c.

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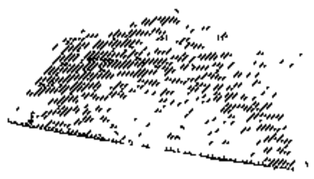
Old Mutual buys stake in Protea

ARGUS 19/1/83
58

OLD MUTUAL, the country's largest life assurer, has bought a substantial stake in the industrial conglomerate Protea Holdings.

The Mutual bought 2,5-million shares at 291c a share through a special bargain on the Johannesburg Stock Exchange. The investment of R7,2-million represents 8,2 percent of Protea's issued shares.

It is the Mutual's first investment in Protea, which has interests in the chemicals, consumer products, electrical and engineering fields.



Commenting on the deal, Mr Bill Langley, the Mutual's assistant general manager, investments, said the investment must be seen as long term.

UNDER-RATED

He said: "Protea has been under-rated for a long time, but the fact that we have picked up such a large line does not mean that it will get a better rating overnight.

"I think the results for the year to June will be uninspiring, but when one looks at the company over a three to five year view, it offers good value.

"Too many people are still rating companies on their short-term potential."

CRITICISM

The Mutual has come in for criticism in the past for its obsession with investing for the longer term.

A good example was the institution's heavy subscription in a government stock issue early last year when an estimated R250-million worth of stock was bought at a yield of 13,25 percent.

SHOT UP

Over the next few months the investment looked sick as rates on the stock shot up to just below 15 percent.

Subsequent events proved the investment strategy was correct, as today long-term government stock yields just over 10,4 percent, which means the Mutual's substantial investment now stands on a large book profit.

Alec Hogg

DISINVESTMENT FM 21/1/83

Bank union probe

The labour and business practices of banks in SA, especially the subsidiaries of major British banking houses, are being investigated by the UK's 150 000-member Banking, Insurance and Financial Union (Bifu).

The British Trades Union Congress (TUC) strongly favours disinvestment from SA. However, Bifu's members are still debating disinvestment or constructive engagement.

Last year the union began to investigate SA banks' labour and business practices to provide its members with information which would help them conduct a more sophisticated debate. Bifu was then invited to send a representative to SA by three local banking unions — the white SA Society of Bank Officials (Sasbo), the coloured and Asian National Union of Bank Employees of SA (Nubesa) and the black SA Bank Employees' Union (Sabeu).

These unions are trying to merge. Sasbo and Nubesa are strongly against disinvestment, while Sabeu members are divided on the issue. However, they all believe it important for Bifu to conduct a thorough investigation into all aspects of the issue and are funding the Bifu representative's visit to SA.

Senior Bifu official Steve Gamble, who arrived in SA earlier this month, is taking a particular interest in Standard and Barclays, and has been meeting their managements. However, the three local unions have also arranged for him to meet a wide range of business and community leaders

"If our people are going to debate constructive engagement versus disinvestment, I want to know whether the claims that the banks are making in Britain about their policies in SA are true," says Gamble. Not surprisingly, local bank managements are being as helpful as possible.

Bifu will decide what stand it should take towards SA when it holds its annual conference in April The impact of its decision on the disinvestment debate in the UK will probably be fairly modest in the short term However, the union is an influential TUC member and the banks are watching its deliberations with great interest.

Bus Argus 22/1/83 (58)

FCI unhappy about third party plan

A GOVERNMENT commission of inquiry is considering suggestions that a State corporation should take over third party vehicle insurance, abolishing policies and instead collecting the money through a levy on fuel.

The corporation would handle all claims, and it has been suggested that there should be compulsory "no-fault" insurance so that everyone injured in an accident would be entitled to compensation, regardless of who was to blame

The proposals have been put forward by the MVA Fund — to which 17 short-term insurance companies belong — to the commission of inquiry into compulsory motor vehicle insurance.

But the managing director of a leading short-term insurance company has misgivings about these proposals and the Cape Chamber of Industries is strongly opposed to them

GIVE EVIDENCE

The deputy director of the chamber, Mr C E McCarthy, said a specialist committee of the SA Federated Chamber of Industries had studied the proposals and had asked for an opportunity to give evidence against them.

The current issue of the chamber's bulletin suggests that a State corporation is unlikely to be more efficient than private enterprise in the collection of money and the settling of claims, because it would not be subject to the same incentives

The managing director of a leading short-term insurance company said that although profits from handling third-party insurance were hardly large enough to justify the work involved, companies did the business as a service to their customers in the same way that shops sold basic goods with a small profit margin such as bread and milk.

CIVIL SERVICE

At present anyone injured in an accident submitted a claim to the insurance company of the person responsible.

If a State Corporation took over, the injured person would have to claim against the civil service "and with the latest reports on their staff shortage, I don't see how they can deliver the service that the public are entitled to"

Although the thought of everyone injured in an accident being able to claim compensation, regardless of who was to blame, was an attractive one, this would have to be paid for.

It would mean that careful people would subsidise the negligent.

The Federated Chamber of Industries bulletin says: "The FCI is con

Continued on Page 2

Third party

Bus Argus 22/1/83 (58)

From Page 1.

cerned that the compilers of the MVA Fund document envisage a compulsory no-fault insurance system for South Africa.

"Such a major change should not be lightly made

"It would run counter to the South African law of delict and would necessitate far-reaching alterations to the legal system"

"The FCI also rejects the assumption that the premium burden would be more equitably distributed if it were imposed on the fuel rather than directly on the vehicle"

High SA bank rate prompts cheaper borrowing abroad

FOREIGN MONEY POURS IN

Finance Reporter

FOREIGN money is pouring into South Africa on a scale seldom seen in recent years.

The inflows consist mainly not of headline-catching direct investments by foreign companies or big Eurocurrency bonds, but of hundreds of millions of rand in short-term loans to finance foreign trade transactions and companies' working capital.

One economist estimates that more than R600 million has come into the country this way since the beginning of the year. Others put the figure lower.

Short-term capital inflows totalled less than R500 million in the whole of 1981.

The rush to borrow abroad has been prompted partly by a wide gap in interest rates between South Africa and northern hemisphere countries and partly by the bullish outlook for the rand.

Even after local banks lower their prime overdraft rate in the coming week from 18 percent to 17 percent, South African interest rates will be far higher than those in the US and Europe.

The cost of a three-month local bamkers' acceptance, one of the most popular trade finance instruments, is currently around 15,25 percent for a top-flight company, including commission and other charges.

A three-month Eurocurrency facility or New York acceptance costs between 9,5 percent and 10 percent.

Much of the difference would be wiped out if a borrower took forward cover to insure himself against foreign exchange losses.

The forward premium this week on three-month contracts was around 6 percent, bringing the covered cost of a Eurocurrency facility to at least 16 percent. Companies with less than blue-chip status pay even more.

But banks are advising borrowers and importers to ignore forward cover for the time being.

The rise in the gold price, South Africa's improving balance of payments and Pretoria's eagerness to hold down the cost of imported goods all point to a steady rise in the rand for most, if not all, of 1983.

The chances are that a company borrowing, say, dollars now will have to fork out fewer rand in three or six months' time to repay the principal on the loan.

The corporate treasurer of one US subsidiary in this country observes bluntly: "Our policy is not to speculate, but it seems crazy to buy forward at present. We see the rand strengthening in the short term."

Most economists and bankers predict that the rand, currently around 94c in the US dollar, will reach parity by mid-1983, provided the gold price does not collapse.

To delay repayments until the current account is (hopefully) showing a tidy surplus, the Reserve Bank insists that all foreign loans to finance working capital must have a minimum maturity of six months.

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Shock for black drivers

(CP 58) 23/1/83

INSURANCE PREMIUMS TO DOUBLE

By DERRICK LUTHAYI

THERE are twice as many car accidents in Soweto as there are in Johannesburg — and black drivers are going to pay heavily for this.

Two insurance companies have announced massive increases in premiums for blacks, to come into effect next month.

Aegis Insurance is doubling its premium for blacks. While whites will continue to pay R38 a month for a small car, blacks, coloured and Indians will pay R76 a month.

High risk

"Black drivers have more accident claims than white drivers in any area," said Mr Peter Moss, deputy general manager of Aegis.

"The accident rate in Soweto is twice as high as in Johannesburg," he said, adding that blacks, coloureds and Indians were claiming more than they were paying in premims.

IGI Insurance will also increase black premiums.

While a white motorist will pay R55,83 for insuring a small car, blacks will have to pay R83,85 for the same cover.

"Blacks are a high insurance risk," said an IGI spokesman. "They make more claims than whites."

The AA, however, is not loading black premiums.

"There are high risk areas like Soweto, Hillbrow and Lenasia, but drivers are all paying the same at the moment," said a spokesman.

Accidents

The AA's premium for a small car is R41,25 a month.

Mr Tom Manthatha, secretary of the Committee of Ten, blamed the inadequate facilities in the townships for the high accident rate.

"They shouldn't be punishing us," said Mr Manthatha. "The bad roads, inadequate lighting and shortage of robots and traffic cops are the Government's fault, not ours."

A spokesman for a leading driving school said thousands of black motorists held forged licences.

"As long the racket continues, people not qualified to be behind the wheel will be causing accidents."

UNIVERSITY OF CAPE TOWN

EXAMINATION ANSWER BOOK

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The Cape Times, Monday, January 24, 1983 11

Big black housing sale likely

Own Correspondent

JOHANNESBURG. — The government is expected to announce soon that it has agreed in principle to the mass sale of existing Administration Board housing to black tenants.

Mr Peter Richardson, president of the Association of Building Societies, told a press lunch last week: "We do not know officially, but we understand that it has been approved.

"The matter has been with the cabinet for 15 months and we are just waiting announcement of a decision in principle."

Asked to comment, Mr P D McEnery, Deputy Director-General of Community Development, said the government was "giving attention" to the sale of rented accommodation to tenants, not only of black housing, but also of white, coloured and Indian rented accommodation.

The matter had not yet been finalized and any announcements would come from the Ministers of Community Development and of Co-operation and Development.

Mr McEnery pointed out that after the recommendations of the 1981 Viljoen Committee into Soweto's housing crisis had been accepted in principle by the cabinet, Dr Piet Koornhof, Minister of Co-operation and Development, had said steps would be taken to sell existing housing stock in urban areas to black residents.

Coloured tenants have already been given an option by the Johannesburg municipality to buy their houses — or face a steep increase in rent.

	External
	(3)

Slowdown in last quarter of 1982

SA borrowing quadrupled

By NEIL BEHRMANN

LONDON. — The South African public and private sector borrowed $2 426-million abroad last year — about four times the figure for 1981.

Agefi, the international bond and credit newsletter, discloses that South African syndicated credits on the Euromarkets — the international money market — totalled $2 090-million in 1982 compared with $510-million in 1981.

Private companies, banks and the public sector also raised $336-million through the Eurobond market — the international capital market.

Although Agefi does not provide comparable figures for long-term issues, it is known that far less cash was raised through this market in 1981 than in 1982.

It is evident from the Agefi returns that most of the South African funds were raised in the first three quarters of 1982.

Although South African bankers claim that it was easy for South Africa to raise funds in spite of the international banking crisis, statistics show that foreign borrowing tailed off in the last quarter.

This does not necessarily mean that international bankers cooled off on lending to South Africa. A drop in foreign borrowing requirements could have occurred because credit demands weakened in the deepening SA recession.

Bank for International Settlements statistics show that South African businessmen made much use of foreign trade finance, especially in the first quarter and second quarters last year.

South Africa's net borrowings from commercial banks in the 10 main industrial countries, plus Switzerland, Austria, Denmark and Ireland rose from $8 434-million in December 1981 to $10 945-million by September 1982. Although net bank borrowings rose in the March and June quarters, they declined from $10 973-million in June to $10 945-million in September.

Interest rates abroad were high in the first half of last year. But South African businesses may have decided to borrow abroad because domestic rates were rising rapidly and the Reserve Bank adjusted the forward exchange rate to make foreign finance cheap.

The dip in foreign trade finance demands in the third quarter took place in the face of a dramatic drop in international interest rates, indicating once again that South African recession was beginning to bite.

London bankers report that South Africans made much use of foreign finance in the fourth quarter, but statistics are not available. The bankers say foreign trade financing increased because the appreciation of the rand cheapened foreign borrowing costs.

The Bank for International Settlements says borrowing will be difficult in the coming year. Such news makes nonsense of predictions that the world economy will soon take off in an inflationary boom.

The BIS says credit granted to developing nations declined in the third quarter of 1982 for the first time since 1977. The "pre-eminent" feature in the quarter was the decision by banks in 14 major Western countries to reduce their overall lending to the non-oil developing nations by $800-million. In the previous quarter banks loans to these countries increased by $13 000-million.

The statistics of BIS, the central banks' central bank, illustrate the adjustment to international bank lending after Mexico failed to service its debts.

From 1973 to mid-1982, non-oil developing nations accounted for a quarter of Western banks' lending.

Comparing the first three quarters of 1982 with the corresponding period of 1981, both the interbank business of commercial banks and granting of new international credit slowed down last year. "The slowdown in new credit was as much as one-third," says the BIS. A large part of this decline was experienced by the depressed economies of major industrialised nations.

"Given the changed perception of risks involved, banks concentrated on loans to borrowers within the Group of 10 countries. Australia, New Zealand and South Africa borrowed $3 000-million in new funds in the third quarter, which was somewhat less than in the previous two quarters."

In Paris, officials of the Group of 10 have agreed to almost treble their pool of lendable funds — known as the general arrangements to borrow — to 17 000-million special drawing rights (R19 890-million) from SDR 6 400-million (R7 480-million).

They also agreed on a substantial increase in International Monetary Fund resources which will be negotiated at the IMF interim committee meeting on February 10 and February 11. The aim is for total official lending resources to be raised from $120 000-million from $75 300-million to alleviate strains in the international financial system.

Recession: 60 000 broke a month

By Michael Chester

Consumers are being hit by 60 000 debt summonses and court judgments totalling R15 million a month as the recession and high interest rates bite into family budgets.

Latest figures from Central Statistical Services, the State department that monitors economic trends, show that consumers are nearly R2 million behind with hire purchase instalment payments every month.

Defaults on cash loans are running at about R42 million a year and cheques worth more than R2 million a month are bouncing.

The president of the Institute of Credit Management, Mr Peter Thatcher, said today that thousands of families had slid into debt in the 1980 boom and repayments were now falling behind.

Mr C T L Leisewitz, senior general manager of Credit Guarantee Insurance Corporation, feared worse was to come before the economy recovered.

Capital resources inadequate

"Most of the older and well-established firms have the expertise to survive without too many problems," he said. "But scores of small companies created in the boom now find they don't have the managerial talent or adequate capital resources to cope with a downturn.

"Debt collection is the first move. And of course it is the private consumer who is the target."

But there is increasing concern over the methods employed in debt collection or repossessions.

Says Mr David Price, executive director of the Institute of Credit Management: "All credit managers need to check the financial records and stability of customers.

"But the consumer must also consider steps such as legal protection. Often forgotten, for instance, is the Credit Agreement Act, which allows any purchaser five days to change his mind and cancel an order if he bought anything under pressure from a door-to-door salesman."

Bully-boys used to frighten

Mr Thatcher is equally concerned that many consumers have a raw deal.

"The syndrome begins when the big company waits 90 or even 120 days before paying bills while putting the squeeze on small companies to make quick settlements — or else.

"In turn the smaller producer applies the squeeze on the retailer — and so down to the private consumer.

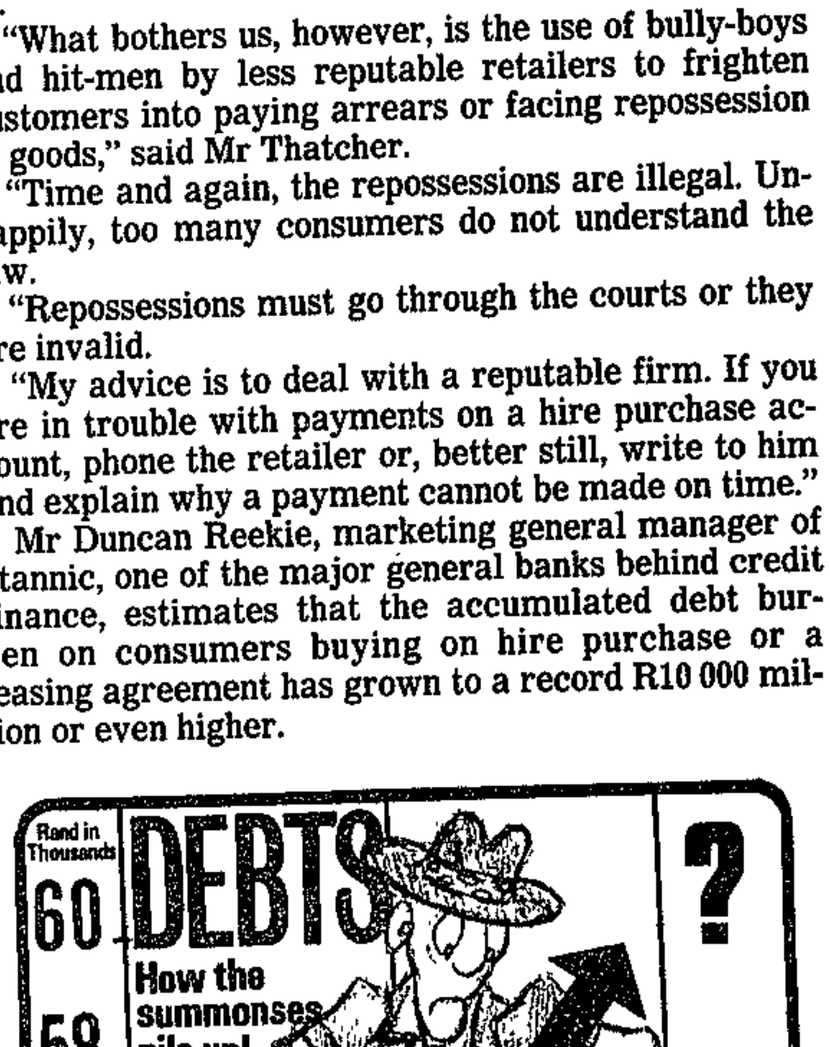
"What bothers us, however, is the use of bully-boys and hit-men by less reputable retailers to frighten customers into paying arrears or facing repossession of goods," said Mr Thatcher.

"Time and again, the repossessions are illegal. Unhappily, too many consumers do not understand the law.

"Repossessions must go through the courts or they are invalid.

"My advice is to deal with a reputable firm. If you are in trouble with payments on a hire purchase account, phone the retailer or, better still, write to him and explain why a payment cannot be made on time."

Mr Duncan Reekie, marketing general manager of Stannic, one of the major general banks behind credit finance, estimates that the accumulated debt burden on consumers buying on hire purchase or a leasing agreement has grown to a record R10 000 million or even higher.



Bond payments — are you losing out?

COMPLAINTS that building societies vary in their methods of crediting bond and savings accounts, resulting in possible interest penalties in the one case and loss of interest in the other, prompted WATCHDOG to approach the organizations concerned for their views.

NBS:

● Interest on mortgage loans is calculated on the balance appearing on the account at midnight on the last day of the month and is capitalized to the loan account on the 7th of the following month. It would therefore benefit the borrower to pay a loan instalment on or before the last day of the month

● Cheque payments appear as a credit to the bond account on the date of deposit

● The most economical means of paying a bond would be by stop order on a Society savings transmission account. No charge is levied for this service. Providing the borrower maintains sufficient funds in the account, the transfer would automatically be effected on the date required by the client. Borrowers may also pay instalments by bank stop order but a charge is usually levied by the bank for this service

● If a client's salary is paid directly to a transmission or savings account by way of the Building Society's Data Bureau, no clearance period is applied to the credit and there would be a savings cost to employers in that they would not have to draw salary cheques in favour of employees

● Salary cheques generally require a 10 day clearance period. By arrangement with the employer this can be waived

● The society operates an investment advice bureau, open to all.

PERM:

● An SA Perm bond instalment is due on the first of the month but payable from the 15th. Interest is calculated on the night of the 15th on the balance owing at that time

● A cheque made out on due date appears as a bond repayment on that date; not from the date of verification of the cheque

● Apart from depositing the instalment in person, the client may post a cheque to the Society. It may also be paid through a bank stop order or an internal transfer of funds from the client's savings account to the bond account

● An SA Perm transmission account bears interest of two percent on the minimum monthly balance capitalized annually in February 28. The account can be used to arrange stop order payments on bonds, to companies who operate through the Building Society Data Bureau, transfer of funds to other Perm investments and cheques in favour of third parties

● Cheques deposited to accounts with the Perm normally require a 10-day clearance period. This may be waived at the discretion of the branch if the drawer is known

STANDARD

● Monthly instalments of bond repayments fall due on the first of each month

● Cheque payments to bond accounts are credited immediately

● Stop orders from the Society's transmission accounts will ensure that payments are made on time, provided sufficient funds are in the account at the time of transfer

● The current rate of interest on a transmission account is 2,5 percent, credited annually on June 15

● Where a transmission account is used for the deposit of salary cheques the clearance period is waived to enable clients to draw immediately, subject to positive identification

UNITED:

● Bond instalments are due on the 1st of the month but a period of grace is allowed

● Interest on the bond is calculated on the balance at the end of the previous month

● Interest on a cheque is credited from the date of deposit. The normal 10-day clearance period is waived where the drawer is known. In some cases, the depositor may also make an immediate withdrawal on the cheque if he holds other deposits with the society

● Clients may pay monthly instalments on a bond account by internal transfer from savings or savings account, by bank stop order, or through salary deductions forwarded by the employer

● The transmission account currently pays two percent calculated on the minimum monthly balance and capitalized annually. Ordinary savings accounts pay four percent on the minimum monthly balance, capitalized annually. Special savings accounts have varying rates depending on the balance, interest being calculated on the number of days the money is with the Society and capitalized monthly

● A stop order payable to the client's own mortgage account can be arranged from any of these accounts. Currently these transfers are done on a fixed date each month. Transfers for the credit of another person's account may only be made from a transmission account.

● Salary cheques, by arrangement, are cleared immediately.

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IMF loan opponents 'compliment' SA

By NEIL BEHRMANN

LONDON. — South Africa got a back-handed compliment about its world financial reputation from some of its severest critics in the International Monetary Fund last year.

This arose during the bitter debate over this country's eventually successful application for a R1 240-million IMF loan.

Opponents of the loan in the IMF, led by Saudi Arabia, Libya and other Moslem and/or Third World countries argued that South Africa could borrow what it needed on world financial markets.

It had no right, therefore, they said, to be approaching the IMF.

However, the United States backed IMF staff arguments that South Africa's borrowing potential was very limited and that its foreign debt had grown by 55% in 1981.

Against this Libya, Kuwait and others argued that South Africa's case was unconvincing.

The debt-service ratio, they said, was expected to fall to 7% in 1983, well below other similar countries.

Saudi Arabia said that with a good credit rating South Africa could borrow on the international capital markets.

All these points appear from the minutes of a crucial board meeting of the IMF.

The minutes of the meeting was obtained by the Anti-Apartheid movement and then confirmed independently by the Financial Times of London.

Although the IMF claims that it acts purely on technical and economic grounds when it decides on loans to countries it is evident that the meeting deciding on the South African loan was dominated by political considerations.

But the argument was technically conducted almost exclusively in economic terms and the word "apartheid" was mentioned only twice. The minutes show, though, how the executive directors from the Third World and Arab states lined themselves against the industrialised nations.

The minutes also underline the awareness of all IMF directors that a country's economic performance cannot be entirely divorced from its political system.

The key concern of the board, according to the Financial Times was the "structural rigidity of the labour market, a direct consequence of legally enforced racial discimination delaying an economic recovery".

The debate which lasted for most of the day focussed on two broad issues:

- Whether South Africa was truly in need of IMF support.
- Whether its proposed economic policies were enough to deserve such support.

Although western representatives and fund officials believed South Africa had done enough Third World directors pressed for tougher terms.

When South Africa applied for two loans totalling $1 100-million they asked the IMF's managing director Mr Jacques de Larosiere to keep total confidentiality — the first time he had received such a request in his four years of office.

Normally IMF directors are informally told of a preparatory IMF mission, and Third World IMF directors were bitter that the IMF had acted with unusual speed and secrecy.

The minutes show that the industrialised countries criticised South Africa's labour policies but favoured the loans.

There was strong disagreement over the gold price used in forecasting South Africa's requirements.

The IMF staff appear to have accepted South Africa's forecast of $315 in the months ahead (the closing months of 1982. The actual price, of course, went way above South Africa's official expectations).

The day before the November 3 meeting the gold price was $431 an ounce.

In the debate on the adequacy of South Africa's economic, fiscal and monetary policies, underlying political arguments became clearer.

Third World nations referred to South Africa's heavy defense spending and subsidised loans to the white farming community.

Above all they asked whether the fund should insist on much more radical action to remove artificial barriers to employment, to improve training and job mobility for the black majority.

On "structural adjustment" the directors agreed that there was a need for action, but they differed on whether it should be a condition for the loan.

Mr Bruno de Maulde of France argued that the staff report "lacked a thorough examination of the greatly needed supply action in the labour market."

He called for "a much higher priority" to be given to the relief of bottlenecks.

Mr Mohamed Finaish of Libya maintained that the labour issue "had never been fully analysed in IMF staff papers even though it dominated South Africa's economic and social development."

It was not simply a matter of more training, but of dismantling the "main constraints of labour mobility resulting from restrictive laws and practices."

Mr Giovanni Lovato of Italy declared that the gold price increase "had given the South African authorities an opportunity to make badly-needed structural reforms, but they had sharply increased expenditures, including defense outlays."

Dr Simon Brand, the South African representative to the fund said the government had introduced significant labour reforms.

But he admitted that in 1981, there were 9 232 Whites training as apprentices against only 495 blacks.

In the first six months of 1982 6 129 youths registered as apprentices but only 313 were black.

Third World nations also attacked South Africa for imposing import surcharges and maintaining a dual exchange rate.

No formal vote was taken but during the course of the day the US, Britain and West Germany were joined in supporting the loans by five other country groups.

Those in favour included Canada and seven European states.

South Africa had the support of 22 countries whose weighted vote represented 51,9% of the IMF total.

Star (68)
7/2/83

Page 2

Flexibility will increase—Parsons

Mr Owen Horwood . . . commercial bankers say his surprise easing of foreign exchange controls at the weekend was a move made in a spirit of confidence.

The Minister of Finance, Mr Owen Horwood, had taken a timeous and confident step to strengthen the South African economy and was to be congratulated, Mr Raymond Parsons, chief executive of the Assocom, said today.

Mr Horwood announced last night that exchange control over non-residents would be abolished from tomorrow.

"Businessmen welcome the increased flexibility which the new arrangements imply, and which were originally envisaged by the De Kock commission of enquiry a few years ago, Mr Parsons said.

Mr Parsons said the relaxation of exchange control provided an additional anti-inflationary weapon in South Africa and in due course would lay a sounder basis for the next upturn in the economy.

"It also means that the rand can hold its own with the currencies of the world, and this latest move will also have important implications for the Budget next month," Mr Parsons said — Sapa.

What the move means

Financial Correspondent

CAPE TOWN — All exchange controls on non-residents will be abolished from this morning in a move which highlights South Africa's economic strength and the phenomenal improvement recently of the country's balance of payments.

This means that foreigners, for the first time for 23 years, will be able to move money freely in and out of South Africa through the ordinary rand.

This was announced by the Minister of Finance, Mr Owen Horwood, in Cape Town on Saturday. He said it was an important and brave decision to take at a time when many other countries were facing serious balance of payments problems.

OUT OF CONTROL

Mr Horwood said the ending of exchange controls on non-residents was an important milestone in South Africa's financial history, which should not be underestimated. It reflected the country's improved financial position and showed the Government's confidence in the South African economy's ability to compete with the rest of the world.

In the past year, the balance of payments had steadily improved, even though the gold price declined in the first half of 1982.

South Africa's balance of payments position swung from a current account deficit of R6 900 million in the first quarter of last year to a surplus of R1 000 million in the last quarter.

As a result of this improvement net reserves rose by R2 500 million last year, Mr Horwood said.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said that even a modest improvement in the United States economy this year would result in a substantial improvement in net reserves.

While this was a welcome development, he said, South Africa had to take steps to prevent the money supply from getting out of control.

The ending of exchange controls on non-residents means that the Financial Rand is also to be abolished, thus ending a dual exchange rate system that has been in existence since 1960.

In future, all foreign exchange transactions by non-residents and residents will be through the medium of the ordinary Commercial Rand.

Exchange controls were imposed on non-residents after the 1960 Sharpeville disturbances, in a bid to halt the flight of capital from South Africa.

TEMPORARY

Mr Horwood said it was not psssible to say precisely what the effects of the moves would be.

He agreed that it could lead to an easing in the exchange rate of the rand today, but said he thought this would only be a short-term adjustment.

If there was an easing in share prices today it would probably only be temporary, with normal economic factors leading to a recovery.

Because the Financial Rand has been standing at a discount to the normal Commercial Rand, this means non-residents will no longer be able to invest in South Africa and buy capital goods here at a discount.

BIG OUTFLOW

On the other hand, when they sell their South African assets they will now be able to repatriate the full price received.

The removal, after 23 years, of exchange controls on non-residents could lead to a substantial outflow of funds from South Africa.

There are many people overseas who have large sums in this country which they would like to repatriate.

But foreigners can now transfer money freely in and out of the country, the move is expected to encourage new foreign investment. This could lead to an even bigger inflow of funds from overseas.

The Star

JSE share prices may drop — Ferguson

Financial Staff

The Government's decision to abolish exchange controls for non-residents was a "very positive and bold move and in the interests of the free market economy," Mr Paul Ferguson, president of the Johannesburg Stock Exchange, said today.

Reacting to the weekend announcement by the Minister of Finance, Mr Owen Horwood, of the "giant step forward in the monetary affairs of the country," Mr Ferguson said:

"The move has been done out of strength to the extent that the balance of payments in the second half of last year was in surplus and the current account for the last quarter was in surplus.

"It will have a negative effect on share prices on the Johannesburg Stock Exchange and a positive effect on the prices of South African shares prices in overseas markets because of the drop in the exchange rates.

"The move will have a beneficial effect in rand terms on our exports and should make our interest rates rise in the short term.

"I believe it will simplify the system and make the exchange rate a market-related one."

Mr Ferguson said he expected share prices to drop on the Johannesburg Stock Exchange today by about 10 percent because of the effect of the move on the exchange rate.

"Other factors which would influence the drop of share prices today included the falling gold price and the fact that overseas markets have been sellers of South African shares.

Mr Ferguson emphasised that these were short-term effects as bullion was on a rising trend.

Mr Arthur Hammond-Tooke, chief economist of the Federated Chamber of Industries, said the FCI welcomed the move to a more open monetary system in South Africa.

Importers warned not to panic

By Trevor Walker

Commercial bankers are advising importers who have not covered forward not to panic this morning and lock themselves into a new low dollar rate.

They say Mr Owen Horwood's surprise easing of foreign exchange controls at the weekend should be seen in the context of South Africa's "managed currency."

Mr Horwood's move was taken in a spirit of confidence and therefore the authorities can hardly let the rand move down too far, they say.

"This is where the 'managed' in a managed float comes into play," one banker says.

If foreigners want to move out of the rand, the dollars they will have to buy from commercial banks, and ultimately the Reserve Brank, will be at a rate set by the Bank.

If the authorities allow the rand to fall by four or five percent to about 89 US cents this morning it is quite likely, given South Africa's improving balance of payments situation, that the rate will begin to rise again soon.

Fleet Street hails 'remarkable audacity'

The Star Bureau

LONDON — The abandonment of South Africa's "creaking exchange-rate structure" is today hailed as a step of "remarkable audacity" in the authoritative Lex column of the Financial Times.

The relaxation of foreign exchange regulations is the main story on the front page of the newspaper and is prominently featured in Fleet Street's other quality dailies.

If the step succeeds, writes Lex, South Africa may avoid a damaging repetition of the build-up in domestic liquidity, which was a dramatic feature of the last bull market in gold.

Set against that is the risk of outflow, not only of overseas portfolio funds but also of direct investment capital.

By scrapping the system of having both a commercial and a financial rand, "South Africa is making a political point at a time when the strength of the gold price will, it hopes, mitigate the financial consequences," writes Lex.

"The country's recent application to the International Monetary Fund for a facility of SDR 1 100 million was already a move in the direction of full financial respectability, and the men from the IMF, known to look on artificial exchange-rate structures with disfavour, presumably have played a part in the weekend decision.

"There are, however, also sound economic reasons for shifting to a free-market exchange rate.

. . . but sees 'blind chaos'

"The recent rise in the gold price has strengthened the commercial rand and encouraged importers to arrange trade finance with uncovered foreign currency loans. This has had the effect of bloating domestic liquidity when money supply is already growing at an uncontrollable annual rate.

"The convergence of the two rates, which can be expected to follow from the Government's action, will squeeze importers hard and should drive up long-term domestic interest rates to protect South Africa's capital account.

"Whether this recipe of monetary discipline is sufficient to contain money supply will be determined very largely by the response of financial markets."

Observing that the Reserve Bank will be trying to establish a unified exchange rate between Friday's commercial and financial closing prices, Lex expects financial markets to open in Johannesburg today "in a state of blind chaos."

He says "many domestic investors have bought government stock on borrowed money during the recent bull market and they will probably be squeezed."

Lex continues: "Of more interest to foreign investors will be the movement in the price of gold-mining and other natural resource shares. London saw some heavy selling of De Beers and other equities on Friday, as rumours of a change swept through the market, and — on the face of it — there seem good grounds for selling.

"Dividends, after all, have always been paid through the commercial rand account while funds raised from the sale of equities have been remitted through the financial rand.

"So, this morning, investors will be faced with the prospect of an increased capital profit and, in foreign currency terms, a lower dividend. A weakening rand should boost the local currency earnings of the gold mines, which would then be reflected in a rising dividend stream. So, particularly at a time when the view of the dollar gold price is predominantly bullish, many foreign investors may prefer to sit it out."

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Unitary rand: Markets adapt smoothly

By DEREK TOMMEY
Finance Editor

GENERAL satisfaction has been expressed in Government and financial circles at the smooth way the financial markets have adapted to the ending of exchange control on non-residents and the abolition of the financial rand.

The Minister of Finance, Mr Owen Horwood, said he was highly pleased at the way the transition had taken place from a dual exchange system based on the commercial and financial rand, to a commercial rand-only system.

Instead of the ending of exchange control leading to a large outflow of money yesterday there had, in fact, been a net inflow of R80-million.

FOREIGNERS

Bankers believe that foreigners will continue to invest in South Africa on a fairly considerable scale, even though they will no longer be able to get the benefit of a favourable financial rand rate.

The rand, which dropped more than five percent against the dollar yesterday to 88 US cents, firmed slightly today in response to the favourable foreign reaction to the weekend developments and the lack of heavy foreign disinvestment.

Share prices opened slightly firmer today, as foreign selling showed signs of drying up.

Yesterday more than R45-million worth of shares changed hands on the Johannesburg Stock Exchange — a record.

Brokers say payment will have to be made for these shares next week, which could lead to some outflow of capital.

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Stanbic profit up 28%

Cape Times 9/2/83 (58)

Section A

By HAROLD FRIDJHON

JOHANNESBURG. — After the colourless performance of Standard Bank Investment Corporation (Stanbic) for the half-year to June, the final outcome for the year to December 1982 is very good.

At the half-way mark, Stanbic's taxed profit was R34 823 000 but the year's result was a taxed profit of R85 614 000, an improvement of 145,8 percent. Compared with the previous year, the taxed profit is 28,4 percent higher, in spite of Stannic making a loss of almost R7m for the year.

The final dividend has been raised by 4c making 44c for the year compared with 40c the previous year.

Earnings a share — including share of the retained earnings of associated companies — have gone up by 25c to 135c and the cover has been raised from 2,8 times to 3,1 times.

The managing director, Mr Henri de Villiers said yesterday that the group intended to keep dividends to that ratio in the future.

Total shareholders' funds rose from R429m to R517m and the return on shareholders' funds has gone up from 15,5 percent to 16,9 percent, a significant improvement.

Group operating profit before tax was R130 113 000, an improvement of 52,6 percent but the tax bite rose from R18 564 000 to R44 499 000, an increase of 139,7 percent.

The reason for this rise is that additional provisions of R4 218 000 have been made for the current year and R4 968 000 for the previous year, arising from assessments from the Receiver of Revenue which are under appeal. The issue in dispute is tax claims on interest on preference share transactions.

Net attributable income, including share of retained earnings of associated companies, is R82 769 000 compared with R67 017 000 in 1981, on the same basis of accounting.

Mr De Villiers said that the new accounting procedure had been adopted to meet the requirements of the holding company's accounts.

The Stanbic group has shown a satisfactory growth in total assets which rose by almost 20 percent to R10 019m. Current deposits and other accounts were R1 241m higher at R8 926m, while advances and other accounts were 20 percent up at R7 070m.

Standard Bank's net income for the year was R77 603 000 which is a 70 percent improvement on the previous year and represents a return of 24 percent on equity, an impressive figure.

From a profit of R9 218 000 in 1981, Stannic turned in a loss of R6 955 000. This loss trend had been disclosed in the interim report and the good news for shareholders is that in the last two months of the financial year, Stannic had once again swung into a profit.

Standard Merchant Bank's net income rose from R8 638 000 to R9 842 000.

Mr De Villiers said that the current year would be very difficult.

● At last night's market price with the increased dividend, Stanbic is priced to yield 4,75 percent which is anticipating an improved performance this year.

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Cape Times 9/2/83 (58

'Mouth-gaping' day on buoyant JSE

By JOHN MULCAHY

JOHANNESBURG. — In another hectic day's trading on the stock exchange yesterday gold shares surged as the gold price climbed towards $500 and the initial shock of the weekend's exchange control developments were digested.

Gold bounced back up in London to $497,25 in the afternoon compared with $496,50 in the morning and $490,25 at Monday's second fixing.

At more than R48-million, turnover reached its second highest ever, and private investors came back into the market in droves, in some cases pushing gold share prices above last Friday's levels, and wiping out Monday's substantial losses.

Although a major arbitrage broker reported no buying orders from overseas in the first two days of the week, the market showed all the signs of a resurgence in gold fever.

The mining houses, believed to have been big buyers of gold shares at their lower levels on Monday, were less conspicuous in the market yesterday, and major institutions, while adopting their familiar sideline positions, were willing buyers of big lines of scrip where they saw value.

While most attention was again focused on the gold board, the industrial market also showed considerable strength, with the Rand Daily Mail 100 index of industrial shares climbing to 824,5 from 813,2 on Monday.

The RDM golds index rose to 1 014,8 from 938,5 on Monday and 1 034,4 last Friday.

Although not quite making it back to Friday's levels, most gold shares picked themselves up from the floor and into the range of last week's heady heights.

One broker described yesterday as a "mouth-gaping" day, with a flood of public buying driving prices upward in Johannesburg, and London again emerging as willing sellers at the higher prices.

The relaxation of exchange controls has facilitated the flow of scrip across the water, as overseas investors in South African shares now only have to watch one exchange rate, and obviously the share price itself.

The cumbersome mechanics of the financial rand system at times staunched the movement of scrip and funds between SA and abroad, as there was always the problem of negotiating two legs of every deal, the first being the sale (or purchase) of scrip through the market, and the second approaching the financial rand market to buy or sell the currency.

The new system had already influenced overseas markets to release scrip at a more rapid rate than was evident under the financial rand scheme, and although it was now all one-way traffic, with capital flowing out of the country from the JSE, a further strengthening in the gold price would force London and New York investors back into gold shares.

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cs 1

(to be copied from the heading on the Examination Paper)

Paper No. SECTION 1

(to be copied from the heading on the Examination Paper)

EVERY CANDIDATE MUST enter in column (1) the number of each question answered (in the order in which it has been answered); leave columns (2) and (3) blank.

	Internal	External
(1)	(2)	(3)
1a	12	
2a	15	
3b	17½	
Examiners' Initials		

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EDSON 15255

58

Another bank bond rate cut

CAPE TIMES 9/2/83

Own Correspondent

JOHANNESBURG. — Barclays Bank has again cut its mortgage bond rates — this time by 1,5 percent across the board.

It is the second time it has lowered the lending rate since it brought in its controversial scheme at the end of August last year.

Now the bank is putting heavy pressure on the building societies to follow suit

Home-owners with building society bonds will, however, have to wait at least until March 22 before they know if they, too, will receive relief. That is the date of the next meeting of the executive of the Association of Building Societies, of which the major lenders are members.

Even then, a calendar month's notice is necessary before any changes could take effect. This means borrowers would be affected only from May 1.

On the other hand, Barclays' new rates come into effect on February 24 and will affect new and existing loans

The bank will charge 15 percent for loans up to R20 000; 16 percent for loans between R20 000 and R40 000 and 17 percent for amounts above R40 000.

Building societies demand a minimum of 14,25 percent, with a top rate of 16,25 percent.

Societies still say they have the advantage because of the slightly lower rates, which still mean a considerable amount of money on a loan over 20 or more years.

But pressure from the bank comes from its ability to lend freely — more than R200-million is still available — and to make a decision on a loan in 24 hours of an application being lodged, allowing prospective home-owners to have their joint income taken into account when applying for a loan and allowing borrowers to spread the repayments over 30 years.

I E R & F W

CAPE TIMES 9/2/83 (58)

Barclays tops R100m profit

By HAROLD FRIDJHON

JOHANNESBURG. — Taxed profit of Barclays National Bank for the year to December 31, 1982 rose by 25,9% to R101 455 000.

Barclays is the first South African bank to declare profits above the R100-million mark.

A final dividend of 45c has been declared making a total of 75c for the year from earnings of 190,6c. The dividend cover has been raised from 2,4 times to 2,5 times.

The feature of the interim results is the large increase in the rate of profit in the second half. At the halfway mark the taxed profit was R41 900 000 which means that taxed profit in the second half was R71-million, 62,9% of the final outcome.

The managing director, Mr Colin Waterson, said that the bank had benefited from financial changes which had been introduced by the authorities in the middle of the year, including the reductions in the cash reserve requirements. Operating income was R152 488 000, 22,3% higher than in 1981 but tax was 5,3% lower at R39 400 000.

At a press briefing yesterday it was stated that with the rise in company tax, deferred tax was increased by R6 800 000 and an additional provision was made of R4 807 000 to cover the tax on preference shares, an issue which is not yet clear.

Bad debt provisions charged to taxed profit were increased to R53-million from about R28-million. The actual balance sheet provisions now stand at R135 435 000. Actual bad debts written off increased by 27% to R22 501 000.

Capital expenditure for 1982 was 45% higher at R52 660 000 and it is expected that in the current year the figure will be slightly higher because of investments in the on-line project and in automated teller machines.

Total assets rose by 21,6% to R13 132-million. In the previous year the growth in assets was 25,7%. The slower growth rate is ascribed to the tighter monetary conditions of 1982.

The group interest turn increased to 2,9% from about 2,7% with the rand value of the interest turn — the margin between the cost of money and the price received for that money — 23,2% higher at R271-million. A reason for this improvement was the the cut in the cash reserve requirements which were of great benefit to Barclays with its very large current account base.

The return on a bigger group asset base was 0,77% compared with 0,74% in the previous year and the return on shareholders' funds is 21,9% against 19,7% in 1981 and just below the record high of 22,1% achieved in 1980.

THe Barclays group has a surplus in its statutory capital position of R113-million so that there is adequate margin for expanded business without having to raise new capital.

The biggest earner in the Barclays group was the commercial banks whose taxed profit of R78 923 000 contributed about 78% of the total.

Wesbank's taxed profit dropped by 5,6% to R15 703 000 although pretax profit was marginally higher at R28 929 000. The higher tax rate made the difference.

The higher costs of money reduced the interest turn and with the recession starting to bite, collections are becoming difficult and bad debts have increased.

Westbank now has 21% of the total credit instalment business and about one-third of the total vehicle financing market.

New business in excess of R1 000-million was put on the books last year and total assets now exceed R2 000-million.

Barclays Industrial Bank (Barnib) increased taxed profit by 74% to R11 405 000, with assets growing by 38% to R539 800 000.

Barclays Merchant Bank improved its taxed profit by 67% to R6 892 000.

Tough year ahead

Mr Waterson said that he saw a very tough year ahead. With the ending of Rocco, competition in the banking field would be intensified although Rocco did not have a significant influence on the market recently. He added that the average client would not benefit from the termination of the Rocco agreement.

The interest rate position was impossible to forecast at this stage and therefore trying to quantify profit trends for the current year would be difficult.

With rates dropping, Wesbank should do very well this year.

Mr Waterson said that all the costs which had been incurred in the Barclays Sandra van der Merwe venture had been written into last year's accounts. The project would be continued.

COMMENT: Barclays has done better than had been expected from the half-year figures. Bank earnings had been enhanced by the reduction in the cash reserves which had reduced the cost of money and had also freed money which had been tied up earning no interest and was subsequently used to advantage.

The current year presents many problems not the least are those which are associated with the relaxation of exchange control on foreigners. This could distort cash flows into the money market and therefore have a profound influence on the interest rate pattern.

On the other hand, Barclays has the reputation of being an agressive marketer which suggests that full advantage will be taken of the competitive situation created by the abandonment of Rocco.

At last night's market price and taking into account the increased dividend the share is yielding 5% which appears to be fully priced.

Subject ECONOMICS

(to be copied from the heading on the Examination Paper)

Paper No. I

(to be copied from the heading on the Examination Paper)

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Preparing for Retiremen

pensioners

Avoid the plight of many

TO avoid the plight of many pensioners and the problems of a family on the death of its breadwinner, the need for financial and estate planning has become vital, says Mr Niel Raubenheimer, a legal advisor (advanced sales services) with the Southern Life Association

There are two distinct aspects to an estate:

The first is that it provides for our needs while we are alive and the second is that on death, when all economic activities cease, the estate must be wound up.

When an estate is wound up the assets and liabilities are balanced against one another and, should the answer be a minus sum, then the estate would naturally be insolvent. However, in most cases it is solvent.

Solvency does not mean there will be no immediate crisis in the estate. For instance, some of the estate liabilities may, upon death, become immediate and there must be sufficient cash within the estate to meet them.

If sufficient cash is not available, some of the estate assets have to be sold, often at well below their real market value.

Large estates

It is not only in large estates that a cash crisis or shortage of liquidity can exist. The larger the estate the greater the cash demands, but whether an estate is worth R50 000 or R5 million, there are still cash demands on the estate such as estate duty in the case of larger estates and executors fees in the case of both larger and smaller estates.

And, it is no use making cash bequests when the estate cannot pay these bequests or when all the assets in the estate consist of fixed properties which must be sold at much below their market values.

Says Mr Raubenheimer. "One has to try to determine how much cash one's estate will need and make sure there will be sufficient cash to provide for these cash requirements.

"An obvious answer to this is a life policy which would give an immediate cash payment on death thereby taking care of any possible cash crisis that might arise."

We accumulate cash and other assets in the form of salaries, investment income or rental income and perhaps we also acquire assets such as investments, homes, motorcars and household necessities.

Daily needs

The cash or income we accumulate we usually use to fund our daily needs. Ideally, we all put away some of our income which accumulates over a period of time and, when we die, represents part of our estate

"Let us look at some of the lifetime needs for which our estates must provide. Firstly, we require funds when whe get married. If a wife does not work then we have two people living off one income.

Mr Niel Raubenheimer, a legal advisor with the Southern Life Association.

"Secondly, at the birth of children, we have more people living off one income and we need funds to provide for this enlarged family.

"Thirdly, children need education which can cost a lot of money. Fourthly, there are our personal needs such as holidays, houses and household necessities such as food and clothing"

Fifthly, we must provide for our retirement which needs very careful planning to accumulate enough. Life assurance can, in some way or another, provide for or protect most of these needs.

Don't overlook the effects of inflation on these everyday needs. The escalation of property prices over recent years has largely been inflationary. Inflation can worsen the cash crisis in an estate

"What we must do is protect the estate against these increased cash demands by planning and keeping pace with the inflationary increase," says Mr Raubenheimer

"Depending on when we intend retiring, at a nominal rate of inflaton of 10 percent, for each R1 we need now we will need R2,59 in ten years time, R4,18 in 15 years time, R6,73 in 20 years time and R10,83 in 25 years time. Then — comes the problem of living on a fixed income.

If we take an inflation rate of 14 percent, we see that over a period of ten years the purchasing power of R1 000 reduces to R270. We see that this is exactly the problem with which many pensioners are faced today as most people who have retired have to live on fixed incomes.

We must, therefore, think beyond retirement and make provision for an income in real terms for those retirement years.

The solutions, Mr Raubenheimer says are to make use of investments.

But we must make sure the investments are geared to inflation, for example property, equities or even life assurance which enjoys a spread of investments in property, equities and fixed interest investments

Expert advice

However, we must take expert advice.

"If we decide on some sort of savings plan whereby we invest a certain amount of money each month or each quarter or each year, we must make sure that the amount which is invested retains its value in rand terms"

There are ways of pegging the growth of our estates in a nominal way. Many professions are involved in estate planning.

The family investment company is a popular method of pegging the growth of an estate: A company is floated and shares are transferred to the husband, the wife, the children and possibly the grandchildren and to the intended beneficiaries to the estate.

Assets are then transferred to the company and any increase in the value of those assets takes place in the company and not in the hands of the person who is attempting to peg the value of his estate.

"Another popular method is the use of trust. Again, assets are transferred to a trust which is merely a separate fund which holds assets for the benfit of beneficiaries. Those beneficiaries are usually intended beneficiaries under the will.

Beneficiaries

"The property increases in value in the hands of those beneficiaries and not in the hands of the estate planner. One must always bear in mind that

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there is a problem of donations tax.

"The situation should, therefore, be carefully investigated to see whether it is worthwhile paying donations tax or not, because donations tax is deductable on any eventual liability for estate duty.

"Cessions of life assurance policies are merely donations of these policies and what I have said about donations inter vivos also applies to cessions of policies.

"Creation of a limited interest generally saves estate duty not for a person creating a limited interest but for the beneficiary of that limited interest.

"Lastly, we must make sure our wills are up to date. Any estate plan no matter how complicated it is, will fail if our will does not correspond with the estate plan. This could mean making a new will every six months or two years.

Some examples of retirement planning are pension funds, retirement annuity funds and investments."

(58) S. Time 13/2/83

Exchange controls go: What it means

THE implications of last week's abolition of controls over non-residents and the ending of the dual exchange rate system have been spelt out in a report by a Johannesburg firm of chartered accountants, Eliasov, Wolf & Partners.

The accompanying panel contains a summary of the changes, with this article being devoted to the further ramifications arising out of last week's announcement.

The firm stresses that the Treasury has wide discretionary powers in the application of exchange-control regulations.

Accordingly, the firm's interpretations of the allowances under the new regulations offer no guarantee that such allowances *will* be granted, nor that applications for allowances in excess of the laid down amounts *will not* be granted.

Report by JOHN SPIRA

- **Exchange control over non-residents abolished.**
- **Dual exchange rate system replaced with a unitary rate of exchange for the rand. Financial rand disappears.**
- **Exchange control over former residents who have emigrated remains unchanged.**
- **Exchange control over residents retained with certain relaxations.**
- **Travel allowances for tourists increase from R4 000 to R6 000 a calendar year. For South African businessmen on business visits abroad travel allowances increase from R7 500 to R10 000 a calendar year.**
- **Travel allowances for South Africans visiting neighbouring states increase from R1 500 to R2 000 a calendar year. For South African businessmen on business visits travel allowances increase from R3 000 to R4 000 a calendar year.**
- **Study allowances for full-time students studying abroad increase from R1 000 to R1 500 a month for married persons and from R500 to R750 a month for single persons.**
- **Bequests from deceased estates now transferable through normal banking channels at unitary rate of exchange for the rand. Up to R100 000 a beneficiary transferable without prior reference to the Reserve Bank, the balance transferable by arrangement with the Reserve Bank.**
- **Companies held or controlled 25% or more by non-residents still subject to exchange-control regulation of their local borrowings.**

THE EMIGRANT

SOUTH African residents who are emigrating may apply before departure for the following allowances:

- Emigrant's capital transfer . . R100 000 per family unit or R50 000 per single person.
- Household and personal effects . . . R20 000.
- Motor vehicle . . . R20 000.
- Travel allowance . . . R6 000 per adult and R3 000 per child.

Foreign assets held by the emigrant at the time of departure are not deducted from the capital transfer allowance.

However, capital transfers from South Africa which have been authorised and effected prior to emigration would probably be deducted from the capital transfer allowance.

Gifts or donations in excess of R1 000 received by emigrants within three years of emigrating will be deducted from the aggregate of the emigrants' assets before determining the capital transfer allowance to be granted.

Previous emigrants from South Africa are entitled to the emigrants' capital transfer allowance on the same terms and conditions subject to deduction of all previous allowances and after deduction of any amount that such emigrants may have invested in any non-resident or blocked rand bonds.

Insurance policies as well as gold coins may be transferred with Reserve Bank approval.

The surrender value of the insurance policies and the current market price of the gold coins will be deducted from the travel allowance.

Assets of an emigrant in excess of the above allowances remain blocked in South Africa.

These assets are brought under the control of an authorised dealer and can be released only in terms of exchange-control regulations.

Blocked assets may be released for:

- Payment in South Africa of air fares to the emigrant's new country of residence.
- Payment in South Africa of expenditure in connection with emigration (packing and removal expenses, for instance).

Payment of living expenses on return visits to South Africa at a rate of R500 per day per adult R250 per day per child under 12 years of age), subject to a maximum annual allowance of R10 000 per family unit per calendar year.

- Payment in South Africa of travel costs on direct return visits to South Africa.
- Payment of income tax on income earned prior to emigration.
- Payment of local tuition and boarding-school and university fees in respect of children who have remained behind in South Africa, or who have returned to South Africa to complete their education.
- Payment of rates and taxes on vacant stands (non-income earning) which form part of the blocked assets.
- Payment of membership, subscriptions and affiliation fees to local clubs, medical, engineering and technical societies.
- Payment of premiums on endowment and life-assurance policies taken out prior to departure on the understanding that the proceeds of such policies would be blocked and not eligible for transfer. Prior exchange-control approval is required for payment of premiums on retirement annuity policies.
- Maintenance payments to a local resident in terms of a court order.
- Payment of professional fees due to resident accountants, income-tax consultants and attorneys in respect of services rendered in connection with the emigrant's remaining local assets.
- Payment of hospital, doctor's and dentist's fees for medical or dental attention received by any member of the emigrant family unit in South Africa during a return visit.
- Payment of costs in connection with transferring income abroad.

Blocked assets may be invested in:

- Listed South African shares.
- Deposits, call or current accounts with authorised dealers.
- Subscriptions to any government, local authority, municipal and public utility stocks.
- Investment in unit certificates in unit trusts.

The proceeds of the sale of listed company shares owned by the emigrant at the time of emigration may not be reinvested in unlisted company shares.

Blocked funds are transferable on the death of the emigrant provided that the deceased bequeathed the blocked funds to a non-resident heir (including an emigrant from South Africa).

Income earned by an emigrant on blocked assets is freely transferable abroad after deducting non-resident's tax on dividends and interest. There is no limit on the amount of income that can be transferred.

Income for exchange-control purposes consists of:

- Dividends declared out of profits earned after date of emigration.
- Interest.
- Directors' fees (maximum per emigrant of R4 000 per calendar year).
- Cash bonuses on insurance policies.
- Monthly pension payments from a registered pension fund.
- Income from a trust created in terms of a last will and testament.
- Income from inter vivos trusts created more than three years prior to emigration.
- Net rental on fixed property, provided the authorised dealer is satisfied that the rent is reasonable in relation to the property.

Monthly retirement annuity payments and royalties are transferable subject to Reserve Bank approval.

THE IMMIGRANT

THE immigrant may deal with his foreign assets without reference to the exchange-control authorities.

Details of foreign assets must, however, be disclosed, and an undertaking not to make foreign assets available to South African residents must be given to the authorities.

An immigrant may transfer unlimited amounts of foreign funds to South Africa through normal banking channels at the unitary rate of exchange for the rand.

The immigrant is obliged to transfer income from all foreign assets to South Africa through normal banking channels.

Premiums on insurance policies and pension-fund contributions due by immigrants may be paid out of South African funds provided the applicant shows documentary evidence of the amount due; the commitment was entered into before the applicant took up residence in South Africa; and the applicant has no foreign cash resources to pay the insurance premium or pension-fund contributions.

Immigrants may settle tax commitments in foreign countries with South African funds provided the applicant shows documentary evidence and has no foreign cash resources to pay the tax commitment.

THE FOREIGN INVESTOR

EXCHANGE-control restrictions over foreign investors were abolished on February 7 1983.

The local proceeds of sales of quoted and unquoted South African securities, real estate and other equity investments held by non-residents are no longer designated "financial rands".

They are freely transferable from South Africa through normal banking channels.

Such proceeds may also be used in the rand monetary area by non-residents for investments and other purposes.

Income from investments is transferable abroad through normal banking channels.

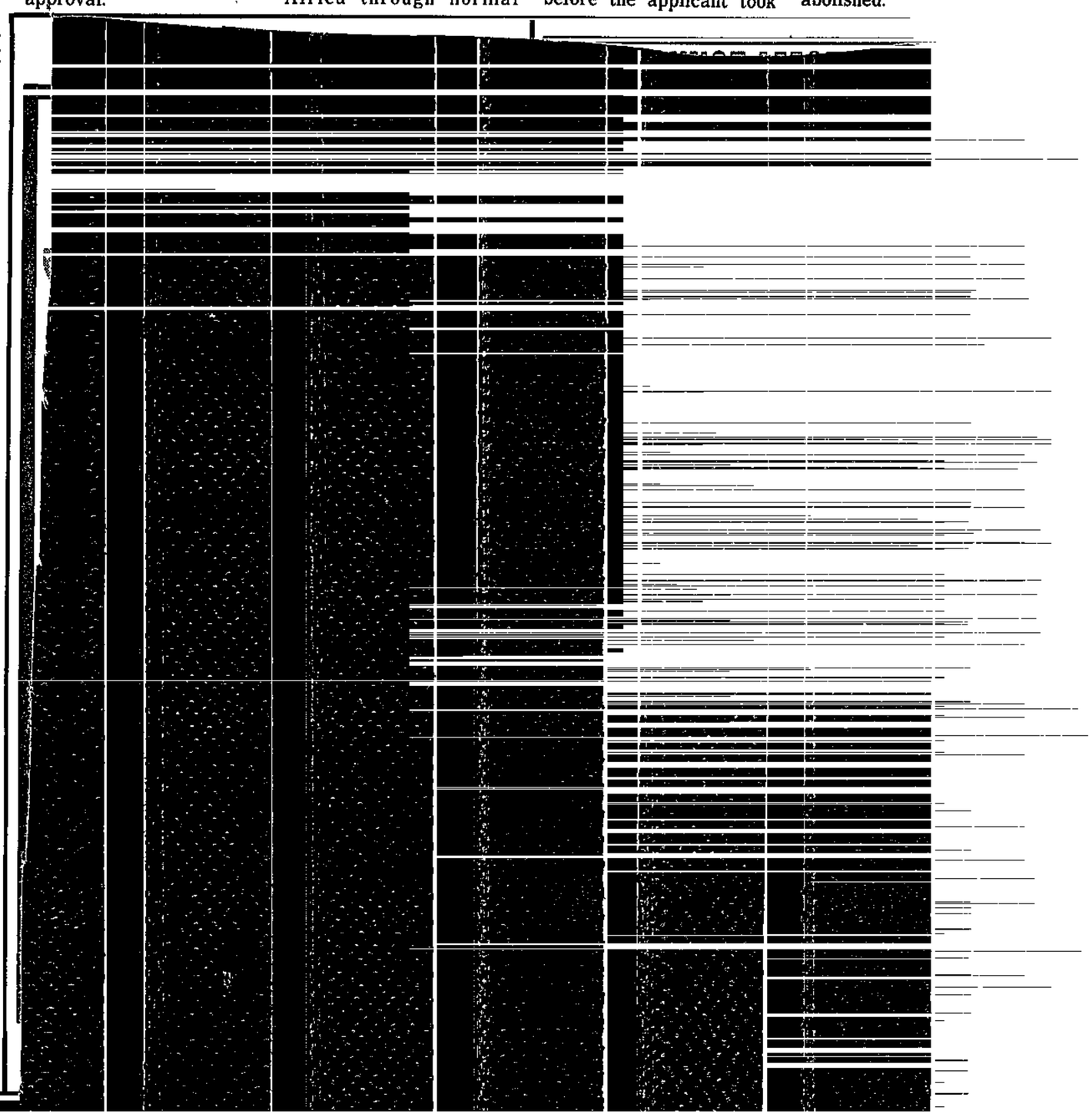
Non-resident shareholder's tax is withheld from dividends before the funds are transferred abroad. The rate of tax is 15% subject to variation in terms of double taxation agreements with certain countries.

Non-resident's tax on interest of 10% is withheld from interest before the funds are transferred abroad.

Interest on government local authority, Escom and certain similar stocks is exempt from tax.

Companies subject to exchange-control regulations of their local borrowing facilities require exchange control approval prior to transfer of income abroad.

Restrictions on the distribution to non-resident shareholders of profits earned prior to January 1 1975 have now been abolished.



Building society hits out over 'sterilisation or no loans' row

Natal Mercury 10/2/83 (58)

Property Editor

A BUILDING society official in Natal yesterday hit back at criticisms of the movement in the sterilisation row, which blew up when some women claimed they had been asked for proof of sterilisation before bonds were granted to their husbands.

By tradition, building societies will take a wife's salary into account only if she can no longer bear children. Her salary can greatly affect the amount of money a society will lend.

For years, societies have applied a '25 percent rule' to loan applications, under which repayments may not exceed more than a quarter of the breadwinner's salary.

A wife's earnings will often tip the scales in favour of the house they want when they cannot afford it on the husband's salary alone.

Building societies have explained their reluctance to lend on a combined salary, when the wife is young and likely to have more children, by saying it is in the couple's own interest.

The official, who did not wish to be named, said: 'We are anxious to co-operate and help young people buy their homes, but not under the conditions where a woman may still have a child and lose her earning power.

'This can put the couple — with the additional financial burden of the new child — under great strain in keeping up the payments.'

Focus on the societies' attitude to wives' salaries was sharpened following the entry into the mortgage market of a major bank.

The bank promised to take wives' salaries into account with no questions asked, and also said it would lend amounts for which the repayments were 30 percent of combined earnings — moves that earned rebukes from some building society quarters.

Yesterday the society official said: 'Young couples often say they do not intend to have more children — but sometimes do.

Proof

'If the woman is still capable of having children, we cannot take her salary into account. But we do not ask for proof if the woman says she is sterilised. Far from it.

'But often the couple will produce a certificate from a doctor as proof she can't have any more children.

'We want to help. We are not here to turn applicants away. That is ridiculous.

'And people who say we are as hard as nails over applications are talking a lot of eyewash.'

Hansard Q. Col. 122-124 X

Development Bank for Southern Africa

58 16/2/83

*5. Mr. H. H. SCHWARZ asked the Prime Minister:

(1) Whether the planning of the Development Bank for Southern Africa has been finalized; if not, why not; if so, (a) what (i) is its capitalization and (ii) are its objectives and (b) who will be on its board of directors;

(2) when is it anticipated that the Bank will commence operation?

†The PRIME MINISTER:

(1) Yes. The Committee which was appointed last year by the South African Government to report, *inter alia*, on the setting up of a Development Bank for Southern Africa, drew up a set of guidelines for the formation of such an institution. Those guidelines were discussed on behalf of the South African Government with the Governments of the independent states, and the guidelines, as amended in the light of the negotiations, were formally adopted by the heads of government of the Republics of South Africa, Transkei, Bophuthatswana, Venda and Ciskei during the Summit Meeting held in Pretoria on 11 November 1982. The guidelines were also accepted by the governments of the self-governing national states during meetings that took place between them and the Minister of Co-operation and Development in Pretoria on 10 November 1982, subject only in the case of the Lebowa Government to further discussions to be held on certain aspects thereof.

(a) (i) An authorized and issued ordinary capital stock of R2 000 million, of which ten per cent (R200 million) is to be paid up during the first five years after the founding of the Bank, was agreed to.

(ii) The agreed objectives of the Bank can be summarized as the promotion of economic development, increased productivity, and improved levels of living, in particular in the less developed parts of the region covered by its membership. These objectives are to be pursued through the more effective mobilization and application of human and financial resources for development, not in competition with, but supplementary to and in support of the role that private financial institutions and the rest of the private sector can make towards the said objectives.

(b) It was agreed that there will be twice as many directors on the Board of the Bank as there will be member countries, and that one half of the number of directors will be appointed by the member countries on the basis of one director per member country, while the other half will be elected on the basis of the voting rights held by member countries.

(2) It was agreed at the Summit Meeting to aim at 1 September 1983 as the date for the establishment of the Bank.

D. Dispatch 19/2/83 ~~105~~ 58 ~~2507~~

Ciskei, SA sign R10m loan deal

ZWELITSHA — South Africa and Ciskei have signed a R10,1 million loan agreement for the financing of a telecommunications project.

The agreement was signed here yesterday by South Africa's ambassador to Ciskei, Mr Johann Engelbrecht, and the Ciskei Minister of Finance and Economic Affairs, Chief M Malefane.

The agreement — which will provide for the construction of automatic telephone exchanges at Mdantsane and Dimbaza — was administered by the Committee for Economic Development in National States (Keossa).

In his address at the function, President Lennox Sebe asked for appraisals for numerous other loans to be expedited and not delayed, as had occurred with this project

He said "high hopes and aspirations" were formed when the Ciskei Government was told while negotiating for independence that Keossa would play a major role in providing financial aid for Ciskei capital projects.

"Some 14 months have elapsed since independence on December 4 1981, and it is only today that the first Keossa project is to be concluded.

"In making this observation, I do not wish you to think my government is ungrateful or in any way detracting from the spirit of cooperation and helpfulness displayed by South Africa in making this generous aid available.

"On the contrary we are most appreciative of the assistance given to us to help finance our telecommunications network, and we are indeed hopeful that through this development our lines of communication with the South African government will be greatly improved."

He said the delay of 10 months since the date of application for the project was of "serious concern." It had meant that there were now only two months of the financial year remaining in which to implement it.

"Such circumstances do not facilitate efficient processes of development or implementation and I firmly believe as I have previously recommended that attempts should be made to streamline the procedures relating to project aid."

President Sebe said there were numerous other projects — "More than 19" — which had been forwarded to the South African Department of Foreign Affairs.

"On this showing, we have reserved our judgment on Keossa and will eagerly look forward to see what progress is made on the remaining projects."

He said Keossa was not yet well known or understood in Ciskei, and called on South Africa "to give personality and identity" to it so that its performance and works could be "identified, measured, and judged."

"If Keossa is the agent through which development aid is to be channelled to my country and my people, we would like to know in whose hands we lie and to whom our fate is entrusted," the President said.

He said it was appropriate that this first evidence of financial aid to Ciskei was to improve communications.

"It is symbolic and I sincerely hope that from now on our lines of communication to Keossa will be improved.

President Sebe concluded by asking the ambassador to convey thanks to the South African government "and also my plea for faster action in processing all those projects not yet appraised." — DDR.

Booming Syfrets gearing for further impressive growth

CAPE TIMES 19/2/83 58

SYFRETS business is booming, with funds under administration set to breach the R2 000m mark this year, reflecting a startling increase in market share.

Last year taxed profits reached the R6,8m mark — double the 1979 figure and a rise of 35 percent on the previous 12 months.

This year, with the economy in recession, a 20 percent spurt to R8,2m is likely.

Compounded growth over the past four years is more than 25 percent and the book value of funds under administration last year rose by 16 percent to R1 370m.

Heading the team which is strategically planning Syfrets growth into the next decade is 53-year-old Brian Robinson.

Robinson, an accountant, has wide experience in stockbroking, investment research and for four years headed various financial divisions at Ford.

He is pleased with progress so far. But, equally, the management team at Syfrets is gearing for further impressive growth as the group moves deeper into property through the link with RMS and yields flow from the heavy investment in computer systems to handle the growing portfolio management services.

Len Abrahamse (now non-executive chairman) in preparing Syfrets for the merger with Nedbank, was the prime architect of the growth but it has been Robinson and his team who have successfully moved the group forward, discarding the fuddy-duddy image of the traditional Cape Trust company for the modern cut-and-thrust of high finance.

The transition has not been as successful for some competitors.

In this interview Robinson talks about his objectives and strategy for the next decade.

BR: Intensive marketing seems to be a major force behind the sharp growth in market share.

Robinson: Marketing has played a definite role but a large part of the increased profits come from the strength of the participation bond scheme.

BR: What is the size of the scheme?

Robinson: This has grown from R321m in 1979 to an estimated R610m at the end of this year. In 1979 it was some 42 percent of all other schemes. This figure has now risen to 54 percent at the end of September.

BR: What profit growth rate is targetted?

Robinson: If we can run at five percent above inflation we are doing well in a service industry.

BR: I understand the participation bond scheme is backed by considerable reserves.

Robinson: The reserve formula is based on the size of the scheme which is greater than that used by many of the United States banks. It is a sound net figure — many millions of rands. Our valuation is based on a calculated rental, not on replacement cost. We tend to advance no more than 65 percent of that valuation — thus the lender is secure.

BR: Portfolio management is a growing part of your business?

Robinson: The growth is partly a function of stock market and interest rates. Funds under administration had a market value of

Mr Brian Robinson

R1 733m at the end of December 1982 and if the market continues reasonably firm we should pass through the R2-billion mark by the end of the financial year in September.

BR: Syfrets was historically Cape based. Is this still so?

Robinson: A good deal of growth has come from the Transvaal. But our position in the Cape has strengthened. The fastest growth area is the Transvaal. People like Hugh White and David Cloete and others have had outstanding successes.

BR: You joined Syfrets in 1965 after a varied career including a spell in auditing in Wales, insurance in Australia and an association with a property group. What is your main interest?

Robinson: I joined Syfrets to set up the investment research department, working for Dennis Hennessy and Johan Nel. Most of my interest and commitment has been to the investment side. We are continuing to keep Syfrets abreast of the leading investment tech-niques with Jeremy McEntyre visiting the United States frequently.

Property is my other interest. The broad policy of the Nedbank group is that no sector should be directly involved in property. The only direct stake we have is in SA Property which is controlled by Syfrets. This has many outside shareholders. We are moving to make it a better company.

BR: Would you consider selling the company?

Robinson: It is our intention to stay with it.

BR: What of the new link with RMS?

Robinson: We have a major but minority stake in RMS. Syfrets has been working extremely closely with them in Natal and Transvaal and they will soon be opening in the Western Cape.

BR: What sphere of property investment is involved?

Robinson: In the Transvaal they have concentrated on industrial and commerical property, but in Natal RMS has extensive sectional title flat and other developments.

BR: Syfrets Bank apears to be a major growth area?

Robinson: Because of the trend in the interest rate pattern the bank will probably not make quite as much profit this year as we anticipated but it should still earn 20 to 25 percent more than 1982.

Well geared with useful lending capcity, it is exploring a number of executive housing programmes with large companies, as well as being involved in agricultural and medium-term industrial and commercial lending.

BR: What is the growth outlook for the group over the next 5 to 10 years?

Robinson: The participation bond scheme makes some 40 percent of profits. At this stage it is the dominant profit source .

This year we will lend R140m to R150m — much will depend on the rate pattern of BAs and overdrafts. I suspect there will be a great deal of competition from banks and building societies.

We would expect not to have the same growth from the participation bonds the year after next. Thus, next year it will remain dominant with a large contribution from managed investments.

The year after that the market could be very buoyant providing exciting growth for managed investments. We anticipate a very good return from insolvency this coming year.

BR: Your computer systems are arousing considerable interest overseas.

Robinson: Organizations from other parts of the world have sent people here and discussed our accounting methods and computer programmes. Because of our size and relationship with Nedacom, the group-controlled computer unit, we have been able to do things which otherwise would have been beyond reach.

Within minutes the computer can provide a complete list of clients who hold, say, De Beers with a sub-list of which shares are discretionary. This is essential when dealing with thousands and thousands of clients.

BR: How do you see interest rates?

Robinson: Long-term rates — gilts and semi-gilts — are probably close to the bottom. The prime rate and BA rate will fall further. We see prime approaching 12—12,5 percent. The short-term rates will fluctuate down. That is where the main impact is already making itself felt. The short-term end of the market is pretty flush.

BR: Are you bullish on the economic recovery prospects?

Robinson: I believe there are sufficient signs of slow but emerging reflation in the United States which will be accompanied by another stretch of inflation.

The West cannot afford to allow Third World borrowing countries to go under and more dollars will be printed.

BR: How do you assess the gold outlook?

Robinson: I am bullish on gold but equally bullish if I am wrong in my scenario — gold is the perfect double-way bet. The only difference will be the speed of movement.

If there is slow, gentle reflation and controlled insolvencies gold should progress to $580 — $665 over a year or two. This would be best for South Africa. If Reagan holds the line and the oil price falls sharply, producing a run in currencies as producing countries such as Mexico default, there may be an explosive price run to $850 within weeks.

BR: What are South Africa's priorities?

Robinson: Inflation has been our prime concern. We are not importing as much now and, provided there are no surprises on the agricultrual front and food escalations can be contained, inflation may fall to 10—10,5 percent by the end of this year. That is positive as it is a downard trend. Even though we will be running thre to four percent above Europe and America it is still manageable, given the gold price.

The authorities will then encourage spending to mop up unemployment. We are getting closer to this stage.

BR: Will the Wiehahn and other socio-economic reports benefit the country in the longer term?

Robinson: From a non-political view I believe there is so much socio-economic goodwill in this country that we will not reach the ultimate stage of confrontation.

One realizes tempers run high, people are making political capital out of various things, millions of people do not have representation but a large pool of people exist in government, the Urban Foundation and elsewhere who are working for improvement. I think there is a good future for this country. I do not belong to the pessimistic school.

BR: What growth rate is likely in the late eighties?

Robinson: This year, two percent. Thereafter, I do not think we will get back to economic development programme targets but growth could be close to five percent or — just under.

BR: Is that high enough?

Robinson: Given goodwill and better organization of our resources — bringing people back into the production process rather than increasing reliance on technology — it will be sufficient.

BR: What of the stock market outlook?

Robinson: There are three reasons for the current boom.

Firstly, exchange control — no other home exists for institutional funds. Then interest rates have moved down, making gilt and money market avenues less attractive. And property prices are too high. The stock market, however, remains attractive.

Increasingly, the lessons learnt overseas mean that the institutions are looking at an earnings situation beyond a short-term dividend static scenario.

Provided the industrial companies do not show two years of falling earnings — only one year — the market should hold up fairly well.

Investment managers are buying in anticipation of the growth which will come. There is a perception of growth being transferred into the acquisition of shares at relatively low levels. At projected dividend growth returns of six percent and 9,5 percent I think the institutions will continue to buy.

I do not say shares are cheap. The degree of any correction will be limited as long as the gold price holds at current levels.

Our own policy is to remain pretty fully invested, although we retain the flexibility that goes with a 10—15 percent liquidity.

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EXCHANGE CONTROL

Dismay as fund *inflow* keeps fuelling inflation

Minister of Finance [illegible] *week "One of the* [illegible] *was to remove* [illegible] *to excessive liquidity* [illegible] *nomy.* [illegible] *capital, even* [illegible] *have to be* [illegible] *objectives.*

As the men at the Ministry trace the results of the exchange-control relaxation maintaining close discussions with the country's banking and financial community, will Mr Horwood's critics please stand up and be counted

Where are their dire predictions now?

Not only has the stock market held up surprisingly well. Not only has the new "unitary" rand been almost universally welcomed

The problem has become too much of a good thing rather than the "chaos" forecast by many experts who ought to have known better

By Stephne Orde

Just one problem — and a major one

It is early days, of course, but so far Pretoria's important objective of stemming the deluge of funds pouring into South Africa from overseas — funds which have been threatening to swamp the SA system in inflationary liquidity — is far (too far) — from being realised

Late on Friday one saw the way the wind was blowing when the latest issue of SA Treasury bills fell a spectacu-

To Page 3

From Page 1

lar 166 points to 9.56 from 11.22%.

The SA discount houses cut their 90-day quota bank acceptances rate 60 points to 9.9% from 10.5%.

Applications for the Treasury bills totalled R209.49 million against an allotted R60.02-million.

David Bullard of National Acceptances commented that it seems there is suddenly a new surplus of cash chasing relatively few short-term assets.

Crudely the message is that there is currently more (potentially inflationary) liquidity building up in the banking system than Pretoria can pull out.

Partly, this is seasonal. But it also appears to underline the inflationary threat which the still-roaring avalanche of liquidity in the system represents.

According to a senior Reserve Bank spokesman, as well as private-sector institutional leaders, money is still gushing into SA faster than it is splashing out.

In the past 10 months about R2 000-million has been mopped up by the authorities in a brave effort to neutralise the excess, inflationary liquidity. Came the moment when Pretoria's ability to apply the usual instruments for this was near exhaustion, and the exchange-control bombshell was (finally) detonated.

Yet, even so, as much as an additional (net) "several hundred million rands" has come into SA in the short time since the forex announcement.

Dismay over inflow

What's to be done?

The Reserve Bank: "Obviously it would be quite wrong to jump the gun. The February tax payments will siphon a great deal out of the market, and by April we expect to have drawn about another R400-million out in the usual way.

"It is too early to say that the inflow will not subside and even reverse as conditions both in this country and overseas change.

"We need to know how things will work out once our interest-rate patterns and business cycle are more in line, or contracyclically reversed, compared with our major trading partners and investment friends overseas.

"We are reluctant to agree prematurely to the lobby from certain private-sector institutions for a relaxation which will allow them to invest overseas, thus returning the funds that are coming into this country to overseas economies in a non-inflationary way.

"At the same time, we will need to watch what happens very closely.

"The Minister has said that the battle against inflation has now assumed paramount importance.

Banking and institutional leaders are generally surprised that any of their members should want to invest abroad under present conditions. But they support the idea in principle.

Nedbank deputy managing director Anton van der Merwe-Vance: "With SA interest rates tending down but still higher than in most alternative markets, and with the rand hardening against major currencies overseas, the incentive to invest overseas is currently questionable.

"Also, if Pretoria were to relax aspects of exchange control as it applies to *South African residents*, again I doubt if many would take immediate advantage. Their money can do better domestically."

The chief executive of one of the other Big Four banks adds: "Pretoria has reason to be worried about the continuing inflationary inflow of funds into this country.

"The authorities can continue to market Treasury bills and government stock to siphon money out of the banking system, but there is a limit to how long they can continue — it is costing them a fortune."

Vigilance is now the watchword for all concerned. Fast action may be as necessary sooner as later.

(58) Hansard

Agricultural Credit Board

9 Col. 235 22/2/83

137 Mr R W HARDINGHAM asked the Minister of Agriculture:

What amount was allocated by the Agricultural Credit Board in the latest specified year for which figures are available, in respect of (a) housing for (b) the electrification of houses for, and (c) the provision of water for domestic consumption by, farm employees?

The MINISTER OF AGRICULTURE:

1 January–31 December 1982

(a) R7 367 000.

(b) R234 500.

(c) R473 500.

Bonus bonds

230 Mr. H. H. SCHWARZ asked the Minister of Finance:

(a) What was the total value of bonus bonds (i) bought and (ii) redeemed up to

Car, home loans freely available

Argus 23/2/83

58

Institutions keen to do business as demand falls

Staff Reporter

THE recession may be biting deep into the average man's pocket but there seems to be no shortage of money in the large financial institutions — and they are keen to do business.

Trouble is, not enough people seem to want to borrow.

A spokesman for Barclays Western Bank — the hire-purchase arm of Barclays and one of the main sources of money for intending car buyers — confirmed this week that demand from the public for car loans had dropped.

The spokesman said demand for loans peaked in June last year but had tapered off steadily since then.

He said a sharp drop in demand had been experienced in January this year — believed to be one of the worst months for car sales in some years — but the February figures for his bank already showed an improvement.

The spokesman described himself as "highly optimistic" about the second half of the year.

"I believe the second half is picking up.

"As a result of our cash flows being very healthy we have plenty of money available for car loans. We are in a good position to service all demands for loans in the vehicle sales market. We feel we are well situated for the year ahead."

House loans

And if a house rather than a car is your way way of going into debt, many institutions will be glad to lend you the money — provided of course you are in a position to pay for it.

Barclays Bank, which entered the home loans market in competition with the building societies in September last year, has so far lent the public R250-million. And of that amount, R50-million has gone to Western Cape borrowers.

This means the Western Cape has borrowed more money than any of the other eight regions recognised by the bank.

A Barclays spokesman said he was "very pleased" with the bank's success. The bank was actively looking for more borrowers.

A spokesman for the Standard Building Society also confirmed there was money available for loans.

"We have no difficulty in meeting the normal requirements of people requiring bonds at normal building society rates," he said.

S A INDUSTRIAL WEEK

23 February 1983

FINANCE

Pension fund investments strain corporate resources

By Insider

RENEWED warnings about the pace of the erosion of paper money as a result of inflation underscores the growing burden of pension fund operations on corporate resources.

The insurance giant Sanlam, which underwrites well over 800 funds run by individual companies, set out a few stark projections that stressed the expertise needed by investment managers to bring in the returns needed to ensure benefits keep pace with the cost of living.

An analysis theorised that if inflation stays at 12% a year - the average experienced over the past decade - a 40c loaf of bread will cost a staggering R3,86 by 2001, only 18 years away. A 54c bag of sugar will cost R5,21.

A current R100 a month rent on a modest town or suburban house or flat will have streaked to R965.

Sanlam, of course, is not alone in the struggle to find the investment formulae vital to hold the lid on the pension problem and win the confidence of labour forces.

A recent count by Finance Minister Owen Horwood found that the number of company pension funds have swollen to no fewer than 11 000, which between them control assets of a stunning R25 000-million — assets that have to be mobilised to safeguard the futures of 5 million members.

Old Mutual, responsible for running a 2 258 funds with 1 650 000 relying on them, calculates that an annual inflation rate of 15% - it was above that in 1980 and was only marginally below last year - means the value of money is slashed by half every five years.

It is natural that more and more companies and their employees lay the foundation of pension funds.

It is equally natural that the clout of the multiplying number of funds makes increasing impact on the entire business scenario.

Most of the giants prefer to keep a low profile on the precise amount of power they wield.

However, it becomes harder to conceal the clout.

Recent examples include the way that Sanlam was able to brush aside attacks from Dr Anton Rupert's mammoth Rembrandt empire over the style it employs to run the vast General Mining and Union Corporation conglomerate.

Sanlam holds equal sway over the Federale Volksbellings juggernaut, aside from the Trust Bank, Santambank, Senbank - and a nationwide property portfolio with a battery of Sanlam shopping centres standing as flagships.

Dr Anton Rupert.

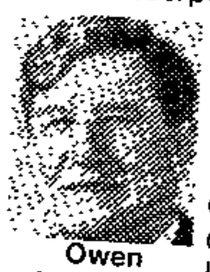
Old Mutual was found to hold all the cards that were crucial in the complex merger of Tiger Oats and the C G Smith sugar interests to create the largest food conglomerate in the country.

It walked away clutching a very sizeable chunk of Barlow Rand shares to add to an impressive portfolio.

You mention shareholdings in Nedbank very quietly around Old Mutual, though investment managers are more talkative about the insurance/pension giant's sprawl of property investments and its plans to build and run a network of new industrial estates.

Liberty Life's portfolio was all that was needed to end the tussle for control of Edgars Stores and land it in the lap of South African Breweries.

The entire Johannesburg Stock Exchange trembles when the huge insurance/pension companies, under the deluge of an income of R3-million daily from contributors, leak word that they are casting around for new investment opportunities.



Owen Horwood.

The big snag is that legislation rules that no less than 53% of all their investments must be channelled into prescribed investments such as Government and semi-Government stock which carry a fixed interest rate.

It has been a heavy ball and chain in recent years.

Pierre Steyn, senior general manager of Sanlam, moans that the real yield from them - allowing for inflation - has been almost invariably negative every year since 1973.

Dr J van der Host, chairman of Old Mutual, is convinced that the solution lies in a dabble into indexation - the Government issuing special new stocks that guarantee a positive annual return of 3 or 4% above the consumer price index.

He is quite aware of the risks of going overboard with indexation, as done classically by Brazil and several others, often to their chagrin.

But he sees merit in a cost of living link with Government stocks - with the proviso they can be purchased only by pension funds and life assurers and other savings machines on condition the benefits go to such as pensioners.

It is a notion with lots of merit - not only for pensioners but for current industrial/labour relations and the whole social fabric.

HEDLEY BYRNE (National) 800R.

Gold shares nose-dive and Krugers drop R30

By PAUL DOLD, Financial Editor

UP to 15 percent was chopped off the prices of gold shares on the Johannesburg stock exchange yesterday as the gold price plunged to nearly $470 shortly before the Opec ministers agreed in principle to cut their oil prices.

The lower oil prices have unsettled both the London and New York stock markets and could trigger an international currency crisis.

While so far there has apparently been little sign of a floor for gold some analysts believe the metal remains in a basic bull trend and the current weakness is a short-term correction.

Whether this is an accurate viewpoint remains to be seen. Gold is falling due the prospects of even lower world inflation rates as the cost of oil drops.

While US inflation is bound to rise as President Reagan reflates the economy the increase will be slow and off a low base.

Bearish for gold

The bullion market so far is interpreting this as bearish news for gold and US investors have been sellers of gold shares for the past two weeks well ahead of bullion's dive.

The market is ignoring theories that the lower oil prices could lead to further shcoks for the international monetary system and US banks if oil producers are unable to meet their debt commitments.

Although there was a slight recovery in share prices yesterday morning the downward trend was resumed in the afternoon in fairly heavy trading

Volume in the morning was small but selling accelerated in the afternoon.

Overseas selling

The Cape Times Johannesburg correspondent reports that Kruger rands dropped R30 to R570.

Bellweather Amgold lost R11,25 to R128,50.

The slide was sparked by the slump in the bullion price on prospects of falling oil prices, with New York leading the way overnight in heavy speculative liquidation and stop-loss selling.

Golds dived sharply in early trading on aggressive overseas selling, although volume was not particularly heavy.

Mining financials and diamonds followed golds but other minings were barely tested and industrials were quiet and little changed.

The rest of the market followed golds down in the late afternoon. At the close golds were easier across the board and there were wide losses on most other boards.

Randfontein slumped R10 to R157. Vaal Reefs was 900c down at R124.

Other big losses included Durban Deep, 650c easier at R44, President Brand, off 600c at R52, and Freguls and President Steyn, both down 550c to R53,50 and R58 respectively.

Cheaper priced producer losses ranged to 140c as in Grootvlei.

De Beers eased 35c to 800c and Anamint 400c to R96.

Palamin in coppers slipped 50c to 320c and RD Lease 20c to 190c.

Impala lost 30c to R10,20, Lydenburg 50c to 550c and Rustenburg 60c to 700c. Rooiberg Tin eased 25c to R22,75, Cons Murch 10c to 800c.

Amcoal fell 175c to R25,50 in easier collieries.

Anglo American shed 130c to R20,40, Gencor 175c to R32, GFSA 750c to R144 and Johnnies 300c to R126.

Industrial losses

In industrials many issues showed losses of 5c to 20c. Only clothings, fishing, food and motors showed any firmness on the day.

In generally unchanged banks, Sage Ltd eased 10c to 470c.

In insurances M &F added 25c to R62,75.

GF Properties eased 25c to 305c and RM Properties 35c to R10,25.

Amic shed 75c to R33, Barlows 30c to R12,40, Waverley 20c to 180c, SA Breweries 20c to 750c, Sasol 12c to 403c.

In clothings AF & OVR added 20c to 600c and AF & OVR A 50c to 600c.

In electronics Altron gained 75c to R14.

Cadswep firmed 50c to 850c and Premier Group 25c to R18,50, but Tiger Oats shed 50c to R27.

Sappi was unchanged at R10,50 but Hortors eased 12c to 145c.

Hiveld was off 20c to 530c.

Clicks shed 25c to 775c, Checkers 40c to 660c, Kimet 10c to 205c, Metro 100c to R16 and Met Cash 30c to 295c.

Trencor in transports eased 100c to R17.

● The volume of shares traded was 4 236 180, valued at R32 146 946, compared with 3 521 489, valued at R21 602 713, on Tuesday. The number of securities active was 329 (364). The five most active stocks were Protea, Samanco, Group Five, Leslie and Elsburg.

D. Dispatch 25/2/83 (58) (Sasria)

New riot cover rules in state-backed plan

EAST LONDON — As the government-backed South African Special Risks Insurance Association (Sasria) nears its fourth birthday, it sees "quite a few satisfied policy-holders who have had their claims settled in full

"Without Sasria, there would have been a lot of uninsured losses in South Africa And I believe that we have provided good service," said Mr Rodney Schneeberger, the general manager of Sasria in Johannesburg

Sasria went into operation on April 1, 1979, created by the government as a facility for providing political riot insurance cover within South Africa

On April 1 this year a new set of rules governing Sasria will go into effect. The new rules will include provisions for substantially higher premiums for motor vehicle cover, an end to discounts on premiums of R50 000 and more and an end to differential rates according to race group area

Under the present rules, private residential risks in white areas are rated at 0,025 per cent, in Indian and coloured townships at 0,075 per cent, and in black townships at 0,125 per cent.

The new rules provide for a single rate of 0,025 per cent for all areas.

Similarly, other risks (for example, commercial risks) will be rated at 0,1 per cent in all areas. This is the present rate for white areas, whereas Indian and coloured townships are rated at 0,3 per cent, and black townships at 0,5 per cent. Mr Schneeberger said the new unitary rate structure did not mean it was now believed that all areas carried equal risks

He said the differential rates would be abolished because they were "administratively complex, and impracticable".

Using one rate for all areas followed the basic insurance principle of "having the burden of the few carried lightly by the many," he said

Mr Bill Cozens an East London insurance broking executive said South African insurance brokers had lobbied for an end to race-based political riot premiums

But he indicated that there remained much room for improvement at Sasria, from the broker's point of view.

He agreed with a description by the Financial Mail of Sasria premiums under the new rules as "prohibitively high"

This was especially so where commercial firms requiring large amounts of cover were concerned.

"Sasria is making money for jam They can afford to cut their rates in half. As it is they only attract people who think they are especially vulnerable to political riot damage. With lower rates, they would get a far better spread of customers."

Mr Schneeberger said present Sasria rates were "just about right".

As for the new rates, he said he was "looking into the rate schedule as it stands after April 1, on the basis of conversations I have had with other Sasria officials."

Mr Cozens said another problem for brokers and their clients alike was that Sasria's political riot cover applied only to direct damage to property, and not to consequential losses, such as loss of profit.

This meant that a commercial client needed two sets of political riot cover: one from Sasria, and one from a commercial insurer for consequential loss

"I am sorry," said Mr Schneeberger,"that consequential loss cover is not provided by Sasria I have done everything I can to see that it will be provided, and I am still trying."

He said the government was not prepared to re-insure Sasria for consequential loss cover, nor had it yet been possible for Sasria to make an appropriate arrangement with South African commercial insurers

He said a recent study indicated that the domestic insurance market lacked a capital base large enough to make any such arrangement feasible.

Asked what other changes might be expected at Sasria, Mr Schneeberger said he wanted to work at streamlining administrative procedures.

From Mr Cozens' point of view, any such streamlining would undoubtedly be welcome

"Sasria is a completely inflexible bureaucratic body,resistant to change. You can stand on your head, and they won't do anything," he said.

Mr Schneeberger said he wants especially to reform administrative procedures having to do with "holding cover" — the standard practice among commercial insurers of providing cover on the basis of an oral agreement before a formal policy has been issued.

Sasria does not provide holding cover, and this created problems for brokers, Mr Schneeberger said — DDR

Political riot cover difficult in Ciskei

D. Dispatch 25/8/83

58

EAST LONDON — Few insurance companies were willing to offer political riot cover for property insured in Ciskei, a broker with experience in the Ciskei insurance market said.

The tight market had the inevitable effect of pushing up premiums, said Mr Sean Price, branch manager of an insurance broking firm in King William's Town.

Referring to a client with property in Ciskei, Mr Price said "the odds are ten to one that I could have got him a better deal in a more open market

"But I had to beg. The insurers had the screws on me"

There were occasions when a broker had as few as three insurance companies to choose from

"Underwriters were reluctant to "stick their necks out" on insuring major assets in Ciskei for damage caused by a political riot

Re-insurance arrangements made with overseas insurance companies were part of the problem Foreign insurers knew little about Ciskei, and tended to believe that risks to property from political riot damage were far greater than they are in fact.

Mr Price said he thought international opposition to South African "homelands" policy was also a factor.

"Foreign insurers want to keep out of Ciskei because it's not political good manners to help Ciskei, or to treat it like an ordinary independent country".

These political considerations, along with an overblown assessment of risks in Ciskei, and with the tight insurance market there, all made for "exceptional trouble in getting political riot cover," Mr Price said.

The same factors also combined to make premiums for political riot insurance higher than they should be.

The going rate for non-residential risks in Ciskei is 0,15 per cent.

This is 50 per cent higher than the 0,1 per cent charged within South Africa by the South African Special Risks Insurance Association (Sasria).

There is nothing similar to Sasria in Ciskei, where the political riot insurance market is given over to commercial insurers. — DDR

Short-term insurance recovering

Commercial Union's profits leap 84,8%

Cape Times 26/2/83 (5B)

By JOHN MULCAHY

JOHANNESBURG. — The short-term insurance industry is showing definite signs of emerging from more than two years of suicidal rate-cutting and flagging underwriting fortunes.

Hard on the heels of SA Eagle's substantial turnaround, comes a rise of 84,8% rise in Commercial Union of South Africa's (Cusaf) taxed profit, to R5 581 000 for 1982 from R3 020 000 the previous year.

The underwriting loss was slashed to R145 000 from R3 928 000 in 1981 on net written premiums of R58 192 000 (R45 070 000) in the general insurance division.

Earnings rose to 69,8c a share from 37,8c, and the final dividend has been lifted to 18c from 16c, making 28c (25c) for the year, and increasing cover to 2,5 times from 1,5 in 1981.

The managing director, Mr Bill Rutherford, said 1981's cover was low by Cusaf's standards, and the group aimed at covering the dividend twice, but to build financial strength for further expansion increased retentions were needed.

Mr John Birkinshaw, Cusaf's executive chairman, said yesterday that although the group's motor account was still in a loss situation, there had been a significant improvement over the past year.

The fire department "has a long way to go" in matching premiums with risks, said Mr Birkinshaw, and reinsurers had already indicated a tightening in their annual treaties, after suffering substantial underwriting losses last year.

The Registrar of Financial Institutions had for some time expressed dissatisfaction with the inequitable rate structure, said Mr Birkinshaw, particularly with the so-called "umbrella" policies, which did not accurately assess the risk to premium ratios.

Reinsurance treaties are re-negotiated annually in January and by the end of this year the reinsurers were likely to "get tough", said Mr Rutherford.

Mr Birkinshaw said the year ahead would be difficult, as competition would not abate for some time and prospects for investment income were not good, but Cusaf was budgeting for unchanged earnings.

Non-smokers

Cusaf's life fund rose to R262 181 000 at the end of December from R201 539 000 at the end of 1981, while new annual and single premiums increased to R20 193 000 from R15 112 000.

Premium income on the life and pensions side of the business rose to R49 797 000 from R39 684 000 and investment income was 32% higher at R30 220 000 compared with R22 873 000.

A particularly successful area of Cusaf's life business has been the special policy for non-smokers, a sector in which the group is market leader.

The non-smokers' campaign had been aimed at the top end of the business, that undertaken through brokers, and it had been found that non-smoker policies were generally bigger than other classes of life business.

Row brewing over Land Bank's R500 000 flats

S. Express 27/2/83

R11 000 SPENT ON TWO PARTIES AS FARMERS FACE WORST CASH CRISIS IN HISTORY

By GERALDINE FARLEY

A MAJOR row threatens to develop over disclosures in Parliament of the Land Bank's expenditure of more than R500 000 on two luxury apartments.

Land Bank officials will shortly be asked to answer for the expenditure — and also to explain how R11 400 came to be spent on two farewell parties for the bank's former managing director.

The Opposition has slated the expenditure — disclosed in the Auditor-General's recent report — and will closely examine evidence submitted to the Parliamentary Select Committee on Public Accounts next month.

A generous housing scheme for bank staff, which granted loans in 1981 totalling R6,5-million, repayable over 40 years at an annual interest rate of 3%, will also be queried

The PFP spokesman for Agriculture, Mr Errol Moorcroft, said this week: "How will farmers who have had Land Bank loans refused for lack of capital, feel about this?"

He said many farmers were facing the worst financial situation since the Depression "and then one hears about how those people assisting them are spending Land Bank money".

The apartments were bought for R511 801 in 1981 to provide accommodation for bank staff attending the parliamentary session

They are situated on the ritzy Sea Point beachfront, in one of the area's most exclusive blocks, and command a view of the Atlantic Ocean.

One flat has two bedrooms and the other has three. Both have balconies and are carpeted throughout. Furnishing costs amounted to R38 686 and monthly rates on the properties are about R500

They are occupied by the managing director and members of his staff during Parliamentary sessions, which last for up to five months.

They are vacant for the rest of the year, apart from short, intermittent spells when bank personnel are sent to Cape Town for inspections.

But managing director Mr Theuns Pienaar has dismissed the view that such expenditure on accommodation is excessive in view of the current economic climate.

"I don't consider these 'luxury' flats as there is nothing particularly special about them. We made a thorough investigation and found them to be the best because of their good security.

"As the flats are vacant for much of the year, this was an important consideration And from the point of view of an investment, they're also a good buy because the bank would get its money back tomorrow if it sold them. We're virtually staying here for nothing"

But Mr Moorcroft has lashed out at the purchase of property in such a sought-after area.

"Why does the Land Bank have to go to the most expensive part of town and buy flats at such an exorbitant figure? Perfectly suitable accommodation could have been found at half that price."

In 1981, two farewell functions were held for the retiring managing director, Mr J M C Smit, at a cost of R11 403.

One function was held on Land Bank premises in Pretoria for the staff of 350 and their partners. The second was held at Palms Hotel in Silverton, near Pretoria, for Mr Smit's friends and colleagues.

The second function was attended by about 400 people and included a number of Cabinet Ministers.

According to a bank official, the fare served at the dinner was quite "ordinary" and there was nothing lavish about the occasion.

"No caviar or exotic things from France were on the menu — just a plain four-course meal, costing about R10 a head," he said.

This week Minister of Finance Mr Owen Horwood spoke of the desperate plight of farmers caught in the double grip of a crippling drought and economic recession.

The Land Bank, funded by the Government, made loans to farmers in 1982 totalling R6 681-million, repayable over 25 years at an interest rate of 11%.

About one-third of applications for loans were turned down by the bank for lack of capital.

Billions lost on shares as gold plunges

AARGUS 28/2/83 (58)

Financial Editor

BILLIONS of rands were wiped off share prices on the Johannesburg Stock Exchange today after the gold price plummeted more than $40 to a six-month low of $398 an ounce.

But a recovery in the gold price to $419,75 led to shares firming slightly.

Dealers in London and Hong Kong blamed the drop in the gold price on continued heavy selling in Far Eastern markets as nervous investors continued to liquidate holdings in the face of falling oil prices and lower US interest rates.

LOWEST

At its lowest today the gold price was $64 below the Friday afternoon's London close and $106 since last Monday's London close.

In early trading on the Johannesburg Stock Exchange today gold shares were showing bigger losses than for the whole of last week.

Some gold share prices fell more than 20 percent, though the average decline appeared to be between 10 percent and 15 percent. Later some of the losses were reduced.

At one stage Randfontein was down 1 550c to 13 600c but recovered to 13 850c. West Rand Cons dropped 265c to 775c, before rising 75c to 850c. Elandsrand, which closed at 1 230c on Friday, dropped to 1 125c before recovering to 1 140c, while Loraine dropped from 780c to 625c only to bounce back to 670c.

Stock market follows recovery in gold price

ARGUS 2/3/83 (58)

By DEREK TOMMEY
Financial Editor

THE price of gold rose strongly today and by noon it was $430 an ounce.

This was a gain of $17 on last night's closing price in New York and a rise of $41 from yesterday's low point in Hong Kong.

Gold has now recovered about a third of its losses it incurred over the past 10 days.

Bullion dealers Samuel Montagu said in London today they expected the demand for gold to re-emerge if the price remained around its present level.

Rally

The rally in the gold price spread to the Johannesburg Stock Exchange where gold shares also rose strongly in heavy trading.

By mid-morning the JSE gold share index had risen more than 50 points — an increase of around seven percent But marginal mines were showing even great percentage gains.

Among the heavyweight shares Randfontein gained R11 to R146, Elandsrand shares were 105c higher at 1 325c, Elsburg 65c higher at 515c, and Grootvlei 200c higher at 1 750c.

Export credit to Transkei, Ciskei

JOHANNESBURG — The increasing industrial and agricultural development in Transkei, Bophuthatswana, Venda and Ciskei has created a demand for medium-term credit for capital goods to be delivered to these countries

The Credit Guarantee Insurance Corporation says as these countries are considered export markets, prospective contractors supplying capital goods to them can obtain export credit provided they hold a credit insurance policy issued by Credit Guarantee.

In order to meet the demand for export credit insurance, Credit Guarantee has developed a system whereby speedy decisions can be given on contracts involving small amounts. A decision should not take longer than two or three weeks

The credit periods which will be considered under this scheme are: Contract value R50 000 — R100 000 — 2 year credit term, contract value R100 000 — R200 000 — 3 year credit term, contract value R200 000 — R300 000 — 4 year credit term.

As is the case with other projects that qualify for export credit insurance, it would be a condition that the buyer pays a minimum of 15 per cent by the time delivery is made.

Contracts of less than R50 000 will not qualify for the credit terms exceeding 180 days. — DDC.

Borrowed money to cost less

Cape Times 4/3/83 (58)

By GORDON KLING

THE heavy burden imposed by almost two years of savagely expensive money in South Africa is about to come to an end because of a sharp plunge in key interest rates.

Rates charged on overdrafts by the commercial banks are to be cut by two percent from Monday and cuts in rates on everything from home mortgage bonds to HP agreements are expected to be not far behind

Bankers maintain further cuts are likely.

Standard Bank was first yesterday to announce a cut in its prime rate to blue chip borrowers from 16 to 14 percent — its lowest prime since June, 1981 — and said rates to other categories of borrowers would be reduced by the same amount — a move immediately followed by other banks.

The latest cut is a dramatic acceleration of a softening process which began towards the end of last year. It comes on the heels of a one-percent reduction only two weeks ago and the 14 percent rate effective from Monday compares with a prime of 20 percent just four months ago

"You could definitely say it means the end of a long period of very expensive money here, said the divisional general manager of Barclays National Bank in Johannesburg, Mr A Burzacchi.

Barclays would probably be able to take a decision within a fortnight on another cut in rates on its home mortgage bond scheme which is now pitched only slightly higher than building society rates after two reductions in recent months. Lower hire-purchase rates — the maximum is now 24 percent — would follow as a matter of course.

"I think you'll find that rates come down still further," Mr Burzacchi said.

There would be no grounds for a return to sustained upward pressure on rates until the next economic revival began.

The Association of Building Societies has so far avoided a formal announcement of the timing or extent of a cut in mortgage bond rates, but industry sources yesterday said a reduction was inevitable, and soon.

Another cut by Barclays would put its home loan rates on a par with or even below the societies', which could prove embarrassing for the building society movement because the bank was in business for a profit and was prepared to offer funds when none were available from the societies

A source at the EP Building Society, which broke away from the association's pattern with higher rates last year, noted that the society is to reduce its still higher rates structure by 0,5 percent from May 1.

Into line

The Standard Bank Building Society, which also charged a premium on association rates, has

● A FULL-COLOUR picture of singer David Essex appears in today's FUNFINDER with the Cape Times.
● Tomorrow HOMEFINDER will appear with the Cape Times.

CLASSIFIED ADVERTISEMENTS BEGIN ON PAGE 14 TODAY

CAMERALAND

Canon AF35M

Closet case: Man in court

JOHANNESBURG. — A 41-year-old Berea man appeared in the Johannesburg Magistrates Court yesterday charged with the murder of Miss Lynette Claasen, whose decomposed body was found in a sealed-off cupboard in a Berea flat on Sunday.

Johannes Jacobus Herman Erasmus, address given as Berea Boulevard, Tudhope Avenue, Berea,

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...ne-percent re- ...ly two weeks ... 14 percent ...ve from Mon- ...ares with a ... percent just ... ago ...ld definitely ...s'the end of a ...of very expen- ...here, said the ...general man- ...lays National ...hannesburg, ...chi.

...would prob- ... to take a de- ...n a fortnight ...at in rates on ...rtgage bond ...rch is now ...slightly high- ...lding society ...wo reductions ...nths. Lower ...c rates — the ... now 24 per- ...i follow as a matter of course.

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Into line

The Standard Bank Building Society, which also charged a premium on association rates, has come back into line with the maximum rate of 16,25 percent on loans in excess of R40 000 and a minimum of 14,25 percent for those below R10 000.

The banks are actively canvassing for borrowers of housing funds and for commercial and industrial undertakings.

● Banks set for prime rate battle, page 22

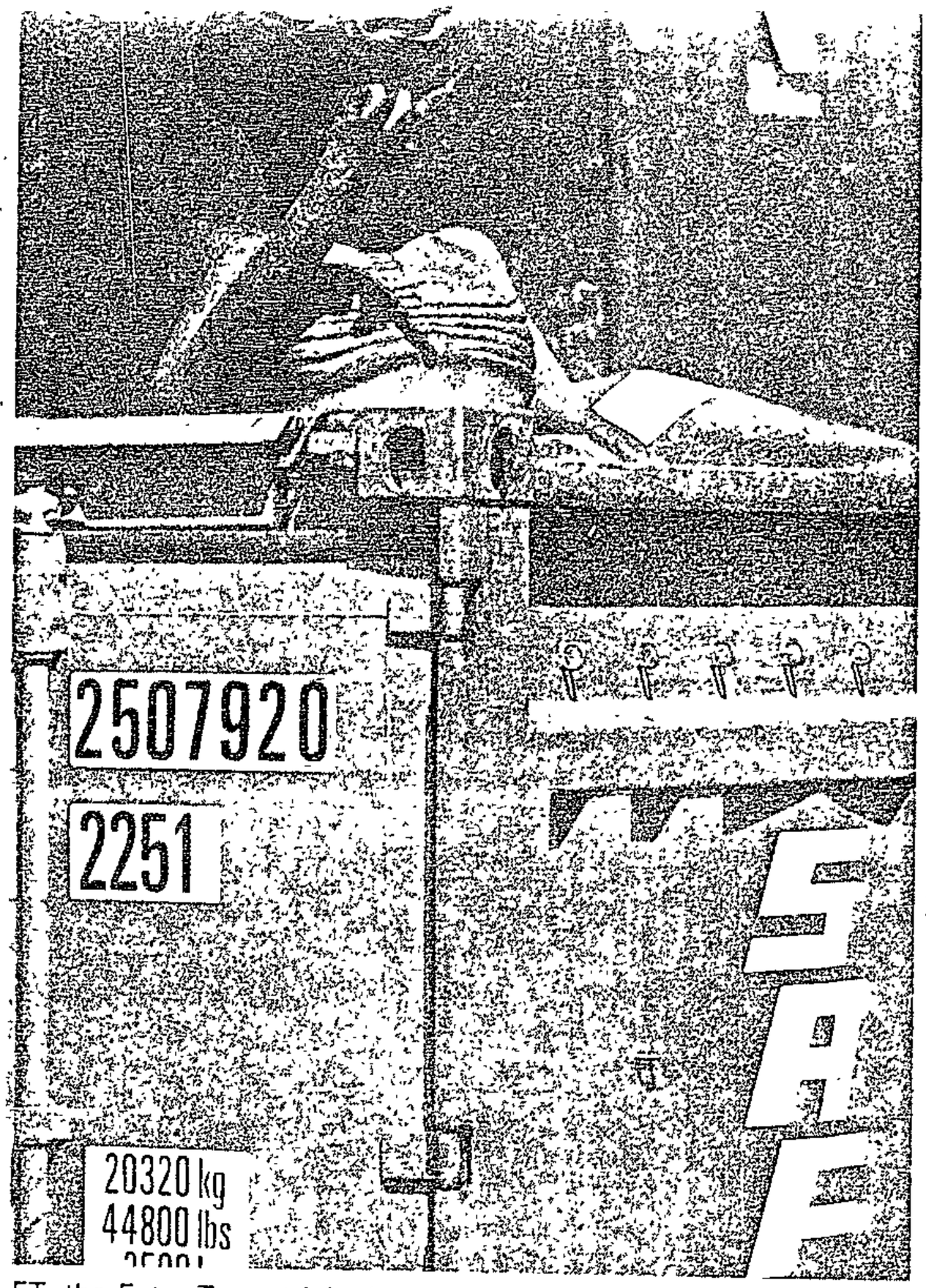
...case: ...court

...BURG. — A ...rea man ap- ...e Johannes- ...rates Court ...arged with ...f Miss Lyn- ... whose de- ...y was found ...ff cupboard ...t on Sunday.

...acobus Her- ...s, address ...a Boulevard, ...nue, Berea, ...at his moth- ...me on Sun- ...

...t asked to ...l remain in ...s reappear- ...h 17.

... discovered ...nday morn- ... superinten- ...e Berea ...ts reported ... Sapa



ET, the Extra-Terrestrial who captured thousands of hearts in the film of the same name, is going home. South Africa's ET was made by Mr Donald Goode of the Durban Museum and brought to Cape Town for the recent Community Chest Carnival at Maynardville at great cost. Now a local container company has offered to provide a container for him, and they're just waiting for a ship to fetch him ... Then ET will go home.

Picture: Pierre Oosthuysen

LONDON — ... Koestler, the 20th C... political novelist, a... wife Cynthia were... dead in their L... home yesterday, ... said.

Official sources ... 77-year-old Hung... born writer and h... wife, both membe... voluntary eutha... society called Exit ... believed to have d... suicide pact. He h... fered from leukae... Parkinson's disease.

Koestler's writi... pressed the dilem... 20th-Century man ... conflict of comm... and fascism, an... search for answers i... ology and mystici...

Once a secret ... the Communist ... tional, he is best ... bered for "Darkn... Noon", a novel ba... Stalin's purges ... 1930s.

Koestler was, at ... times, a passionate ... ist, a journalist in ... Berlin and the ... East, and a rich bui... less London intelle...

"Darkness at N... which establishe... reputation as a po... novelist, depicte... horrors of totalit... rule.

He visited India ... pan in 1958 and 1959 ... apparent attempt t... cover whether the ... had the answer to ... lems of morality, ... and philosophy.

He summed up ... views in "The Lotu... the Robot", in whi... came to the conc... that to search for my... enlightenment and ... tual guidance in Asi... become "as much ... anachronism as to ... of America as the ... West". — Sapa-Reut...

More on pensioners

DOZENS of readers phoned the Cape Times Teleletters service yesterday to give their views on the pensions paid to South Africa's senior citizens. Some of their comments appear page 13. If you have any further points to make or would like to comment on their views, phone Teleletters, ☎ 41-3361 ext 219, between 9am and noon.

BUSINESS BRIEF

Gold (close)	$429,75
FT index (close)	661,60
Dow Jones	1,138,06

Angels' plan to kill Mick Jagger

WASHINGTON. — A Hell's Angels motorcycle gang twice tried to kill rock star Mick Jagger because of a grudge it held over an incident at a Rolling Stones concert in California in 1969, a former gang member told Congress yesterday.

One spectator was stabbed to death during the concert, at which security was entrusted to the Hell's Angels.

The former gang member, now under the protection of federal authorities, testified at a Senate judiciary commmittee hearing on links between motorcycle gangs and organized crime

He was identified only as "Butch", a 43-year-old founder of the gang's chapter in Cleveland, Ohio. He sat behind an opaque screen so that reporters and spectators could not see his face

"There is an open contract on this one rock band leader There have been two attempts to kill him. Eventually it will happen," Butch said

At first he was reluctant to name the star, but finally said, "It's Mick Jagger."

He explained that the Hell's Angels believed Jagger turned against them after the incident.

He said one attempt on the singer's life was made in 1979 when Hell's Angels members tried to plant plastic explosives under a waterfront house in which the rock group was staying in New York. — Sapa-Reuter

Protest ... students

A LARGE number o... dents at the Univer... the Western ... marched to the offi... the rector, Professor ... van der Ross, yest... afternoon to pres... memorandum comp... ing about condition... the university's bo... the SABC reported ... terday.

This follows a boyc... meals, which has l... for several days, by r... residents in pro... against the standa... food.

A spokesman for ... Students' Represent... Council said the m... randum also objecte... the alleged harassm... students who were ... gally trying to stay in ... rooms of hostel stud... because of an accom... dation shortage. — S...

ARGUS. 4/3/83

Home loan interest cut unlikely at present

By DEREK TOMMEY
Finance Editor

COMMERCE, industry and agriculture will benefit from the rate-cutting war that has developed between the commercial banks

But it seems unlikely that those people paying high interest rates on their building society mortgages will gain to any great extent.

The fight between the banks to retain and get new customers has led them to announce a two percentage point reduction in their lending rates from Monday This will lower the banks' prime rate, which is the rate charged their most favoured customers, from 16 percent to 14 percent.

However, it seems that building society mortgage rates will not be greatly affected for the time being.

Mr Peter Richardson, president of the Association of Building Societies and joint managing director of the United Building Society, said today it was obvious that interest rates were falling generally.

Under these conditions the mortgage rate was under constant scrutiny. But it was not a logical consequence that a fall in prime rate would lead to a drop in mortgage rates.

The drop in the prime rate was due to a build-up of funds in the corporate money market as a result of reduced borrowings by companies owing to the recession.

The building societies did not operate in the corporate market, Mr Richardson said.

In contrast to the position of the banks, the building socities were experiencing a strong demand for mortgages and they still needed money.

Bankers say the reduction in economic activity had lessened the demand for bank credit. This has resulted in banks offering loans below the prime rate to capture new customers and secure old ones.

Dr Conrad Strauss, managing director of the Standard Bank, said this practice had become so prevalent that the artificiality of the 16 percent prime rate could no longer be maintained.

This was why his bank had taken the initiative in reducing its prime rate to 14 percent.

Sebe grabs homeland insurance

City Press 6/3/83

CP CORRESPONDENT

ZWELITSHA -- The Ciskei government, having created a liquor monopoly for South African Breweries in the homeland, has now created one for itself – car insurance.

Independent insurers will not be allowed to operate here in terms of the Compulsory Motor Vehicle Assurance Act, passed recently by the Ciskei National Assembly.

The act also invalidates third party tokens bought outside Ciskei as from May 1.

The move is a bid to stop cash outflow from the homeland. The law makes it illegal for car owners to register their vehicle outside the homeland.

Ciskeians living outside the homeland will have to buy discs from Ciskei consuls.

Fire premiums rise certain after losses

8/8/83 (58)

By Stephen McQuillan

Extensive losses from fire in South Africa during the past two years have alarmed major insurance companies, which predict that premiums will rocket if the trend is not curbed.

Insurance experts say more cash is flowing out of company coffers for fire damage than is coming in.

This is putting pressure on insurance companies, shackled by "suicidal" competition which began several years ago when the fire safety record in South Africa was good.

Experts say the companies will soon have to consider raising premiums to ensure the complex industry can cope with increasing losses.

It has been disclosed that South Africa's fire death rate is the highest in the developed world. And there are indications that more property was destroyed by fire last year than before.

Figures for the first six months show losses of almost R108 million — more than double the figure for the same period in 1981.

Mr Fred Haslett, managing director of South African Eagle, said insurance companies were extremely concerned about the country's fire record. Their special risk departments were trying to halt the trend.

The international reinsurance market — which includes other companies in South Africa and abroad tnat take on parts of large-risk policies — was bearing the brunt of the problem

"If we go on like this, the international reinsurance market could make conditions so impossible that their facilities may become unavailable," Mr Haslett said. If that happened, there was not one insurance company in South Africa which could take on a large risk alone.

Mr Haslett said deteriorating fire standards could be because of slackening supervision, poor maintenance of property, and bad security

Mr John Birkinshaw, chairman of the Commercial Union Insurance Company of South Africa, said premiums did not reflect risks accurately.

"Premium competition has reached suicidal proportions," he said. "I'm worried about the present situation, and I think most other insurance companies are. But I can't see any improvements this year, at least."

Mr Dennis Bridge, deputy general manager of Mercantile and General Reinsurance Company, said. "If this year proves to be as bad as last, there will not be enough money coming in to pay for losses This has happened for the past two years. The reinsurance market cannot carry on meeting these large losses. I think there will be a tightening of reinsurance terms."

The acting chief officer of the Johannesburg Fire Department, Mr Frikkie Kotze, said one reason for the bad fire record could be insufficient protection in rural areas, which had no full-time fire fighters. Every effort was being made to upgrade those services.

Shot man left a note to mistress

By Joe Openshaw.

"My Angel, I am going to shoot myself," a Nigel man scribbled on paper addressed to his mistress minutes before he shot himself in a teargas-filled room as a policeman moved in to arrest him

The policeman, Detective Warrant Officer Cornelius Janse Mathee, spent three hours trying to talk Mr Reginald John George Hammond (34) out of suicide.

Evidence before Mr J F D Rossouw in a Johannesburg Inquest Court was that Mr Hammond was on car-theft charges and did not appear for trial.

Warrant Officer Mathee went to a house in Oudtshoorn Street, Nigel, on July 28 to arrest Mr Hammond, who was found in an outside room. He was armed and threatened suicide.

"I spent from 9 am to noon trying to get Mr Hammond to give himself up," Warrant Officer Mathee said. In the end he threw teargas into the room. There was a shot and Mr Hammond was found wounded in the head. He died in hospital.

Mr Rossouw found no one criminally liable for his death.

Sandton's new mayor, deputy mayor

Mr Peter Gardiner last night transferred his five mayoral hats, "one to wear, one to throw in the ring, one to pass around for donations, one to talk through, as well as one to pull rabbits and tarred roads out of" to the new Mayor of Sandton, Mrs Zoe Marchand.

The Mayoress is Mrs Betty Price, who filled the same position in 1979/80 when Mrs Marchand first held the office. Mr Peter Bennett was elected deputy mayor.

Mrs Marchand, wife of a Johannesburg thoracic surgeon, mother of four and sociologist with a post-graduate diploma in town and regional planning, has lived in Sandhurst for 17 years and

Our 11th reason for raising our price 5c

Marc (19) makes a 'miracle recovery'

By Andrew Walker

The Boxall family of Comptonville is claiming a miracle — three years after young Marc Boxall was expected to die following a motorcycle crash.

Today he is doing his National Service, taking daily swims and even riding a motorcycle again.

Marc (19), now a cheery serviceman with the SA Medical Services

Firm offers insurance plan for domestics

By SANDRA SMITH

"YOU have no doubt made provision for your own retirement. But what will happen to your domestic worker when she is too old to work?"

This is the question asked by the manageress of an insurance company, Mrs Rozette Bredenkamp.

Employers often asked how they could offer their domestic workers some kind of security for their retirement

To meet this need, Mrs Bredenkamp said her company had developed an insurance policy under which employers can make provision for their domestic workers.

The policy would be marketed in Port Elizabeth through the Domestic Workers Association of South Africa (Dwasa) and would cost employers only R11 a month.

"If you offer your domestic worker added benefits, she will be loyal to you I also believe this kind of policy will result in greater stability among this group of workers," Mrs Bredenkamp said

The policy was a combination of accident life, funeral and retirement benefits.

It assured payment of a sum of money to the worker's family if she died, retirement benefits in a lump sum or in monthly payments, immediate burial expenses for the worker's spouse or dependents and payments if the worker became disabled.

The scheme could also be transferred from one employer to another.

The general secretary of Dwasa, Mrs Pat Maqina, said: "People often say that their domestic worker is 'part of the family'. If that is the case then this is a good way for the family to provide for their domestic worker's old age."

INDIAN BUSINESS 58

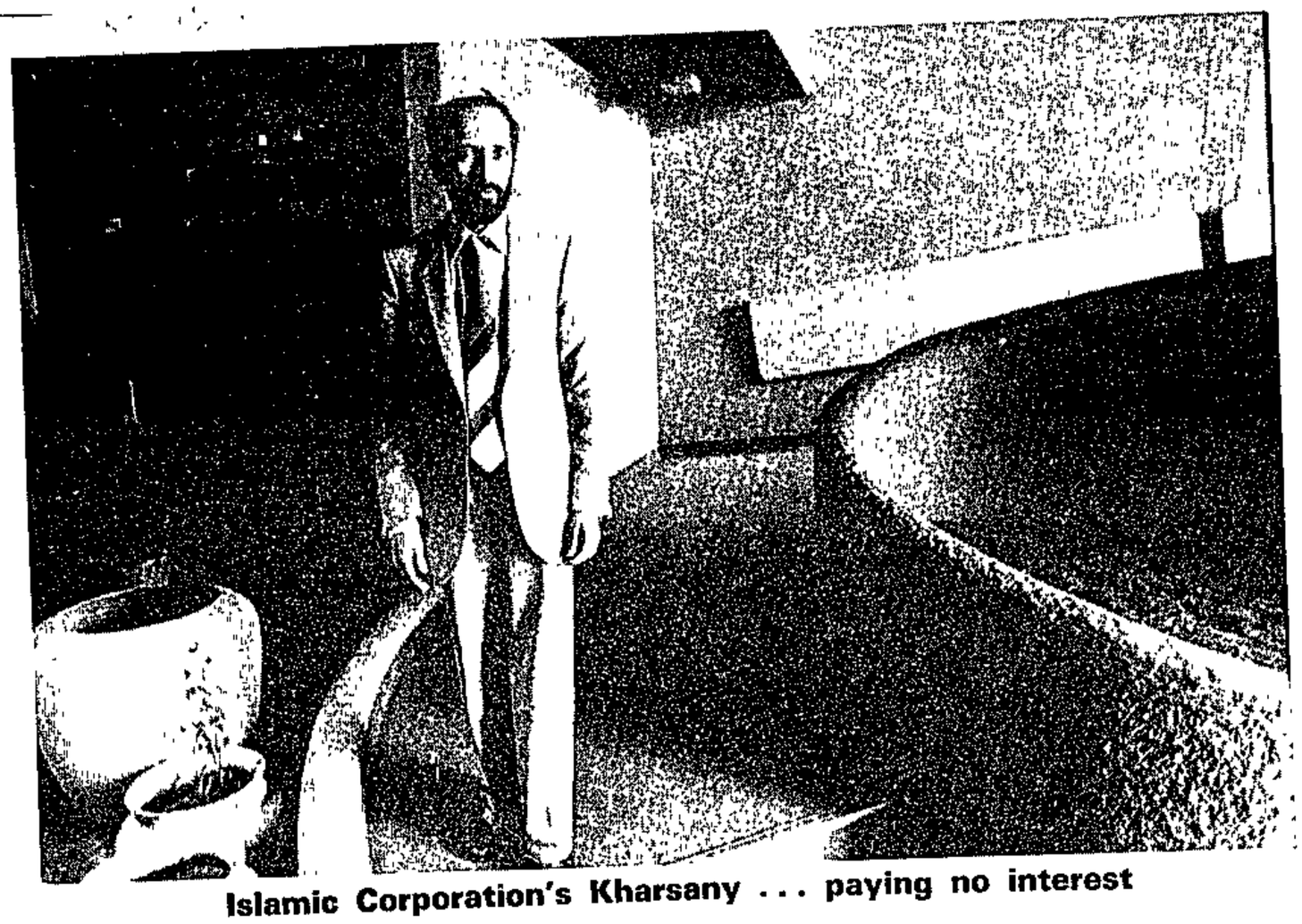
The unbank FM 11.3.83

After two years of negotiation, a group of Muslim businessmen plan to open the doors of a totally new type of financial institution this month.

Constituted according to the requirements of Islamic law, and the Registrar of Financial Institutions, the Islamic Corporation (IC) accepts money from the Islamic community only, for periods of five years and more.

As Islam forbids paying interest on loans, investors with the IC are paid dividends at a rate which will depend on the profitability of its investments.

Authorised share capital is R2m, of which 200 000 R1 shares have been issued. The rest will be taken up as business grows.



Islamic Corporation's Kharsany ... paying no interest

MD Ebrahim Kharsany says similar organisations are common in Middle East countries. He says the establishment of IC is a breakthrough for Islamic investment and maintains it will be viable and gain the support of the Indian community.

It will invest in manufacturing, trade and property but, for religious reasons, will avoid liquor, pig breeding and gambling undertakings.

Kharsany says he hopes the formation of the IC will be a first step towards the establishment of a fully-fledged Islamic Bank.

Savers will get raw deal again as interest rates drop

Bus Argus 12/3/85 58

SAVERS — those people who believe thrift is a virtue and that they should put money away for a rainy day and not expect the Government to look after them — are about to be given a raw deal again.

Investment

By DEREK TOMMEY

It seems interest rates on savings will soon drop below the inflation rate. As a result those people who entrust their savings to building societies, banks and similar financial institutions will in real terms (that is after the value of money has been adjusted for inflation) begin getting back less than they invested.

The building societies are under growing pressure from the Government, estate agents, house buyers, the building industry and other parties to lower the mortgage rate.

This pressure is strong even though the bond rate at between 14,25 percent and 16,25 percent is only slightly above the inflation rate of 14 percent. Thus mortgage bonds are costing house buyers very little in real terms.

Reduce costs

So the societies have been slowly reducing the rates they pay savers in order to reduce their costs and clear the way for a mortgage rate reduction.

Not so long ago a saver could get 15 and even 16 percent on 12 months' deposits. Now the best rate offered is 14 percent and some societies are not paying more than 13 percent.

The result is that savers will be getting a negative return on their money. Actually they will be paying the savings institutions to hold their money for them.

Let us take the case of a saver who puts R100 on fixed deposit at 13 percent. With an inflation rate of 14 percent the buying power of that R100 in a year's time will have fallen to around R87.

As the real value of the R13 in interest will also be less because of inflation, the true return on his money in 12 months'time will be about minus 0,1 percent.

Income tax

However, as most savers have to pay income tax, the saver will actually finish with a loss of about 2 to 3 percent in real terms.

But let's look at the other side of the coin — the mortgage borrower. If he has an 80 percent bond and house prices rise by 14 percent in line with inflation he will be showing a 70 percent profit on his money.

It is no wonder that Dr de Loor, director-general:finance, hinted at the possibility of a capital gains this week.

It is also no wonder that many people with savings in a building society are desparately looking for property investments.

The 70 percent profit is arrived at as follows. Let us assume that the buyer acquires a house for R40 000. He puts down a 20 percent deposit of R8 000 and has an 80 percent bond of R32 000.

House prices

With an inflation rate of 14 percent the house will be well worth R45 666 at the end of the 12 months.

On this figure the equity of the owner will have risen from R8 000 to R13 600 — a 70 percent capital appreciation.

Many people are obviously aware of this and it is one of the reasons for the scramble for houses now taking place and one of the reason for the sharp increase in house prices.

However, buying an extra house or two, even if the rent does not cover the interest payments on the mortgage bond makes sense. Rents rise and will in time give a real return on the purchase price, and at the same time the invester should get substantial capital gains, even if they are taxed.

Furthermore, there is a strong suspicion that the high prices of industrial shares is not the result of instituional buying, as many claim, but is the result of panic buying by savers desperate to ensure that their money has some value when they retire and need to live off it.

Should share

It has been suggested that savers should be able to share in the capital gains of the house buyer who they are financing.

But it is difficult to see how this can be done in practice. A more realistic move would be to make the house-buyer pay the saver a rate of interest which offered him a real return on his money.

In the United States, thanks to the introduction of the money funds which introduced competition into the savings markets, savers are now getting a real return of between 6 and 7 percent, which shows that it can be done.

In South Africa in today's conditions the rate of interest paid on deposits should be about 20 percent. This would compensate the savers for capital erosion because of inflation, provide for the payment of income tax at a marginal rate of 18 percent (paid by people earning around R900 to R1 000 a month), and leave the saver a real return of around 2 percent.

Far better

This is not much when compared with what is available in the United States, or in South Africa in the 1950s and 1960s. But it is far better than they are getting now.

However, it is doubtful whether savers in South Africa will get anywhere near 20 percent. So to get a real return they will have to wait until exchange control is lifted and they can invest overseas.

Although interest rates in the United States are lower than they are here, it would still pay to invest there as, given South Africa's extremely high inflation rate, the saver would get more back in real terms.

Footnote: Dr de Loor also reported this week that personal savings virtually disappeared in 1982 to a low of only 4 percent of personal disposable income. This compares with a long-term trend of 10 percent.

SUNDAY DEPARTURES WEEKEND FLIGHT

New moves succeed 'beyond expectation'

Bus Argus 12/3/83 58

By DEREK TOMMEY, Financial Editor

THE governor of the Reserve Bank, Dr Gerhard de Kock, says he is extremely pleased by the outcome of the decision to end exchange controls on non-residents five weeks ago.

He said this week the move had succeeded "beyond expectation".

It had been aimed primarily at encouraging investor confidence and promoting foreign participation in South Africa's economic development.

It was not intended to drain capital from the country. The authorities had expected foreign investors to take their arbitrage profits, but believed this money would eventually return to the country.

However, provision had been made for an initial outflow of R500-million or more, which would not have been unwelcome since it would have helped the Reserve Bank in its efforts to control the money supply.

R250-m inflow

But instead of an outflow there had been an inflow of R250-million in the first week — a demonstration of confidence in South Africa.

The further measures announced last weekend allowing banks to increase their investments abroad were not expected to produce much of a tightening in the money market at present. They were more in the nature of preparation for policies which might become necessary later in the year to reduce domestic liquidity.

Foreign exchange dealers could now hold R600-million overseas — double the amount previously allowed.

In addition, the banks were being offered special dollar swop arrangements for one, two or three months. At present these arrangements carried only a "marginal inducement" to the banks to invest abroad, but this inducement could be increased if necessary.

Dr Gerhard de Kock

Dr de Kock said he welcomed the drop in the banks' prime rate from 16 to 14 percent as evidence that market forces were working well and that the official policy of "consolidation and adjustment" had achieved results.

However, care had to be taken to keep a tight rein on the money supply, otherwise there was a risk of a sharp increase in inflation.

The level of spending had dropped recently in real terms. But there was the danger that if money was plentiful spending could take off and cause renewed inflation.

A situation of excess liquidity had been compared to walking through a magazine full of gunpowder striking matches. In both instances an explosion was likely sooner or later.

The large net inflow of funds earlier this year had weakened the Reserve Bank's control over the money supply.

After the recent decline in the gold price, the inflow of funds from overseas had diminished, while recent heavy tax payments to the Government were also helping to keep money under control.

More important, the markets had provided their own solution to the undue inflow of funds by bringing about a sharp decline in interest rates and a marked appreciation of the rand, thereby reducing the incentive for further overseas borrowing without forward exchange cover.

There might well be a new build-up of liquidity later in the year which would then require further relaxation of exchange control and domestic sales of government securities to avoid the build-up of new inflationary pressure.

The authorities were determined not to allow the substantial gains of the past year to be dissipated by an undue easing of the monetary situation.

BACKGROUND TO THE NEWS

58 E. Post 17/3/84

Bankers told to stay out of mining

"LET bankers stick to banking and miners to mining — or suffer the consequences"

This veiled warning was issued in Johannesburg this week by Dr Louw Alberts, president of the SA Council for Mineral Technology, in an address to the SA-German Chamber of Trade and Industries

Over the past few decades, said Dr Alberts, financial institutions such as banks, insurance companies and pension funds had acquired a powerful influence in the industrial world because of their ability to invest in one form or another

"Their increased participation in the decision-making processes in industry because of their large shareholding leads to a situation in which the norms applicable to the running of financial institutions play an increasing role in the running of industries; that is, in industry technocratic leadership is being supplanted by financial leadership, and in the long-term this will harm industry.

"The entrepreneurial spirit, the 'gut' feeling in the making of good long-term decisions, will suffer."

Dr Alberts said a technocrat was not necessarily someone with technical training. He was rather "someone who has lived and breathed a technological atmosphere with innate sympathy for technology and its potential"

"And the true wealth of a country such as South Africa is not represented by bank accounts, but by its mines and its metal and chemical industries. We should learn from the history of others.

It was imperative, said Dr Alberts, that South Africa retain a viable programme of research, development and innovation.

"As runners in the race for survival fall by the wayside, those who are still on their feet when the climate changes for the better will have such a tremendous head start that their future prosperity will be assured.

Regarding the prospects for economic revival, Dr Alberts said when the issue was raised no-one appeared able to identify what specific event or circumstance would break the vicious circle and reverse the economic momentum.

"Morever, the prophets always predict the starting period some six to 12 months ahead — and then the target keeps on moving."

On the strength of South Africa in the economic struggle for survival during the next decade, Dr Alberts said the mineral industry formed the backbone of the SA economy.

During the past few years, he said, the world's copper industry had been experiencing a serious recession and the real price of copper was at present at its lowest level for the past 40 years.

Furthermore, plants in many parts of the world had closed down and yet Phalaborwa, which was probably working with the lowest grade of ore in the world (0,5%), continued to show a profit as proof of its success.

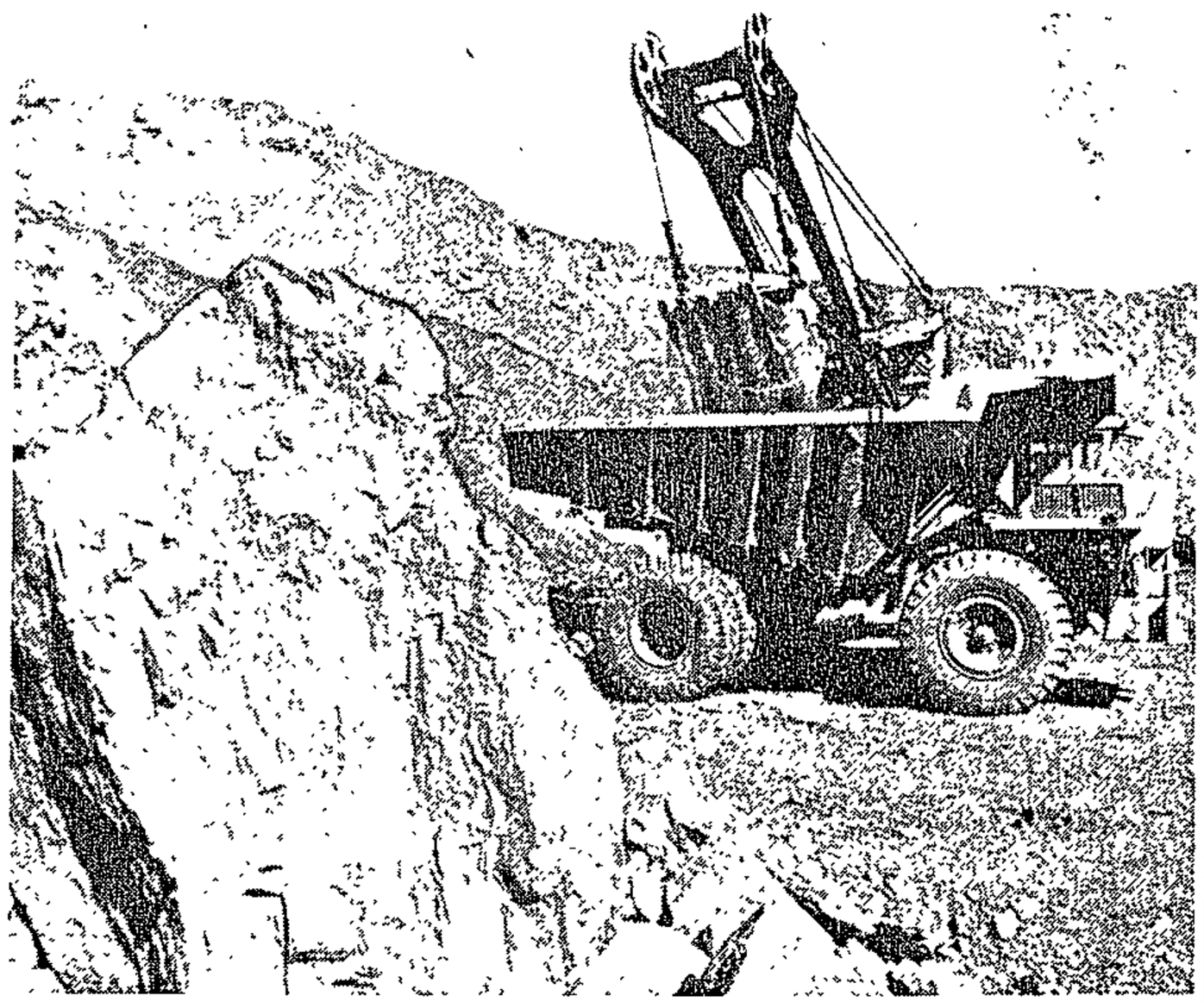
As regards ferroalloy production, a new process, plasma extraction, was now being developed at Mintek, said Dr Alberts, and this would maintain and possibly increase South Africa's leadership in the field of ferroalloys.

He listed a few points to "illustrate the powerful image of the South African mining industry in the world".

In 1978, the international four-yearly congress known as the Commonwealth Mining and Metallurgical Congress should have been held in India, but, when that country refused to grant visas to South Africans, the entire congress was transferred to Hong Kong, since it was unheard of that this congress should take place without South Africa's participation.

Last year this same international congress was held in Johannesburg with South African mining and metallurgical developments during the past two decades as its theme. The word Commonwealth was even dropped from the title in 1982 to accommodate the Republic, as a non-member of the Commonwealth.

Under the circumstances, concluded Dr Alberts, the SA minerals industry was evidently still well on its feet and could be expected to remain a forerunner in the years to come. — Sapa



Iron ore from Sishen: testimony of SA's inherent economic strength and the fact that minerals form the backbone of that economy. Let financiers tamper at their peril, warned Dr Louw Alberts this week.

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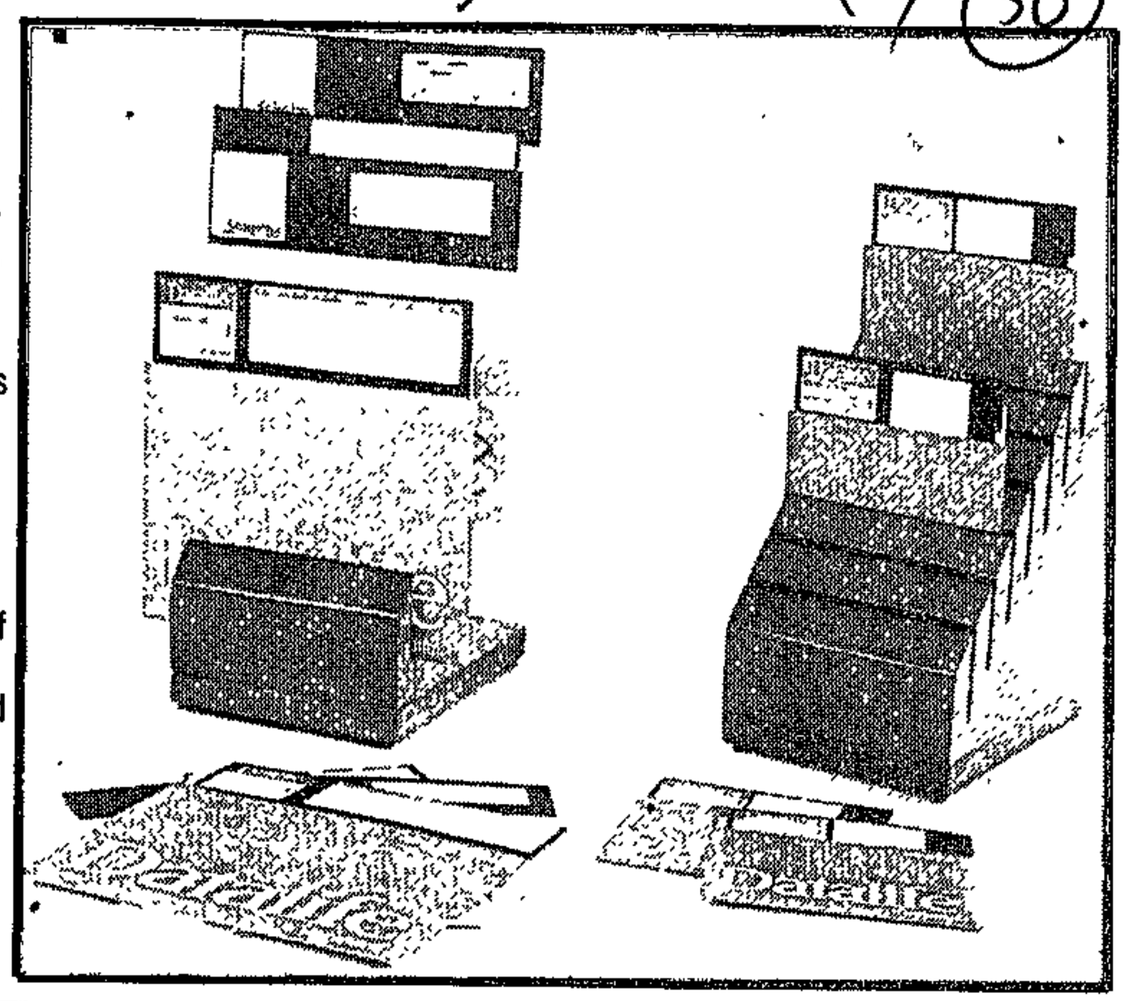
Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University
EDSON 15253

S. Tribune 20/3/83 (58)



These stands, called Discaddies, are made for holding up to 10 computer floppy discs and envelopes while the discs are being used in running a programme. Being made of a chunky block of wood they will not give "static" problems, or be easily knocked over.

New Islamic 'bank' for SA

By Amrit Manga

AFTER almost two years of negotiation with the Ministry of Finance, a group of Muslim businessmen have formed and started operating a totally new financial investment institution, the Islamic Corporation (IC).

In tune with the Islamic injunction forbidding interest gains on loans, the IC will pay dividends at a rate dependent on profitability of investments.

The resurgence of Islamic nationalism throughout the world has contributed to influencing every aspect of Muslim society, not least of which is banking.

Authorised share capital is R2-million, of which 200 000 R1 shares have been issued. The rest will be taken up as business grows.

The initial application to establish an Islamic bank was refused by the Ministry of Finance on the grounds that the large number of existing banking institutions provided a comprehensive range of services to the public.

Further, such a bank would serve the interest of a specific community only.

The IC will receive money from members of the Islamic faith only, for periods of not less than five years.

"Additional banks at this juncture would therefore not be in the public interest," the businessmen were told.

IC MD Ebrahim Kharsany says it was established in an effort to satisfy the needs of devout Muslims intent on avoiding the issue of interest. He estimated the SA Muslim population to be in the region of 500 000.

The concept of an Islamic banking system was mooted in Egypt in the early 1960s, but failed to take off — largely for political reasons, according to Mr Kharsany.

With an unprecedented growth of capital reserves in oil-rich Middle East countries after the 1973 petroleum crisis, alternatives to the interest-oriented system of banking was increasingly examined.

Mr Kharsany estimates surplus cash reserves in the Opec countries available for investment to be in the region of $400 000-million.

Saudi Arabia later pioneered the establishment of the Industrial Development Bank (IDB) in partnership with Libya, Kuwait and the United Arab Emirates. IDB's initial capital outlay of $904,02-million grew to $2 080-million.

Last year IDB financed 16 foreign trade operations worth $243,4-million along with 39 other projects amounting to $199,2-million.

Two of the biggest projects undertaken were the leasing of a $16-million oil tanker to Pakistan and a $20-million commitment to Syria for the purchase of oil.

Kuwait Finance House, the country's first Islamic bank operating since 1979, has invested in a number of housing and insurance projects.

A Bahrain bank newly registered in Geneva, Dar Al Maal Al Islami (Islamic House of Funds) (DMI) has been promised initial investments in the region of $2 000-million from private investors and Arab governments.

DMI will spearhead expansion into the European and American markets, where it plans to establish 26 investment companies, 20 insurance co-operatives and 28 Islamic banks.

IC's Mr Kharsany says Islamic banks have been "highly successful", returning profits in 1980 equivalent to an annual interest rate of 11,25%.

"IDB in Saudi Arabia, being extremely successful, shows annual earnings of up to 25%," he says.

Bankers are, however, cautious in viewing such high returns, saying that the banks are heavily involved in speculative real estate, which is notoriously volatile in the Gulf.

"Although there have been no Islamic bank failures to date, it will take a few more years to judge their performance," says Mr Kharsany.

The formation of IC is seen as the first step towards the formation of a fully fledged bank.

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Societies slash share deposit rates (58) — CAPE TIMES 23/3/83 — bond rate cut looms

Mr B G King, formerly retail marketing director of Shell South Africa, has been appointed to the new position of marketing director, head office, Cape Town. This follows the amalgamation of the responsibilities of the consumer and the retail marketing portfolio and includes the marketing services division and lubricants business.

By PAUL DOLD
Financial Editor

A firm signal that a sharp drop in the bond rate is likely soon came yesterday with the decision of some building societies to cut their partly taxable share rates by 1,5 percent to 12,5 percent.

It is understood that the majority of societies are likely to announce the 1,5 percent reduction in their share rates within the next few days.

The proposed cuts which are larger than anticipated, and certainly well ahead of expectations, are a firm indication that interest rates are heading down in spite of the looming month-end hiccup in the money market.

Discount houses raised the key 90 day bankers' acceptance rate yet again yesterday with a 15-point spurt, bringing the rate to 11,75 percent. Reserve Bank accommodation to the houses is now over R700m.

Money market rates have been rising due to the seasonal fall off in Government spending as well as heavy offshore payments by the banks. The easier trend is expected to be restored in April as state spending resumes.

Several societies are believed to have also cut their special savings rates by up to two percent.

The latest fall in building society investment rates follows last week's decision to lower fixed deposit rates which fell by some two percent. It certainly suggests that the much improved inflow to the societies is continuing.

The bond cut announcement seems likely to be scheduled for around Budget day with the 30-day notice to share investors being given from the beginning of April. Previously, it appeared that the bond rate would be reduced only in June and could be a two-stage reduction with a half a percentage followed by a full percentage cut later in the year.

The large cut in the partly taxable share rates — tax free rates I understand will remain unchanged — implies that the fall in the bond rate will be of similar magnitude.

Whatever the actual timing the cut will be good news for bondholders who have faced record rates over the past two years.

The rising trend began early in 1981 when rates moved up from just below 12 percent. This followed two years from 1978 — 1980 when the bond rate eased and the economy was awash with liquidity.

The market will be keenly awaiting reaction from Barclays which, through keen marketing and a 24-hour decision service, has already gained a useful foothold in the home loan market.

Some analysts believe Barclays may well decide to move below the building societies.

Closing gold

(In $ an ounce)
LONDON:
420,00-421,00
Fixing am: 420,75
Fixing pm: 421,25
ZURICH:
420,00-423,00
— Reuter

Nedbank scheme a rival to the credit cards

Cheques up to R100 guaranteed, and overdrafts without security

Cape Times 23/3/82

58

By HAROLD FRIDJHON

JOHANNESBURG. — Nedbank has followed up its move to pay interest on cheque accounts by
• guaranteeing customers' cheques up to R100, and
• giving automatic overdrafts to cheque account customers.

The guaranteeing to shopkeepers and others of all cheques up to R100 issued by Nedbank customers will take effect immediately.

A spokesman for Nedbank said that this cheque facility meant that housewives shopping for groceries would be able to use a cheque and the shopkeeper would know that payment of the cheque was assured.

The motorist, too, would be able to fill up with petrol and pay by what is tantamount to a bank-guaranteed cheque.

From the retailer's point of view, a cheque guaranteed by Nedbank might be preferable to payment by means of a credit card because he would receive full payment for his goods.

With a credit card he would have to pay at least 3% to the credit card company, receiving 97% of the value of the sale.

Discussing the automatic overdraft facility, Mr Rob Abrahamsen, managing director of Nedbank said last night that all cheque account holders were asked to confirm their individual overdraft arrangements with their bank managers.

"But as far as we are concerned, if someone has a cheque account we'll guarantee both their cheques and the overdraft facility."

No security or collateral is required in order to get the overdraft facility which is available for three times the account holder's monthly income paid into the current account.

In the case of joint accounts, if both husband and wife pay their salaries and any other income into their Nedbank cheque account they will have an overdraft facility of three times the total combined income.

Mr Abrahamsen said that paying interest on current account and the two new facilities were directed at personal customers.

"We have made significant gains in corporate business over the last year. We have gained market share by innovations such as our cash management facility for automatically sweeping a client's credit and debit balances round the country every night and crediting the net balance to an interest-bearing account.

"We are now going to apply the same innovations to the individual bank customer.

"Paying interest on credit balances in cheque accounts ... will benefit the customer and we believe that it will also benefit Nedbank. We are seeking to attract additional business of the kind we want from people who take their money seriously."

24-hour facilities

Every one of Nedbank's 210 branches and mini-branches was computer-linked so customers were not confined to banking at one particular place. There was no charge for making deposits or withdrawals at a branch other than that where an account was based.

By the end of the month 23 of Nedbank's first 53 automatic teller machines would be in place giving 24-hour banking facilities.

"We have the capital structure to handle growth and expansion in South Africa's growing marketplace without having to ask our shareholders to support a rights issue."

Asked whether guaranteeing cheques willy-nilly would not result in an increase in bad debts, Mr Abrahamsen said that the bank was more selective than others when it came to accepting new customers. Credit control would not be relaxed and the customers on Nedbank's books would be considered to be good risks unless proved to the contrary.

TY ITALIAN

Used cars R12m money-spinner

Own Correspondent

JOHANNESBURG. — Super Mac, the McCarthy Group's used vehicle subsidiary in Durban, is the best performer in the group.

The managing director, Mr Ken Feinberg, says sales of used cars are running at about 200 a month through outlets in Smith Street, Durban, and Mobeni which, at an average price of R5 000, is generating annual turnover of more than R12m.

Some of the attractive new housing to be seen in Sebokeng
Pictures: ROBERT TSHABALALA

23/3/83

A R6-m building boost by Allied

R5 M

58

HOME FRONT

Report: LIN MENGE

ALLIED Building Society is to advance the Orange Vaal Administration Board (Ovab) R6-million over the next four years to finance black housing.

Mr Jim Dodds, executive director of Allied, and Mr J M van Rooyen, chairman of Ovab, signed the agreement yesterday in the presence of the chairmen of the community councils of the region.

Townships in the Harrismith, Bethlehem, Kroonstad and Sebokeng/Evaton regions will each receive an annual amount of money for housing from the Allied loan.

Mr Dodds told HOMEFRONT that, while building societies could provide the normal bond assistance to middle class people of all race groups, when it came to the poorer sections of the black community the best solution was to lend money in bulk to the adminstration boards.

"But a lot depends on the calibre and attitude of the administration board and whether they give us a feeling of confidence," Mr Dodds said.

Three aspects of the Ovab administration impressed him, he said. These were:

● The acceptance of joint decision-making with blacks. Financial facts were put on the table and the people invited to make their choice of priorities for the spending of the limited funds.

ALLIED'S JIM DODDS ... "must have confidence"

● The advances made in the region in "sweat equity" housing, where people contributed through their own labour to the erection of their houses.

● The fact that work had carried on as usual in Sebokeng when other townships had been disrupted by riots.

The money advanced by Allied will also be available to employees whose employers help them repay their loans.

In Ovab's vocabulary, this is all part of self-help, because the board only provides serviced stands ... the rest is done by the owners.

In fact, half the housing in the Ovab region has been provided by the residents themselves. With help such as the Allied is giving them, they hope to push this percentage soon to 60%.

There are 2 777 stands available in the area, and another 4 908 will be ready soon.

As part of the Government's mass countrywide survey of stands for 99-year leasehold, 10 000 stands will be surveyed in the Vaal Triangle portion of the Ovab region, and 10 000 in the Free state portion, before the end of March 1984.

The rest of the stands will be surveyed within the next five years.

Ovab has so far negotiated R11,5-million from building societies to further home ownership.

Well before 99-year leasehold was introduced, the board implemented home ownership by lending would-be home-owners the money made available in bulk by building societies.

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Lower interest seen as boost for building

THE widespread decline in interest rates might have a more beneficial affect on the South African building industry than originally foreseen, especially towards the end of the year, and particularly in the residential sector the Bureau for Economic Research (BER) at the University of Stellenbosch, announced

In its latest building survey, the bureau says 1983 could be seen as a year of consolidation and a period where materials and labour will be more freely available.

"It should be used as a period to prepare the foundations of a more soundly based upturn starting about the middle of 1984."

The bureau's analysis of survey results for the summer quarter (December 1982 to February 1983) contractors were rather pessimistic in their assessment of the business climate, although a marginal improvement in business mood occurred.

Volume of work

The volume of work performed did not change much since the previous quarter but a downward trend was expected in the forecast quarter. The tendering environment became slightly keener.

In general, materials supplies were satisfactory, however, notwithstanding the lower demand levels, slight shortages of artisans and foremen still prevailed.

Sub-contractors became more pessimistic in their business outlook, caused mainly by the insufficient demand for new building work.

Competition in tendering became keener during the survey quarter.

In the light of the depressed demand conditions, the value of orders received by manufacturers dropped further during the survey quarter. This necessitated them to cut back on production and to reduce the number of factory workers.

As a result of the cutbacks, 85 percent of the respondents indicated that it was possible to maintain a higher level of production without additions to existing buildings and equipment.

Finished goods

It would, however, appear as if production was not curtailed sharply enough, for a net 22 percent of the respondents still indicated that their stock of finished goods in relation to expected demand were regarded as too high.

Notwithstanding the lower production levels, shortages of especially skilled labour occurred and this shortage position put workers in a strong bargaining position. This is reflected by the 59 percent of respondents experiencing higher average labour costs per unit of production.

Merchants indicated that their sales were still declining and that it is currently well below that of a year ago. However, a net 17 percent of respondents indicated that their present stocks were still too high in relation to expected demand. The period in which debtors pay off their debt has lengthened.

This occurrence is typical of tight businesss conditions, where cash flows of companies are subject to considerable pressures.

Higher average purchase, as well as selling prices were recorded, but in the light of the slowdown in demand, higher costs could not be fully shifted on to customers.

— Sapa

	BARCLAYS	NEDBANK	STANDARD	TRUST	VOLKSKAS
Current account charges	15c to R3,00 a cheque. Most at 30c. Negotiable	Minimum 15c — negotiable Mostly higher	Minimum 15c negotiable Mostly higher	Approximately 20c depending on client	20c to R4,00 a cheque some at 24c start
Current account interest on credit balance	Plans being considered	Yes. 2%-5% above R500	Plans being considered	Yes. Amount not yet decided	Plans being considered
ATM (cash) cards charges on each transaction	Bob Card 10c	Nedmatic same as current account charges	10c	No charge	Instant Bank Card 10c
Debit cards	—	Same as current account charges	—	—	—
Credit Cards Interest on credit balance	Barclaycard 10½%	Combined 5%	Standard Card 8%	Visa Card 10½%	Volkskas Visa Card 10½%
Interest charged on money owed	Barclaycard 22%	Combined 18%-22%	Standard Card 20%	Visa Card 22%	Volkskas Visa 22%
Overdraft charges	Automatic overdraft 14%-18%	R100 charges guaranteed Automatic overdraft 15%-17%	Revolving credit plan 17%-18%	Not automatic 14%-20%	Approved overdraft 14%-20%
Savings NB Varied	1%-10%	2%-10%	3½%-11%	3½%-11%	2%-11%
Other	Home loans Petro cheques	Nedplan 2000 Guaranteed cheques Petrol payment	Diners Club Card Plus Plan Flexiplan Petrol payment	Transmission account Trustline, Reactor Plan Guaranteed Petrol cheque Personal loan	Fixed Personal loan account Home loans Petrol payment

Nedbank has set the stage for a battle royal

By JOHN MULCAHY and PAT SIDLEY

BANKING will never be the same again was the catchline of a revolutionary advertising campaign some years ago, which offered one-stop banking to the individual.

This axiom, far from being anachronistic is, if anything, more reflective of the current state of the commercial banking world than it has ever been.

The dismantling of the secretive cartel system recently was the signal for commencement of a no-holds-barred free for all for market share, with Nedbank immediately grabbing the ball and running for the line to the temporary embarrassment of its competitors.

A snap survey of services now being offered by the major banks, with their respective costs, highlights one significant aspect of private and corporate banking in South Africa today.

This is that the number (and value) of banking services available today is limited only by the imagination of the banking institutions and, to some extent, by law.

What is clear is that the scope of services and their costs are so varied and flexible that bank customers, in much the same way as customers of any products or services, must shop around for the best deal.

An important feature of what is developing into a banking price war is the differing market positions of the various antagonists.

Any successful marketing strategy must match an advantage to the customer with an advantage to the company, and it is not always clear where the advantages are in a particular banking product.

For example, the decision by Nedbank to pay interest on certain current accounts is designed to attract quality business, and such a service will be of benefit to anyone operating a current account who from time to time has a credit balance in excess of R500.

On the other hand, for either Barclays or Standard, which operate far more branches throughout the country, the costs of a directly parallel service might be prohibitive.

Indications are that these two banks are considering some form of rebate scheme on charges to counter the Nedbank challenge.

The charges levied by banks are being left increasingly to the discretion of individual bank managers.

In many cases a long-standing relationship with a particular branch can itself be the basis for the most profitable banking deal.

The traditional genteel client-banker loyalty, which was the norm when commercial banking was simply a case of operating a cheque account, and the preference for banks was based more on brand loyalty than on service, is fast disappearing.

At the sharp end of corporate banking business the big institutions have for some time been faced with the unusual situation of traditional clients insisting on quotes for foreign exchange and other major transactions.

The competitive element has gained importance with the elimination recently of the Register of Co-operation (Roco), a cartel system which had been in existence for more than 50 years.

In terms of the cartel agreement, commercial banks operated on fixed charges, clearly to the advantage of the banks concerned.

With two successive sortees into the market place, the first appealing particularly to large private and corporate clients, by offering interest on credit balances held in current accounts, and the second to the entire gamut of existing and potential customers, that of guaranteed cheques up to R100, Nedbank has set the tone for what promises to be a battle royal.

The first attack, launched in the national Sunday Press, is claimed by Nedbank's competitors to have been expected, although only Trust Bank has firmly decided to follow Nedbank.

The other three major banks, Barclays, Standard and Volkskas, are considering similar or related moves.

Points to emerge from the survey:

- Service charges vary not only from bank to bank, but are negotiable within a bank. Although most banks quote 15c as their minimum charge, in fact this is the "prime" rate — reserved for special clients — and most people pay between 20c and 30c minimums.
- Bank customers should check their statements carefully and if the charges seem high, talk to their bank managers — all charges are "negotiable".
- While customers may be paid interest on various accounts, they could also be taxed on this additional income.
- Interest on savings accounts varies with the amount in the account and with the length of time the money is to stay in the account.
- All banks offer extra deals to customers: some offer home loans, transmission accounts, personal loan facilities and differing petrol payment schemes and customers should ask around for a package which best suits their needs.
- Overdrafts, while handy for customers at times, cost money in interest charges.
- No one bank emerges as "the best and cheapest" bank. It is essential to weigh up specific needs and match them with offered services.
- You may not need a current (cheque) account at all — they cost money to maintain and a building society's free cheques may fulfil your need.
- The banking price war is in early days — more services will be available before the dust has settled

Barclays cuts home loan rate 1% to 16%

By HAROLD FRIDJHON

JOHANNESBURG. — Barclays Bank is cutting the top rate on its home loans by 1% — from 17% to 16% for bonds of over R40 000. This is the third cut in rates since the bank started its home loan scheme on August 30, 1982.

While this could be regarded as a Barclays' salvo in the stepped-up banking war, it is a further fulfilment of an undertaking made by Mr Bob Aldworth, then managing director, when he said that bringing the rate down by ½% on November 8, 1982 would be the first in a long line of cuts.

In calculating what the present 1% rate cut means, when the second Barclays rate was slashed by 1½% on February 24, it was estimated that the benefit to the householder who had a R60 000 bond would amount to a reduction of R74 less a month.

This suggests that the present rate reduction will bring a saving of nearly R50 a month.

Top rate

The latest reduction in the Barclays home loan rate brings the bank's top rate below the building societies' top rate for the first time since the bank's scheme was inaugurated.

Barclays now has two rates: R10 000 to R40 000 at 15%, over R40 000 16%.

The building societies' scale is:

R10 000	14,25%
R10 000 to R15 000	14,5 %
R15 000 to R20 000	14,75%
R20 000 to R25 000	15,00%
R25 000 to R30 000	15,25%
R30 000 to R40 000	15,75%
Over R40 000	16,25%

Building society loans are for 25 years up to R40 000 and for 20 years over R40 000.

Joint income

Barclays loans are for 30 years and in calculating the amount of the loan, the bank takes into account the joint income of husband and wife; building society loans are granted only on the husband's earnings.

The Barclays bonds are for 90% and could go up to 100% if suitable collateral security is furnished. The building societies could grant 80% bonds which may be raised to 90% with suitable security.

Where the bank has won favour in the market has been in the speed of decision.

Barclays has undertaken to give prospective borrowers an answer to a bond application within 24 hours which, in the present competitive house market, could make all the difference between a buyer getting or losing a home-buying opportunity.

While Barclays has responded rapidly to the present trend of falling rates in the money markets, the building societies are still dragging their heels.

The societies' deposit rates have been coming down but except for vague echo-rumours no move has yet been made on a rate reduction.

It is confidently expected that society rates will be cut some time in May. An announcement might be made at the end of March giving one month's notice of their intentions to reduce both borrowing and lending rates.

The societies' procedures are a little cumbersome but the bank which is more flexible is in a position to respond quicker to the changing patterns of rates.

Volkskas next?

VOLKSKAS is expected to make an announcement this weekend that it is entering the home loan field.

No one at Volkskas could be reached yesterday to obtain confirmation of the move.

HYPERBANKING

(58) FM 25/3/83

Jack be nimble, Jack be quick

High-powered supermarket selling has come to banking here, but it makes the business no less a serious one. As the process gains momentum — this week's decision to pay interest on current accounts gives it a significant push — a competitive process is being set in motion that could skim off years of accumulated banking fat. It will separate the quick-witted from the hidebound.

Banking in SA is now inextricably involved in the mass marketing process, and it will be transformed in years to come. It is a complex evolution that is being pushed and prodded by a number of factors, some inside the industry, some outside it. Some reforms have been cosmetic; others fundamental. The latest move, sparked by Nedbank offering interest on current accounts, falls into the second category.

"We are signalling something strategic," says Nedbank MD Rob Abrahamsen. "Our systems are in place and we have surplus capital. We are ready to move." His competitors recognise the signal, and they are taking it seriously. Says one, with a large branch network: "In regions where Nedbank has no branches, we process its paper at virtually below cost. That's up for review right now and we can raise the charges. If he wants competition, he can have it."

The new current account schemes launched by Nedbank this week are evidence of something deeper — a technological revolution in the banking industry

A vital force in the evolution of SA banking in the last few years has been Pretoria's growing acceptance in word and deed of the free, competitive market. The monetary authorities in particular have, since 1981, systematically set about deregulating the financial markets. Official ceilings on bank lending disappeared in 1980. In 1982, the link between Bank rate and prime overdraft rate was cut, preferential rates for farmers were raised and bank reserve requirements reduced. Last month exchange control over non-residents was abolished.

This trend, over the last two years at least, was intensified by large balance of payments swings that influenced the size of the cash pool available to the banks and other deposit-receiving institutions. The result has been an unprecedented volatility in both market liquidity and interest rates. Bankers have had to learn to move fast to protect their margins.

One answer was to woo the cash that is traditionally cheapest and most stable — the savings of the man in the street. He was bombarded with high-profile deposit products, all claiming unique qualities, all claiming to offer just a little bit more. The old distinctions between retail and wholesale deposits began to narrow, especially where rates were concerned. And when overall liquidity conditions improved, it was the high cost of retail deposits that bankers offered as the main impediment to lower overdraft rates.

Another answer to the margin squeeze was to increase market share and turn over larger volumes of business. Nobody could have failed to notice, in the last few years, the explosion of bank advertising and the development of easily-identifiable corporate images for mass consumption. Nobody could have failed to notice the explosion of new products, all aimed at attracting new business, and holding onto it by promoting the concept of one-stop, all-in banking.

On the retail side were automatic teller machines, petrocheques, interest payments on credit card accounts, small investor access to the money market, automatic overdrafts and even home mortgage loans. On the corporate side, most notably, were cash management systems that sweep all

the accounts of a single client and automatically transfer surpluses to interest-paying deposits All of these were introduced by banks in the last two years

Low-margin, high-turnover business, as Raymond Ackerman proved with the development of hypermarkets, requires stringent cost control and higher productivity. This is where automation comes in. Banks are peculiarly suited to the technological revolution for two reasons

One is that their stock in trade is money. Storing and dispatching money does not require physical transport, ship-loads of R20 notes. It is largely a matter of transmitting information. In 1982, for instance, the SA banking system plugged into SWIFT, the global network called the Society for Worldwide Interbank Financial Telecommunications, which connects almost 1 000 banks in 40 countries.

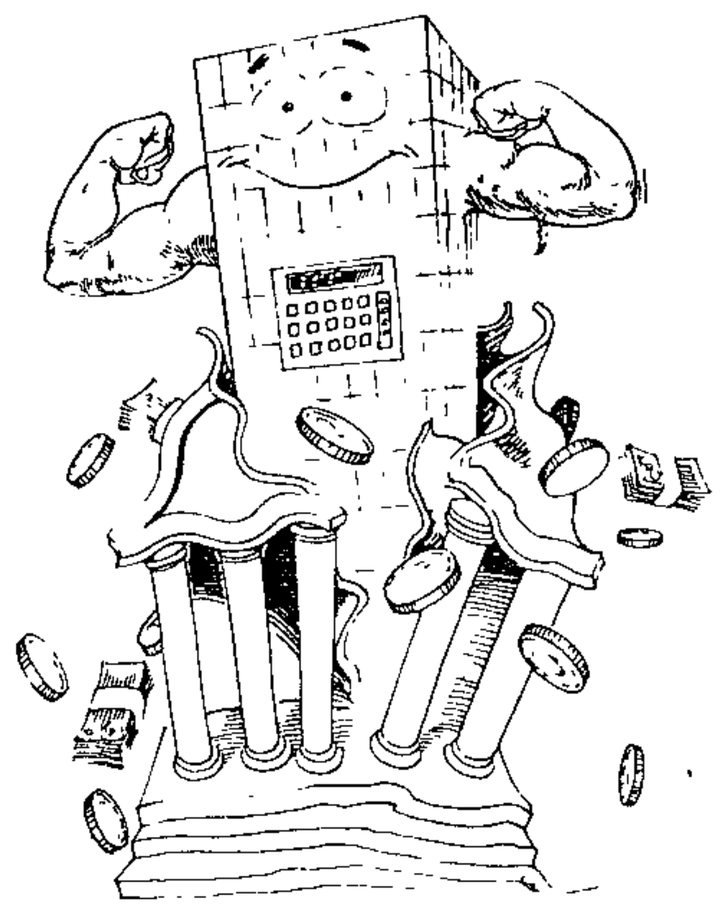
Another is that banks, like other service industries, are labour intensive. In 1982, for instance, the total wage and salary bill of SA banks rose by over 20%. "It is understandable," says Volkskas group MD Pieter Morkel, "that banks will leave no stone unturned to keep their operational costs in check. This is evidenced by increasing mechanisation, visible examples of which are autotellers. But much more is being done and planned behind the scenes."

Automation holds the key

Automation is more than another vital force in the process of change. It is, in fact, the key to hyperbanking. But the final piece in the jigsaw that led to the latest move, the paying of interest on current accounts, came (ironically) from Pretoria. Last year, the Registrar of Financial Institutions, Naas van Staden, effectively banned the commercial bank pricing cartel and allowed them six months to dismantle it The cartel, a set of "gentleman's agreements" called Roco (Register of Co-operation), was started over 60 years ago. Most of its provisions had been eroded by time. One still in force when it was officially laid to rest on February 28 this year was the prohibition on paying interest on current accounts.

Nedbank lost no time in diving into the market gap. "In fact," says a banker, "it acted with indecent haste. I think it saw the shadow of a competitor looming over its shoulder and decided to get in first."

Other banks were not surprised. They must follow the move, but they did not wish to initiate it. Market strategy demanded that it was either Trust or Nedbank that took the first step As the table shows, both have a small exposure to current accounts relative to total deposits. But Nedbank has the larger capital surplus with which to support sudden increases in liabilities, should depositors rush to open current accounts. Its branch network, smaller than its larger competitors, is the only one yet fully



computerised. And it has a deeper earnings cushion to absorb cost increases

A cost burden there must surely be, although the projections in the table are worst-case scenarios "A move of this kind must hit banking profits," says Abrahamsen. "Although," he adds, "costs can be recouped across the industry by an increase in the whole banking cake, possibly at the expense of other financial institutions." And Trust Bank MD Chris van Wyk adds: "Banks will have higher cost structures in the short term But major strategic moves must be viewed in the long term. More market penetration and better customer service leads to higher revenues in the end."

This may be true — but those banks with larger relative current account exposures are actively looking at ways to counter Nedbank's initiative without badly bruising earnings Volkskas, currently reviewing from the ground upwards its approaches to both retail and corporate banking, falls on several counts into a category similar to Barclays and Standard.

These two appear to favour the UK system, whereby minimum balances in current accounts mean reduced charges Here, the real benefits to clients can be reduced by the extent to which they would be taxed anyway on interest earned on current account balances. It means, in effect, that some of the banks' costs are carried by the taxman (Again, these three banks all carry the burden of massive branch networks, not all computerised, which in itself inhibits the introduction of an automated, interest-paying system).

Charge and reward

All this, of course, could be only the beginning of a fundamental shift in banks' cost and revenue equations. Bankers talk of a complete process of "unbundling" — clearly itemising services and prices, both for and by customers. "The trend in other parts of the world," says Chris Ball, MD of Barclays commercial bank, "is to unbundle. That means you charge a customer for each service you provide and reward him for all the benefits he offers you. The interest turn makes up the deficit."

This is a far cry from the old school of local banking, where the interest turn is central, rather than being one item in an equation that includes competition on service. But the future points in that direction, as trends in other countries clearly show. "In many other places," says Ball, "cheque accounts have become a luxury. People have gone the way of cards, for instance, and other types of payment mechanism and personal portfolio management that minimise costs."

Looking further ahead, Van Wyk points out that in certain parts of America, even automatic tellers (ATMs) are nearing the end of their product cycles. Centralised information systems through telephone and television networks, and home-based computer banking, are taking over.

Banking in SA is still a relatively homely affair — but only by contrast The intense competition that lay behind these developments is mounting very fast. Abrahamsen believes that traditional ties with banks will probably be reviewed. People will shop around for the best deal from one hyperbanking hall to another.

COST CRUNCH

Bank	Deposits Total Rm	Deposits Cheque Rm	Mix %	Cost at 4,5% Rm	Profit Bank Rm	Profit Group Rm	Surplus capital Rm	Growth potential Rm
Barclays	5 570,6	1 672,6	30	75,3	77,2	101,5	75,0	1 250,0
Standard	5 017,5	1 528,9	30	68,8	77,6	85,6	19,4	323,3
Nedbank	3 260,8	470,5	14	21,2	58,2	88,6	57,2	953,3
Volkskas	3 244,6	732,7	23	33,0	22,8	54,4	35,4	590,0
Trust	2 522,2	298,8	12	13,4	30,1	42,2	36,9	615,0

☐ Mix is share of cheque deposits in total deposits Growth potential is based on 6% capital requirement, given surplus capital levels Deposit and capital figures refer to commercial banks not groups Figures from bank quarterly returns

NEDBANK

(58) FM 28/3/83

Banking in a free market

It was clear from the start that the dissolution of the banks' formal Register of Co-operation (Roco) would bring fundamental changes to the business. But the speed with which Nedbank reacted to the new dispensation has caught some of its rivals on the hop.

Innovations such as the payment of interest on current accounts and the guaranteeing of cheques with a value of up to R100 are new in SA banking. They had not been permitted under Roco. And this is certain to be only the beginning.

For a long time Nedbank had been building up its free capital base to the extent where market watchers were becoming concerned that its potential was not being fulfilled. By the beginning of this year, it had far and away the largest proportion of unencumbered capital among the local banks.

The collapse of Roco was just the opportunity Nedbank had been waiting for to bring its capital base more fully into play, says executive director Rob Abrahamsen.

He sees his team as "entrepreneurs who just happen to be in banking." The executive team clearly found themselves a soulmate in Reserve Bank Governor Gerhard de Kock, with his free market approach to banking.

Nedbank management believes that, like any other consumer-orientated company, the bank should be flexible enough to satisfy specific customer demands and to adapt to changing markets. The market, it believes, will come to where its demands are met and will pay for what it wants.

Abrahamsen even goes so far as to paraphrase Pick 'n Pay's Raymond Ackerman.

"The client is king," he says, "and whenever a major customer comes in to discuss an idea, the bank's approach must be: 'Why not?' rather than 'why?'"

In recent years Nedbank has been particularly successful in attacking the corporate banking market. As a result, some commentators have suggested that its earnings profile has shifted uncomfortably away from the "man in the street" — especially following the introduction of the corporate "cash management" service. They would add that these innovations in the retail area are an attempt to counterbalance the earlier shift and broaden the customer base.

But Abrahamsen asserts that an acceptable balance has been maintained. And he denies that the increased business which he hopes to gain from a more aggressive approach to the retail market will lead to a "better" balance in the longer run.

Part of Nedbank's unique marketing image is its concentration on the quality end of the market. This is reflected in the "thoughtful" retail advertising approach.

But the lower-risk profile and the higher returns which customers are prepared to pay for the right product justify the approach.

This thinking lies behind the new cheque guarantees, for instance — a move which Abrahamsen sees as something of an attack on the existing credit card market. Nedbank's experience with guaranteed petrol cheques has been such that it has no qualms about backing ordinary cheques and is confident that its screening of new clients will minimise bad debts.

Abrahamsen says he wants something like 20% or 25% of the current account market. He believes that the quality end of the market is large enough to supply these numbers and maintains that Nedbank's individualistic approach will allow it to grab the additional share.

On top of that, of course, is the view that "high-class" banking customers are more likely to maintain balances in their current accounts, thus earning interest and providing the bank with a substantial core of funds. The run-of-the-mill client, on the other hand, may be more likely to run down balances during the month.

At present, Nedbank has only about 10% of the current account market and these accounts comprise only 10% of the bank's liabilities. As a result, the switch to interest-paying accounts is likely to cost the bank something around R20m a year — certainly not as much as for the bigger institutions, and a further market advantage.

Nedbank's Abrahamsen ... 'client is king'

Furthermore, Nedbank in the past has placed significant emphasis on building up computerised systems throughout all branches; it's a golden rule that no new facility is introduced to the public before the infrastructure can cope with it. As a result, group procedures have been comparatively easy to adapt to the new conditions. In addition, the New York, London and Johannesburg offices of the bank will shortly all be linked to the same computer system, facilitating international financial transactions.

Abrahamsen also places great importance on the people within the bank. They are a highly motivated team, he says, and are highly productive. Certainly, despite a staff of 9 000 compared with Barclays' 23 000-plus, Nedbank's profits stand up very well against those of the market leader. At the after-tax level, Nedbank earned R88,6m in the year to end-September 1982, while Barclays, in the year to December 31, just edged past the R100m mark.

Taxed return on shareholders' funds in Nedbank's last year was 22,8%, while that of Barclays in the strong year just ended was under 22%. Nedbank's asset base is around R9 billion, compared with Barclays' R13,1 billion.

Nedbank's new style could enhance this rate of profitability. Certainly, these first moves to attack the new free market should mean that banking will never be the same again.

Volkskas enters home-loan market

CAPE TIMES 26/3/83

By JOHN MULCAHY

JOHANNESBURG. — South Africa's third biggest commercial bank, Volkskas, has come out fighting in the fierce battle for market share.

In a two-pronged foray into the field, the bank is launching a competitive entry into the home-loan market and is also offering a personal loan scheme, to counter the other major commercial banks, who are now offering clients various forms of automatic overdraft facilities or easier access to credit.

Other banks

In response to the trend already established by some of the other banks, Volkskas will announce on Monday or Tuesday its plans in respect of current accounts.

Nedbank, Trust Bank, Barclays and Standard Bank have all announced the payment of interest on credit balances held in current accounts in one form or another.

A Volkskas spokesman said, yesterday, that although about 80 percent of the bank's branches were linked to a central computer network some of the smaller branches still operated manual systems, and in these cases it would be extremely difficult to calculate interest on a daily basis.

However, the bank had decided in principle to meet the challenge laid down by the other banks, and all that remained was to decide finally on the format of the scheme.

In terms of Volkskas' home-loan plans, the bank will offer clients loans of up to 80 percent of the purchase price of a house.

The home loans will be for a maximum period of 30 years, and the rates are competitive with Barclays and with the building societies:

Up to R20 000 .....15%
R20 000 to R30 000 15,5%
In excess of R30 000 16%

Monthly repayments may not exceed 30 percent of a borrower's net monthly income, but Volkskas will include in its calculation a spouse's income, provided his or her job is permanent.

A spokesman said yesterday, the bank would monitor the response to the home-loan scheme before deciding on the total amount to be set aside for loans.

While the bank had in the past granted home loans on an ad hoc basis, circulars formalizing the scheme were being sent out to branch managers, and applications for loans would be considered from early next week.

Housing shortage

Although housing loans from building societies are now reasonably freely available especially when compared with the tight position ruling for most of last year, the increasing involvement of commercial banks in the home financing market should serve to alleviate the chronic housing shortage.

Under the Volkskas personal loan scheme clients will be offered loans of up to a maximum of twice their monthly basic income, for a maximum of four years

These loans will not be automatically granted, but on application, and the bank will require security in the form of life assurance cover.

The rates to be charge on such loans are as follows:

- Up to R2 000 — 1 percent above prime overdraft rate (prime is now 14%).
- From R2 000 to R5 000 — ½ percent above prime.
- Above R5 000 — prime rate.

CAL Times 26/3/83

New current accounts will cost banks R100m a year

By PAUL DOLD
Financial Editor

A MAJOR event this week was the decision of most of the leading banks to pay interest on their current accounts. The schemes vary considerably and they are going to cost the banks a good deal of cash with Nedbank, Barclays and Standard probably losing some R100m of revenue a year through loss of ledger income and payments of interest.

One ripple effect is that prime may not drop so rapidly in coming months as the banks are bound to keep a close eye on margins. The R100m loss will have to be made up in some other quarter with margins widening to compensate.

Clients of the banks will find the new array of services baffling, to say the least, and most businessmen would need an accountant at their elbow to decide which scheme is best.

Nedbank deserves the honours for taking the move and announcing a simple scheme which is easy to market and understand. Basically this bank offers a sliding scale of interest payments from two percent for current accounts of more than R500, three percent for more than R1 000, four percent for more than R2 000 and five percent for over R5 000.

Standard yesterday disclosed its scheme offering current account holders a choice of up to 100 percent free banking or up to five percent interest.

The rebate scheme consists of:

● 20 percent rebate of service fees on a minimum monthly balance of R250—R1 000.

● 40 percent rebate on service fees on a minimum monthly balance of R1 000—R2 000.

● 100 percent rebate on service fees on a minimum montly balance of R2 000 or more.

The interest scheme includes:

● 3 percent interest on a minimum monthly balance of R250—R1 000:

● 5 percent on a minimum monthly balance of R1 000 or more.

Standard is offering five percent on a minimum balance of R1 000 or more to the business sector.

The Barclays scheme emphasizes the ledger fee savings as interest paid is taxable in the hands of the current account holder.

The service fee to be charged hinges on the minimum credit balance and the number and value of cheques presented.

If this balance is sufficiently high to offset all service fees any excess balance will earn interest on the minimum monthly balance at five percent.

Barclays says the rebate of service will be worth about 40c per R100 a month, depending on the balance in the account and the scale of charges which have been agreed between the customer and the bank manager.

But in essence, the new Barclays' facility will enable the customer to issue free cheques without any service fee provided that a balance is maintained in the account.

If R100 is the minimum credit balance in the account during the month, two cheques can be issued without incurring any service fee. At R250 four cheques, R500 seven cheques, R1 000 14 cheques, R2 000 26 cheques, up to 74 free cheques with a credit balance of R5 000 and 149 free cheques at R10 000.

Country branches

Barclays says for the time being a minimum balance of R1 000 is necessary in some country branches before rebates on cheques are calculated.

The bank is also to introduce a new cheque account and credit balances on this account will attract premium interest rates.

With interest rates dropping and inflation still rising — the Consumer Price Index (CPI) last month was 14,9 percent up — it is becoming even more essential to invest one's savings wisely. In terms of the CPI the rand is worth only some 43c!

Features were:

● The NBS rate on its transmission accounts (cashcard) at four percent are most attractive.

● Nedbank's call rate is ahead of most of the banking sector.

Retail rates are now negative with most building society paid-up shares down to 12,5 percent.

Fixed deposit rates are falling too and the 14 percent available a few weeks ago is now firmly historic.

Some societies are turning away five-year money and clearly believe rates could head down further.

Investors should have gone long some months ago, investing in building society fixed deposits at rates of 14—16 percent.

At the end of the week building societies were examining their transmission accounts in view of the new competition from the banks.

Personal finance

A WEEKLY personal finance column to advise both large and small investors on the increasingly complex world of finance and investment.

The column will cover building society investments, bank deposit rates, money and gilt markets, insurance and a variety of other bread-and-butter money issues.

(58)

African Bank in Umlazi

27/3/83 City Press

BUSINESS PRESS

JOBURG – African Bank Limited (Afribank) is to open another branch in Umlazi, Durban, in May.

General Manager Moses Maubane said the branch will offer all the banking services currently available through Afribank.

Mr Maubane added that blacks are now showing more faith in the future of the bank, highlighted by the tremendous response to the bank's last issue of shares in October.

He said the issue generated capital in excess of R500 000 from blacks despite the prevailing economic climate.

"What is even more interesting," said a delighted Mr Maubane, "is that an analysis of the newly-bought shares indicates a substantial increase in the number of new shareholders for the bank.

"This means we have kindled the interest of people who originally stood back when the bank first started."

He said the bank was now accelerating its expansion programme.

Building societies' 'cartel' cracking?

CAPE Times 29/3/83 58

By HAROLD FRIDJHON

JOHANNESBURG. — Signs suggest that the building societies' cartel is cracking and a modicum of competition is on its way to the benefit of the public.

The question to be answered, of course, is, which public? The lenders or the borrowers?

Here the societies have to be particularly careful. If they respond too readily with mortgage rate cuts to satisfy the borrowers, the societies will once again face the accusation that pensioners and other investors are subsidizing home owners. And while investors' incomes are not keeping pace with inflation, home owners are getting the benefits of inflation by soaring property values.

Increased competition

Obviously, borrowing rates cannot be held high when interest rates all around are coming down at a time when the societies are facing increased competition from the banks who are their heads down in their own war.

The societies will have to keep a very close eye on rates and strike a reasonable balance between the market and their two sets of opposing customers.

If their cartel breaks down, have the societies the necessary reserves to fight a war in the market place?

The building society structure is singularly unbalanced.

Major league

Three societies are in the major league — the UBS with assets of R4 900m, the Perm with assets of R3 700m and the Allied with R2 800m.

The next tier of societies is some way down the line. The assets of the Natal are R1 400m and those of Saambou-National R1 100m.

Then follows a wide and yawning gap before we reach the Standard with assets of R458m, Trust with R303m, EP with R248m, Provincial with R70m and Grahamstown with R63m.

If the building societies go to war with their slender reserves as a fighting fund, the five smaller societies look very vulnerable.

They do not have the depth of resources available to the big three or the two in the second tier.

They don't have the spread of offices to give the public the convenience of easy access.

And they don't all have the electronic links so essential in modern banking — and they lack the free capital to instal on-line computerization.

Before they get swallowed up by the bigger societies, Standard, EP, Trust, Provincial and the Grahamstown should get together and form one strong society which could compete on even terms at least with Natal and Saambou.

There was talk of Standard and UBS getting together but it is understood that the Registrar of Financial Institutions put paid to that scheme, because he did not want to see UBS get more dominant in the field.

Getting together among the very small would have many advantages but the problem is that there are vested interests in every building society which are unwilling to yield their little power.

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BANK CHARGES

58 FM 1st April 1983

Meeting the challenge

The country's three largest commercial banks have come thundering after Nedbank with schemes to reduce costs for current account users.

Unfortunately, reduced costs to users mean increased costs to banks. Bankers wasted no time in predicting that "ways will have to be found to restore margins" and some intimated that current account costs might be raised in an attempt to remove with one hand what the other appeared to be offering.

The favoured approach appears to be that of unbundling — breaking down all the service components currently concealed in blanket charges and costing them separately. This will not necessarily mean rigidity. Bankers are quick to point out that explicit costing can then be used as a basis for flexibly pricing all-in service packages that differ from customer to customer. But the overall result is almost certain to be higher costs to customers — at least for the use of cheques. And banks will attempt to widen the use of less labour-intensive banking facilities — automated telling machines being a prime example. As a symbol, Standard has set up a pilot electronic branch, which is staffed by no more than an array of machines.

Barclays Bank's reaction to the Nedbank initiative of paying interest on current account balances was probably the most imaginative. Though on the face of it a rebate scheme, it operates effectively by paying interest at a flat rate of 5% a year on the minimum credit balance in an account during the month. Interest earned is then deducted from service charges, operating effectively as a rebate. If the interest exceeds the charges, it will be accredited as interest.

The purpose of this approach is to utilise to the maximum the interest-cum-rebate, since interest income is taxable, whereas rebates are not. Some idea of the advantage of this approach can be seen in the accompanying table, where this tax angle has been taken into account in estimating final costs to users under various current account scenarios. Barclays has estimated unofficially that the whole exercise will cost the bank about R30m in the first year.

Standard and Volkskas have taken similar approaches by offering rebate schemes with a choice of opting for interest instead. The terms of each are identical. Minimum monthly balances of between R250 and R1 000 qualify for a 20% rebate or interest at 3%. Minimum balances of between R1 000 and R2 000 qualify for a 40% rebate or interest at 5%, and balances over R2 000 attract no service charges at all, or interest at 5%. The table suggests that the rebate option is the more attractive, but this may not be the case with all accounts.

Hundreds of cheques

In both cases, the banks are simply paying 5% interest on business accounts with minimum monthly balances over R1 000. According to one banker, this "is because most corporate accounts have negotiated service charges so low that rebates would not interest them." More persuasive is the reason given by another banker. "A full rebate is operable over R2 000, which is not a huge minimum balance for a business. At the same time, some companies issue hundreds of cheques each month, which must be processed. We would be absurd to offer full rebates on costs of this magnitude."

Of course, none of these three banks have opted for the feature that gives Nedbank

RANKING BANK SCHEMES

What personal costs on current accounts might be

	Barclays			Standard			Volkskas			Nedbank			Trust*		
Minimum balance (R)	**50**	**300**	**800**	**50**	**300**	**800**	**50**	**300**	**800**	**50**	**300**	**800**	**50**	**300**	**800**
Charges (R)	5,46	5,46	5,46	4,86	4,86	4,86	4,10	4,10	4,10	3,45	3,45	3,45	4,60	4,60	4,60
Rebates(R)	0,21	1,25	3,33	—	0,97	0,97	—	0,82	0,82	—	—	—	—	—	—
Interest (R)	—	—	—	—	—	—	—	—	—	3,07	3,50	4,23	3,07	3,50	4,23
Net monthly cost (R)	5,46	4,21	2,13	4,86	3,89	3,89	4,10	3,28	3,28	0,31	0,28	−0,85	1,53	1,10	0,37
After-tax cost (R)	**5,20**	**3,86**	**1,30**	**5,86**	**3,67**	**3,67**	**4,10**	**3,07**	**3,07**	**1,15**	**0,82**	**0,28**	**2,30**	**1,97**	**1,43**

☐ Assumptions: R2 500 is placed in the account every month and run down to the minimum shown at an even rate. Of the 15 cheques issued per month, one is made out for R450, two for R200 and two for R125 The rest are for amounts below R100 Bank charges in each case are as close to a "normal" personal rate as possible. The tax rate used in final calculation is a flat 25%. A minus sign represents a negative cost - i.e. a gain

What corporate costs on current accounts might be

	Barclays			Standard			Volkskas			Nedbank			Trust*		
Minimum balance (R)	**0**	**10 000**	**25 000**	**0**	**10 000**	**25 000**	**0**	**10 000**	**25 000**	**0**	**10 000**	**25 000**	**0**	**10 000**	**25 000**
Charges (R)	126,75	126,75	126,75	126,75	126,75	126,75	126,75	126,75	126,75	155,38	155,38	155,38	126,75	126,75	126,75
Rebate (R)	—	41,67	104,17	—	—	—	—	—	—	—	—	—	—	—	—
Interest (R)	—	—	—	—	41,67	104,17	—	41,67	104,17	327,70	337,56	367,43	327,70	337,56	367,63
Net lower monthly Cost (R)	126,75	85,08	22,58	126,75	85,08	22,58	126,75	85,08	22,58	−172,32	−182,18	−212,05	−200,95	−210,81	−240,88
After-tax cost (R)	**68,45**	**7,61**	**−83,67**	**68,45**	**65,95**	**12,20**	**68,45**	**65,95**	**12,20**	**−92,89**	**−98,37**	**−114,50**	**−108,35**	**−113,83**	**−129,96**

☐ Assumptions: The account runs down evenly over the month from R160 000 to the minima shown. Cheques issued are: 5 for R3 000; 10 for R2 000; 30 for R1 000; 40 for R500 and 15 for R300, making 100 cheques in all. Bank charges represent "normal" corporate rates, not best rates The tax rate used, both for deductions of costs and taxable interest earnings, is 46% Minus signs represent negative costs — that is, gains.

* Trust Bank, which has not yet released final details, is assumed to have an interest scheme identical to Nedbank's

such a head start. This is partly because the interest costs, given their relatively larger current account exposures, would be exorbitant. It is also partly due to administrative costs. Their branch networks, larger than Nedbank's, are not fully computerised, so crediting all accounts countrywide would be an expensive, labour-intensive operation.

So these banks have opted for schemes that are triggered by minimum balances in each month. If the balance drops below these minima, even for one day, the interest/rebate appropriate to each is forfeited. In the case of Standard and Volkskas, balances that drop below a floor of R250 are completely ineligible. Barclays has no floor, but it will pay interest/rebates only on the lowest credit balance in the account each month.

Accrued interest

Nedbank, on the other hand, credits interest daily. So a declining balance, although it attracts no interest when it falls below R200, will have accrued interest along the way. Furthermore, that interest will have been added to the balance to raise it, though slightly. So Nedbank's comparative showing in the table stands out — both in terms of greater advantages to customers and greater costs for the bank.

Other gestures were made to retail bank customers this week. Barclays lowered its home loan rates to below those of the building societies. And Volkskas weighed in with a home loan scheme similar to that of Barclays, no doubt to the chagrin of its close associate, Saambou National building society.

Barclays also indicated that it would set up a separate current account. This is no doubt to match Nedbank's current account, which, with its interest payments, automatic overdraft and guaranteed cheques, is assuming a gilt-edged status. Barclays' new account will no doubt offer similar advantages, but presumably at a cost. With almost R1,7 billion in current accounts, compared to Nedbank's R733m, it would be foolhardy to push a similar product with its whole book.

Mr Horwood tidies up while the roof caves in

S. Express 3/4/83

● Mr Horwood ... as a former professor of economics he knows persistent inflation is evidence that a country's finances are being mismanaged — and he must know inflation in SA has gone on too long.

By KEN OWEN

BETWEEN 1914 and 1917 — the date of the Communist revolution in Russia — the price of food trebled, and the cost of other commodities increased by as much as 2 000%. This was the effect of financial mismanagement by the Kerensky Government.

A visitor to Russia found the middle classes had during that period become much more conservative, and the lower classes much more radical. The reason, of course, is that inflation makes the rich richer, the poor poorer.

Mr Owen Horwood is a former professor of economics as well as a Minister of Finance, and he knows that persistent inflation is evidence that a country's finances are being mismanaged — and he must know inflation in SA has gone on too long.

The cost lies not so much in money as in the diversion of manpower and resources from productive to wasteful endeavours For example, the Government has already moved 82 000 coloured families under the Group Areas Act, and plans to move another 5 000

By the time it has found them, and prosecuted them, and built new houses for them, social patterns or political relationships may well have changed so much as to make the moves irrelevant.

In Johannesburg the Government spent millions to move an Indian community 1 500m down the road, yet it plans to move another 4 000 families

Meanwhile, the essential services of government — the collection of taxes, the registration of titles, the distribution of pensions, the management of public health — fray under the pressure of Mr Horwood's tight-money policies.

He is like a tidy and frugal housewife in a house with a collapsing roof — what he does is admirable, but it doesn't address the problem.

We are governed with skill and cleverness, but without wisdom.

grander scale the experience of Rhodesia, we must raise the living standards of the poor at a rate which will mute the appeal of revolutionary rhetoric

What is a black man to make of a society in which a white clerk, having bought a house on credit for R40 000, having paid his monthly instalments with the help of a Government subsidy, and having done nothing but sit on his investment, can show a profit of R40 000? What must that black man think if his salary is R400 a month?

Soon after the 1976 riots, radical youngsters from Soweto ran tours through Houghton so that black schoolchildren could see for themselves 'how white people live'

It was clever politics, but perhaps unnecessary. Today the same effect can be

selves tired of all this nonsense They simply didn't have the time or the resources to enforce silly moral prohibitions, and they persuaded the Government to abolish the liquor laws. Today we don't even remember that we once thought them necessary

Similarly, the Government has finally decided to get out of the landlord business by selling off 500 000 houses, and for much the same reason: it can't cope with the work.

Not that we learn much from experience. The police still run around chasing black people who happen to be in the wrong place at the wrong time, and locking them up, and producing them in court, and chasing unpaid fines, and generally wasting time and money doing things that are utterly unnecessary. Meanwhile, and have to use conscripts from the army to keep going.

Many people blame excessive expenditure on the armed forces for the state of the country, but this is not necessarily so. The military budget is acceptable so long as it remains below 5% of gross national product, and provided it is used to strengthen the defence capacity of the country rather than to, say, collect taxes or run the health services in Kwandebele. (The fact that Armscor is laying off workers does, however, raise a question whether the military budget is being used as well as it should be.)

The trouble lies elsewhere. Mr Horwood has budgeted a little more than R3 000-million for defence but R1 000-million goes for community development, which is the phrase the Nationalists use for smashing

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Made in South Africa

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By KEN OWEN

BETWEEN 1914 and 1917 — the date of the Communist revolution in Russia — the price of food trebled, and the cost of other commodities increased by as much as 2 000%. This was the effect of financial mismanagement by the Kerensky Government.

A visitor to Russia found the middle classes had during that period become much more conservative, and the lower classes much more radical. The reason, of course, is that inflation makes the rich richer, the poor poorer.

Mr Owen Horwood is a former professor of economics as well as a Minister of Finance, and he knows that persistent inflation is evidence that a country's finances are being mismanaged.

There must lurk in the back of his head the worrisome thought that South Africa's inflation has gone on just too long. He has been struggling for nine years to bring it under control, and he has failed.

We are a long way from the situation that prevailed in Russia in 1917, and the analogy should not be driven too far; but the social consequences of our Government's financial policies are already becoming nastily evident.

There is a capricious redistribution of wealth, from the poor (like pensioners or the black unemployed) to the rich. Sharp spenders make quick fortunes, stolid and prudent savers go bust. Envy of sudden fortunes creates a climate in which the civil services collapses, and in which corruption breeds or is suspected to breed.

This is a tragedy because South Africa has the capacity to outrun the revolutionary expectations that have brought so much of this continent to misery. But if we [illegible] to avoid repeating on a grander scale the experience of Rhodesia, we must raise the living standards of the poor at a rate which will mute the appeal of revolutionary rhetoric.

What is a black man to make of a society in which a white clerk, having bought a house on credit for R40 000, having paid his monthly instalments with the help of a Government subsidy, and having done nothing but sit on his investment, can show a profit of R40 000? What must that black man think if his salary is R400 a month?

Soon after the 1976 riots, radical youngsters from Soweto ran tours through Houghton so that black schoolchildren could see for themselves 'how white people live'

It was clever politics, but perhaps unnecessary. Today the same effect can be achieved by letting those young people count the number of luxury cars on the streets, courtesy of the Receiver of Revenue. If Mr Horwood could devise a healthier tax system, some of the money that now goes into tax-free luxury might go into the investment required to provide jobs for those young people.

Look at the matter from another perspective. Not many years ago it was illegal for black people to buy 'European' liquor. The consequences of that prohibition were quite similar to the consequences of Prohibition in the United States: shebeens flourished on untaxed turnover; black people, like Americans, developed the habit of consuming short, deadly concoctions that could be downed in a trice — before the police came.

Courts were packed with transgressors of the liquor laws. Jails filled up. Gangsters built empires on the illegal supply of liquor. Corruption was not uncommon, and policemen had to spy on other policemen ...

In the end the police themselves tired of all this nonsense. They simply didn't have the time or the resources to enforce silly moral prohibitions, and they persuaded the Government to abolish the liquor laws. Today we don't even remember that we once thought them necessary.

Similarly, the Government has finally decided to get out of the landlord business by selling off 500 000 houses, and for much the same reason: it can't cope with the work.

Not that we learn much from experience. The police still run around chasing black people who happen to be in the wrong place at the wrong time, and locking them up, and producing them in court, and chasing unpaid fines, and generally wasting time and money doing things that are utterly unnecessary. Meanwhile, car theft ranks as one of the country's major businesses.

One result is that we don't have enough police to manage internal security, so the army has to perform internal security duties in some parts of the country, and then productive and highly educated young men must be called away from useful work to go and sit in the veld. The search for qualified manpower becomes a desperate and inflationary business throughout the private sector of the economy

Mr Horwood has been highly complimented for his latest Budget, and rightly so. He and his chief advisers, Dr Gerhard de Kock and Dr Joop de Loor, constitute the best financial team this country has had since the Nationalists came to power.

Control of Government spending is generally regarded as the key to curbing inflation, and Mr Horwood's team has done everything it can on this front. Indeed, it may have done too much. Several essential Government departments are now in a state of virtual collapse and have to use conscripts from the army to keep going.

Many people blame excessive expenditure on the armed forces for the state of the country, but this is not necessarily so. The military budget is acceptable so long as it remains below 5% of gross national product, and provided it is used to strengthen the defence capacity of the country rather than to, say, collect taxes or run the health services in Kwandebele. (The fact that Armscor is laying off workers does, however, raise a question whether the military budget is being used as well as it should be.)

The trouble lies elsewhere. Mr Horwood has budgeted a little more than R3 000-million for defence but R1 000-million goes for community development, which is the phrase the Nationalists use for smashing people's houses and persecuting them for paying rent to the wrong landlord.

The Department of Internal Affairs, which spends much of its time trying to devise and administer a system of passbooks for the entire population — and does so with spectacular incompetence — gets more than R1 000-million. And so forth.

Meanwhile, we continue the folly of subsidising paupers to live in R50 000 houses. We give subsidies to farmers so incompetent they don't belong on the land, and to farmers so efficient they don't need help.

At every level, the Budget misallocates resources to serve special interests and powerful lobbies at the expense of the country.

Each of these votes will be examined in Parliament, but if the past is any guide, the debate will generate more heat than light. In the end, nobody will question seriously the priorities of the Budget, and Mr Horwood's figures will prevail. Billions — not millions but billions — will be spent on social engineering

The cost lies not so much in money as in the diversion of manpower and resources from productive to wasteful endeavours. For example, the Government has already moved 82 000 coloured families under the Group Areas Act, and plans to move another 5 000

By the time it has found them, and prosecuted them, and built new houses for them, social patterns or poli-

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BUILDING SOCIETIES

In search of new shoes (58) FM 8/4/83

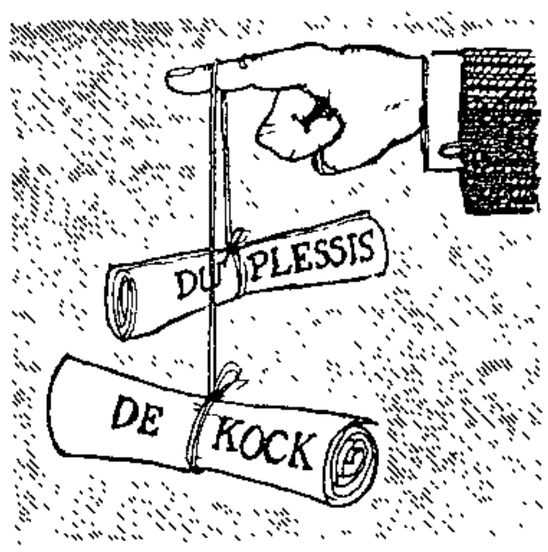
Even if mortgage rates were not falling (see *Economy*), the chances are that building societies would still be in the news They featured in the Budget and there are reports about them before Parliament from the De Kock Commission and Du Plessis Commission.

Kind though he was to the efforts of the Du Plessis Commission on the building society movement, Finance Minister Owen Horwood last week left little doubt about what he thought of its findings.

The Du Plessis Commission, headed by ex-Reserve Bank deputy governor Chris du Plessis, was appointed by Horwood in 1981 in what was widely seen as a pre-election gambit and in response to mortgage rate increases. Its brief was to find out why mortgage rates had risen so sharply in the first half of that year. In the event, Du Plessis was persuaded to broaden his investigation to include, among other aspects, regulation of the building society movement as a means of keeping the mortgage rate as low as possible.

The commission submitted its report early in 1982. Horwood, said to be disturbed by its recommendations, kept it under his hat for eight months. In the meantime, the De Kock Commission rushed to produce an unscheduled counter-report, dealing with building society finance in the broader context of the application of monetary policy.

Both were released in December last year. As expected, Du Plessis did not question the existing method of subsidising housing through tax concessions on certain building society investments. In view of the extent of these concessions, he concluded that it gave the State the right to greater regulation in the affairs of societies, especially the determination of the mortgage rate through a semi-official committee.



He proposed, essentially, a dual system of housing finance, with mortgages based on subsidised funding going to lower and middle income groups, and unsubsidised mortgages to the rich. In other words, the subsidy would continue to be applied through interest rates, although with a little more discrimination towards the less well-off.

This was not a wholly satisfactory response to the two prime weaknesses of the system. One was that existing subsidisation worked not only through tax concessions but through lower reserve requirements on societies, which cheapens the cost of their deposits. It meant that the societies, whose short-term financial activities are now close to creating money, were effectively beyond the anti-inflationary ambit of overall monetary control.

The other was that the true cost of subsidising housing, a public good and *par excellence* a subject for open legislative debate, was hidden and not easily measurable. Horwood's estimate was that tax concessions alone cost the State an amount "approaching perhaps R100m" each year.

In his Budget speech last week, Horwood took care to say that it was "the combined findings" of these two commissions that proved extremely useful. He added that the Du Plessis report had provided "the most comprehensive and incisive statistical analysis of building society operations yet produced in SA."

He then made three recommendations which come directly from the pages of the De Kock report. The first was that banking reserve requirements be phased into the building societies, and the second that the societies' borrowing *and* lending rates reflect the financial markets in which they operate. The third, the most far-reaching but also a logical corollary of the first two, was that the existing tax concessions on society investments be phased out. Their place would be taken by direct subsidies on mortgage bond interest payments made by specific classes of home owners.

Horwood, of course, had the benefit in formulating his position of some forthright opinions on the two reports from interested groups, among them the building societies themselves.

He had little choice but to attempt to dispose as tactfully as possible of a commission that should never have been set up in the first place and which contributes very little to a process of enlightened financial evolution. This he did.

Having said that, the *FM* believes Horwood deserves widespread support for introducing a system of housing subsidy which is both open and manageable, and yet which appears sufficiently selective to avoid the inflationary implications of blanket interest rate subsidies to rich and poor alike. He has introduced, too, the promise of rational evolution into a movement which, having outgrown its first pair of shoes, did not appear to have enough imagination or drive to acquire new ones.

Problem now is that the ill-starred Du Plessis report may not be that easily dismissed. It remains before Parliament and government opponents could attempt to exploit it to Horwood's embarrassment in the Budget debate. If that happens it will do neither the Minister nor the societies any good. The progress made last year towards depoliticising the mortgage rate will be in some jeopardy.

New Muslim corporation not competing with established banks

58

Mercury

9/4/83

By Nagoor Bissetty

SOUTH Africa's first financial institution formed by Muslims for Muslims, Islamic Corporation Ltd, has no intention of competing with established banks, says Mr Ebrahim Kharsany, managing director.

Although the corporation is seen as paving the way towards the formation of the country's first fully-fledged Muslim bank, its main purpose is to serve the religious needs of devout Muslims who will not accept interest, forbidden by Islamic injunction.

'It will help Muslims to deal with finance in accordance with Quranic codes,' he said last night.

The corporation's authorised share capital is R2-million, of which 200 000 R1 shares have been issued.

Property

It will invest in industry, trading, small businesses and property.

Mr Kharsany said: 'We are being flooded with inquiries and are confident the venture will succeed — and provide decent returns.

'We are trying relentlessly to persuade the Registrar of Financial Institutions to allow the corporation to accept money from anyone who believes in the non-interest principle, instead of restricting us to Muslims.'.

The corporation, based in Johannesburg, plans to open offices in Durban and Cape Town.

MR MARTIN SUMMERLEY

End of line for Magnum boss

Star 12/4/83 (58)

By Michael Chester

Once regarded as a whizzkid of Johannesburg high finance, Mr Martin Summerley, chairman of the collapsed Magnum business empire, was declared bankrupt in the Rand Supreme Court today

He sat slumped in dejection, chin rested on cupped hands, as Mr Justice Ackerman issued a final order for the sequestration of his personal estate.

Outside the court building later, he gave a whispered "No comment" when asked about his future plans and if he would consider trying to make a business comeback at any stage.

His legal team offered no opposition when sequestration of his estate was sought by one of his own former companies, Magnum Financial Holdings. At earlier hearings each side argued that the other owed debts of about R25-million.

Finally, Mr Summerley, who had owned yachts, aircraft and imported luxury cars, had told the court he was unable even to settle a debt of R444,23 that he conceded he owed MFH.

LAST CHAPTER

The sequestration ordered today began the last chapter in a saga that has been in the headlines ever since early rumbles of financial trouble at Magnum were heard four months ago.

As the complex web unfolded, Magnum Financial Holdings itself was put into final liquidation — along with sister companies Magnum Acceptances and Magnum Leasing.

STATEMENT

Mr S A Rosenzweig, appearing for Mr Summerley, asked the judge if he would place on record a statement in which the former Magnum chairman wanted to explain why he would no longer oppose the liquidations and refute various allegations made at previous hearings.

"Why should I act as a filing clerk?" the judge snapped. "I am not prepared to accept the document".

However, Mr Rosenzweig was granted a two-week postponement of the court hearing into an application for the sequestration of the Summerley Family Trust.

He hinted that opposition would be voiced on behalf of Mr Summerley's two minor children.

Building societies on threshold of new era — SA Perm

CAPE Times 14/4/83

58

Own Correspondent

DURBAN. — Building society borrowers and lenders will have to be paid real returns on their investments or borrowings in the future, Mr Bob Tucker, managing director of the SA Permanent Building Society said .

He announced that the Perm had passed the R4 000m assets mark, after being R1 000m a decade ago — and this had been achieved without any takeovers.

On interest rates Mr Tucker felt that the tendency was generally downwards and were keeping in close touch.

Wholesale rates

Some of their rates for wholesale money were not competitive while savings rates had been lifted.

"This is no gimmick," he said, it would cost as much as their annual advertising budget.

It was clear that the building society movement stood on the threshold of a new era and the services it offered would have to be geared to the changing needs of its customers.

They could no longer afford the slow decision making of past years now that they were competing with banks.

Exploring

He said they were exploring changes to the concept of mortgage bonds and talking to the government about the home assistance scheme which had not been popular.

It was clear from the Budget speech, the direction in which the societies would have to move — tax concessions for savers were to be phased out.

It had to be recognized that investors had not been favoured in the past: "Our focus should be on investors."

Borrowers had not lost on their bonds which were advanced at interest rates below the inflation rate. They were borrowing good money and repaying with depreciated money.

Capital markets

Now that there were new markets for investors and borrowers, they would have to look to the long-term capital markets for cash.

Societies should consider whether they should be financing the home (such as the purchase of curtains, caprpets, television sets) as well as the house.

As the societies were liquid with money to lend, he would like to encourage loans for sound conservative alterations to properties but conceded that it was difficult to monitor the use of loans.

He wanted to discourage lending money that would push up inflation.

Bank reverses Azapo ruling

By Michael Tissong

Barclays Bank, who this week turned down an application by the Azanian People's Organisation to open a savings account allegedly because of the policies of Azapo, reversed the decision which the bank called an "error of judgment".

An executive member of Azapo, Mr Ishmael Mkhabela, yesterday said he tried to open an account in the organisation's name with the Aiken House branch in Kerk Street, Johannesburg.

He presented Azapo's constitution on request to the acting manager, Mr Sarel Pretorius.

MOVED OFFICE

"Mr Pretorius read the document and said he could not sanction an account for the organisation because he did not agree with its aims and objectives.

"We wanted to open an account because this bank was the nearest to us after we moved our offices from one side of town to the other.

"On Wednesday, the Azapo president, Mr Lybon Mabasa, the general secretary, Mr Muntu Myeza, and I made a further representation.

"Mr Pretorius said it was the bank's policy not to do business with an organisation like Azapo.

CONFIRMED

"He said he had made his final decision on the matter and ordered us out of his office."

Mr Pretorius confirmed that the application for an account was turned down. He refused to give reasons or comment further.

Mr Kevin McGregor of the bank's public relations office said Azapo was welcome to open an account The acting manager advised the controlling office of his decision after he had acted. Had he done so before, the bank would have exercised "our prerogative" in favour of opening the account.

"The acting manager made an error of judgment. Azapo is welcome to bank with us. We regret the misunderstanding."

Mail

CARTELS

58 FM 15/4/83

One down, one to go

In the short time since the bank cartel agreement was outlawed, the cost of loans and services has fallen dramatically. The benefit to the public has been considerable (see P245).

Of course, that was only to be expected. But it was certainly not what the managers of the large banks said would happen when the *FM* highlighted the cartel's consequences nine years ago this February.

This is what a leading banker said then when asked what would happen if the cartel were scrapped: "Interest rate charges would rise to make up for the fall in revenue ... The structure of bank charges would change, with smaller customers having to pay more.

"The public benefits (from the cartel) in that the charges laid down are minimum charges and this tends to bring the general level of costs down. Knowing there is a minimum charge, customers have an incentive to try to get their own charges down to this level."

That particular banker is still running a bank of significance. It was among the first to react to Nedbank's decision to pay interest on current account balances.

Soon after this interview with the *FM*, a spokesman for the Standard Bank defended the cartel on an SABC radio programme. When his arguments were gainsaid in a subsequent broadcast, there were ominous suggestions that a credit line might be reviewed. The critic was told by his employer to lay off.

Of course, since then the quantitative bank lending ceiling has been abolished and the yields on the official securities banks are forced to buy (their liquid asset requirements) have become market related. So banks have been able to compete more easily since then.

That happened about three years ago. Yet it is only weeks since the banks have been prepared to compete seriously on price. It took Pretoria to move first.

There is another financial cartel that still exists. It is much less formal than the banks' one and retaliation against those who break it is more difficult. But ironically, it appears still to have some tacit support from Pretoria.

It is, of course, the Association of Building Societies. Like the building societies in Britain, ours have long consulted one another on deposit rate payments and mortgage rate charges. Right now in Britain the cartel there is under severe attack, especially from consumer groups.

Last week the chairman of the UK Building Societies' Association, Alan Cumming, was quoted in the *Financial Times* as saying that without the cartel "tooth-and-claw competition could lead to an increase in costs to our homeowners and a substantial reduction in the security presently enjoyed by our investors." Sounds familiar.

The *FT*, believing the case for the cartel to be shaky, pointed out that the security of investors' funds depends on societies running their business efficiently.

The main difference between societies in Britain and those here is that our societies compete to a greater degree for the same deposits as the banks. So with the bank cartel gone, it should be only a matter of time before the building societies' one goes. The *FM* understands that at least one society has told its fellow members that it will not be keeping them informed on its rate setting. It is a development that can only be welcomed.

Perhaps now all that is needed is a push from Pretoria and the cartel would crumble. Despite what Finance Minister Owen Horwood said about societies in the Budget, his silence on the cartel is resounding.

The Minister has repeatedly said that he has no direct control over mortgage rates and building societies' deposit rates, other than those on tax-free deposits. Maybe some reassurance is needed. If he assured societies that he will not even use moral suasion, via the Registrar of Financial Institutions, to influence non-tax-free deposit rates, the societies themselves might bust out of their own accord.

BANKING

Leading with losses

(58) FM 15/4/83

Banks are hurling a wave of cut-price loans at corporate clients, based on calculated loss-leaders and speculative views of interest rate movements.

To some extent this is cyclic. It was spurred by the market liquidity and falling interest rates that characterised the opening months of the year, and has tended to ignore the current tightness in the market on the assumption that it is a temporary twist against the trend. But bankers say that this time around, the wider spirit of competition that has been sweeping the industry has given the old practice of "client targeting" a new edge.

Client targeting is the process of wooing lucrative business from one bank to another by undercutting competitors' rates. The most intensive example of this at the moment is commission rates on bankers' acceptances (BAs). Banks charge clients a commission to endorse trade-related bills, on the strength of which backing they can be sold in the money market to raise short-term cash. These commissions are now being shaved, making BAs a loss leader for the banks.

The now-defunct bank pricing cartel, the Register of Co-operation, set a minimum commission rate of 1,8%. This was abandoned in 1980 in a free-for-all that eventually led to a "market stabilising" agreement whereby a new minimum of 1,5% was set. This held for some time, but has now been completely thrown overboard. Bankers claim to have seen commission rates fall as low as 0,25%, although the norm appears to be between 0,75% and 1%.

The process has been given a push by banks taking steps to disguise the size of their commissions, both from other banks and their own less-favoured clients. Barclays and Standard took the lead here by jettisoning their BA quotas with the discount houses. ("Breaking away" *FM* March 4). These quotas determined the number of BAs the banks guaranteed to sell to a discount house at its going discount rate. Assuming this rate, it was possible to tell from the all-in cost of a BA facility (discount rate, commission and official stamp duty of 0,2%) what commission was being charged. This is no longer the case.

The other major price cutting forum is overdraft finance. Offering overdrafts at rates below prime is not widespread, although it has been done. Bankers say that when Standard Bank led the last cut in prime from 16% to 14% in March, the market was rife with overdraft finance facilities arranged at sub-prime rates. But in general prime rate, to which many other lending terms are linked, carries a certain respect. Says one banker: "Prime is prime. Now that we've been given the freedom to make our own decision in setting it, we can't make a mockery of it. If we did, the Reserve Bank would step in and put a stop to it."

But overdraft finance facilities are vulnerable in other ways. Banks have been targeting other banks' clients by offering cheap term loans, a different category to overdraft and therefore not bound by prime rate.

One banker claims to have seen six-month loans offered by another bank to his corporate clients at about 12%, or two percentage points below prime. Funded by overnight money, now at about 14%, loans like these are now loss-leaders. But they are granted speculatively on the view that the cost of overnight cash will fall to well below 12%, making them profitable over the course of their lives.

Price cutting like this, in combination with the particularities of the Banks Act, places pressure on banks' returns on capital, the key to the growth of any company (see *Paring Ploughbacks*). Some bankers express extreme concern about it, others shrug it off as the inevitable consequence of free competition. The ultimate, and not unwelcome, consequence may be a rationalisation of this saturated sector of SA's service industry.

CAIL: Times 16/4/83 (58)

Standard Bank gears for new product launches

By PAUL DOLD
Financial Editor

INTENSE competition is sweeping the banking sector in the wake of the dissolution of Roco — the inter-bank agreement — and bank managements are facing tremendous challenges as the sector enters the new era.

Already interest is being paid on most cheque accounts, automatic overdrafts are becoming standard, acceptance commissions have been slashed and bankers are nervously looking over their shoulders at their competitors.

In addition the continuing free market reforms of the authorities in the sphere of foreign exchange are necessitating increasing expertise for the banks.

The Standard Bank has been preparing for the current developments for some time and with its highly sophisticated computerized banking system is well placed. The bank was first to cut prime in the latest round of interest rate adjustments and has several interesting new products which will be launched soon.

In this interview Standard's Mr Henri de Villiers talks of the bank's objectives, the recent diversification through Unisec and the new banking environment.

Businesss report: The Standard Bank group appears to have a significant lead over its competitors in the field of mechanization. The group's Autobank network is expanding and Standard has been investing heavily in computers. What is behind your strategy and when do you see the benefits flowing to bottom line profits?

De Villiers: Our strategy, in aggressively installing Autobanks, follows the international trend towards a more convenient personal banking service to the customer. The personal customers' needs are to conduct his/her banking business when he chooses and where he choises. We have gained new customers because of the service.

We have over 200 Autobanks, installed nationwide. The initial cost of these machines was high at R9m, but we believe that the benefit to the bottom line has begun already. We intend to continue expanding our network of ATMs and installing machines where volumes justify the expense.

BR: Standard recently took a major stake in Unisec — what was behind this development?

De Villiers: The reason for the acquisition was that we saw it as an opportunity to acquire, for a relatively small outlay of R30m in total, effective control of a substantial investment company with assets of more than R200m. The assets are currently made up of R80m cash, R90m in Unidev and the balance in sundry quoted and unquoted investments.

It is the intention that Unisec should continue as an investment trust, taking advantage of broad market cycles. But should suitable opportunities arrive to acquire strategic stakes in large companies, these will be considered.

BR: Does the bank intend diversifying further outside of banking?

De Villiers: Further diversification is a possibility, but it largely depends upon what becomes available. As I've already said, we acquired a stake in Unisec because it looked like a good deal, and if further opportunities arose we'd certainly consider them.

BR: Your commercial bank (SBSA) appears to be altering its marketing effort and becoming far more aggressive and lively — the bank around the clock advertisements, the spectacular annual report cover... What is your marketing philosophy?

De Villiers: Our marketing philosophy is to satisfy the markets' financial needs, at a profit in the long-term.

We've been around for 120 years, we have prospered because we have many "lifetime customers", who know we are dependable, stable and reliable. Our marketing philosophy is to promote these characteristics, because banking is a serious business from the customer's viewpoint.

The examples you quote, promote awareness rather than emphasising a product. We will not advertise gimmicks as we would then lose creditability.

BR: Are any new product launches imminent?

De Villiers: Yes, but we won't discuss those plans, for competitive reasons.

Standard's managing director Mr Henri de Villiers ... further diversification is possible.

BR: What do you see as the bank's target market — what growth is Standard showing in cheque accounts?

De Villiers: To disclose our target markets would expose our strategic thrust and so I prefer not to answer that question. You must remember, however, that our Branch network covers the entire country and we therefore serve all segments of the market. Target markets would be defined as those segments which receive more emphasis.

Our market share of current accounts has remained constant over the past five years at approximately 31,5 percent. We are satisfied with the position.

In savings deposits we have become the market leader among the five major banking groups, having increased our market share from under 30 percent in 1977/1978 to 32 percent at the last two quarter-ends.

BR: With the end of Rocco do you envisage lower bank charges to corporate and small customers?

De Villiers: Let me say at the outset that, "bank charges", have for many years in South Africa, been discussed and written about and arguments put forward that they are high. In my view the South African public, unlike their international counterparts, have historically been unwilling to accept fair charges levied in the services industry.

The costs of providing financial services to the public, on a national basis, are substantial and we shall continue to recover our costs, plus a margin, wherever we can. The demise of Rocco has already brought lower charges to some and higher charges to others. The market will, however, become far more competitive and as you've seen in the latest moves we shall be rebating charges or paying interest on credit balances, at the customers' option.

BR: What impact will the new competitive spirit have in other fields such as hire purchase, leasing?

De Villiers: The markets for leasing and hire purchase have grown extremely rapidly over the last five years.

In the banking sector since December 1977, leasing receivables have grown some 353,19 percent from R938m to R3 314m and over the same period, hire purchase receivables by 706,45 percent from R460m to R3 251m.

The main barriers to entry to these markets are the availability of significant volumes of reasonably priced and reasonably stable resources, a reasonable level of computer support and, representation in the main metropolitan areas.

These are not significant barriers to the various banking groups who have now established general banking arms and are eagerly seeking a share of this market. All these general banks are seeking to establish a customer base, and where possible, increase their market share, and accordingly competition has for some time been very fierce.

This market is however still maturing and particularly the hire purchase market will continue to see greater growth with the increased spending power of the rapidly developing black market.

The commercial banks have no monopoly on product or technological innovation and both of these will continue to be seen in the general banking area as well.

BR: With Stannic now profitable one would presume Standard's profits will increase even more sharply than the past year or are banking sector profits under pressure due to the end of Rocco?

De Villiers: In his statement to the 1982 annual accounts the chairman stated that we are budgeting for a fairly modest group profit increase during 1983 because of the general expectation of limited economic growth and since it may be difficult to hold our bad debt experience to the present low level.

That statement allowed for a significant profit contribution from Stannic, but came in advance of the current "war" between the banks which may have a significant effect on profit margins in 1983.

BR: Are profits in line or ahead of budgets thus far this financial year?

De Villiers: We are satisfied with profits to date.

BR: There is stepped up competition between the banks for business. In this significantly hurting margins.

De Villiers: With greatly increased competition, and the present liquidity in the country, margins are expected to be lower than in 1982. If you look at what has happened in the last two to three weeks, with competition reaching unprecedented levels, it is now very difficult to predict what will happen to margins in 1983.

In spite of this, our present customer base has grown in the past and will continue to do so in the future.

BR: In view of the competition, will prime drop below the forecast 12 percent this year?

De Villiers: Prime is generally based on the cost of funds within the market rather than on lending rate competition per se. Cost of funds depends on policy, the state of the economy and a host of other factors. At this stage the forecast figure might seem a little on the high side but only marginally so.

BR: The lines between banks and building societies are becoming blurred. What developments are likely.

De Villiers: The Minister of Finance said in his Budget speech that building societies would be treated more like banks in future, and in the past week you have seen how rates of the building societies have softened.

The medium and long-term will depend on the outcome of the reports of the De Kock and Du Plessis Commissions on building societies and the effect on the banking industry of the final report of the De Kock Commission.

Regarding cheque accounts for the individual, who can say how attractive this service will remain to the institution offering it. Cheque accounts may be moving closer to savings accounts as happened in the United States.

BR: Standard is understood to be negotiating for the sale of its Building Society to the UBS.

De Villiers: Discussions on this subject are at a delicate stage and I believe comment at this juncture would be unwise.

BR: What do you think of progress thus far in implementing the De Kock reforms? What should be tackled next?

De Villiers: While some have criticized the slow progress in implementation of the De Kock Commission proposals, I believe, given the wide range and significance of the reforms, that the progress has been exemplary. The fact that a unitary rand could be introduced within a period of only four years with very little fuss and bother is particularly notable. The next step should be the introduction of a free spot and forward exchange market, and I expect significant moves in this direction soon.

BR: The rand/dollar exchange rate still appears to be highly managed. Why is it taking so long for South Africa to move towards a freer sophisticated forex market.

De Villiers: As you say, the rand/dollar exchange rate is still highly managed but the Reserve Bank have, in the recent past at least, been adjusting the rand more frequently in response to market forces.

It is not uncommon for their spot exchange rate on the Reuters screen to change up to 20 times per day. In addition the forward rate is also being adjusted more often in line with the intra-day movement in the relevant interest rates.

While this does suggest some progress towards a freer forex market, the fact that the Reserve Bank still sets the parameters for the rand/dollar exchange rate, implies that any bank would be unlikely to deal outside these limits.

In spite of this limitation, inter-bank dealing in dollar/rand and especially the third currency/dollar market are extremely well-developed and comparable to the best in the world.

BR: Why then does the Reserve Bank not withdraw and allow the rand to float free?

De Villiers: There are two primary considerations.

The first is that the dollars earned from gold bullion and diamonds currently bypass the market completely and the second is that the Exchange Control Regulations would have to be amended sufficiently to permit the creation of a viable and active Euro-Rand market.

We know that these matters are being considered by the South African Reserve Bank and we are aware of rumours that at least a portion of gold mine earnings will be paid in dollars and that, except for occasional intervention as in the European markets, the Reserve Bank will withdraw from the market.

We would fully support such a move and believe that with our highly developed dealing expertise and sophisticated forex advisory service we would be well placed to handle such a change and keep our customers informed of up to date developments.

BR: What is your view on the South African inflation rate which is now more than double her major trading partners.

De Villiers: I believe our inflation rate is too high and that we should bring it more in line with the inflation rates of our major trading partners.

Recently, the continued rapid growth in our money supply has played a major role in keeping up our inflation rate. One must accept that controlling the money supply in South Africa, with its open economy and large dependence on gold, is more difficult than in other countries.

Our monetary authorities have made some progress in this regard, but not all their new "market related" instruments of control are in place. In the short-term, starting a new growth phase from a high base of inflation implies a weakening currency, higher interest rates and ultimately weaker than potential growth.

In the longer-term I believe that social and political factors will play an increasing role in keeping our inflation rate high. Massive outlays by the government for the provision of house, education, health services and transport for the rapidly growing black population will be required.

Since these services are only indirectly productive, expenditures on them are bound to exert upward pressure on prices in the longer-term. There is very little that we can do to counter this. Possibly the best option is to ensure that we make optimum use of all our resources, but particularly our human resources.

PAGE ONE COMMENT S. Times 11/4/87

Life insurance: Is SA's leading growth machine abusing its power? Are policyholders becoming an army of 'suckers'?

"There can be no argument. The South African life-assurance industry remains the single most important growth machine in the country. To achieve this objective, however, there is inevitably a price — indeed several. For instance, it is a cliché that the increasingly fierce competition between the industry offices for new business and a grave shortage of fully able (but astute) insurance salesmen are constantly cited as possible key reasons for overwhelming salesmanship resulting in the sale of policies target customers do not properly understand, do not want, but are subdued by the psychological power of the sales force into purchasing. More widely, there is the question of the increasingly disproportionate potential investment, and general economic and even political power of the life-office giants. . . ." — Business Times, June last year

Stephen Orpen

LET it be said at once. The life business has its share of warts — warts which could become running ulcers or worse in years to come. More of this in a moment . .

Let it be said in the same breath, however, that, as the main news story on this page makes clear, the contribution of the major life assurers to national strength is impressive indeed — overshadowing by far the blemishes, some of them inevitable, in the nature of the business.

Benefits include:

- A guarantee of the earnings to keep dependants and pensioners healthy and comfortable.
- A huge boost for long-term personal savings.
- A continuous and fast-mushrooming flow of finance for the growth of productive units in both the private and the State sector.
- The continuous expansion and sophistication of public investment education and knowledge.
- Not least, a steady flow of new jobs, required for projects funded directly or indirectly by the life industry
- The development through investment in property schemes of new offices, shopping complexes and, above all, housing and homes

For example:

- Payouts to pensioners and dependants last year rose nearly 30% to R1 208-million compared with (approximately) R200-million around the mid-Seventies.
- Policies and associated media have drawn more than R125 000-million of the public's money, most of it in a mere six or seven years.

Policies allowed to lapse have been remarkably modest, guaranteeing compulsory saving by South Africans at all levels despite the country's notoriously spend-it-all-today syndrome.

- Most of this R125 000-million has been available to finance the country's growth.
- The life business has attracted many of the country's top investment brains.

They are having to produce results in an increasingly competitive and complex investment world.

In parallel, their thinking and strategies are being increasingly communicated to the public in the mass media as well as through the specialist financial Press.

- Growth means new or expanded factories and businesses. This creates jobs — what SA so desperately needs for the huge growth in jobseekers.
- Investment in property means better and more convenient office and shopping conditions, and private homes, which stimulates general economic activity;

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Stampede by life insurers

S. Times 11/4/87

● From Page 1

terms. Yet the latest figures trumpet the fact that, despite the economic recession, the life-assurance and pension-fund insurance sector is still riding what has become a tidal wave of growth.

Since the early Seventies, the life sector's record has dwarfed the performance of virtually all others.

In 1973 total assets of the members of the LOA were around R3 000-million. At today's growth rates, they will top R20 000-million next year or the year after.

Scarcely troubled by last year's soggy economic climate, the industry produced more than enough new capital last year — up 24% to R18 028-million — to strengthen significantly the already bounteous funds held by the life offices against future liabilities.

Of these asset reserves, R7 990-million, or more than 44%, were pumped into public-sector securities, held in terms of the industry's prescribed (or Part 1) assets requirements.

The money went largely into investments in SA's infrastructure, rising 26%, or R1 641-million.

Discretionary investments included R4 038-million in shares and unit trust units (R867-million or 27% up), with R3 174-million (R895-million or 39% up) in property interests.

Total income — investment and premium — broke through R5 000-million for the first time. At R5 246-million, the increase was R1 142-million, or nearly 28%.

The *rate* of increase in premium income, reflecting the tougher economic climate, showed a decline. Yet there was still a jump of nearly 26% to R3 451-million.

New business climbed to R698-million for individual recurring premiums, for ordinary business and for retirement annuities and single premiums.

This represented more than 949 000 new policies for the year.

Operating expenses (including commission) for the industry amounted to R716-million, which, related to total income, gives a ratio of 13,6%.

58 STimes 17/4/83

Policyholders an army of suckers?

● From Page 1

makes it more efficient.

Now the warts:

● The pressure on life salesmen to sell ever more aggressively, with increasingly canny psychological tools, in a marketing milieu fast becoming more sophisticated and innovative, has many potential policyholders (or holders pressured to increase and "modernise" their insurance portfolios) with their backs to the wall; giddy with figures and comparisons they don't understand; groggy with trying to grasp the complexities of many new policies; woefully indecisive about the assurance needs and therefore vulnerable to what they may perceive as soft-touch or hard-sell sales "professionals", steeped in technological proficiency.

● In fact, these professionals are seen by some of the more "educated" target customers as under-informed, unimaginative and sold on selling the products of the life office which pays them best, whether or not these offer the best deals for the customer.

● The life sector's money power has grown highly significant in providing support for the stock market.

In the late Sixties, institutions as a whole accounted for less than 19% of purchases in the industrial share market, and life assurers for less than 2%.

Today the figures are comfortably above 30% and 12% respectively, although varying month to month.

● Because of their massive contribution to economic growth, and the imperative for this growth to provide jobs, the life organisations clearly carry weight in advising national and corporate planners and developers.

It is arguable whether they are fully qualified for this, and whether they tend to serve their own book rather than wider interests.

● On the political front, it is a truism that the second-largest life office, Sanlam, was a fountainhead for the nurturing and development of "Afrikaans" business generally, and remains highly influential (some say high-handed) in this role.

Again, what some call "high-handed" others describe as "merely firmly directional" in strategic matters, a hallmark of most large businesses and investors.

Whatever one's views, some or all of these issues seem bound to become heated and even crucial in the next five years.

SUNDAY TRIBUNE, APRIL 17, 1983

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Government may ease limits on institutions with cash

CHANCE TO INVEST ABROAD

REPORTS filtering from the seat of financial power in Pretoria suggest the Government might soon allow institutional investors, such as banks, insurance companies, mining houses, and mutual funds, to invest a portion of their funds abroad.

This would be stage two in the financial exercise which started with the merging of the financial and commercial rands in February.

In the meantime institutional investors have become far more active in trading their portfolios in both money and capital market securities.

This has created a larger market place where all investors are able to buy and sell securities at a moment's notice.

Says Francis Whitby, executive director of National Acceptances: "The South African money market is on a par with other major world markets and with the current education of investors which is taking place daily, our sophistication is increasing rapidly.

Finance Editor

"The compound growth of institutional cash flows will further increase trading activity which bodes well for the future development of the market."

Rates of interest have dropped dramatically since the beginning of last year and the big question is: How much further will rates fall, and have we reached the bottom?

Whitby pointed out that it was important to distinguish between money market and capital market rates. In a bear market securities with a life of three years or less fell into the money market but in a bull market the life of the money market assets extended up to five years.

He said a further drop in interest rates was expected in the months ahead due to the following reasons:

- With the merger of the financial and commercial rands if returns are attractive foreign capital from both a short term and a long term origin will flow into South Africa. A substantial amount of funds has already arrived.
- Non-residents may now move their funds freely in and out of the country. With our interest rates higher than overseas, as well as a strengthening of the rand, there is no reason for existing non-resident funds already here to leave the country.
- The published financial results of many of the major public companies recently have been poor and this trend is likely to continue. This will cause a further sharp drop in demand for bank credit which will produce excess liquidity.
- Gold has fluctuated wildly since oil prices were dramatically reduced on world markets. The real effect on our economy may be minimal. Whitby believes gold will go against the trend of following the oil price due to the distinct possibility of one of the developing countries, or a major international bank, not being able to meet its financial commitments.

Many developing countries are already in financial difficulties and those dependant on oil as a major export will need further financial aid to stay solvent.

Given these and several other factors, Whitby predicts money market rates will lead the continued downward trend in interest rates during this year with capital market rates following suit.

It is likely capital market rates will reach their low in mid 1983 and money market rates in the last quarter.

"Once the bottom is reached a sideways movement will occur," said Whitby.

(58) Times 17/4/83

MULTI-BILLION ADVANCE FOR LIFE INSURERS

By Stephen Orpen

THAT seemingly unstoppable juggernaut, South Africa's life-assurance industry, generated nearly R3 200-million for investment in the country's economy in its latest reporting year.

This represents almost R13-million *every working* day, and compares with less than R10-million as recently as 1981.

The value of sums assured looks certain to top at least R130 000-million this year.

This is more than twice the country's gross domestic product, or an average of more than R5 000 ***for every man, women and child in SA, and as much as R26 000 for every white.***

These astronomical sums, and vivid growth, emerge largely from the latest annual report, released this weekend, of the Life Offices Association (LOA), representing the 38-odd major life companies and other organisations in SA. Additional figures were computed by Business Times.

If one includes insured pensions, retirement funds and annuities, and endowment and related policies as well as the many types of life insurance, it is clear (see ***Comment*** this page) that the burgeoning assurance industry has become the fastest-growing, and patently most significant, "bank" for John Citizen's long-term savings.

In the past decade, it has also become arguably the fastest-growing and most important single source of new funds to finance the nation's growth.

This is despite the fact that the black population, which will in the next few years constitute three-quarters of SA's total population — fast approaching 30-million people — is still largely unschooled in the life business, and therefore constitutes a relatively meagre market on a head count.

All this, plus the life offices impact on stock market investment (see ***Comment***) has inevitably given these offices enormous clout in controlling overall national growth and investment trends and rates.

RECESSION BRUSHED ASIDE AS 12-YEAR BOOM THUNDERS ON

In turn, this has brought awesome, if low-key, economic and even political muscle.

On a conservative basis, allowing for the erosion of the rand's purchasing power, the industry has produced more than R38 000-million in new money for investment by the public sector in only 10 years — and nearly R80 000-million for private sector investment.

Turning to the latest annual figures, with an increase of R273-million, or 29%, in life-assurance payouts in the latest reporting period, insurance policyholders, pensioners and other beneficiaries reaped a harvest of R1 208-million — equivalent to nearly 93% of the national health and welfare vote of R1 303-million in the latest Budget.

The LOA talks of "tighter economic conditions" and notes that, by certain yardsticks, the pace of growth in the industry has slowed.

This is true in absolute

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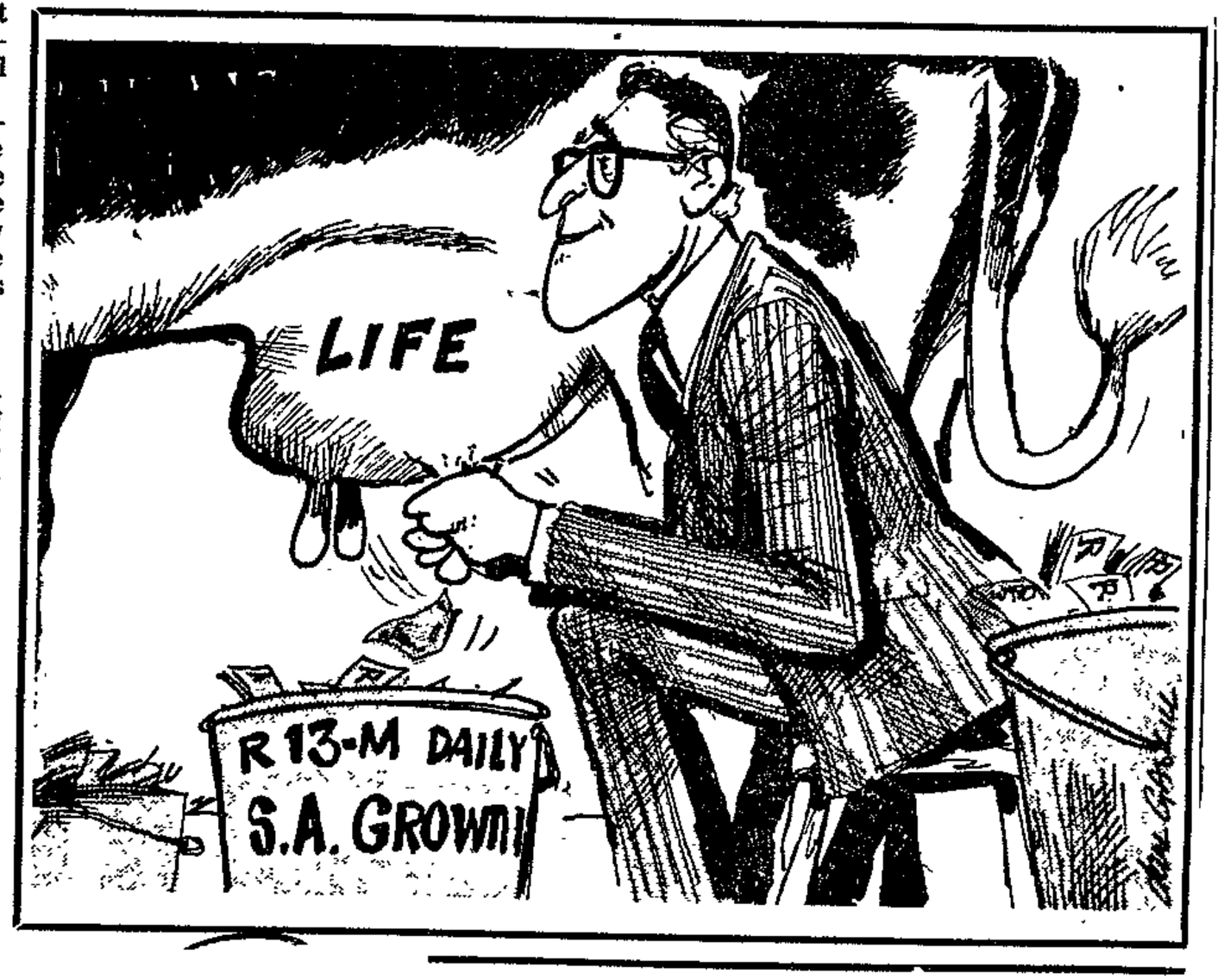


The truth about wheeler-dealer Moll would embarrass Government, says Quartermaine

By RIC TURNER

THE truth of alleged links between the South African Government and international wheeler-dealer Christo Moll may never come out.

Australian businessman Murray Quartermaine says he believes that if it did it would prove too embarrassing for the South African, Australian and United States governments.

Mr Quartermaine spoke long-distance to the **Sunday Tribune** after giving preliminary evidence to the Australian Governmnment's Royal Commission into drug-trafficking by the collapsed Nugan—Hand Bank.

The bank, which is said to have had CIA links, and to have been involved in gun-running and opium-smuggling.

During the recent Pretoria Supreme Court action, Quartermaine disclosed that Moll — who is wanted by Australian authorities for alleged involvement with the Nugan-Hand Bank — claimed to have links with Dr Eschel Rhoodie and the now defunct Department of Information.

Quartermaine won his case, but Moll fled the country to Holland without paying. He is now believed to be in Zurich.

Quartermaine claims Moll has linked up with Henri Humi, the man said to have assisted Moll with the transfer of Krugerrands from South Africa for the Department of Information.

During the Pretoria case, Moll denied any links with Dr Rhoodie or his infamous department; Dr Rhoodie also denied the link this week.

Quartermaine says he was only repeating what Moll had told him.

But he suggested it was too much of a coincidence that:

- Moll told him in Australia in 1976 that he had powerful friends in South Africa, including Dr Rhoodie, and said he had access to Krugerrands at a very favourable rate.
- Moll's house in Constantia Kloof (near Roodepoort, Johannesburg) was sold a R G Mostert, who supposedly lives in the Cape, but cannot be traced. Dr Rhoodie has the middle name of Mostert and has a home in the Cape.
- One of Moll's companies, Perth-registered Thesaurus Continental Investments and Securities, shared the same name and Swiss bank which the Department of Information used to channel funds overseas.

Disclosures about huge swindles may be dramatic, say police

Fraud gang broken

19 APR 1983 The Star

58

By Michael Chester

Commercial Branch detectives have broken a crime syndicate that has swindled banks and businesses of huge amounts of cash by chequebook and credit-card frauds over the past two years.

Colonel J A Hulme, commander of Johannesburg's Commercial Branch, confirmed today: "The racket was organised on a nationwide basis and we are still investigating how many frauds the gang committed before we tracked them down.

"We have the key men and can now start drawing the net round the head of the syndicate. The exposures may be dramatic."

AUDIT ALERT

If you know of any practice that deserves investigating write to: "Audit Alert," The Star, Box 1014, Johannesburg 2000, or phone 633-2344.

Evidence has already been collected on how the frauds were carried out:

- The syndicate offered bribes for originals of genuine cheques issued by businesses and carrying the signatures of the executives — usually two — authorised to sign them.
- Next, the gang made application to the appropriate bank branch, forging the necessary signatures, for the issue of new cheque books. People who appeared to be normal company messengers were engaged to carry out collections from the banks.
- Then, rather than run risks trying to cash the original cheque, the syndicate started to issue a whole bookful of cheques, as many as 200 in each folder, to order payments from the businesses into various disguised accounts.
- Experts were engaged to prepare counterfeit identity documents so that "ghosts" could apply for credit cards — and disappear at the end of their buying sprees.

The police swoop coincides with mounting concern in the Commercial Branch and among banks that credit-card frauds in particular may soon increase as buying on credit becomes more widespread.

"Fraud by credit cards has grown to at least R500 million a year in the United States," said Colonel Hulme. "The crime wave has already crossed to Western Europe and it is almost inevitable that it will hit South Africa sooner or later."

Brigadier Izak van der Vyver, national head of the Commercial Branch, is expected to attend a special conference of international experts on the growing problem in London next month.

He is also expected to talk to Scotland Yard to find out about British methods of tackling any widescale outbreak of credit-card fraud.

Almost all the major South African banks have their private fraud squads to track down offenders and devise new techniques to try to contain the problem.

The squads have already begun film shows and lectures for businesses which accept payments by credit card on how to protect themselves against fraud and how to detect swindlers.

And supermarkets and similar chains are testing computer equipment that can identify fraud attempts by reading secret magnetic tape codes invisibly imprinted on credit cards.

South Africa has formed links with overseas anti-fraud experts by launching its own national chapter of the International Association of Credit Card Investigators. Mr Piet du Plessis, of Standard Bank, has been appointed president.

Now the banks have urged the Government to introduce legislation that will deal specifically with credit-card offences.

"We have managed to keep credit card frauds to relatively low levels so far," said Mr du Plessis, "but we need to be prepared for the possibility of the US crime wave reaching here. We want all the barriers we can get."

Barclay's SA links under attack

The Star 19 APR 1983

The Star Bureau

LONDON — The Barclays Bank "shadow" board has again attacked the bank's South African connection, and accused the bank of seeing itself as banker to South Africa's armed forces

The bank has tersely defended itself.

Shadow board directors include actress Julie Christie, former South African editor Mr Donald Woods, Labour MP Mr Neil Kinnock and Briston University social policy Professor Peter Townsend.

In an 11-page report, the shadow board said the visit this month of the bank's chairman, Mr Timothy Bevan, to Namibia "would only be possible with a substantial military escort provided by the South African troops which illegally occupy the country in defiance of international law and the rulings of the United Nations."

The report claimed the Barclays connection provided "a major prop to the South African regime".

Julie Christie (left) and former South African editor Donald Woods are members of a "shadow" board campaigning for Barclays to quit South Africa.

"A lot of people in Britain who bank with Barclays may be unaware of the extent to which Barclays buttress the South African Government," said Mr Gerry Gillman, chairman of the shadow group.

Barclays Bank replied: "The shadow report is published by one of the anti-apartheid pressure groups which has assembled material to support its disinvestment point of view."

Barclays believed the bank had a record of "help for black businessmen" and other public-spirited policies in South Africa "for which it has long achieved recognition."

Mr Gillman dismisses this as "working within the system," and adds: "We've given that approach 40 years, and it hasn't worked."

His group wants Barclays to withdraw entirely from South Africa

Bullion price pushes up gold shares

Argus 19/4/83

58

Financial Editor

GOLD shares have been strong on the Johannesburg Stock Exchange in the past two weeks and one of the reasons is that the gold price mines are receiving is at a near record level.

Gold at the current price of around $443 an ounce may not seem all that high in relation to the price ruling in 1980 and early 1981.

But if this figure is converted into South African currency at the latest exchange rate of around $0,915 to the rand, the result is extremely impressive.

At $443 an ounce the local gold price is around R15 500 a kg which is one of the highest ever received by the gold mining industry, figures issued by the Chamber of Mines show.

Last year the average gold price was R12 591,37 a kg, with the quarterly average fluctuating, but generally trending upwards, from R11 091,35 in the first quarter to R14 766,03 in the fourth quarter

SLIGHTLY DOWN

Indications are that the gold price received by the mines in the first quarter of this year will be down slightly on the fourth quarter — but much will depend on the extent to which the mines sold forward and when the mines sold their gold.

Given a continuation of the current dollar gold price, it would seem that this could be a record or near record quarter for the mines' rand income.

Meanwhile, it seems that South African investors are making most of the market in gold shares, Roy Assersohn of the Argus Foreign Service reports from London.

NOT OVERPRICED

He quotes top London stockbrokers Rowe and Pitman who say that gold shares are no longer overpriced because South African investors have ensured that higher ratings will prevail on the stock market.

They say in their latest circular to leading clients that the Johannesburg view of values has become the dominant market force

The abolition of the financial rand appears to have caused a sharp change in gold-mining shares

"We initially thought that Johannesburg prices would fall towards overseas levels but the opposite appears to have happened," say the brokers

"Johannesburg with its heavy institutional cash flow and limited avenues for industrial investment is now the major buyer of gold shares and that market's higher ratings now seem to prevail"

The brokers say that share prices are not discounting much more than about $450 an ounce for the price of gold and this is "not unreasonable".

"Consequently we do not think that gold shares are overpriced at present levels," the brokers add.

RECOMMENDATION

They recommend that investors switch their gold holdings away for the more marginal mines to those of the better class medium and low cost mines.

They recommend selling Bracken, Durban Deep, ERPM, Leslie and Loraine.

They rate Harmony, Randfontein, Southvaal and Western areas as buys, and suggest switching Blyvooruitzicht into Harmony, President Brand into President Steyn and Deelkraal into Elandsrand

12M
The Star Friday April 22 1983

Consumers taking out more HP, banks report

By Alec Hogg,
Assistant Financial Editor

Despite the recession and indications that salary increases this year will be far lower than for some time, people are spending as if there is no settlement date.

Last month, the country's two largest HP banks, Wesbank and Stannic, had their second highest new business figures yet, with Wesbank breaking the R100 million market for the first time since June last year.

Stannic wrote new business worth R142 million in the month. Although the bank's general manager marketing, Mr Duncan Reekie, is not prepared to give a breakdown between consumer and industrial business, he told The Star that the consumer business rose by 20 percent, while the industrial side remained static.

FUNCTION OF FISCAL DRAG

Nedfin Bank's managing director, Mr Ron Rundle, said his bank also had an "above-average" month in March, particularly on the consumer side.

It is difficult to determine exactly why consumers are taking out more HP. Mr Reekie believed it was a function of fiscal drag on consumers' take-home pay, meaning that they had to go deeper into debt to afford durable purchases.

Wesbank's senior general manager, Mr Peter Thompson, was not as specific: "I have my own theories, but I'd hate to have them published." But he said that if one disregarded the public holidays, the level of business was holding up well in April.

Mr Rundle explained that March was seasonally a good month, but that the improvement would have to be continued for a few more months before any trend could be established.

Another view is that the consumer — having gained confidence following the recent buoyancy in the gold price and indications that the US economy is recovering — is now taking the view that the current recession will be short and sharp. Besides this, competition on prices of goods and financing has never been keener.

WORST COULD BE OVER

An independent economist, Mr Frank Shostak of Econometrix, argued that the competition between banks following the recent abolition of their cartel was probably an important factor.

Mr Shostak said: "Banks have an enormous potential for lending, and since the abolition of the cartel have become more competitive and are trying to activate consumer demand.

"I wouldn't say the economy has turned upwards yet, but our composite index of leading indicators has been strong for quite a while. I would hesitate to say that we are out of the woods, but it certainly appears that the worst could be over," he said.

SA must 'use' gold, says expert

By David Braun

outh Africa has the responsi-ility, as well as the opportuni-y, to use its international gold upply monopoly to advantage, r David Hargreaves, director the British Metals Research Unit, told the conference yes-rday.

"The gaining of a domestic dvantage by the control of upply and price to the market eed not conflict with the well-being of the industry world-wide if such controls are installed within a framework of commercial reality," he said.

To improve its market position in gold South Africa should consider:

- Strategic witholding and release of newly mined supplies.
- Use of the futures markets.
- Use of gold as loan collateral.
- A lobby for gold remonetisation.

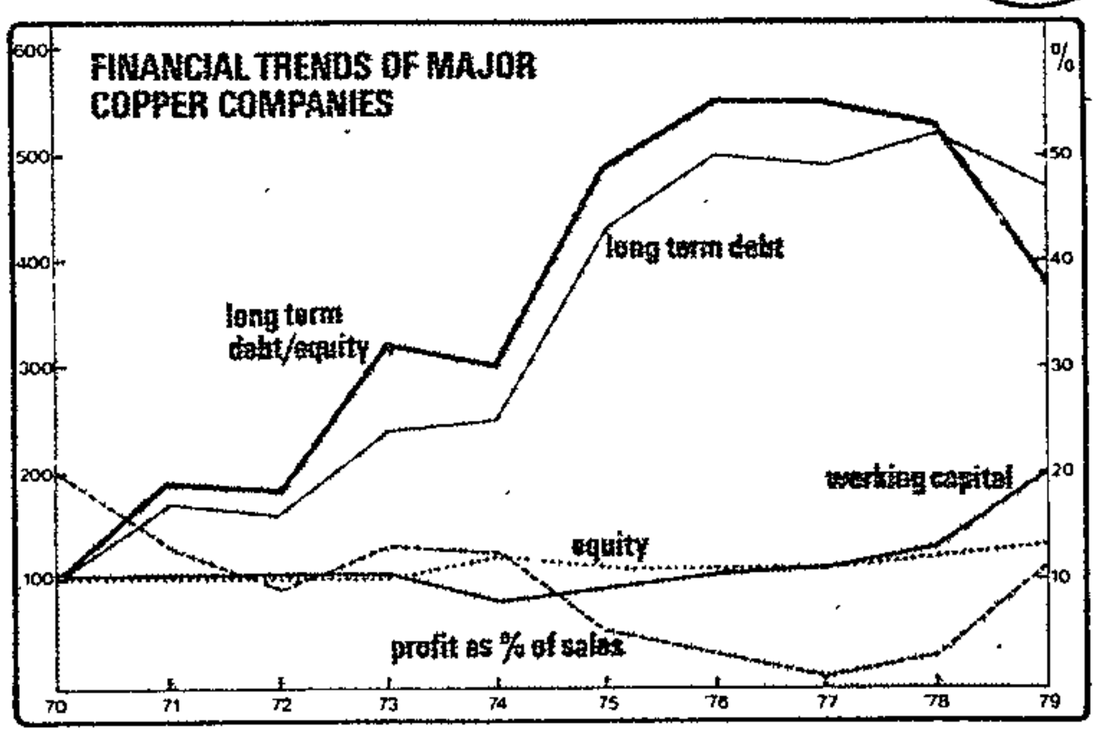
Mr Hargreaves said SA had resisted using futures markets as an adjunct to its sales policy while the Canadians, whose gold production was less than 10 percent of South Africa's, were adopting a fairly aggressive stance.

The establishment of a market in Hong Kong had effectively heralded a 24-hour gold market upon which the traded price was totally dependant.

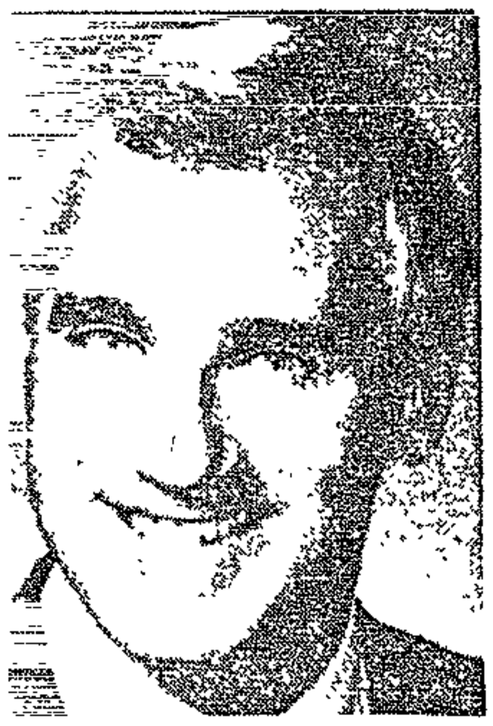
"There is a danger of undue volatility and organised squeezes as a result of such a volume of activity but there is little possibility of the market being dismantled. Continued growth is more likely," Mr Hargreaves said.

"SA's presence can be viewed in two ways — a stabilising influence or potentially the most powerful addition to a fast-moving market."

These reports are based on papers delivered at the Second Southern African Metals and Minerals Conference in Johannesburg yesterday and today.



This plots the changing pattern of finances of the major commercial copper mining companies from 1970 to 1979. Whereas in 1970 longterm debt was only 10 percent of equity, by the late 1970s the figure had risen to more than 50 percent. A so-called "high-risk" industry should not operate with such high debt levels, says Mr Reg Eccles.



VAUGHN

Uranium recovery unlikely

here is little likelihood of a ubstantial further recovery of anium spot prices in the near m, Mr Jim Vaughan, vice-esident of Nuexco, told the nference yesterday.

"Two basic reasons argue gainst significantly higher ear-term prices.

"First is the continued existence of a strong secondary market, where holders of inventory are selling material back into the market.

"Second is the chronic imbalance between consumption and production, which will result in the world's inventory position increasing further over the next five years."

Nuexco expects continued growth of installed nuclear capacity into the 1990s, from 146 gigawatts in 1982 to 370 gigawatts in 1996, a compound increase of about seven percent a year.

Consumption of uranium (mainly in nuclear plants) on a worldwide basis is forecast by Nuexco to increase from 29 million kg to 58 million kg in 1996, a compound growth rate of five percent a year

Mr Vaughan said that with inventory redistribution likely to continue it was difficult to see a mechanism for substantial price strengthening in the near term

Plastics outdoing base metals

Copper faces a potential major threat from fibre optics in the telecommunications end-use market, Mr Reg Eccles, group executive for base metals, Consolidated Gold Fields PLC, told the conference today.

"It is too early to assess with accuracy the extent of this threat but it has been estimated variously as displacing 100 000 tons to one million tons a year of mine copper production by 1990."

Mr Eccles said plastics had made significant inroads directly and indirectly into most of the base metal end-uses. It remained a major threat to copper in pipe and domestic construction materials, had taken a large share of the packaging market from tin, and had been a direct substitute of zinc in diecasts. Yet immediate prospects were for a revival in consumption and prices of all metals.

It appeared that copper, nickel and tin markets' problems would not be solved by a couple of years' reasonable economic growth.

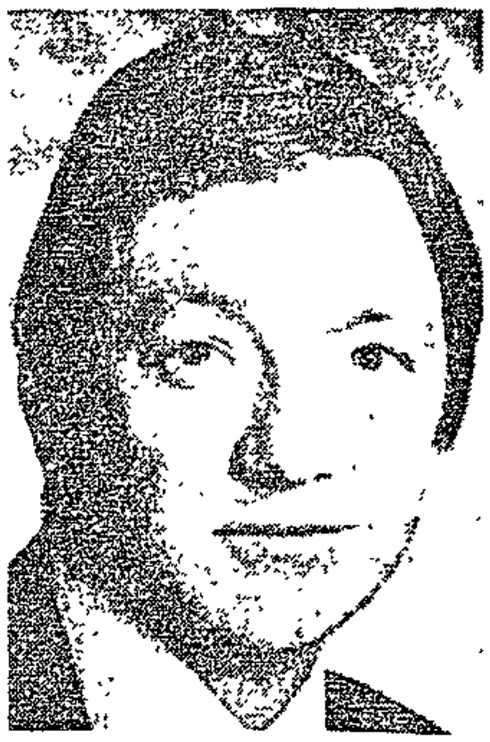
"In my personal opinion real metal prices will remain weak, by post-war comparison, for most of this decade."

Mr Eccles said the fact that much Third World debt paper was worthless should result in a more conservative attitude on the part of banks to the financing of major minerals projects in developing countries.

Likewise the banks probably would adopt a more cautious attitude towards loans to commercial mining companies, given the latter's recent profits record, the worst in 50 years.

The mining industry would have to rely on risk capital, in turn placing responsibility for decision-making more firmly where it belonged, in the mining companies, and much less in banking halls and government circles.

The end result would be a healthier industry.



ECCLES

Business 'uses' futures market poorly

The cash value of gold futures traded in 1982 was probably about R33 000 million, the Futures World editor said yesterday at a metals and minerals conference in Johannesburg.

Mr John Parry said: "A conservative estimate of world gold futures turnover in 1982 was 15-million contracts. A more realistic figure was probably nearer 20-million. At 400 dollars an ounce the nonimal value of this trade was R660 000 million.

"This represents the face value of the contracts traded. It is slightly unrealistic, because future contracts are traded on a margin, and because all contracts are closed before delivery falls due. The cash value of the trade is considerably less then its nominal value, but even so it was probably around five percent of its nominal value."

Mr Parry said although there were 11 gold futures exchanges world-wide, more than half the business was done at New York's Commodity Exchange.

He said the futures business, especially in relatively new areas like gold, had been used poorly by many sectors, who should have been more enthusiastic

23 APR 1983

Cape Herald

Barclays say 'sorry'

58

AZAPO (the Azanian People's Organisation) has had its second clash — and as many victories — in a year with a major British bank which has substantial investments in South Africa, Barclays

OBJECTIVES

Last week the bank refused an application by Azapo to open a savings account, allegedly because of the organisation's policies

It later reversed the decision, calling it an error of judgement.

The acting manager of the banks's Aiken House Branch in Johannesburg refused to open an account for the organisation because he "did not agree with its aims and objectives".

But later Mr Kevin Mc Gregor of Barclays Bank's public relations office in Johannesuburg said that Azapo was welcome to open an account.

In a statement the bank said that the acting manager, Mr Pretorius, had advised the controlling office of his decision after he had acted. Had he done so before, the bank would have exercised its prerogative in favour of opening the account.

MISUNDERSTANDING

"The acting manager made an error of judgement. Azapo is welcome to bank with us. We regret the misunderstanding."

An executive member of Azapo, Mr Ishmael Mkhabela, said this was the second incident within a year involving barclays Bank and the organisation.

Last year the Durban chairman of Azapo, Mr Bradley Potgieter, was dismissed from the bank after being convicted of wearing a banned T-shirt.

After an uproar over the dismissal, he was reinstated.

WEEKEND POST, APRIL 23, 1983

Survey shows black insurance costs more

By SIMON BLOCH

IF you are black, live in a high-density township like New Brighton and require insurance cover, the chances are that your premiums will be far higher than if you were white and live in an "elite" suburb of Port Elizabeth. That is if you can get cover at all.

This week, Weekend Post investigated security available to black members of the public and it became apparent that some insurance companies differentiate between black and white policy holders.

During the course of the investigation, a number of insurance brokers said large insurance companies preferred not to take black business at all.

While maintaining they did not discriminate on racial grounds, short of saying black business was a bad risk for them, a number of companies admitted they held separate views on underwriting policies for black clients

Perhaps it could be called class discrimination.

A spokesman for the Insurance Institute said statistics showed that theft and burglary, motor accidents and attacks on people in black areas was far higher than in white areas.

Because of these factors, people living in these areas were higher risks to insurance companies, thus justifying the "loading" of policy premiums and excesses.

However, for some members of the public who live in New Brighton, it is difficult for them to prove to insurance companies that they are not among the high risk ratio.

The vice president of the East Cape African Chamber of Commerce, Mr C D Siwisa, said higher premiums were "ridiculous because the system is to blame for blacks living in circumstances beyond their control.

"While insurance companies are basing their premiums on statistics which dictate that blacks pay higher premiums than other racial groups, surely this is unfair.

"The neglect of black social conditions and the Group Areas Act of the Nationalist Government are the root causes of this problem and that is the price blacks have to pay for all the injustices brought about by separate development," he said.

Mrs Molly Blackburn, Progressive Federal Party MPC for Walmer, echoed Mr Siwisa's views.

She said the real cause of this problem was rooted in the set of circumstances blacks are forced to live in.

"This points directly to the unfairness of almost every aspect of life which exists in South Africa at present.

"Insurance is a highly competitive business and their figures are based on statistics rather than any racial prejudice.

"There is nothing unfair about what they are doing. But one can see so clearly that everything is unfair. Why should a man earning the equivalent of a white middle class wage be penalised against his white counterpart?" she asked.

A spokesman for a large insurance company with offices in Port Elizabeth said motor vehicle policies for blacks were often loaded by as much as 200%, and householders' policies as much as 50%.

According to the spokesman, a rate for a black driver under the age of 25 was immediately loaded by 200%. Once he was over 25 years old, the rate was lowered, but was not brought in line with policies for white holders.

White driver's premiums are loaded by 100% until the age of 25. After this period, the loaded figure falls away, depending on the driver's record.

She said the "loading" also depended on which area the person lived in because of its risk factor.

"Our statistics show a bad experience of theft, accidents and burglaries in the black areas. It's a very costly market," she said.

Her company would not cover a motor car against theft in a black township unless it was housed in a lock-up garage, whereas there was no difficulty in underwriting a policy for white-owned cars, no matter where they were parked.

An insurance broker from Cape Town said it was a peculiar situation in South Africa and was very sad.

"Non-whites have far greater difficulty in placing cover than whites, especially if they live in townships or locations.

"Statistics show that crime is far more prevalent in the townships than other areas, and this makes the risk greater to insurance companies.

"They are in it for profit and have to hedge their bets. Even in the coloured areas, insurance companies are selective about who they are prepared to insure," he said.

This week a spokesman for the Insurance Institute said: "Insurance companies don't categorically discriminate racially, until the facts are on the desk."

He said there were obvious reasons why the owner of a black household in the township couldn't get the same sort of cover for its contents as a resident in Walmer.

"The lack of security is one reason as far as I'm concerned. The townships are basically high crime areas aren't they? I don't think residents have any real security and I don't think any of their possessions are secure in the townships.

"But anything is insurable at a price. Insurance is playing with money and statistics. We're in business to make money like everybody else.

"As a householder, I have cover in case somebody walks through my front door and walks out with R1 000 of my possessions without my knowledge.

"But I doubt if anyone could get that sort of cover in the townships. It's not the kind of business that I would go out and look for," he said.

He said life assurance premiums were also probably higher for blacks than whites.

"Their exposures to attacks and accidents are greater and therefore the higher the exposure, the higher the premium."

(58) RDM 26/4/83

UBS all geared up for merger with Standard

By NORMAN CUTHBERT

THE on-off merger of the United Building Society with the Standard Building Society is on, and a formal announcement is expected later this week.

The main stumbling block in the merger is said to have been the approval required from the Registrar of Financial Institutions, Mr Naas van Staden, who is now believed to have agreed to the amalgamation.

Building society sources said last night all that remained to be done was the formal signing of the agreement by the two societies.

The merger will create a giant institution with assets of almost R5 500-million, dwarfing its closest competitor. Of the other two big societies, the SA Permanent has assets of R3 700-million and the Allied R2 800-million. The SBS is fourth in line.

Mr Terry Powers, SBS managing director, would neither confirm nor deny the report.

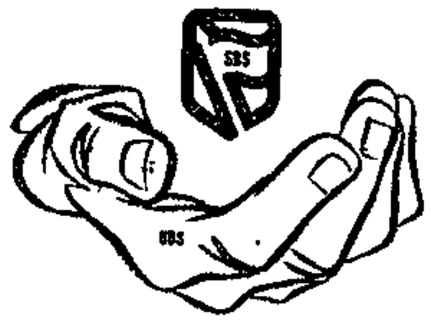
"When we have something to say we will say it," was his only comment.

From the start the reported amalgamation plans have been shrouded in mystery, with rumours that it had been blocked by the authorities.

There was talk of the project bogging down in "complexities".

Mr Van Staden, however, is understood to have said the only criterion for approving or rejecting it would be the public interest.

Some other building societies, anxious to curtail the United's market power, objected it would make the



society — already the country's biggest — too big, with virtual monopoly powers.

Other observers pointed out it was the only society big enough to shelter the ailing SBS.

The UBS, whose officials have denied the merger will create monopolistic conditions, has a 32% market share. Its total assets are R4 900-million.

A takeover of the SBS would add about R458-million to its asset base.

The most recent significant takeover in the building society movement was that of the Southern Trident by the UBS in November 1981. Some circles said the UBS was still "digesting" this meal, which served to pull the UBS' key ratios down.

From the Standard Bank's point of view the new merger has distinct advantages which are seen as a threatening spectre by other societies.

Its automatic teller machines are fully compatible with the computer equipment of the UBS — at present the only non-bank affiliated society.

SBS customers will, of course, go on to the same mortgage bond interest rate basis as UBS customers.

For some time SBS bond interest rates have been out of step with and higher than other societies.

They will also benefit from the UBS' wider branch network.

● See Page 11

Standard, UBS plan to link up

By Trevor Walker

South Africa's largest commercial computer network will be launched soon, despite official opposition. It will enable people to conduct virtually any financial transaction through one office

The Standard Bank and the United Building Society, blocked by the Registrar of Financial Insitutions from merging the bank's building society with the UBS, have decided to a rationalise various aspects of their businesses to allow for better use of assets

Sources close to the companies say the Registrar can prohibit a financial merger, but a rationalisation of computers, branch offices and staff cannot be stopped.

This could mean that the Standard Building Society will cease accepting deposits and will funnel these towards the UBS, but this might only take place at a later stage.

Mr Terry Power, MD of the Standard Building Society, today denied that any merger would take place betweem his society and the UBS.

The main reason for a link-up was originally rationalisation of South Africa's largest banking and building society computer networks This is now still expected to take place.

The Standard Bank, with over 200 automatic teller machines in addition to over 350 terminal locations linked to a powerful IBM system, has lead the field in the introduction of a whole range of computer-based banking operations.

It is now set to expand this into another IBM system, based on softwear recently sold by the bank to the UBS.

The proposed linkup with the UBS, which has over 400 computer terminal locations including agency offices, will undoubtedly introduce a financial computer network of awesome dimensions.

Existing facilities

It could ultimately be possible, via the use of a single terminal card, to have access to either a building society or bank account, transact business between the two and make use of all existing computer and card-linked facilities.

Companies using the Standard Bank system already have access to a whole range of facilities including Government figures, hundreds of graphs, stock exchange prices and related market data, money and foreign exchange market rates. They will soon be able to conduct actual foreign exchange deals via the central computer.

Standard Bank sources have said that despite moves by the authorities to allow for freer competition between banks and building societies, the bank does not expect building societies to move dramatically away from their present role of providing home finance.

Mr Chris Ball, deputy managing director of Barclays Bank — the only bank to move directly into the home loan market — said recently Barclays did not aim to confront building societies in their traditional areas of operation on a large scale.

He said the bank had granted home loans of about R250 million, following the decision to move into home finance. The original target of R500 million was about right and he did not see the bank extending itself much further in the future.

The experience of Barclays in the UK had shown it was not in the bank's best interests to divert excessive amounts into this one area of business, Mr Ball said.

Building society merger blocked

By NORMAN CUTHBERT

THE Registrar of Financial Institutions has blocked the proposed merger of the Standard and United building societies.

Yesterday the Rand Daily Mail reported senior banking sources as saying permission for the merger had been granted.

However, Standard Bank is to take over the UBS banking account and the two organisations are to fuse their compatible electronic banking networks and certain other client services.

It is understood the Registrar, Mr Naas van Staden, withheld permission as he believed it would create a monopolistic situation in the building society movement.

Notification was apparently received by the two parties on Monday.

The reason SBS managing director Mr Terry Power on Monday refused to deny the merger would take place is believed to be that he did not wish to make any statement ahead of a UBS board meeting set for later this week.

Announcement of the Registrar's decison has dispelled the cloud of mystery that has surrounded the proposed merger since it was first mooted two months ago.

A Standard Bank source confirmed yesterday the main reason for the proposed merger was to link the bank's and the UBS's electronic financial systems.

No permission is needed to do this and the linking of the systems will go ahead, to form the country's largest ...ercial computer net- ... effect, bear ...s of the pro- ...except the for- ...ion.

...hout the merger this link will have far-reaching effects on all other banks and building societies.

Under an agreement yet to be signed, but with the broad outlines agreed, the UBS and Standard Bank are to form "a very close relationship".

This, it is speculated, could lead in the long term to the demise of the Standard Building Society.

A statement issued by the UBS yesterday said it would share with the Standard Bank certain facilities such as their automatic teller machine networks, training programmes and a number of other mutually-offered client services.

The Standard Bank has more than 200 automatic teller machines, plus 350 terminals linked to its IBM computer. The UBS has more than 400 terminals located in agency offices across the country.

Hitherto UBS's main banker was Barclays. Standard Bank won the account on the most competitive quotation when the UBS recently put it out to tender.

A spokesman for the Standard Bank described the winning of the UBS acount as a "major breakthrough".

No senior official of Barclays — to whom the loss of the UBS account will be a serious blow — could be reached for comment.

It was under a similar negotiated "close business relationship" in 1978 that the Prudential Equity Building Society was taken under the Standard Bank's umbrella and renamed the Standard Building Society.

A Standard Bank spokesman pointed out that while the bank continued to have a close relationship with the SBS, the latter was a separate body, owned by its shareholders.

Barclays starts farmers' fodder info

29 APR 1983

By Stephen McQuillan

Barclays Bank has established a Fodder Bank Information Bureau to aid drought-stricken farmers.

It already has 9 000 tons of cattle fodder of various types and grades listed on a central register, drawn-up by its agricultural services division.

Branch managers who have clients with fodder for sale will telex the information to the central register

Branches in areas where feed is needed can call the agricultural division to be advised of location, quantity, type and price of fodder. The bank will then be able to tell farmers about the availability of feed.

"This free service is available to all farmers," the bank's chief agricultural adviser, Mr Frans Venter, said.

"We regard this drought relief scheme as a service to all farmers and will use our facilities in rural areas to bring what measures of relief we can while the drought lasts," he said.

Barclays would act only as an information bureau with the sole function of putting fodder sellers and buyers in touch.

Move to deny SA of future IMF loans

30 APR 1983

By Neil Lurssen,
The Star Bureau

WASHINGTON —A Bill aimed at preventing South Africa from obtaining future loans from the International Monetary Fund has been introduced in Congress. Public hearings on the measure start next week.

While not mentioning South Africa by name, the Bill make it illegal for the US Government to support an application for an IMF loan by any country practising apartheid.

The Bill was introduced by Congressman Julian Dixon, chairman of the black caucus in the Congress and it has 71 co-sponsors, including Mr Harold Washington, new mayor of Chicago who is also a congressman.

The black caucus led opposition to South Africa's successful application last November for an IMF loan equivalent to $1 000 million.

Then, the Reagan Administration supported the application on purely economic grounds — much to the chagrin of critics.

Congressional sources are predicting a stormy passage for the Bill, not only because of the South African connection but because it is likely to be tacked as an amendment to a controversial Bill to raise the US quota in the IMF to $8 500 million.

This increase is expected to run into trouble in the House of Representatives where many members see it as just a way of rescuing the big banks who lent too much to developing countries.

The sources say, too, that the Dixon amendment could be expanded to include other countries accused of abusing human rights.

"I would say it has a 50-50 chance of getting through," a congressional aide said yesterday.

Hearings start on Tuesday before the House Banking subcommittee on International Trade, Investment and Monetary Policy.

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Court bid to smash anti-SA cash ban

By PATRICIA CHENEY: Washington

NEW state and city laws demanding divestment of public funds from US companies trading with South Africa could be unconstitutional.

They are to be challenged in court and it is possible they will be thrown out.

This is the view of Mr John Chettle, US director of the South Africa Foundation.

Mr Chettle said it would deal a heavy blow to the whole divestment movement.

"At the very least the legal snarl-ups might be enough to discourage other states from passing similar legislation."

It could even result in the US Government declaring the state laws unconstitutional.

So far the University of Michigan is the only institution to declare its intention of legally challenging a state divestment law.

Mr Roderick Daane, chief attorney for the university, said it was suing on the grounds that the state constitution gives it the power to control its investments.

The university has agreed to divest part of its stocks in US companies with operations in South Africa.

But it has decided to retain those stocks invested in Michigan companies which provide substantial employment in the state.

Violated

In a report released this week Mr Chettle claimed that two legal foundations and a large foreign trade council might take the issue to court.

He concluded that state and municipal divestment laws violated the US constitution on three counts:

● The supremacy clause, which gives the federal government the exclusive right to conduct foreign policy.

● The commerce clause, which empowers the federal government to regulate interstate and foreign commerce.

● The 14th Amendment, which prevents discrimination against individuals or companies.

According to Mr Chettle, not only could companies sue the state government, but also a student in a state university who believed his fees would rise because of disinvestment or a pensioner who feared for the security of his state pension.

Opposed

A Commerce Department spokesman said the Reagan Administration opposed federal legislation encouraging or discouraging divestment in South Africa

He added, however, that states had the right to pass their own divestment laws, and the federal government did not interfere in state actions.

Corporations contacted by the Sunday Times said they did not have grounds to take legal action

So far, divestment laws have been enacted in Michigan, Massachussetts, the city of Philadelphia and several towns

Cape Times 30/4/83 5-8

Syfrets breaches the R2 000m barrier and predicts more growth

By PAUL DOLD
Financial Editor

THE market value of Syfrets' funds under administration has breached the R2 000m barrier for the first time, the managing director, Mr Brian Robinson, announced yesterday.

Funds under administration have risen by more than R300m since September 1982 when they stood at R1 733m. The rapid growth was mainly achieved by the sharp rise in the portfolio management division which is now backed by one of the most sophisticated computer systems in the country.

"The management of portfolios continues to be one of the cornerstones of our business with appropriate emphasis on research and related professional skills."

While the rise in the market value of funds was certainly helped by the buoyant stock market, the book value has also shown excellent growth, passing the R1 500m mark and well up from the R1 370m at the end of September last year. There has been particularly heavy market growth in the Transvaal for this Cape-based group.

Syfrets participation bond scheme, Mr Robinson claims, is outperforming competitors.

"At the end of September 1982, our scheme stood at R516m and has since grown by R43m to R559m. Syfret's scheme is now approximately 56 percent of all the movememnt compared to 44 percent in 1980 and 54 percent in 1982."

The banking arm, Syfrets Bank, is now making a good contribution to the group's new business thrust and profit growth. Syfrets is planning rapid expanion of this division, targeting on executive home loans, medium-term facilities for commerce, industry and the agricultural sector.

Syfret's Brian Robinson . . . rapidly increasing market share.

NEIL AGGETT

WE WON'T FORGET

Building societies growth rate up 20%

By HAROLD FRIDJHON

JOHANNESBURG. — The building societies appear to be pulling themselves out of the trough into which they had slid during the year to March 1982. Figures for the financial year to March 1983, show reasonable gains both in the raising of money and the granting of loans.

An interesting sidelight to the report is the increase in the average loan granted. In 1981 it was R25 141; it rose by 16,4 percent to R29 284 in 1982 and leapt by no less than 20 percent to R35 154 in the year to March 1983.

This means that the price of property is increasing at a faster rate than inflation. The rate of increase was relatively slow last year but has apparently accelerated this year with the increased availability of mortgage money.

Increase

And there has been a massive increase in the gross amount advanced on loans.

In the year to March 1981, advances amounted to R4 686m. This number slumped by nearly half to R2 490m in the year to March 1982, the year of the big squeeze on the building societies.

But there was a big recovery in the year to March 1983, when the gross advances soared to R4 223m, R1 733m up on the previous year's figure and almost up to the high standard of 1981.

Relatively the biggest increase has been in the money advanced for new construction.

At March 1981 this amounted to just over R1 000m. It plummetted to R495m last year and has recovered to R1 000m in the last financial year.

Smaller units

This recovery has probably been of inordinate assistance to the smaller units in the building trade and its suppliers.

Total loans outstanding have increased by about R1 000m in each of the three years past and now stand at R12 462m.

The number of loans granted at March 1981 was 223 414. This figure dropped to 94 879 in 1982 and was 137 860 at March 1983.

The building societies would not have been able to make this impressive turnaround in their lending, if they had not enjoyed a large inflow of funds.

Growth rate

Total shares and deposits with the societies rose by 19,7 percent in the year to March 1983, to reach a total of R16 117m. This compares with a meagre growth rate of 11 percent the previous year.

The mix of the funds invested with the societies has changed quite drastically over the three years.

In 1981 share investments were more than half of the total, with fixed deposits 26,9 percent and savings 21,69 percent. While the percentage of savings have shown little change, the percentage of money which flowed into shares has dropped while the amount of deposits has increased.

In the year to March 1982, the mix was 32,63 percent deposits and 44,62 percent shares and the position deteriorated further in the year to March 1983 with deposits rising to 36,89 percent of the total and share investments dropping down to 40,82 percent.

Share investments tend to be longer-term and less volatile than deposits and with a book heavy in share investments, the societies are in a position to plan further ahead than they can with deposits.

Commenting on this in the monthly report of the Association of Building Societies, Mr Peter Richardson, the president, says:

"A most significasnt aspect of the March performance is a slight swing away from fixed deposits into shares. For the first time in many months the growth of R240 500 000 in shares exceeded the R210 300 000 in deposits. It is hoped that this trend will continue and gain momentum."

Year	Membership				
	African	Asian and Coloured	White	Total
1970				1 800
1971				2 000
1972				
1973				
1974				
1975				
1976				
1977				
1978				
1979				
1980				

Move to block 'apartheid loans'

By Neil Lurssen
The Star Bureau

WASHINGTON — US congressmen were told today that the cost of maintaining apartheid severely distorted the South African economy.

This view was offered at a House of Representatives subcommittee hearing on a Bill that aims to prevent the US Government from supporting loan applications to the International Monetary Fund by any nation that practises apartheid.

The Bill was introduced in the House by Congressman Julian Dixon of California, chairman of the 21-member black caucus. It has 90 co-sponsors, including Congressman Walter Fauntroy of Washington, who is tipped as a possible choice if blacks decide to field their own presidential candidate next year.

In testimony to the sub-committee on international trade, investment, and monetary policy, Mr Dixon said there was extreme disappointment at the Reagan Administration's support last November for South Africa's $1,1 000 million loan — the largest single loan South Africa had ever received.

He said it was apparent that the US had done little to question the loan or to determine how apartheid contributed to the economic policies that beset South Africa, and how adjustments could be made.

"How ironic that an institution which tells borrowing countries such as Egypt to raise food prices, or devalue its currency, as in the case of Sudan, or to cut services, as with Jamaica, remained so silent in its structural adjustment programme with South Africa," said Mr Dixon.

"The IMF loan virtually matches dollar for dollar South Africa's expenditures to continue the illegal occupation of Namibia," he said.

Added to that had to be the high cost of maintaining internal security, policing the black majority, and continuing military interventions into neighbouring countries.

Mr Dixon said it was clear the SA Government viewed its receipt of an IMF loan as a feather in its cap and an endorsement of its policies by the world's most prestigious financial institution.

The time had come for the US to incorporate into its own policies the proviso that it would not support IMF loans to any country that supported apartheid.

Economics Professor R S Eckaus of the Massachusetts Institute of Technology told the committee that the US Government should — and did — take into account the human rights policies of governments to which it provided direct economic assistance. The fact that the assistance in this case was provided through an international agency did not remove the human rights criterion.

The US controlled a large share of the voting rights in the IMF and this should reflect the will of its citizens, the majority of whom opposed the "monstrous practices of apartheid".

He asked whether the IMF, in granting loans to South Africa, was being consistent with its own standards set for other countries

He criticised the fund for failing to establish the extent to which South Africa's financial needs were caused by internal policies.

"Apartheid spreads its influence over the entire economy of South Africa," he said. "It limits the recruitment of black labour into the skilled labour force. It profoundly constrains the education and training of blacks."

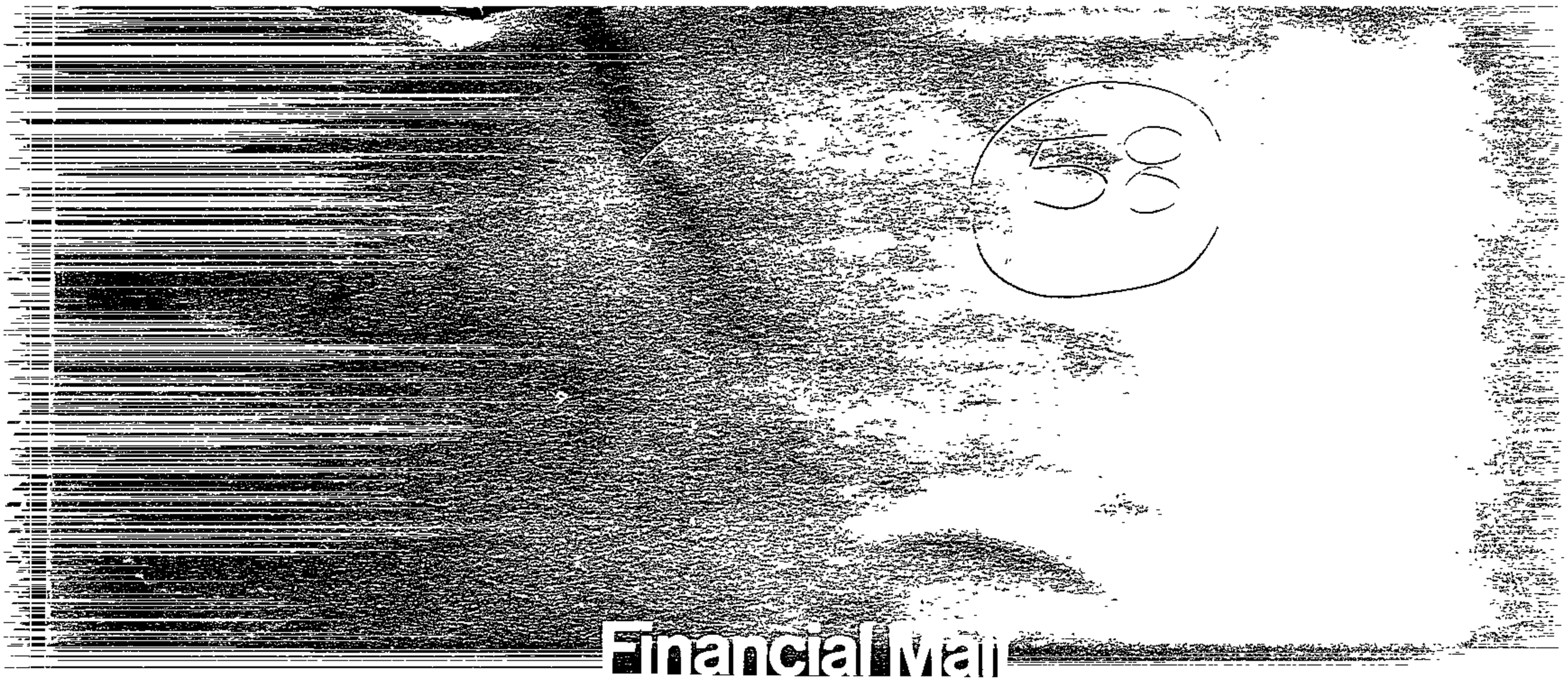
He said the shortage of skilled labour was a persistent explanation in IMF staff reports on South Africa's difficulties.

"Apartheid shapes the composition of investment and drives it into exorbitantly expensive attempts to substitute domestic production for foreign imports, as in the notorious investment in synthetic fuel plants.

Professor Eckaus asked why the IMF, rightly proccupied with economic efficiency to resolve balance of payments difficulties, should ignore such an overwhelming distortion of the economy as apartheid.

The likely fate of the Dixon Bill is that it will become an amendment to a Bill to increase the US quota to the IMF to $8,5 000 million. This is a controversial measure which is not expected to have an easy passage through the House of Representatives.

One informed source said the apartheid amendment had a 50-50 chance of surviving the legislative process.



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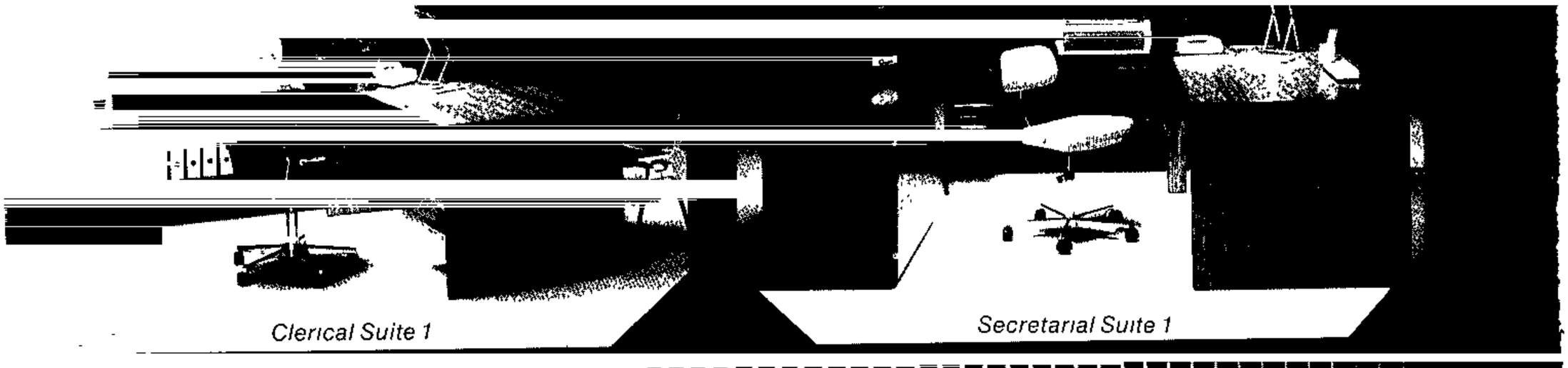

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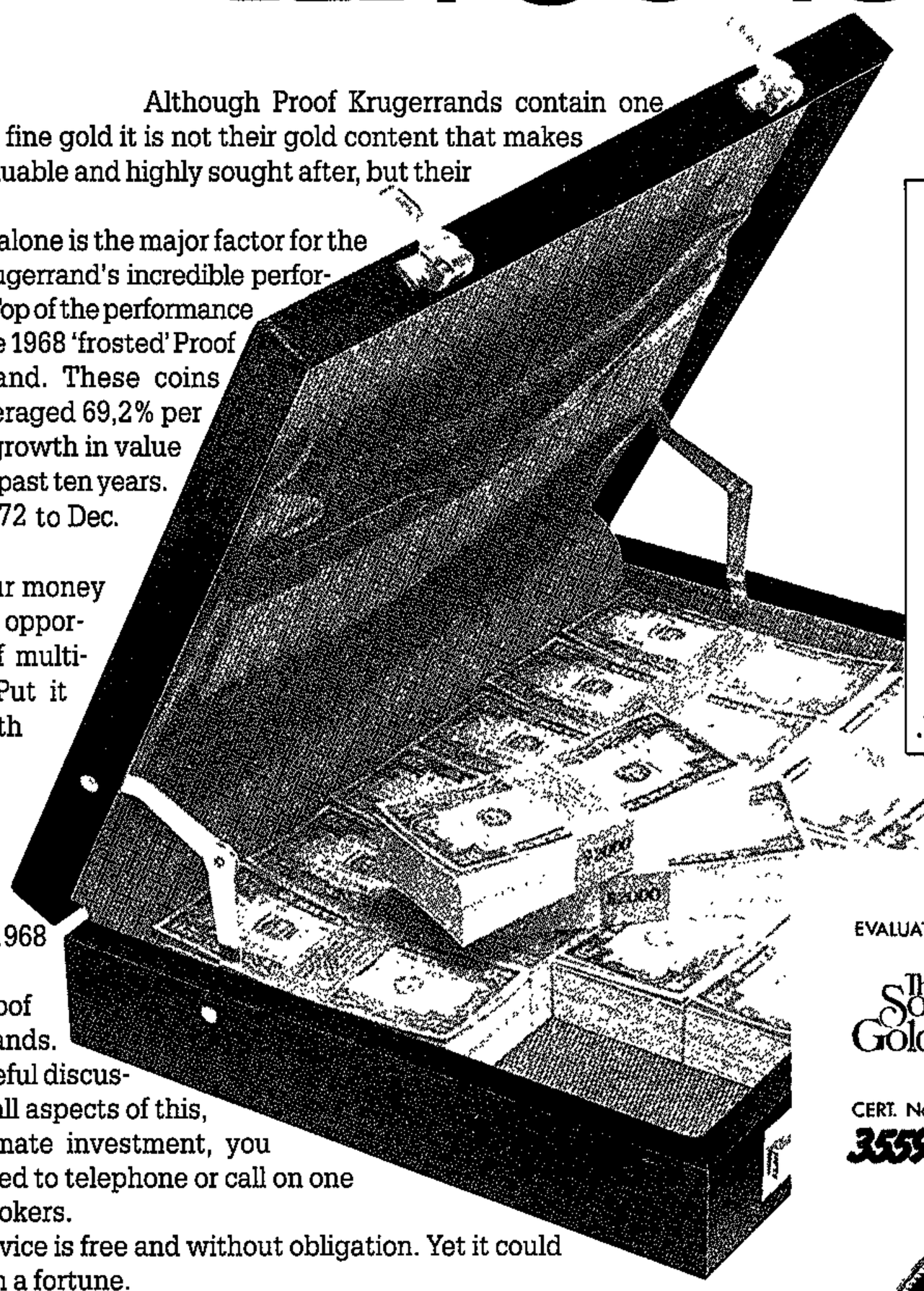

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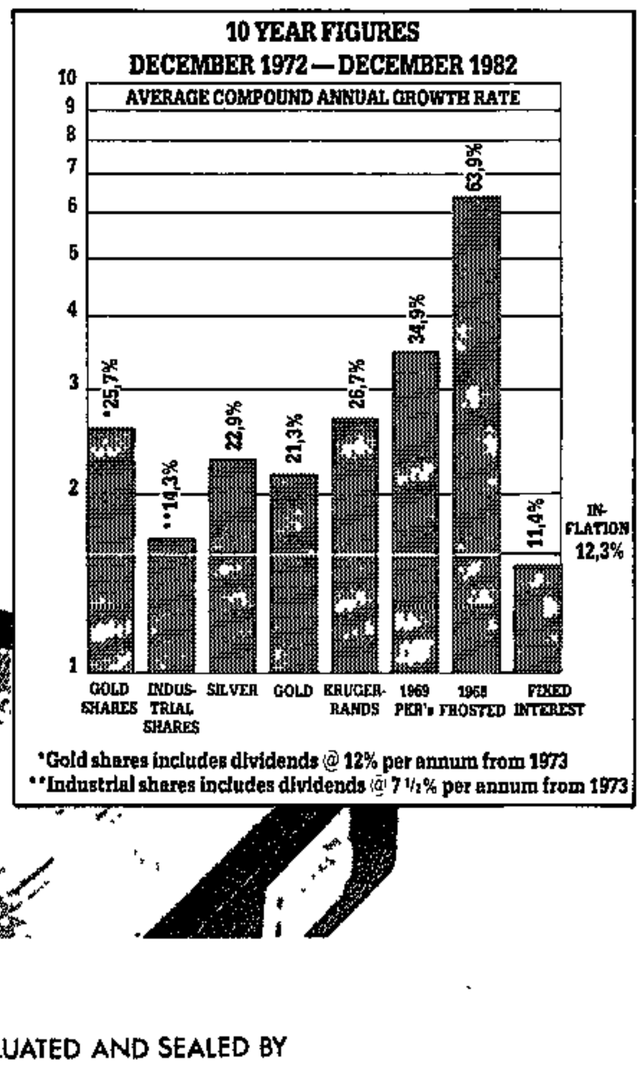

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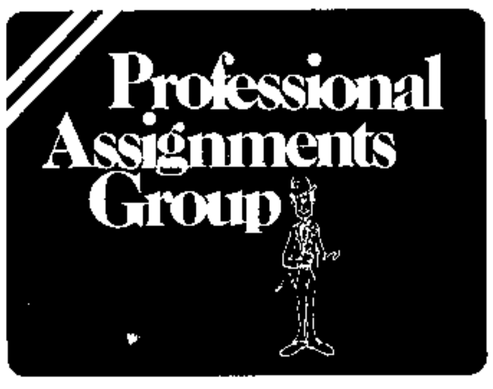

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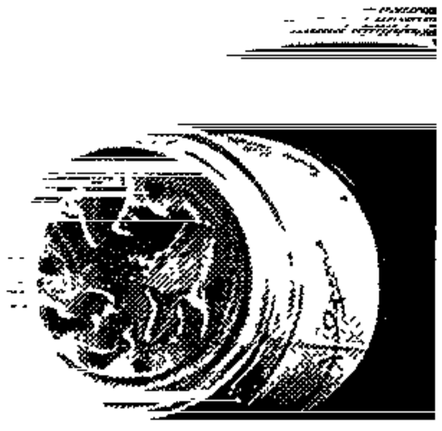

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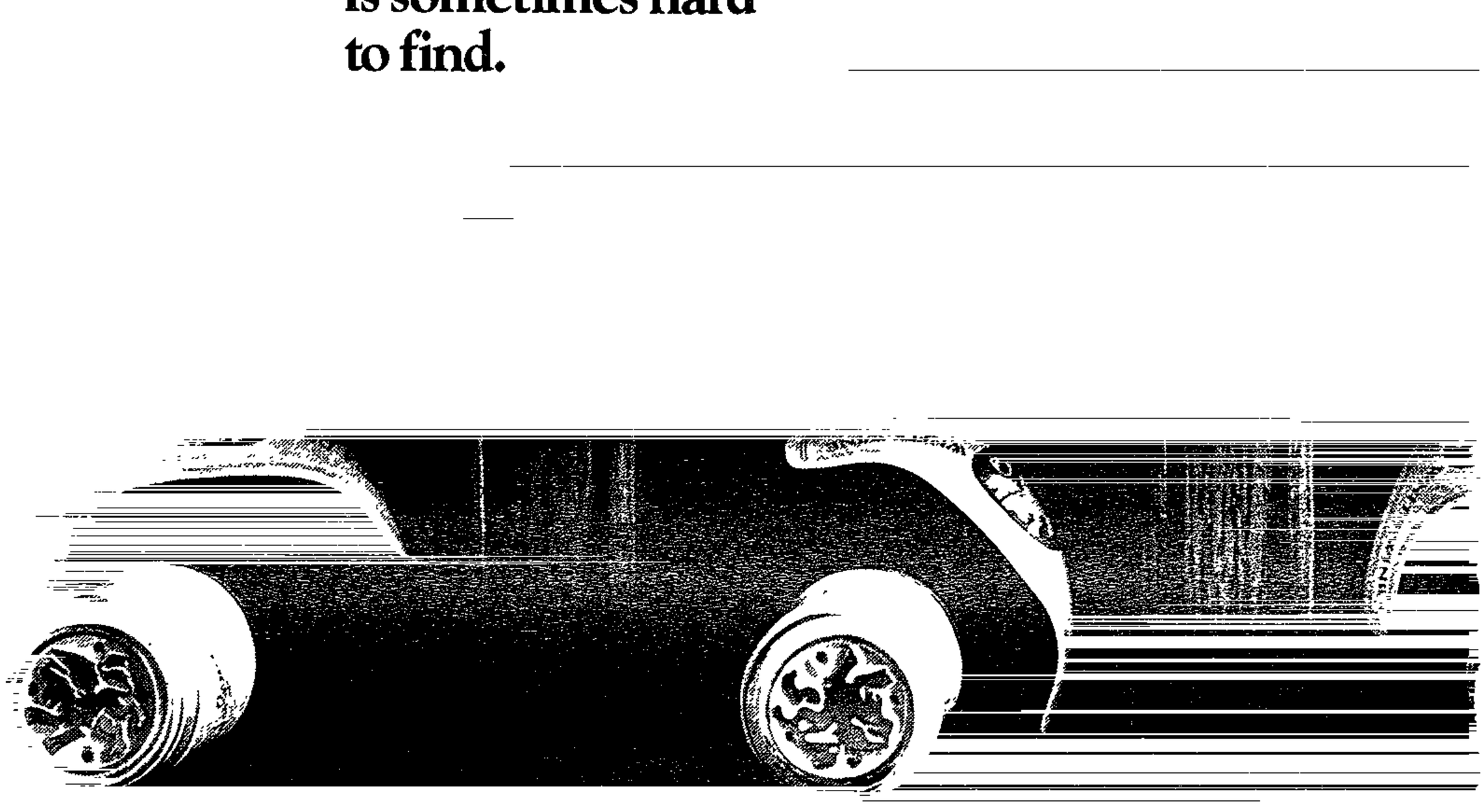

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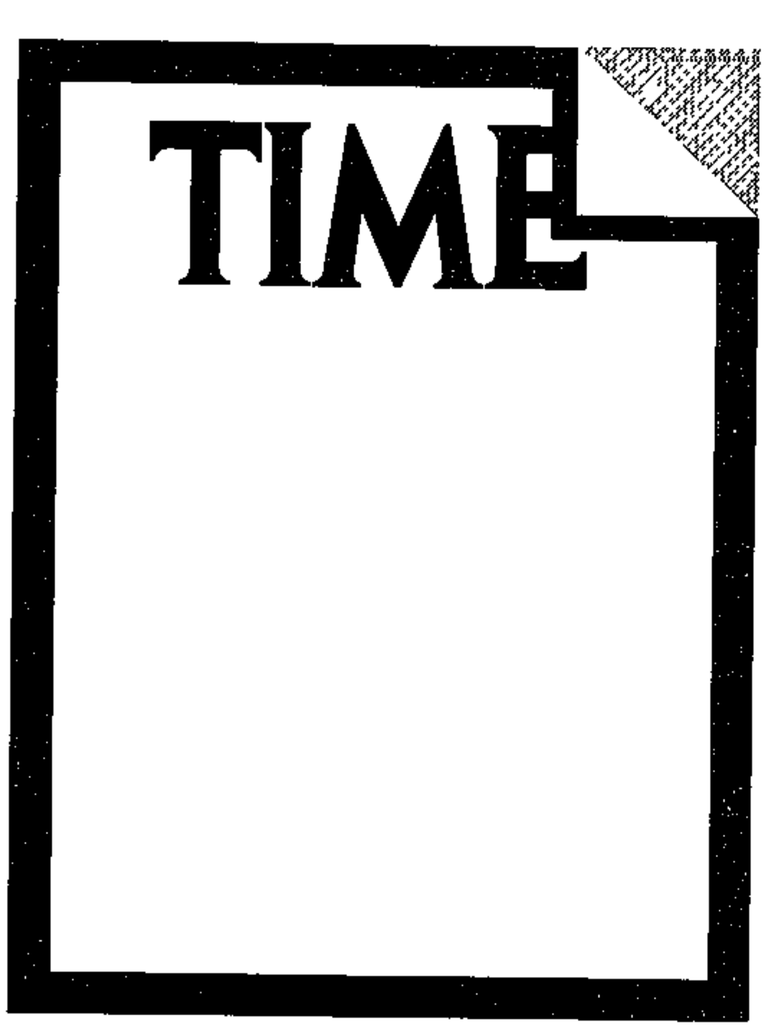

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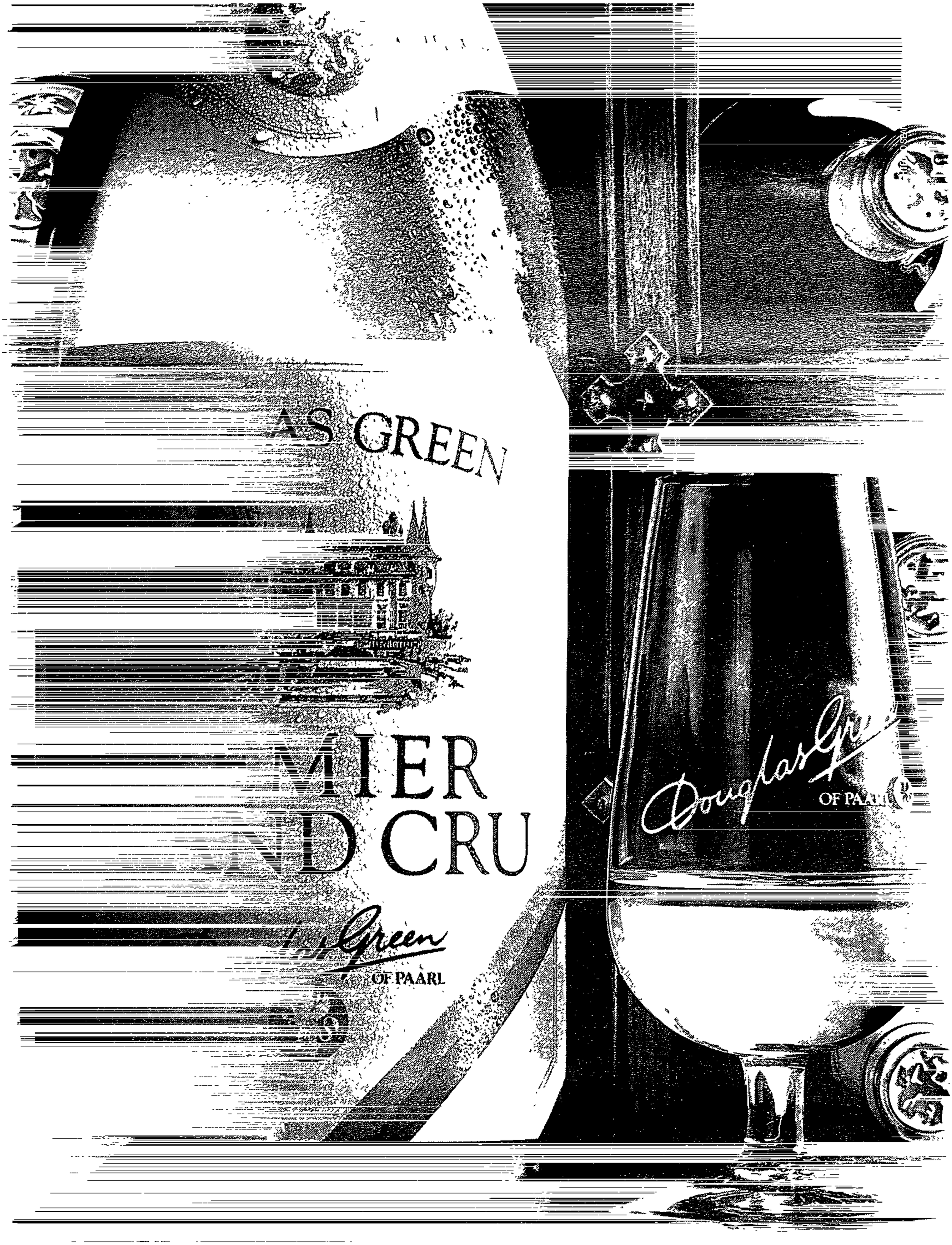
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The Foundation organises small and large conferences on themes of national interest, such as the De Lange Report on Education (1982). It provides an excellent forum where delegates from all countries and of all colours can meet for free and open debate.

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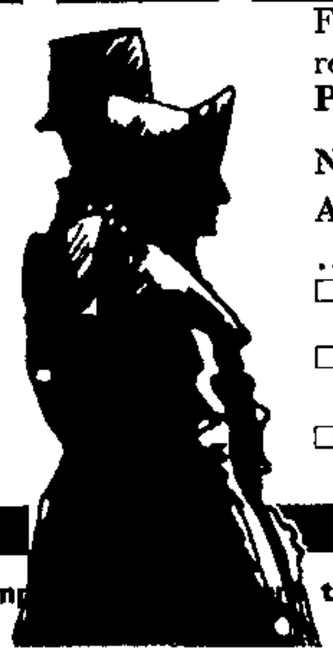

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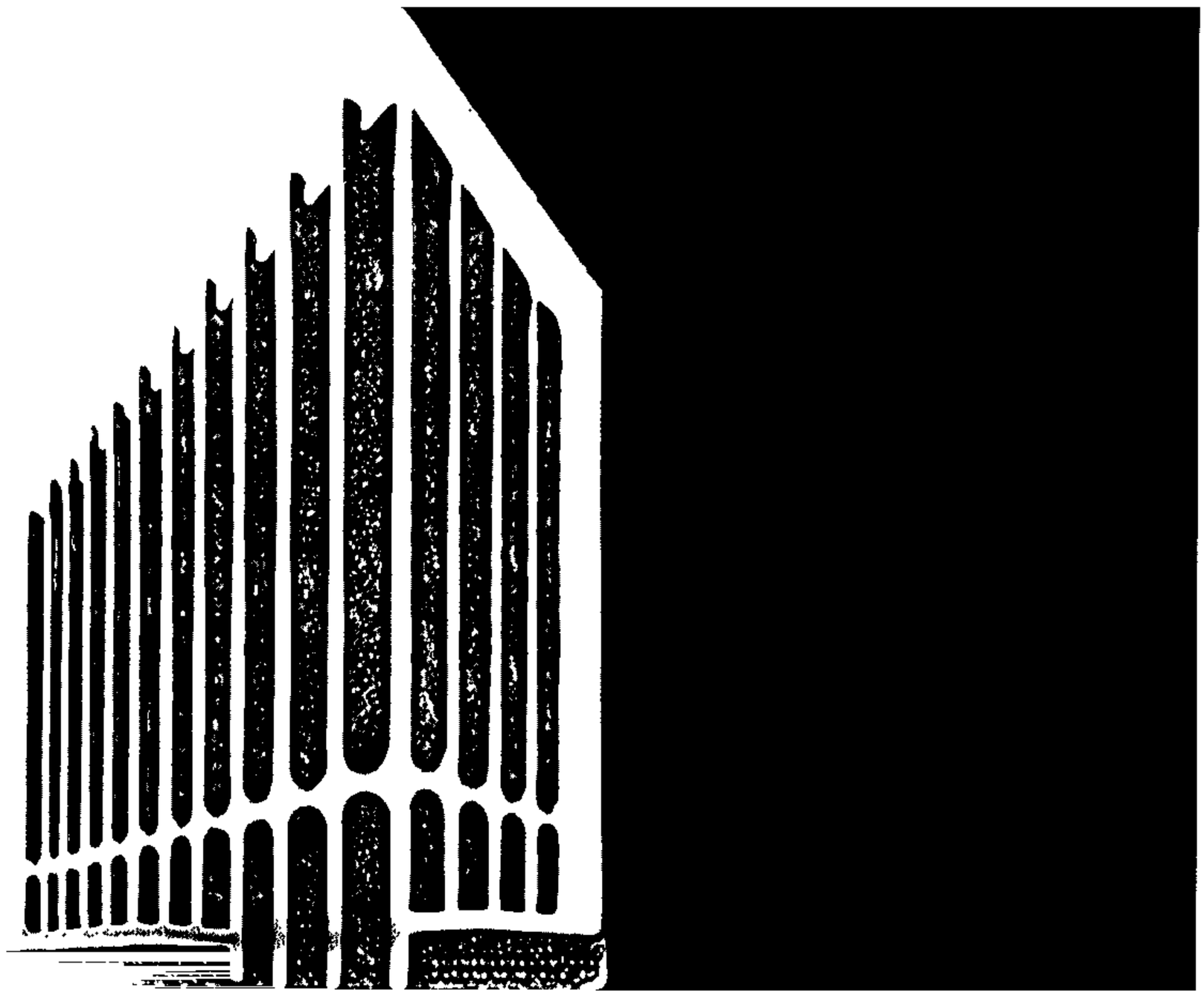

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Foreword

This, our 17th Top Companies *survey, is notable for a number of things. For one, with 292 pages it overtakes last year's* Top Companies *as the largest* FM *publication ever to hit the streets.*

Another is that we have revamped it physically. One of the survey's great virtues is its usefulness for ready reference, and for that reason it is kept for months, even years by its readers. So for longer tread life we have printed this year's edition on glossy paper throughout and given it a more durable square-back binding.

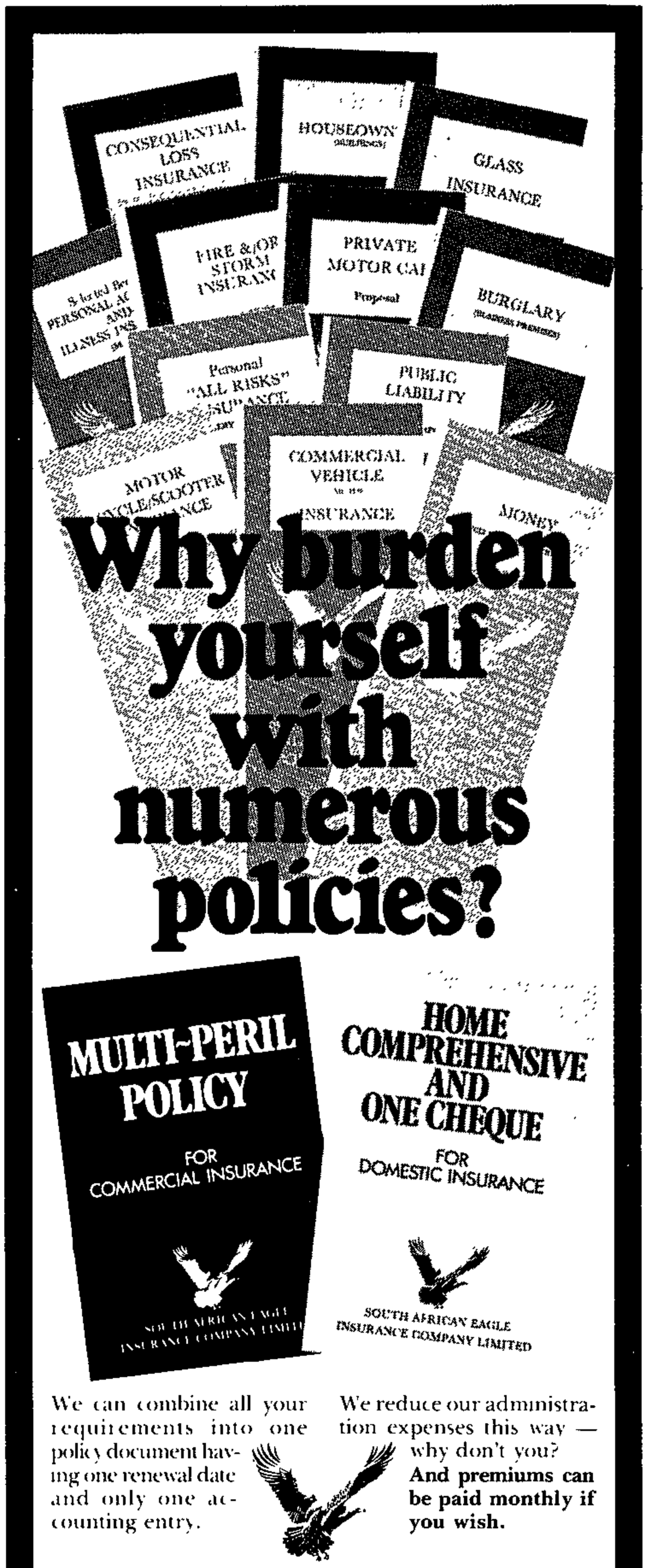
Inside you will find the by now familiar FM *analysis of South Africa's top listed companies, ranked by assets, market capitalisation and performance, and pre-tax profits. We also rank the world's top 50 companies in terms of assets.*

Beyond stock market and balance sheet activity, we review the past year as it has affected various SA sectors — gold, coal and other mines, property, building societies, banking, financial markets, unit trusts and insurance.

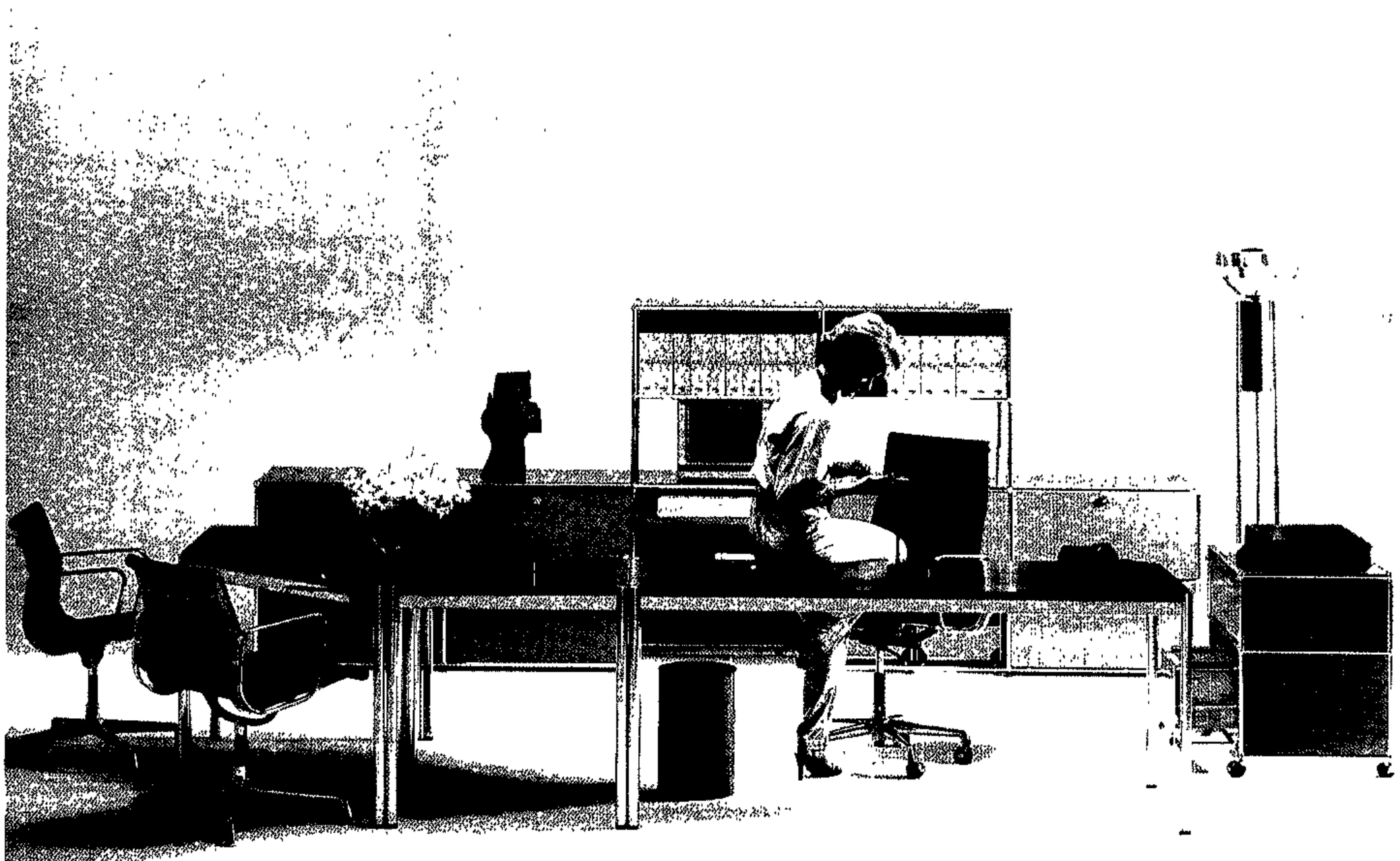
In this divided society, labour relations are of particular importance to industry, and we have devoted a section of the survey to developments in this sphere.

Each year the Top Companies *selects a single SA organisation for special attention. Our choice this year is SA Breweries, a company which not only performed well in 1982, but which is steadily expanding its horizons in terms of both geographical and investment spread.*

Congratulations to those companies which made the rankings this year. To those that didn't, we hope to see you in 1984.



The art of using space



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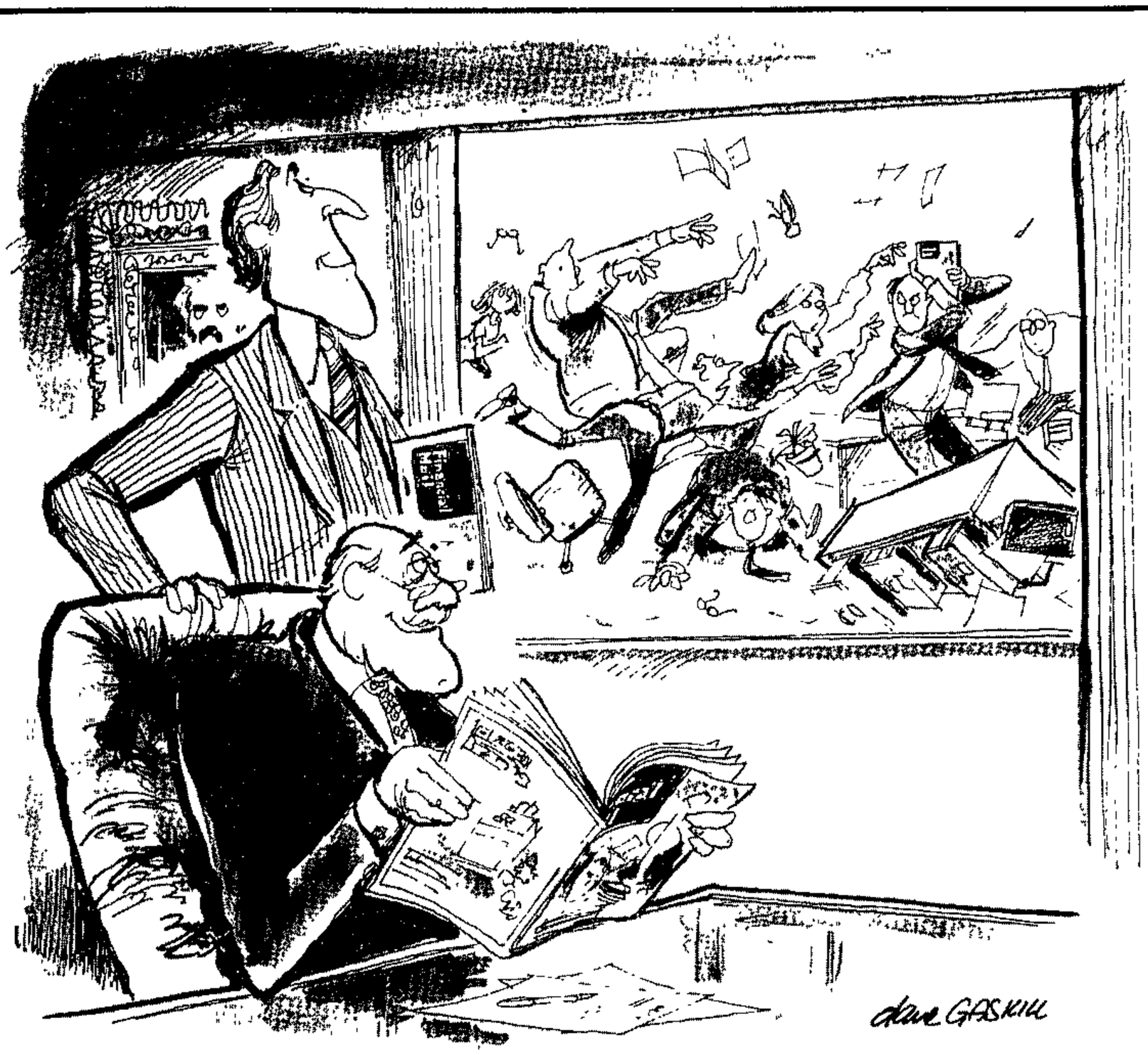

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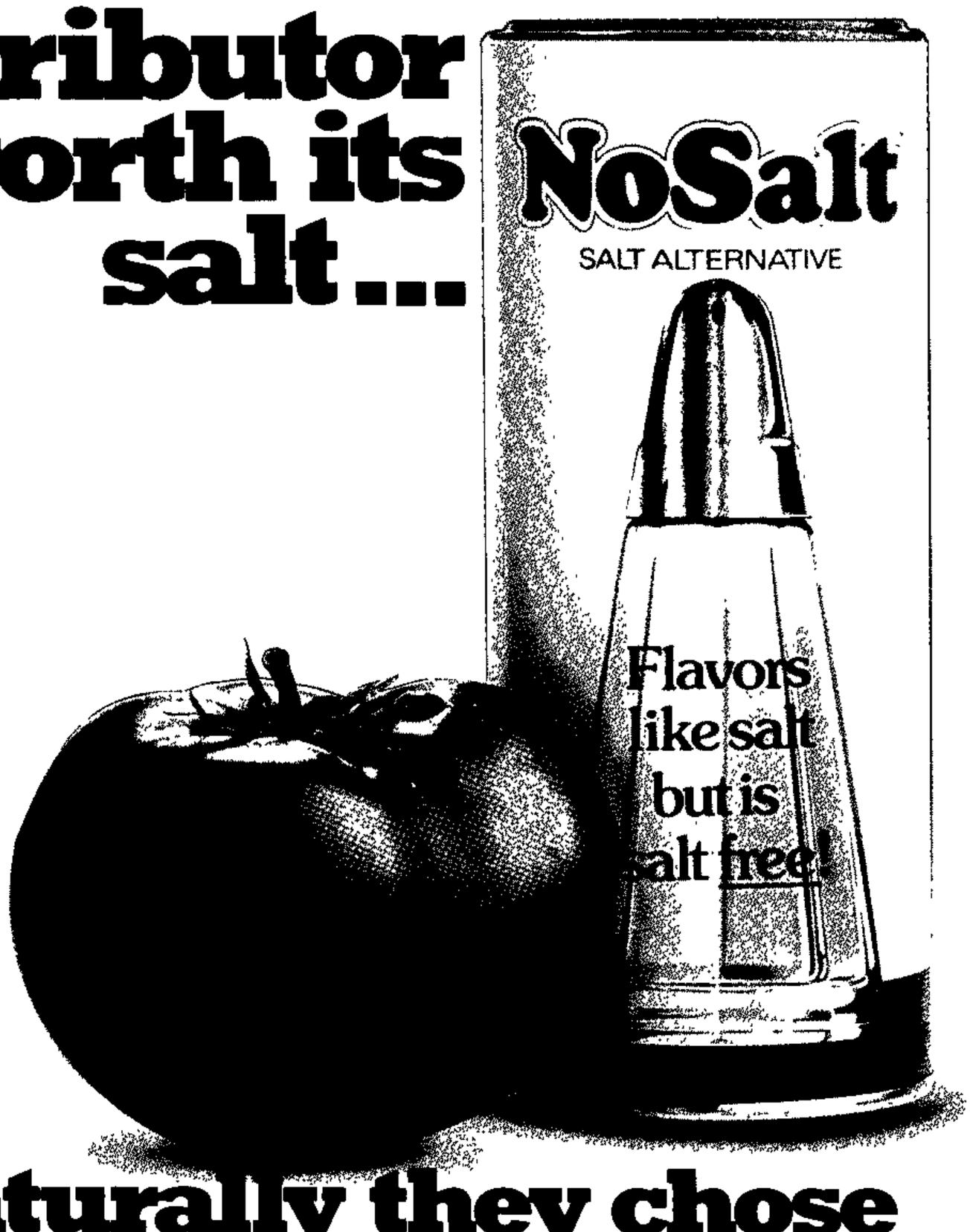

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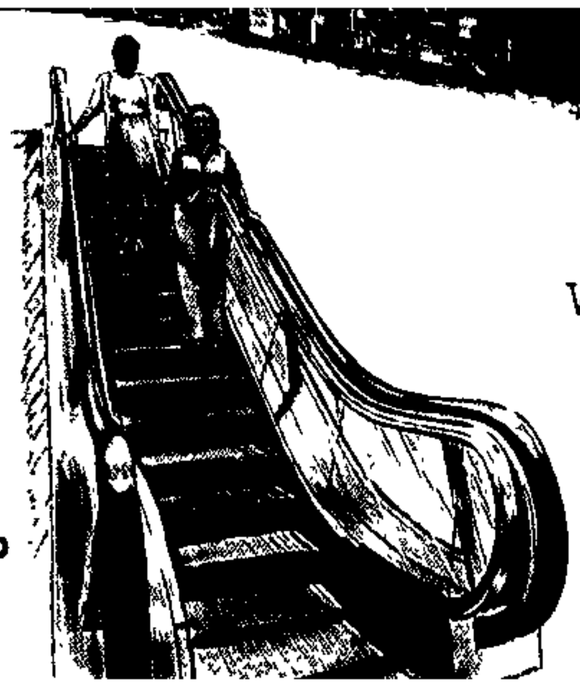
For example . . . GEC manufactures the essential Traction Equipment that pulls the trains of South African Railways. And that haul the mammoth loads of ore from the Mines of Sishen to the modern Saldanha Railhead and Harbour, for export all over the world. In fact, GEC is the main contractor for the supply of South Africa's first 50kV locomotives for the Sishen Saldanha Line.



We build the Escalators that make life's little "Ups and Downs" easier to take in your stride. And we also manufacture a wide range of small domestic appliances, or "Housewares" as they're called, that make life easier and more pleasant. Things like Toasters and Kettles, Heaters and Fans, Irons and Hair Dryers.

GEC manufactures the huge Turbines, Generators, Transformers, Switchgear and Cables that enable Escom to bring power and light right into your home, office or factory.

We manufacture Woods Fans in this country, too. These range from small Fans to large Aerofoils and Varofoils, capable of moving 200 cubic metres of air per second. The famous Xpelair Extractors and Ventilators for industry, commerce and mining are also products of GEC Woods Fans division.

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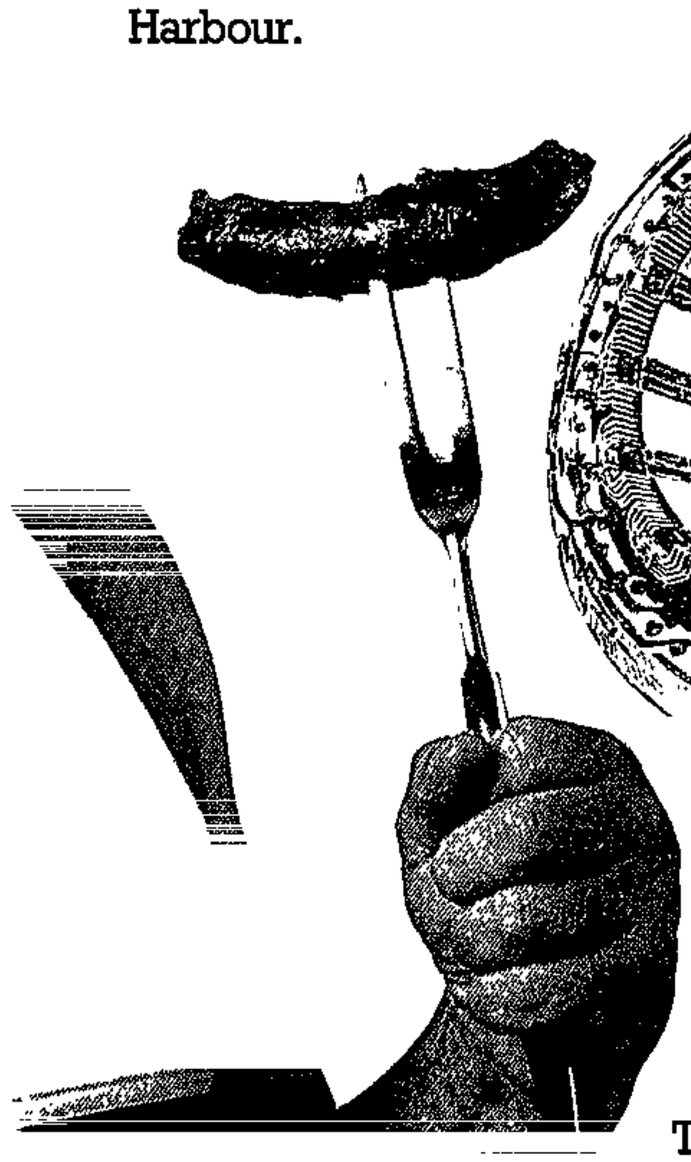
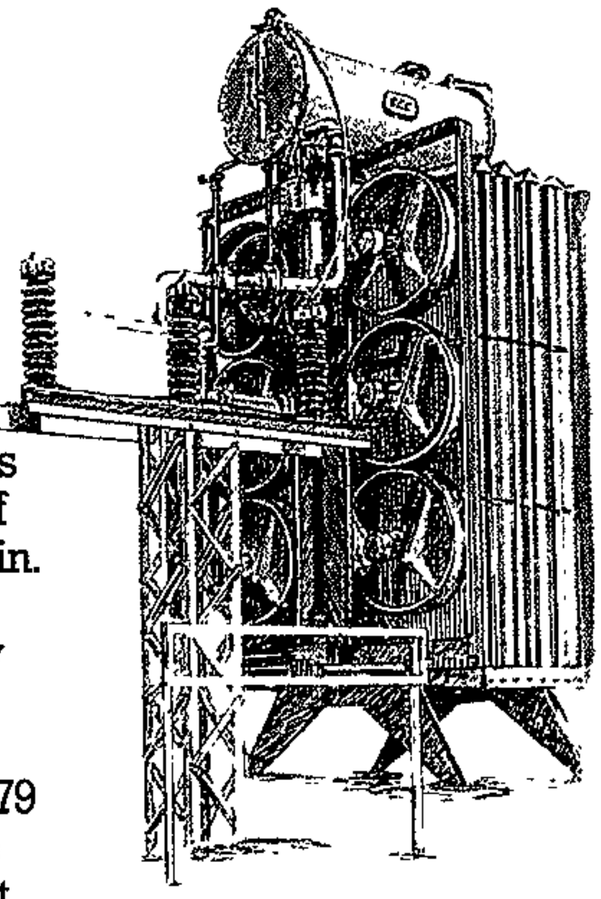
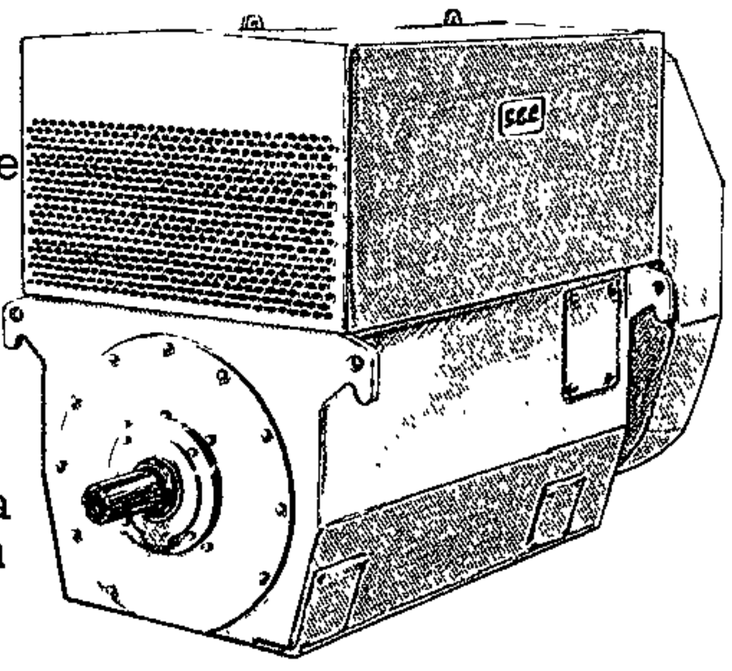


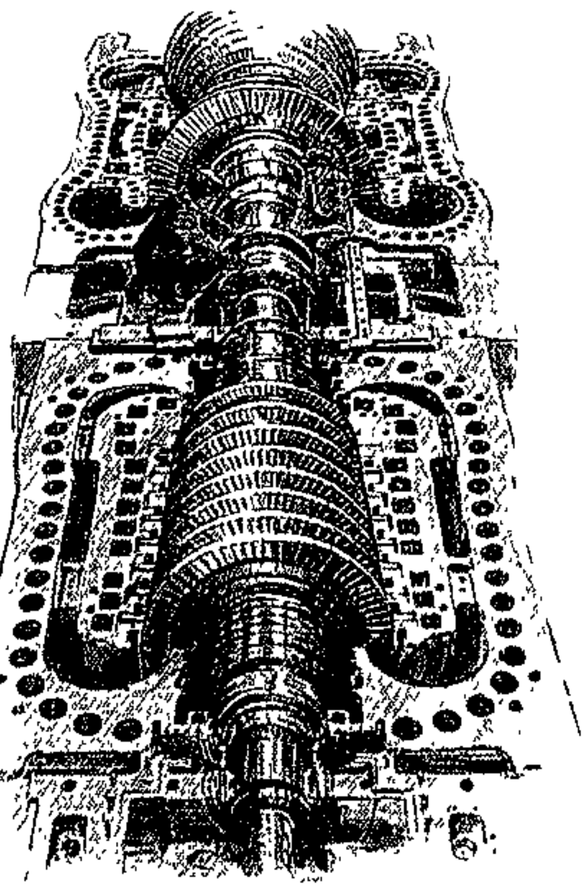
AEI Henley Africa, one of the many companies in the Group, represents in this country one of the largest manufacturers of Telecommunications equipment in the world. The company has two main divisions – one is involved in the installation of Main Exchange equipment, while the other deals with internal and external private Exchange capabilities.



We're manufacturing giant Mine Winders, Electric Motors and Castings too. And that's just to mention some of the areas we're active in. The truth is, GEC is all around you. Every day and night of your life. We've been here in South Africa for some 79 years now – and we're planning to stay. In that time, we've teamed up with Barlow Rand, another industrial giant, and have become South Africa's largest Electrical Manufacturing Organisation.



So . . . the next time you switch on a light, or ride an Escalator, or make a phone call, spare a thought for the people at GEC. You might say we've become a part of the South African Way of Life!



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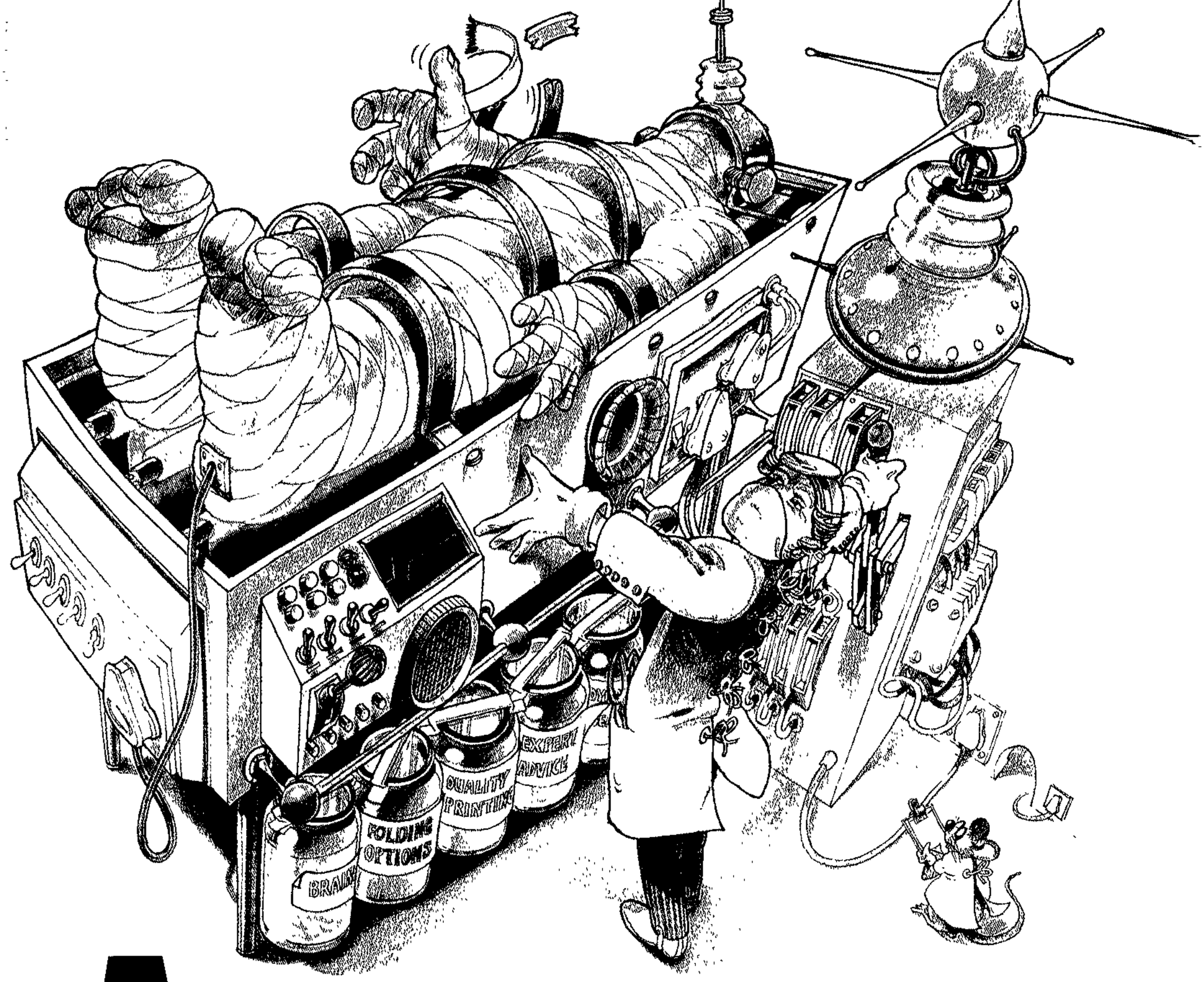

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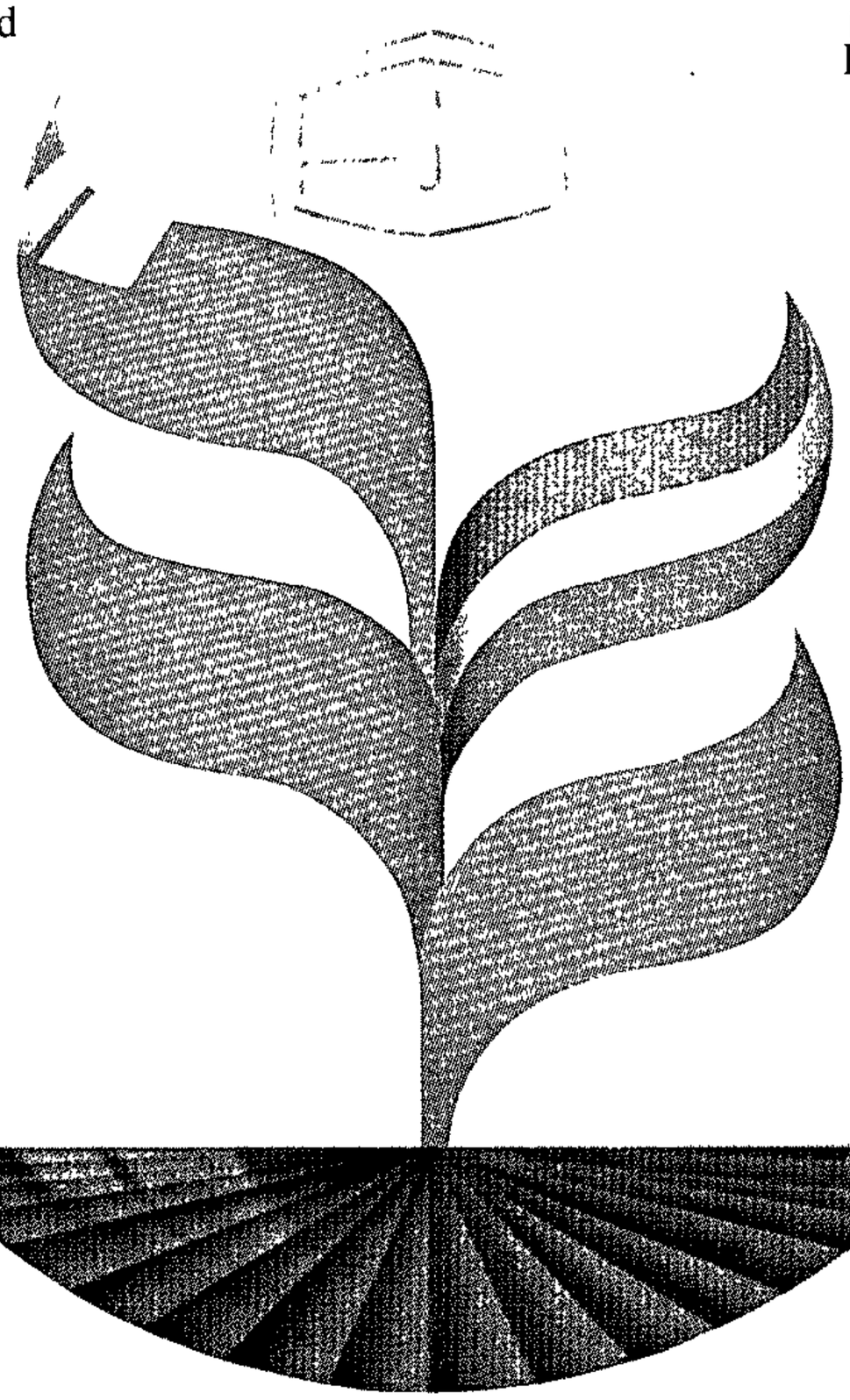

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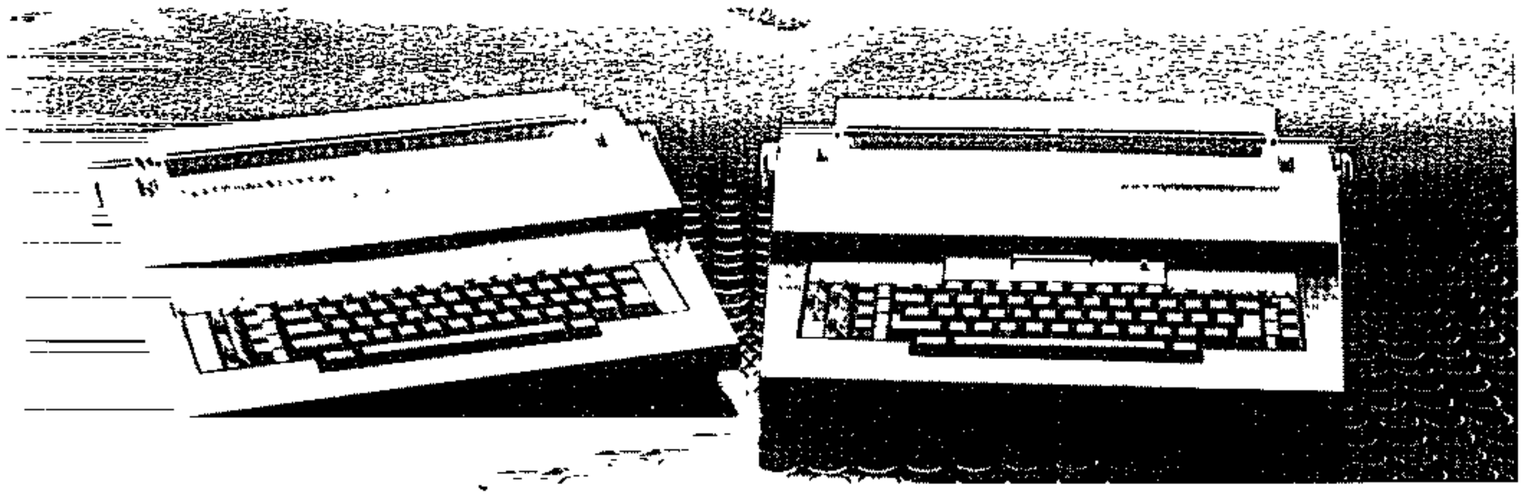

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As a scriptwriter, to me the ultimate challenge had long been to write a whole T.V. series, word perfect, in one draft. Accepting my limitations as a mere mortal, the search was on for the machine to do it for me.

Frankly, the only reason I went to Olivetti is that this is the name writers have sworn by for years. But one look at their incredible range suggested that my dream machine may exist after all. From the simplest electronic typewriters to astonishingly sophisticated word processors that may even end up writing scripts themselves (perish the thought) Olivetti really have provided for every imaginable purpose.

ET 121, ET 225 AND ET 231. Olivetti's Standard Electronic Range with memories ET 121 stores one line. Upgradable to full-screen word processor. ET 225 stores phrases and whole blocks of text ET 231 has 16 000 characters of memory. All have communications capability

To my chagrin, what I had thought was impossible, was to them quite commonplace.

And now, with my new Olivetti ET 351 word processor, I shall indeed be able to complete my current T.V. series word perfect, in one draft. To rework a passage, all I do is to correct it on the display. So each page ends up looking as if I'd got it right first time. Which, if you'd seen the script for Westgate, is not the case at all. All those agonising changes meant great wads of paper all cut up and pasted together.

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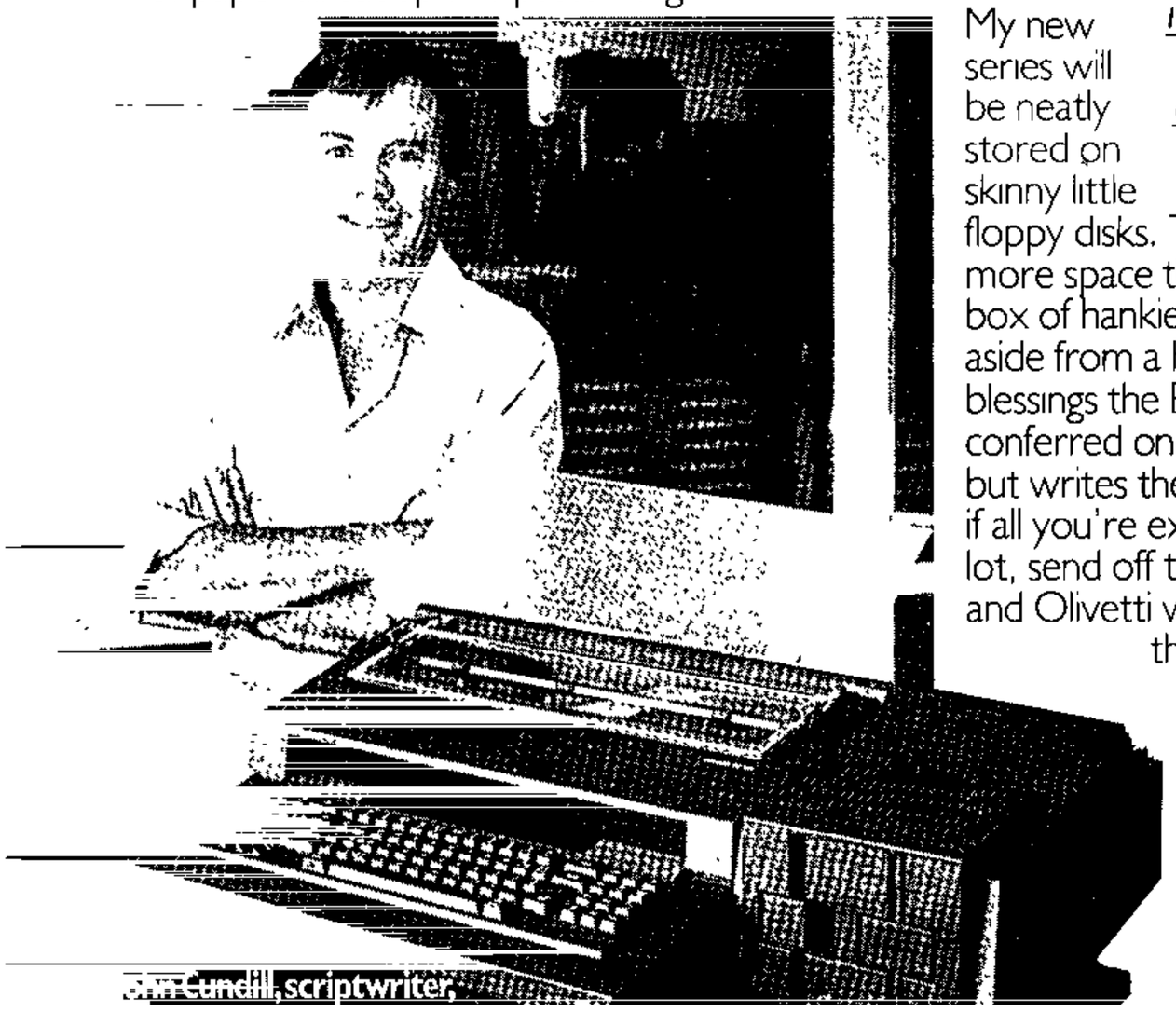

Ann Cundill, scriptwriter, with her Olivetti ET 351 word processor.

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Moving off-shore?

With control of most listed companies now achieved by the majors, next investment moves could be overseas

Last year was the year of the asset. After the strong economic growth of 1980 and 1981 a number of major companies felt well-enough heeled to extend the range of their activities through acquisitions. In circumstances of high inflation rates, they seem also to have felt that there was no time like the present to spend their money.

It was a response that came most forcefully from the leaders of the pack. Although 1982 was long foreseen as the year when the downturn in the business cycle would occur, it was felt at the beginning of the year that it might be a relatively short, if sharp, concavity in the growth chart. That factor, too, may have encouraged leading businessmen to believe that it was necessary to move quickly.

The most startling figures that our table throws up are those for C G Smith. C G Smith became a subsidiary of Barlow Rand during 1981, at the end of which Barlows owned 53%. C G Smith was equipped with the requirements for major asset growth: a cash flow strong enough to bring down the debt:equity ratio to 0,12, and to mean that borrowings were only 26% of the group's capacity. And that was despite capex of

Food for investors

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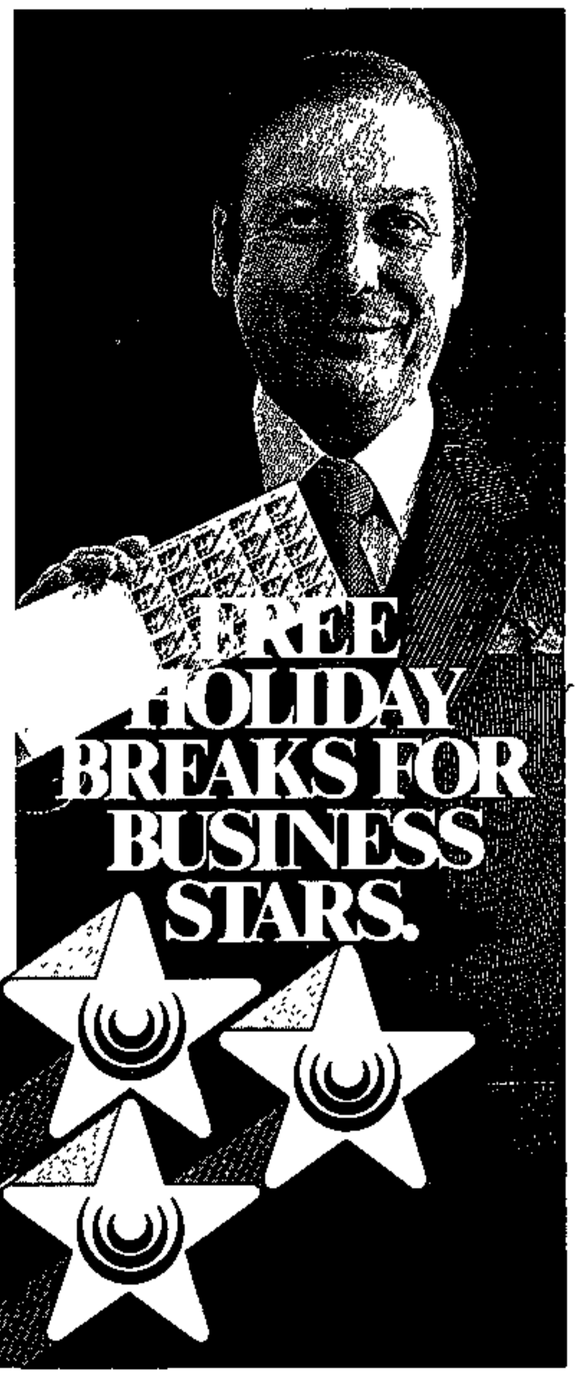

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Sugar giants . . . not making a pile

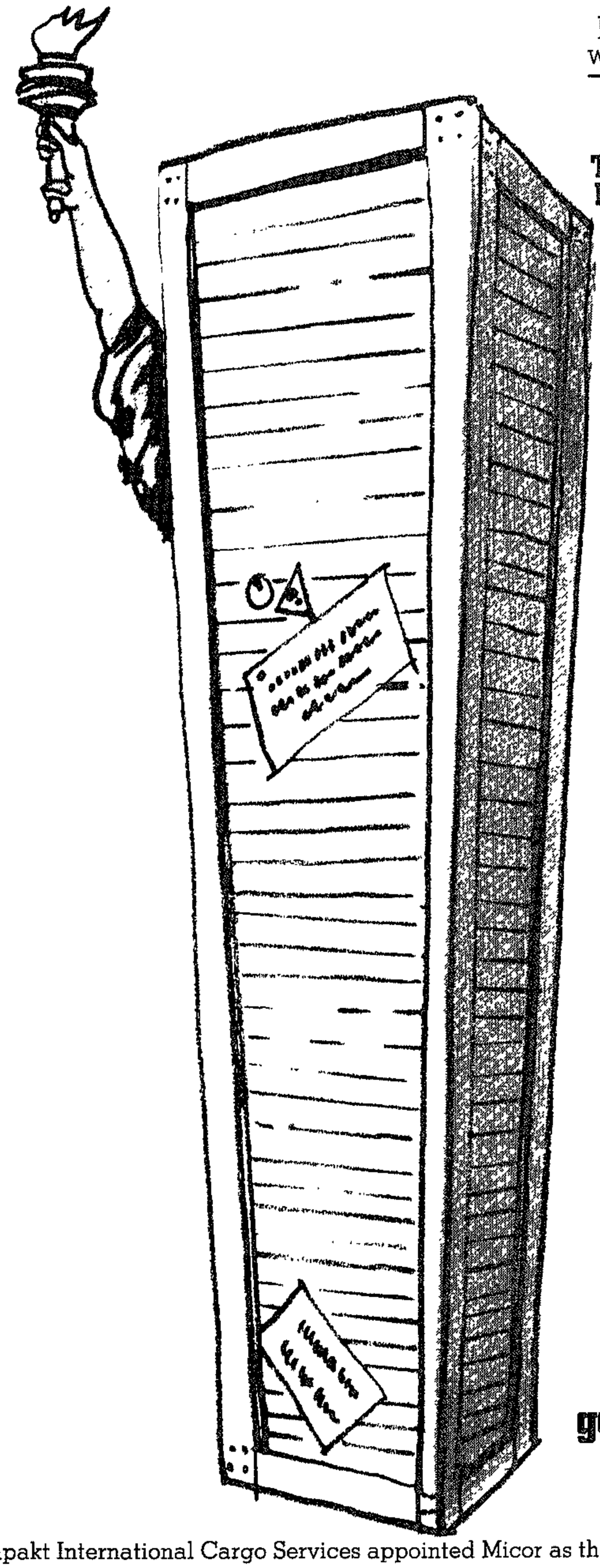
R84m during 1981, of which R33m had been spent on acquisitions.

During 1982 came the complex re-organisation and additions to C G Smith assets which resulted in the jump shown in the table. The major constituents of the jump were the move by Barlows into food investments with the acquisition of control of Tiger Oats and ICS. At the same time control of packaging company Nampak was pushed up to 75%. Finally, Monitor, a beet sugar processor in Michigan, US, was purchased.

At the same time these moves into the food sector impacted heavily on Barlows'

AMONG THE PROFIT LEADERS

RANK		Net profit Last	Net profit Previous	Total assets Last	Total assets Previous	Turnover Last	Turnover Previous
				Rm			
42	**Anchusa**	22,0	15,3	105,1	64,0	729,0	454,0
55	**Kohler**	16,5	14,0	105,5	94,9	173,7	142,3
68	**Foschini**	13,4	10,4	103,8	81,3	189,7	144,9
71	**Verref**	13,1	9,4	92,3	72,3	156,4	104,0
74	**Aberdr**	12,5	8,8	70,5	47,0	97,7	78,2
80	**Saficon**	11,1	8,3	75,7	53,5	330,1	242,9
82	**Berzack**	10,7	9,9	64,6	42,9	n/a	n/a
86	**Cokicor**	10,3	0,1	63,9	9,1	551,4	n/a
90	**Kimet**	9,7	5,4	80,7	68,1	1 440,2	581,1
91	**Af Cable**	9,1	9,2	86,9	77,2	100,3	85,8
92	**Saan**	9,1	5,6	51,8	44,0	101,1	79,6
94	**Trek**	8,7	10,8	92,4	79,7	391,2	309,9
95	**Chemsve**	8,7	2,9	53,1	47,3	101,8	35,1
98	**Carlcor**	8,4	7,2	59,1	49,6	93,8	77,2
99	**CNA**	8,2	5,6	66,5	55,7	120,5	90,5
100	**Curfin**	8,1	7,5	96,0	88,3	161,1	140,0



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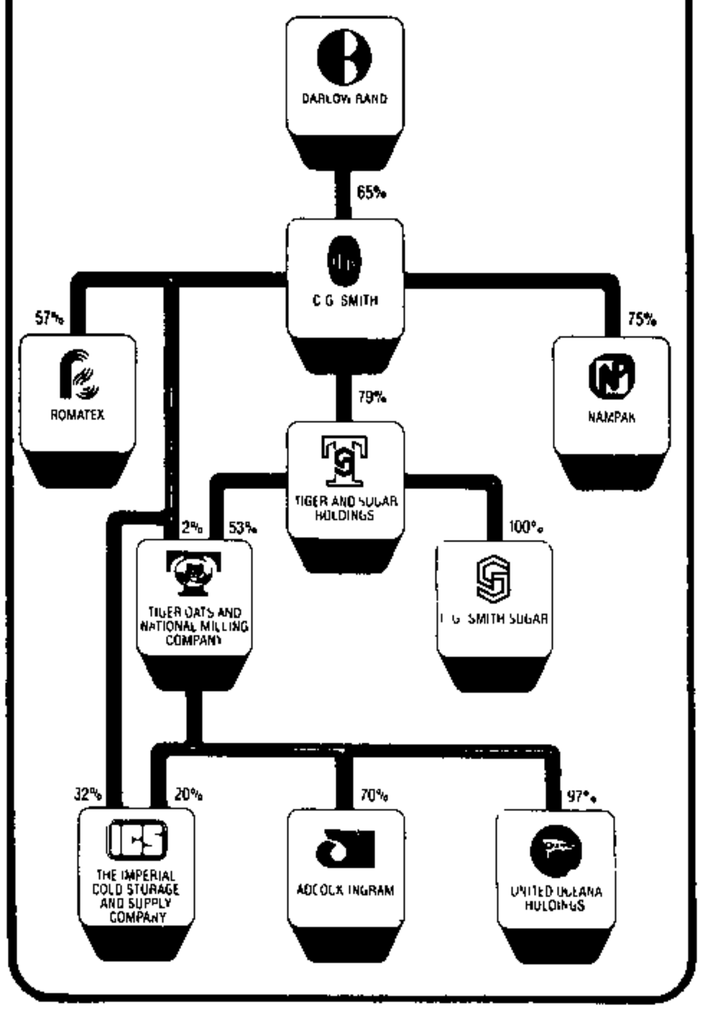

own assets. That was not merely the result of the consolidation of Tiger and ICS into the balance sheet; it also reflected increased control of C G Smith itself, to 65%.

Interestingly, these various moves meant that in Barlows' latest balance sheet the largest single component of assets was represented at 33,1% (16,6%) by sugar, food and textiles. At second and third place, and well behind, came mining at 14,3% and general engineering and electronics at 10,3%.

It is true that the category could be subdivided further to look less startling. But it does suggest that SA's leading industrial concern is looking, as are others, to the potential of the black consumer market as an important source of future growth.

Following the reconstruction, not only did C G Smith soar from seventh to second place, but a new company, Tiger & Sugar Holdings, made its appearance on the JSE boards, and at number seven in our list.

Concern with profits from future black SA consumers may also have formed a feature of the merger between Tongaat and Huletts, to form Tongaat-Hulett. Although no balance sheet from the merged concern is yet available, on the basis of published pro-forma figures total assets would have stood at end-March at R1,2 billion, if the merger had been achieved by then. That would have given the company a place in the top 10.

A pro-forma sales analysis for the same financial year showed that sales of the new group would have totalled R1,3 billion, of which 28,9% derived from sugar and 19,5% from food. Other major elements in turnover would have been aluminium and other metals (17,4%), building materials (17,1%), and textiles (7,9%).

Although present difficulties in the domestic and overseas sugar markets may postpone the fruition of whatever plans Tongaat-Hulett chairman Chris Saunders has for the new group, its enormous resources will give it great scope for expansion and influence.

SA Breweries' part in the majors' asset

BIG MOVERS

Up	Rank	Ch	Down	Rank	Ch
Metro	38	37	**Triomf**	86	66
Altech	74	16	**Picbel**	82	18
Rennies	40	14	**Romatex**	49	15
Dunlop	67	14	**Checkrs**	41	14
Blucirc	26	13	**Picfin**	89	12
Stew & LI	27	13	**Abercom**	62	12
Haggie	36	13	**Frasers**	71	11
Union Steel	72	8	**SA Drug**	81	12

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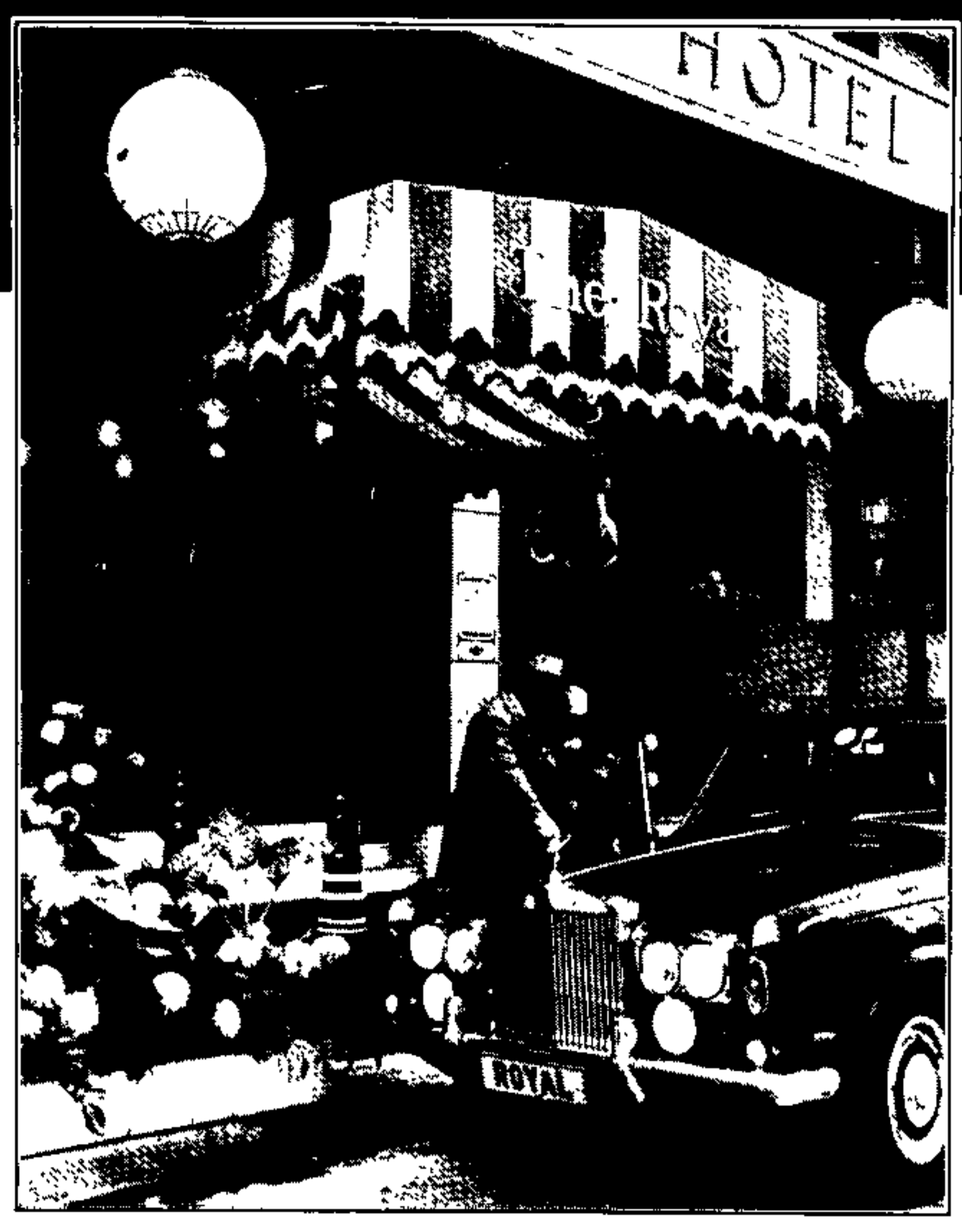
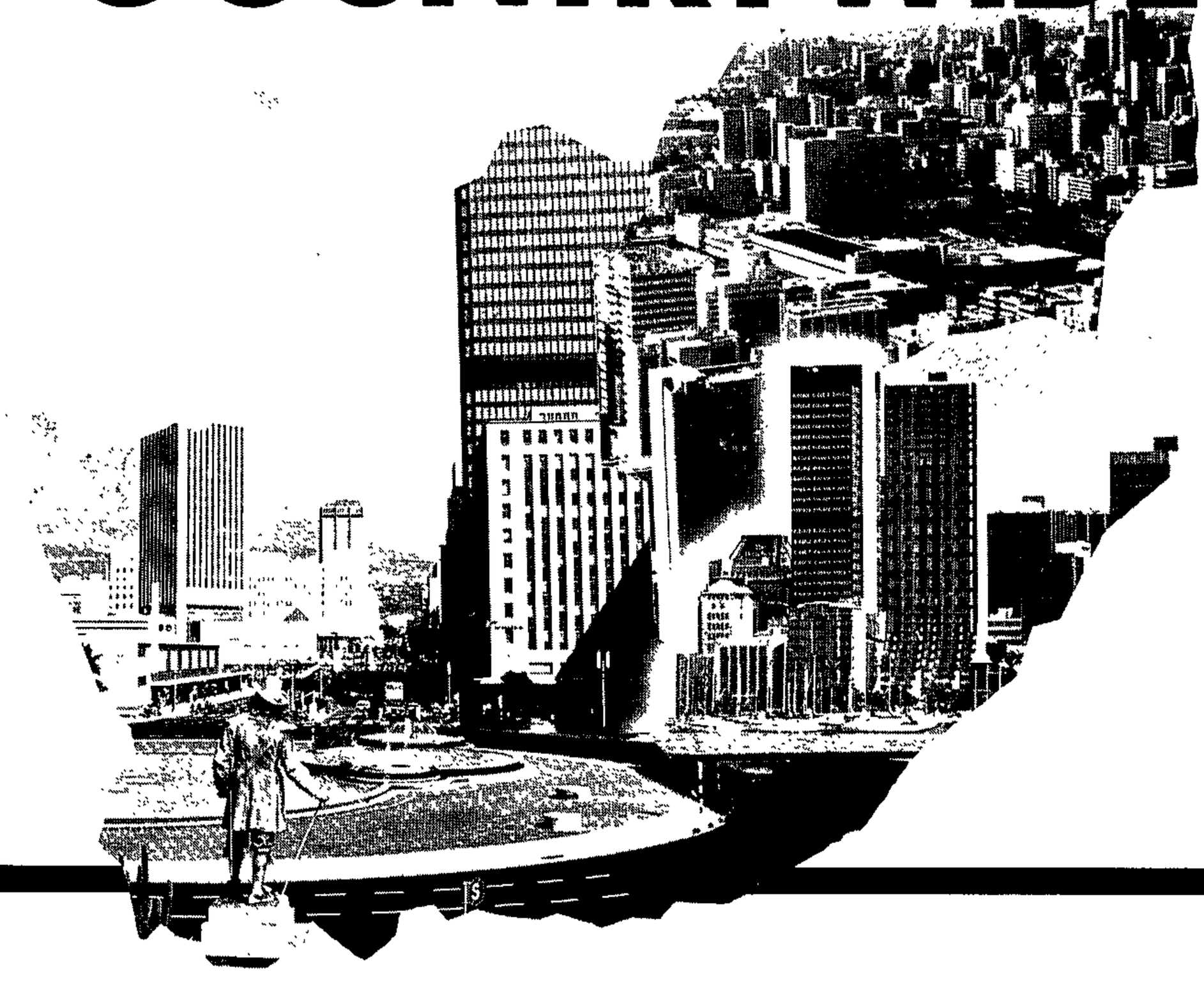


BARKER McCORMAC 7086/1

LEADING IN PROPERTY COUNTRYWIDE



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BROKERS VALUERS AUCTIONEERS INVESTORS DEVELOPERS ADMINISTRATORS

FINANCIAL STATEMENT

Profit before taxation	R 670 million
Profit after taxation	R 415 million
Profit after taxation attributable to Barlow Rand Limited	R 246 million
Earnings per share before non-trading items	75,1 cents
Dividends per ordinary share	70,0 cents
Total assets	R 5 055 million
Number of shareholders	23 348
Number of employees	
— Subsidiaries	49 351
— Associates and related companies	86 448

Salient features taken from 1982 Annual Financial Statements.

SOCIAL STATEMENT

Economic Statement

Investment in the Future

To the 236 266 people who we

To work for changes in law, we

Equal opportunities for all employees

Works with

To appoint and promote people according to

and achieve

To eliminate racial discrimination on a non-political basis. Experience, performance and the ability to do the job being the determining factor.

To continue our comprehensive training and development programmes. Not only to enable our employees to acquire new skills but to equip our employees for a fulfilling future with better opportunities.

To provide, where necessary, financial assistance for the education of our employees' dependants.

To continue to finance the development, education and training institutions such as the C.S. Barlow Foundation.

To improve the quality of the life of our employees.

All these commitments — and others — are enshrined in our own Code of Employment Practice which we adopted in 1978. It's a living document. And we regularly monitor the progress our companies are making in its implementation.

Ranked 81 (1981 — 114) in Fortune magazine's 1982 survey of companies outside the U.S.A.

BARLOW RAND LIMITED

THE TOP 100

RANKED BY:

Total assets	Market cap	Net profit		Section	Total assets	Market cap	Equity funds	Net profit	Turn-over	Financial year-end
					Rm					
1	**3**	**1**	**Barlows**	Ind Holding	**5 337,7**	**1 599,9**	**1 576,4**	**239,1**	**6 829,2**	Sept '82
1	3	1			3 688,6	1 324,6	1 194,2	257,5	4 571,9	
2	**7**	**7**	**CG Smith**	Ind Holding	**2 175,7**	**776,3**	**739,3**	**96,2**	**3 081,2**	Sep '82
7	6	9			940,1	623,3	465,0	84,5	1 245,6	
3	**2**	**5**	**SA Brews**	Beverages & Hotels	**1 973,4**	**1 668,3**	**697,4**	**166,3**	**3 057,4**	Mar '82
2	4	6			1 507,6	1 089,8	544,0	122,0	2 375,2	
4	**6**	**2**	**Remgro**	Tobacco & Match	**1 711,6**	**978,8**	**1 388,6**	**230,8**	**n/a**	Mar '82
4	7	4			1 221,9	595,1	914,5	150,1	n/a	
5	**4**	**4**	**Amic**	Ind Holding	**1 551,0**	**1 425,1**	**790,1**	**178,7**	**1 224,3**	Dec '81
5	5	3			1 168,2	903,6	608,0	151,5	971,2	
6	**1**	**3**	**Sasol**	Chemicals & Oils	**1 444,1**	**1 676,3**	**856,8**	**200,4**	**1 503,8**	June '82
3	2	2			1 232,5	1 443,8	738,2	166,3	1 257,5	
7	**10**	**33**	**Tisugar**	Food	**1 245,3**	**414,3**	**427,6**	**23,8**	**1 064,7**	Sep '82
0	0	0			n/a	n/a	n/a	n/a	n/a	
8	**5**	**6**	**AECI**	Chemicals & Oils.....	**1 239,6**	**1 174,0**	**642,5**	**166,1**	**1 467,0**	Dec '81
6	1	5			1 103,6	1 528,6	562,0	128,1	1 236,3	
9	**12**	**9**	**Senchem**	Chemicals & Oils.....	**1 011,3**	**344,6**	**390,3**	**57,7**	**768,7**	June '82
9	8	7			745,5	541,6	366,3	71,6	688,0	
10	**39**	**23**	**Fed Volk**	Ind Holding	**968,5**	**115,8**	**229,5**	**32,1**	**1 377,6**	Mar '82
8	29	22			812,3	169,4	259,5	30,0	1 028,5	
11	**14**	**29**	**Tig Oats**	Food	**883,6**	**330,7**	**388,0**	**28,8**	**989,0**	Sep '82
12	19	17			587,9	234,2	260,7	36,7	1 175,1	
12	**27**	**12**	**ATI**	Ind Holding	**820,6**	**181,2**	**173,9**	**47,0**	**1 470,0**	June '82
10	35	20			666,6	159,0	115,2	31,8	1 029,1	
13	**22**	**17**	**Safmarn**	Transportation.....	**696,1**	**230,3**	**236,8**	**43,4**	**724,3**	June '82
11	13	13			618,6	287,9	208,0	41,9	565,4	
14	**9**	**10**	**Prem Grp**	Food	**644,4**	**438,6**	**241,5**	**52,0**	**1 504,3**	Mar '82
15	10	14			510,7	384,1	190,0	40,8	1 204,7	
15	**25**	**14**	**M & R**	Ind Holding	**603,3**	**200,0**	**180,5**	**44,7**	**1 706,0**	June '82
19	26	24			417,1	174,7	132,8	28,4	1 216,0	
16	**8**	**15**	**Tongaat**	Sugar	**596,9**	**466,0**	**391,4**	**44,6**	**604,1**	Mar '82
13	12	18			552,4	296,1	340,8	35,7	520,6	
17	**17**	**8**	**Sappi**	Paper & Packaging.....	**545,7**	**302,8**	**328,0**	**61,6**	**403,1**	Dec '81
18	15	11			455,9	272,4	284,3	44,7	346,9	
18	**19**	**25**	**OK**	Stores	**531,4**	**244,1**	**208,5**	**31,9**	**1 346,9**	Mar '82
17	17	26			466,0	253,0	187,4	27,0	1 061,9	
19	**16**	**13**	**Hiveld**	Steel & Allied.....	**475,4**	**312,5**	**171,5**	**46,3**	**333,0**	June '81
16	11	11			353,6	336,3	141,3	43,8	323,6	
20	**32**	**18**	**A Alpha**	Building & Constr.....	**460,4**	**153,4**	**277,0**	**38,6**	**237,9**	Dec '81
21	37	21			366,1	150,4	222,7	30,8	188,8	
21	**38**	**21**	**Dorbyl**	Engineering	**411,8**	**117,1**	**186,9**	**35,6**	**777,1**	Sep '82
25	40	30			314,5	123,8	132,6	24,1	496,8	
22	**30**	**16**	**PP Cement**	Building & Constr	**389,5**	**161,8**	**231,4**	**44,4**	**270,7**	Sep '82
23	36	16			338,8	152,7	203,3	38,9	229,4	
23	**11**	**11**	**Nampak**	Paper & Packaging.....	**383,4**	**355,8**	**208,6**	**51,0**	**601,5**	Sep '82
26	14	10			306,1	275,0	163,7	47,6	459,1	
24	**35**	**22**	**Plate Gl**	Ind Holding	**370,7**	**148,2**	**169,9**	**34,3**	**478,4**	Mar '82
28	24	23			273,8	180,1	106,1	29,9	357,7	
25	**21**	**19**	**Kaapwyn**	Beverages & Hotels.....	**369,4**	**238,0**	**184,3**	**38,0**	**n/a**	June '82
22	21	15			341,6	217,0	165,1	39,8	n/a	
26	**46**	**62**	**Blucirc**	Ind Holding	**337,5**	**98,8**	**152,9**	**14,2**	**305,0**	Nov '82
39	42	43			212,1	118,7	95,6	17,1	261,0	
27	**54**	**58**	**Stew & Ll**	Engineering	**322,1**	**75,8**	**132,9**	**14,7**	**480,6**	Sep '82
40	45	73			210,2	112,9	84,6	11,5	358,0	
28	**77**	**72**	**LTA**	Building & Constr	**303,7**	**50,4**	**76,3**	**11,7**	**836,0**	Mar '82
37	76	84			214,3	55,5	51,4	9,3	607,0	
29	**45**	**121**	**ICS**	Food	**241,3**	**81,5**	**95,0**	**12,0**	**765,9**	Sep '82
31	56	69			241,3	81,5	95,0	12,0	765,9	
30	**24**	**47**	**Unisec**	Ind Holding	**297,3**	**203,2**	**143,4**	**17,1**	**364,7**	Dec '81
30	28	68			261,2	170,6	132,5	12,1	267,7	
31	**60**	**40**	**Tedelex**	Furn & Household	**294,8**	**71,5**	**64,5**	**21,1**	**354,0**	June '82
33	61	38			222,8	77,4	49,8	17,8	286,5	

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By good sound business thinking and in our careful and quiet manner, we have become one of South Africa's 'blue chip' companies.

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Metal Box. Much more than metal boxes.

BBDO INDUSTRIAL 160144

THE TOP 100

RANKED BY:

Total assets	Market cap	Net profit		Section	Total assets	Market cap	Equity funds	Net profit	Turn-over	Financial year-end
							Rm			
32	**52**	**50**	**Fedfood**	Food	**282,2**	**86,0**	**92,0**	**16,5**	**550,6**	Mar '82
32	39	47			225,2	126,0	87,7	16,3	443,6	
33	**26**	**52**	**Edgars**	Stores	**277,7**	**186,0**	**75,4**	**16,1**	**361,8**	Apr '82
42	25	32			204,7	177,0	78,6	23,8	409,2	
34	**29**	**41**	**Afrox**	Engineering	**277,6**	**170,7**	**157,0**	**19,9**	**214,2**	Sep '82
29	30	37			264,1	167,7	140,0	18,4	230,9	
35	**18**	**26**	**Suthsun**	Beverages & Hotels	**271,5**	**247,1**	**130,8**	**31,1**	**188,1**	Mar '82
41	16	29			205,4	269,3	95,4	24,5	140,8	
36	**23**	**20**	**Haggie**	Engineering	**263,8**	**228,2**	**118,2**	**35,7**	**338,7**	Dec '81
49	20	27			176,2	218,7	94,8	26,9	262,2	
37	**67**	**59**	**Russel**	Furn & Household	**262,2**	**54,8**	**74,4**	**14,5**	**266,7**	Apr '82
35	64	48			217,7	70,7	66,1	16,3	222,2	
38	**58**	**44**	**Metro**	Stores	**246,2**	**74,1**	**48,8**	**18,6**	**1 384,4**	Apr '82
75	31	75			118,9	165,9	20,4	10,8	540,7	
39	**59**	**42**	**Protea**	Ind Holding	**245,3**	**72,2**	**76,0**	**19,8**	**401,8**	June '82
38	49	34			213,7	99,0	68,5	21,3	340,6	
40	**36**	**35**	**Rennies**	Ind Holding	**243,9**	**131,7**	**85,1**	**23,4**	**353,2**	Dec '81
54	44	52			167,9	114,3	53,6	14,9	236,2	
41	**94**	**276**	**Checkrs**	Stores	**242,4**	**37,3**	**27,3**	**22,0**	**1 230,7**	June '82
27	87	72			279,7	47,0	56,5	11,7	1 003,9	
42	**61**	**57**	**S Atlant**	Ind Holding	**239,3**	**70,1**	**84,1**	**14,7**	**485,9**	June '82
43	71	71			199,8	60,0	74,5	11,9	391,8	
43	**72**	**104**	**Sage Ltd**	Banks & Fin Serv	**236,5**	**52,0**	**40,9**	**6,7**	**n/a**	Dec '81
45	94	29			191,6	41,9	33,1	4,2	n/a	
44	**13**	**27**	**Wooltru**	Stores	**233,8**	**342,4**	**114,5**	**30,6**	**495,1**	June
36	41	28			217,4	120,2	97,2	26,6	272,9	
45	**28**	**34**	**Met Box**	Paper & Packaging	**232,6**	**176,3**	**112,2**	**23,6**	**400,7**	Mar '82
47	27	35			189,5	174,4	98,2	21,1	340,7	
46	**203**	**192**	**Aurochs**	Motor	**229,7**	**6,0**	**24,1**	**1,9**	**343,9**	Feb '82
44	219	150			193,4	6,0	23,7	3,0	277,1	
47	**15**	**36**	**Pick 'n Pay**	Stores	**226,9**	**317,9**	**78,5**	**23,3**	**973,6**	Feb '82
48	18	44			178,8	247,4	53,3	16,8	745,0	
48	**162**	**110**	**WM Hunt**	Motor	**226,2**	**12,1**	**53,8**	**5,5**	**342,1**	Feb '82
46	134	91			190,0	20,7	50,7	7,7	274,3	
49	**31**	**31**	**Romatex**	Cloth, Foot, Text	**222,7**	**159,7**	**141,7**	**24,7**	**392,4**	Sep '82
34	23	19			222,1	193,7	127,0	31,8	388,9	
50	**64**	**24**	**Toyota**	Motor	**222,7**	**56,9**	**119,0**	**31,9**	**600,8**	Dec '81
52	74	31			168,8	57,7	91,2	23,9	375,6	
51	**37**	**37**	**D & H**	Ind Holding	**211,3**	**127,3**	**76,9**	**22,9**	**432,7**	Dec '81
59	33	45			154,7	161,2	63,2	16,5	277,0	
52	**65**	**30**	**Messina**	Ind Holding	**203,3**	**55,1**	**158,8**	**28,6**	**n/a**	Sep '82
0	0	0			173,1	84,4	142,6	39,7	n/a	
53	**122**	**102**	**Putco**	Transportation	**202,7**	**22,1**	**103,9**	**6,8**	**178,4**	June '82
61	159	105			148,0	14,8	72,7	5,6	137,7	
54	**71**	**103**	**Contex**	Cloth, Foot, Text	**198,8**	**52,0**	**163,6**	**6,7**	**n/a**	June '82
51	67	97			173,6	68,0	146,7	6,9	n/a	
55	**50**	**49**	**HLH**	Ind Holding	**198,1**	**90,0**	**85,6**	**17,0**	**353,9**	Feb '82
56	51	64			166,5	92,0	65,6	12,4	295,2	
56	**55**	**48**	**Toncoro**	Building & Constr	**195,6**	**75,2**	**114,2**	**17,1**	**212,1**	Mar '82
55	57	46			166,9	80,9	100,6	16,4	173,0	
57	**40**	**61**	**Kanhym**	Food	**194,7**	**111,5**	**44,4**	**14,4**	**951,9**	Dec '81
58	38	76			155,7	139,1	34,0	10,5	359,4	
58	**53**	**43**	**Grinakr**	Building & Constr	**188,0**	**78,5**	**66,1**	**19,0**	**n/a**	June '82
57	53	57			158,0	90,0	55,1	13,9	n/a	
59	**33**	**28**	**Afcol**	Furn & Household	**185,7**	**150,6**	**108,5**	**30,2**	**221,9**	Mar '82
53	32	25			168,6	164,3	58,1	28,0	193,8	
60	**133**	**94**	**Seardel**	Cloth, Foot, Text	**182,2**	**16,8**	**32,2**	**7,9**	**310,3**	June '82
63	129	94			145,4	22,1	25,9	7,5	182,5	
61	**86**	**56**	**Argus**	Printing & Publish	**180,0**	**41,8**	**80,5**	**14,9**	**269,9**	Feb '82
67	92	79			133,4	42,7	64,5	10,0	207,7	
62	**66**	**88**	**Abercom**	Engineering	**173,2**	**55,0**	**85,1**	**8,5**	**244,5**	June '82
50	55	53			174,0	87,1	71,7	14,6	229,7	
63	**90**	**70**	**MCarthy**	Motor	**170,2**	**39,3**	**70,3**	**12,4**	**755,7**	June 82
68	82	36			131,5	51,2	51,9	20,4	661,3	

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THE TOP 100

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Total assets	Market cap	Net profit		Section	Total assets	Market cap	Equity funds	Net profit	Turn-over	Financial year-end
							Rm			
64	**79**	**67**	**Reunert**	Engineering	**170,1**	**49,7**	**76,6**	**12,6**	**497,4**	Sep '82
70	65	60			128,9	70,1	65,5	13,0	282,2	
65	**110**	**80**	**W & A**	Ind Holding	**167,2**	**25,8**	**33,9**	**9,8**	**212,1**	June '82
65	105	95			135,8	32,7	25,5	7,3	n/a	
66	**48**	**65**	**Everite**	Building & Constr	**164,6**	**92,4**	**127,7**	**13,2**	**164,6**	June '82
62	47	51			145,8	105,2	111,1	15,0	142,4	
67	**34**	**38**	**Dunlop**	Motor	**158,9**	**150,5**	**90,9**	**22,1**	**199,8**	Dec 82
81	48	55			112,1	105,0	47,5	14,0	157,5	
68	**109**	**68**	**Bon Kor**	Ind Holding	**158,0**	**25,9**	**57,3**	**12,6**	**n/a**	Mar '82
66	86	41			133,7	47,7	49,5	17,6	n/a	
69	**63**	**55**	**Amrel**	Furn & Household	**157,0**	**61,0**	**49,4**	**15,0**	**219,6**	Mar '82
73	84	58			122,7	48,2	40,0	13,9	175,1	
70	**95**	**76**	**Beares**	Furn & Household	**156,3**	**35,5**	**52,4**	**10,7**	**278,7**	June '82
71	91	61			126,3	43,1	45,9	12,7	227,8	
71	**96**	**134**	**Frasers**	Stores	**155,4**	**34,7**	**54,0**	**4,0**	**290,1**	Sep '82
60	70	78			149,8	61,1	52,8	10,4	244,9	
72	**124**	**109**	**UN Steel**	Steel & Allied	**154,9**	**21,8**	**72,7**	**5,6**	**210,8**	Sep '82
80	106	59			114,8	32,5	61,0	13,3	178,4	
73	**70**	**63**	**Pepkor**	Stores	**154,4**	**52,6**	**47,1**	**13,4**	**279,9**	Feb '82
0	0	0			n/a	n/a	n/a	n/a	n/a	
74	**20**	**46**	**Altech**	Electronics etc	**154,1**	**239,6**	**52,5**	**17,6**	**206,9**	Feb '82
90	34	62			92,1	160,5	34,3	12,6	122,0	
75	**97**	**100**	**T & I**	Banks & Fin Serv	**152,1**	**34,4,**	**24,2**	**7,3**	**n/a**	June '82
104	101	122			72,8	35,1	17,8	4,5	n/a	
76	**93**	**73**	**Cullinan**	Steel & Allied	**151,0**	**37,6**	**52,6**	**11,7**	**156,8**	June '82
84	73	70			102,4	59,5	40,6	11,9	n/a	
77	**81**	**60**	**Ellerine**	Furn & Household	**146,6**	**46,9**	**59,6**	**14,4**	**174,6**	June '82
74	97	63			121,5	37,9	59,4	12,5	134,6	
78	**88**	**182**	**Nat Cons**	Cloth, Foot, Text	**145,9**	**39,8**	**141,5**	**2,1**	**n/a**	June '82
72	108	172			126,2	31,4	124,4	2,2	n/a	
79	**127**	**77**	**Gen Tire**	Motor	**139,0**	**20,6**	**70,4**	**10,5**	**151,6**	Feb '82
76	150	66			118,5	15,7	62,8	12,4	n/a	
80	**41**	**32**	**Consol**	Paper & Packaging	**138,0**	**108,5**	**63,4**	**24,5**	**193,4**	June '82
86	54	42			95,4	89,9	47,3	17,4	150,1	
81	**82**	**85**	**SA Drug**	Pharm & Medical	**135,9**	**44,6**	**44,8**	**8,8**	**262,8**	March '82
69	89	81			129,3	46,6	39,0	9,5	229,5	
82	**147**	**147**	**Picbel**	Ind Holding	**135,0**	**13,3**	**27,0**	**3,4**	**199,5**	June '82
64	128	146			142,7	22,6	14,0	3,2	497,9	
83	**42**	**45**	**Metkor**	Engineering	**134,3**	**107,6**	**103,7**	**18,5**	**n/a**	Sep '81
78	68	39			116,2	65,9	84,6	17,8	n/a	
84	**85**	**71**	**Malbak**	Ind Holding	**133,6**	**42,3**	**36,9**	**12,1**	**271,6**	Mar '82
92	80	83			89,9	51,8	31,4	9,4	185,5	
85	**92**	**81**	**Boumat**	Building & Constr	**132,6**	**38,4**	**31,8**	**9,8**	**260,8**	Mar '82
85	102	88			97,4	35,1	22,0	8,3	191,3	
86	**84**	**98**	**Triomf**	Chemicals & Oil	**132,3**	**43,4**	**101,6**	**7,5**	**n/a**	Dec '81
20	66	40			379,8	70,0	102,4	17,6	431,1	
87	**51**	**78**	**I & J**	Food	**131,9**	**86,8**	**60,0**	**10,4**	**323,1**	June '82
82	78	87			111,9	53,2	54,2	8,6	263,3	
88	**69**	**54**	**BTR**	Ind Holding	**124,3**	**53,0**	**42,2**	**15,7**	**161,5**	Jan '82
91	46	67			90,0	111,1	35,8	12,1	127,8	
89	**143**	**145**	**Picfin**	Ind Holding	**122,6**	**14,0**	**17,8**	**3,6**	**188,3**	June '82
77	131	199			117,2	21,7	13,6	1,5	463,3	
90	**57**	**50**	**Plevans**	Chemicals & Oils	**118,2**	**74,9**	**68,6**	**16,1**	**233,1**	Sep 81
83	63	50			102,4	70,9	58,0	15,2	199,5	
91	**80**	**96**	**ASEA**	Electronics etc	**106,7**	**48,3**	**52,2**	**7,6**	**128,8**	Dec '81
95	85	99			82,3	47,7	33,3	6,3	96,7	
92	**47**	**51**	**Kohler**	Paper & Packaging	**105,5**	**97,4**	**56,4**	**16,5**	**173,7**	Dec '81
87	43	56			94,9	118,6	49,2	14,0	142,3	
93	**62**	**39**	**Anchusa**	Ind Holding	**105,1**	**66,9**	**85,8**	**22,0**	**729,0**	June '82
115	79	49			64,0	52,7	51,9	15,3	454,0	
94	**43**	**64**	**Foshini**	Stores	**103,8**	**104,8**	**40,2**	**13,4**	**189,7**	Dec '81
97	50	77			81,3	97,0	35,7	10,4	144,9	

Manpower productivity is an issue that will demand much top management attention during the turbulent 80's. Businesses face increased competition in the marketplace; they'll also have to compete more intensely for staff. We get exceptional recruitment results for our clients. Here's how we can do the same for you.

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THE TOP 100

RANKED BY:

Total assets	Market cap	Net profit		Section	Total assets	Market cap	Equity funds	Net profit	Turn-over	Financial year-end
					Rm					
95	**182**	**114**	**Afr Pers**	Printing & Publish	**102,6**	**8,2**	**41,1**	**5,2**	**203,6**	June '81
96	194	100			82,2	9,3	36,4	6,2	n/a	
96	**76**	**92**	**NEI Afr**	Engineering	**97,7**	**50,5**	**34,6**	**8,1**	**166,4**	Dec '81
101	90	102			76,4	44,8	29,5	5,7	136,0	
97	**83**	**91**	**Curfin**	Ind Holding	**96,0**	**43,5**	**30,9**	**8,1**	**161,1**	June '82
93	95	93			88,3	41,4	25,5	7,5	140,0	
98	**169**	**273**	**Genrec**	Engineering	**94,3**	**11,0**	**27,3**	**2,0**	**n/a**	Feb '82
103	138	119			74,3	17,9	22,0	4,6	n/a	
99	**142**	**132**	**Oil**	Fishing	**93,6**	**14,3**	**28,0**	**4,1**	**65,6**	Feb '82
94	141	143			87,8	17,2	29,4	3,4	61,9	
100	**73**	**86**	**Trek**	Chemicals & Oils.....	**92,4**	**51,7**	**33,7**	**8,7**	**391,2**	Dec '81
98	88	74			79,7	46,7	33,7	10,8	309,9	

PROFIT PRESSURES

Increases	+%	Decreases	−%
Picfin	137	**Frasers**	62
Metro	72	**ICS**	60
Sage Ltd	59	**Un Steel**	58
M & R	58	**Triomf**	58
Dunlop	58	**Abercom**	41
Rennies	57	**McCarthy**	39
Argus	49	**Aurochs**	38
Metkor	48	**Wm Hunt**	29
ATI	48	**Bon Kor**	28
Dorbyl	48	**Afr Pers**	27

formation included its acquisition of Scotts Stores, at a cost of around R25m, and of Edcon, the pyramid for Edgars stores, for some R300m. It was clear that SAB had identified clothing as a missing link in its own dominance of a variety of mass consumer markets. Breweries is another company which is explicitly looking for growth from rising disposable incomes among blacks.

Finally Tiger Oats, itself the subject of a change in control, was meanwhile securing control of Monis & Fattis, snatching the latter adroitly away from Premier Group, if

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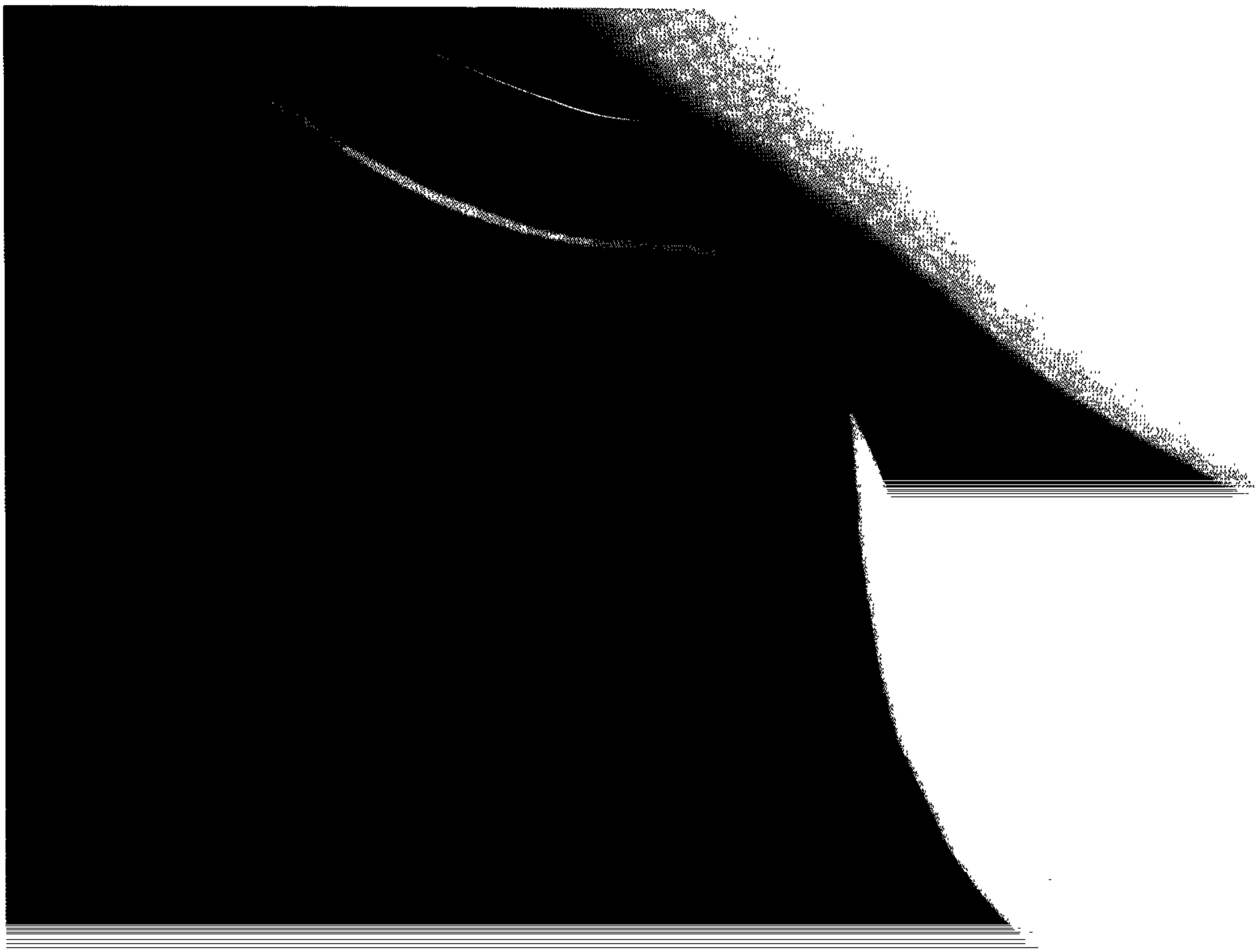

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It takes taste to choose the right colours.

DEFINITIONS

Accounts: We have used accounts received before January 8 1983, so some statistics may refer to financial years ended during 1981.

Balance sheet figures: Consolidated accounts have been used where applicable.

Total assets: The sum of fixed and current assets has been used according to the latest balance sheet data available. Adjustments have been made for the market or directors' valuation of investments held at the balance sheet date, as well as for the current values of fixed assets (such as property) where such values are not already included in the financial statements.

Market capitalisation: The market value of all fully paid and issued ordinary shares as at the closing price on the last trading day of 1982.

Net profit: Taxed profit attributable to ordinary shareholders, after adjustment for non-recurring items. Profits attributable to minority and to preference shareholders are excluded.

Equity funds: Net assets attributable to ordinary shareholders have been adjusted in the same way as total assets: ie for the market or directors' valuation of investments and the current values of fixed assets where applicable.

Turnover: As published by the company.

Ranking: Companies are ranked in the Top 100 table according to total asset values as adjusted.

at some cost. But assets must have been a major influence on the move. Monis & Fattis was bought out eventually on a P/E of 17,3.

The tendency for the extremely large to grow larger not merely in absolute terms, but, more surprisingly, at a faster rate than the less large is a disturbing one. For example our Top 100 list published as recently as 1980 showed total assets of the top 10 companies at R8 billion. In the latest table the top 10 have assets of R18,7 billion. That hike is not accounted for by inflation; and in any case some of the largest concerns employ current cost accounting to avoid the misleading values of historic costs. By comparison, the 1980 bottom 10 companies had total assets of R537m, which had grown to R998m in the current table.

It may appear as if the battle for assets could have a stultifying effect upon rates of real profitability among major SA concerns, as their control, and at the very least their interest, spreads across the economy. For example Old Mutual, whose shareholding in Tiger Oats passed to Barlows in the change of control, emerged as the largest individual shareholder in Barlows with a stake of 23%. At the same time Robin McGregor's forthcoming edition of *Who Owns Whom* demonstrates, he says, that Anglo American already controls 70 of the companies listed on the JSE. Rembrandt accounts for a further 65, with insurer Sanlam taking out 38, and Barlow Rand the next 25. Now fewer than 153 companies are controlled through the shareholdings of their directors.

Altogether the shares of the companies included in the above list were valued by McGregor at end-December at R67,6 billion, compared with a total value of listed shares of R89,3 billion. And that list omits such significant ownership as that of Anglovaal, Liberty Life Group, Nedbank, Volkskas and Premier Group.

The scope for further expansion by way of acquisition, which has formed a most important route for the past 20 years must now be looking distinctly limited. If the next real boom in SA develops during 1985 and 1986,

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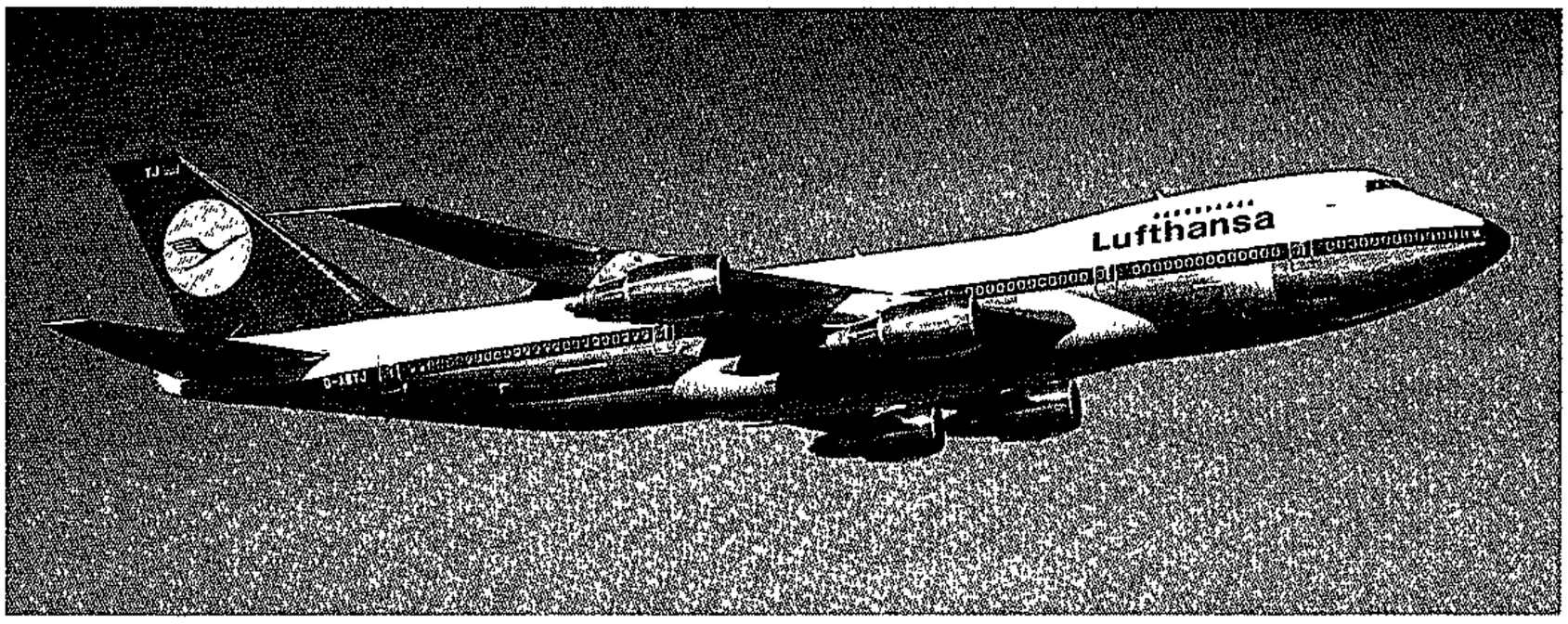

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the build-up of funds needing investment will become more than critical. The effect of corporate and institutional liquidity upon a limited number of investments must be inflationary.

What is to be done? One escape hatch likely to become increasingly popular over the next few years is to invest abroad. Thus far, of course, the export of funds requires Reserve Bank permission. Nonetheless SA Breweries, for instance, believes that overseas expansion into activities which it understands is the next major route it will take, by means of overseas borrowings.

The Liberty Life Group has already shown a similar interest. It has carried out its overseas investment programme through a UK holding company, Trans Atlantic Insurance Holdings. This now involves a 29,6% interest in the UK property development group, Capital & Counties, a 24% investment in Sun Life Insurance, also of the UK, and 25% of Montreal Life Insurance in Canada.

Plate Glass is another SA company which has for some time longed for international expansion. With almost the whole of the SA glass market presently sewn up, a major move was the acquisition last year of Doulton, the biggest glass merchant in the UK. The price was £7,4m, paid for with borrowed funds.

Together with US and Australian subsidiaries, the glass marketing arm of PGSI will now have close to 50% of its turnover outside SA. PGSI chairman Ronnie Lubner foresees a variety of good effects from the expansion. For one thing, the company will have much greater buying power from sources which tend to be themselves multinational in character. For another, the group's glass interests may achieve additional stability from the contra-cyclical effects of different national economies. Finally, this strategy avoids the pitfall of so many conglomerates, since PGSI is investing in a market it believes it thoroughly understands.

Barlow Rand, for so many years at the top of our 100 list, has so far shown little enthusiasm for overseas investment. Its latest report showed total assets of a mere R63,4m in UK, Belgium and US. Last year, it is true, did see the purchase, mentioned earlier, of Monitor in the US by subsidiary C G Smith. A Barlows spokesman agrees that Barlows would be interested in moving off-shore, "provided the right opportunity arose in an industry related to what we are already doing."

The constraints imposed by exchange control apply equally to Barlows, of course. It has been frequently suggested that exchange control may soon be further relaxed to permit export of SA funds for the purpose of overseas investment. Generally it has been foreseen that SA institutions might be the first to benefit. But that would almost certainly bring cries of "unfair" from the largest — and not only the largest — SA industrial companies. Sharing out that particular cake would surely provide plenty of headaches for Pretoria. *David Ross*

TURNOVER TOP TEN

Rank	Company	Turnover Rm	Fin year
1	**Barlows** ..	**6 829,2**	**Sep '82**
1		4 571,9	
2	**CG Smith**	**3 081,2**	**Sep '82**
7		1 245,6	
3	**SA Brews**	**3 057,4**	**Mar '82**
2		2 375,2	
4	**M & R**	**1 706,0**	**June '82**
5		1 216,0	
5	**Prem Grp**	**1 504,3**	**Mar '82**
6		1 204,7	
6	**Sasol**	**1 503,8**	**June '82**
3		1 257,5	
7	**ATI**	**1 470,0**	**June '82**
9		1 029,1	
8	**AECI**	**1 467,0**	**Dec '81**
4		1 236,3	
9	**Kimet**	**1 440,2**	**Apr '82**
18		581,1	
10	**Metro**	**1 384,4**	**Apr '82**
21		540,7	

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CYCLONE

about a state of mind as it does about technology

The new BMW 635 CSi sports coupé. The state of things to come.

The new BMW 635 CSi is one of those refreshing rarities.

A personal car that doesn't depersonalize its owner.

Achieved through the employment of advanced thinking and technology. As well as clarity in design and determined single-mindedness to craft a thoroughbred coupé that handles town traffic and high speed touring with the same exhilarating distinction.

The BMW 635 CSi. A technological coup.

Incorporated in the new 635 CSi is the world's most advanced motoring technology. Such as the second generation Digital Electronic System. Where a microprocessor constantly controls the 635 CSi's new engine. It takes readings on air/fuel mixture, throttle openings and other essential operations, then orders ignition to occur at the precise moment for optimum performance.

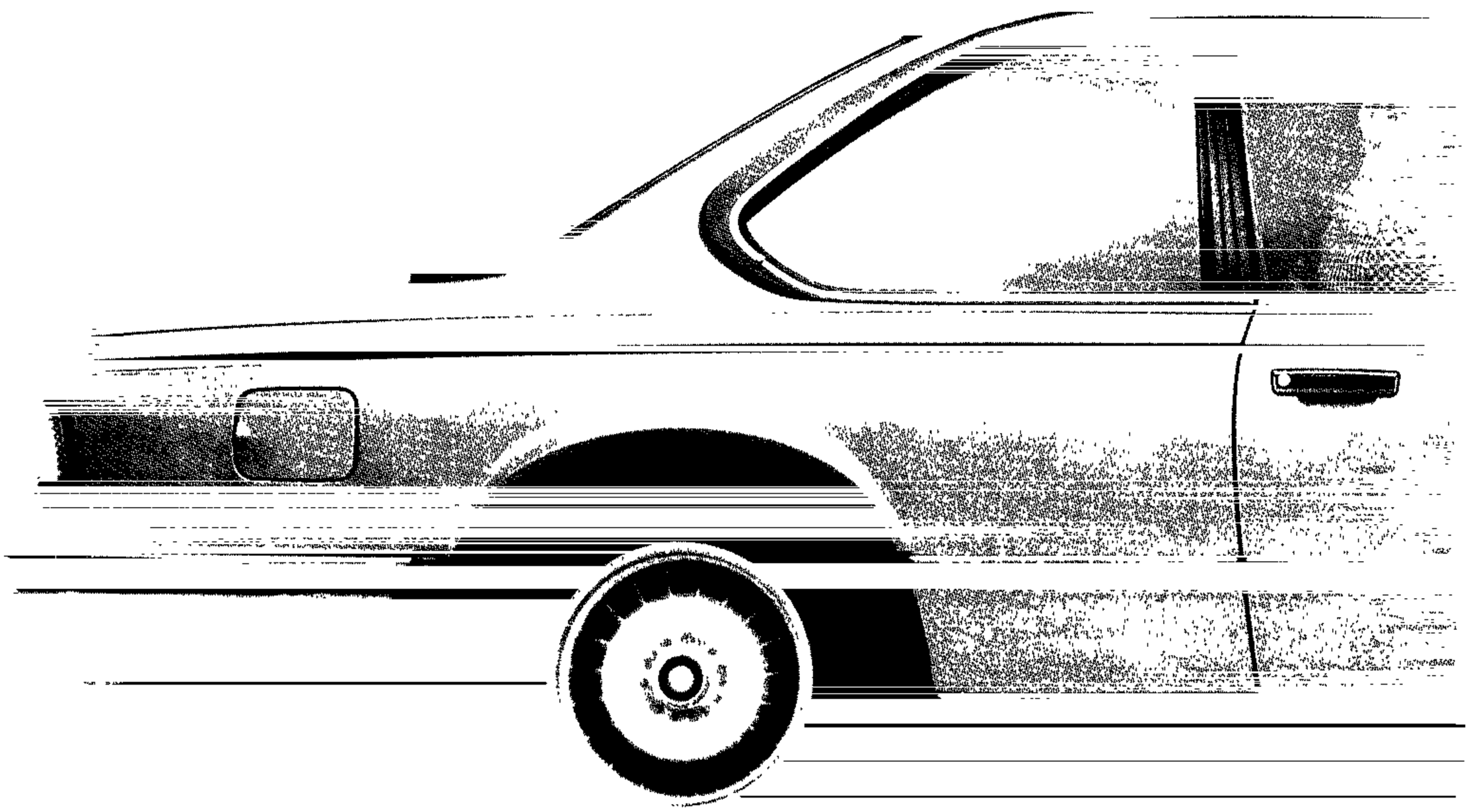
All of which results in improved running smoothness, better acceleration, reduced fuel consumption and exhaust emission.

Another electronic system controls braking in extreme situations. The revolutionary anti-lock braking system (ABS) that makes it impossible to lock the brakes. No matter what surface you brake on.

Then there's the Active Check Control that monitors seven of the car's essential operations.

Nor does the 635 CSi forget about your driving. The new Service Interval Indicator measures your style of driving, then actually informs you when servicing is required.

The Fuel Consumption Indicator tells you how



maximum efficiency.

While still another computer provides everything from outside temperature readings to anti-theft protection.

All this technology rides upon a new BMW suspension system that effortlessly eradicates the most erratic topography with surgical precision.

Making the 635 CSi one of the most agile and dynamic coupés on the road.

And with the new BMW 5-speed automatic transmission, one of the most exhilarating to drive. Incorporating a converter bypass clutch in 4th gear, this transmission acts like a genuine overdrive. Giving the same efficiency as the 635 CSi's 5-speed manual overdrive.

colours or 6 interior leather colours. You can also choose from more than 20 personalized options. Making it pretty likely that no two will ever be the same.

The main price to pay is patience.

The 635 CSi is made even more rare by the fact that you won't even see one on a showroom floor. Because it will only be built on specific order.

But then think of just how much more rewarding getting a car you've customized as the 635 CSi will be.

patience will be rewarded.

A commitment to individuality.

The 635 CSi makes a very personal statement. Each one is handcrafted in Bavaria to the individual requirements of the individual buyer.

For example, you have a choice between a

BMW 635CSi

Sheer driving pleasure.

The state of technological art– the personal detail

Engine: Capacity – 3430cc; Output 160 DIN KW (218bhp) at 5200 r/min; Torque 310 Nm (228 ft/lb) at 4 000 r/min; Compression ratio 10:1.
Second Generation Digital Electronic System with electronic grid controlled fuel injection through airflow metering; additional grid control for the warming-up phase; fuel supply cut-off when coasting above 1000 r/min.

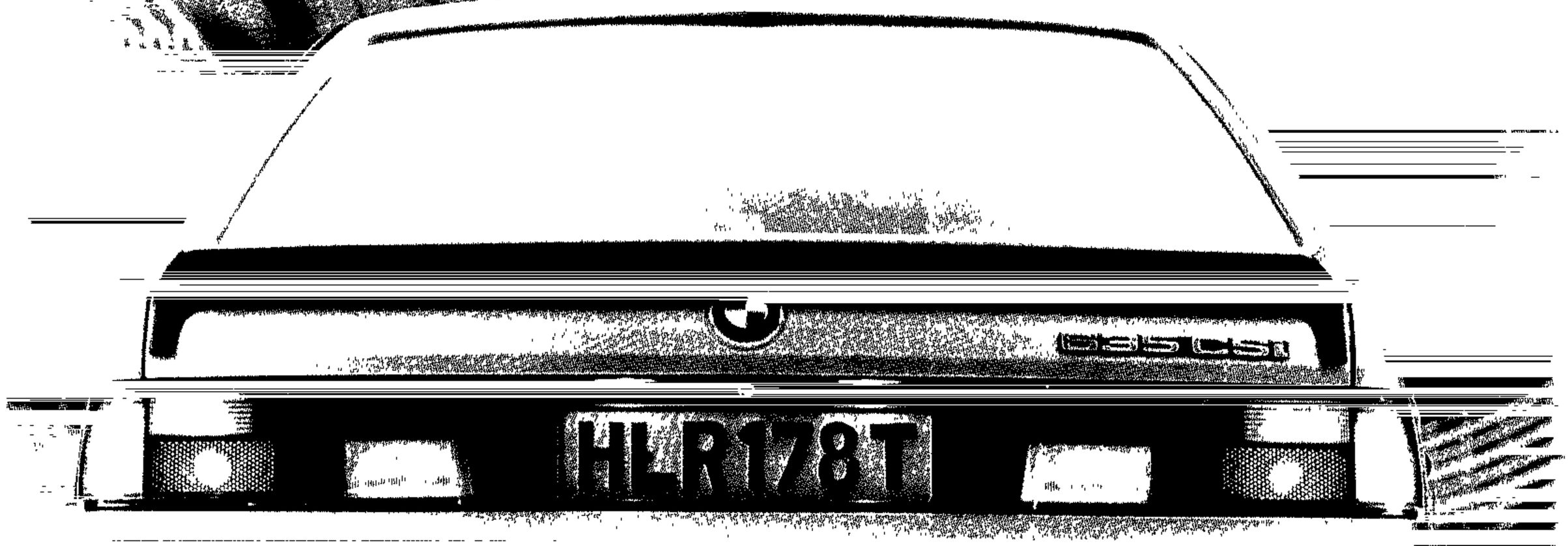
Performance:

	5-speed overdrive	Sports
Maximum speed:		
Manual (5-speed overdrive)	230 km/h	
Automatic	230 km/h	
Acceleration 0–100 km/h:		
Manual (5-speed overdrive)	7,2 sec	6,1 sec
Automatic	9,3 sec	8,7 sec
Fuel Consumption:		
Litres/100 km:		
At constant 90 km/h	7,2	6,4
At constant 120 km/h	9,3	9,0
City traffic	17,7	16,6

Retail Price: R65 000 (excluding GST)
Included in this price are the following standard fitments: Gearbox – Manual 5-speed (overdrive sports) or Automatic 4-speed; Anti-lock Brake System; Tinted Windows; On-Board Computer; Electrically Adjustable, Heated Door Mirrors; TRX 220/55 VR 390 Tyres on forged 16S Star Rims; Front Seat Height and Tilt Adjustment (both seats); Dimmed Headlamp Adjustment from Interior; Radio Kit; Metallic Paint; Limited Slip Differential; Rear Headrests; Airconditioning; Automatic Antenna. (If required, special arrangements can be made to delete certain of these items.)
Optional Equipment can be specified as follows:

	Retail Price
Leather Trim	R [illegible]
Self Levelling Suspension	R [illegible]
Lockable Wheel Nuts	R [illegible]
Electrically Operated Sunroof	R [illegible]
Velour Floor Mats	R [illegible]
Recaro Seats	R [illegible]
Seat Heating (Driver)	R 20[illegible]
Seat Heating (Driver & passenger)	R 3[illegible]
Headlamp Cleaner	R [illegible]
Speed Control	R 4[illegible]

NOTE: All performance data extracted from tests done in Germany



BMW 635CSi

[illegible] driving pleasure.

How to avoid the high cost of outgrowing your computer.

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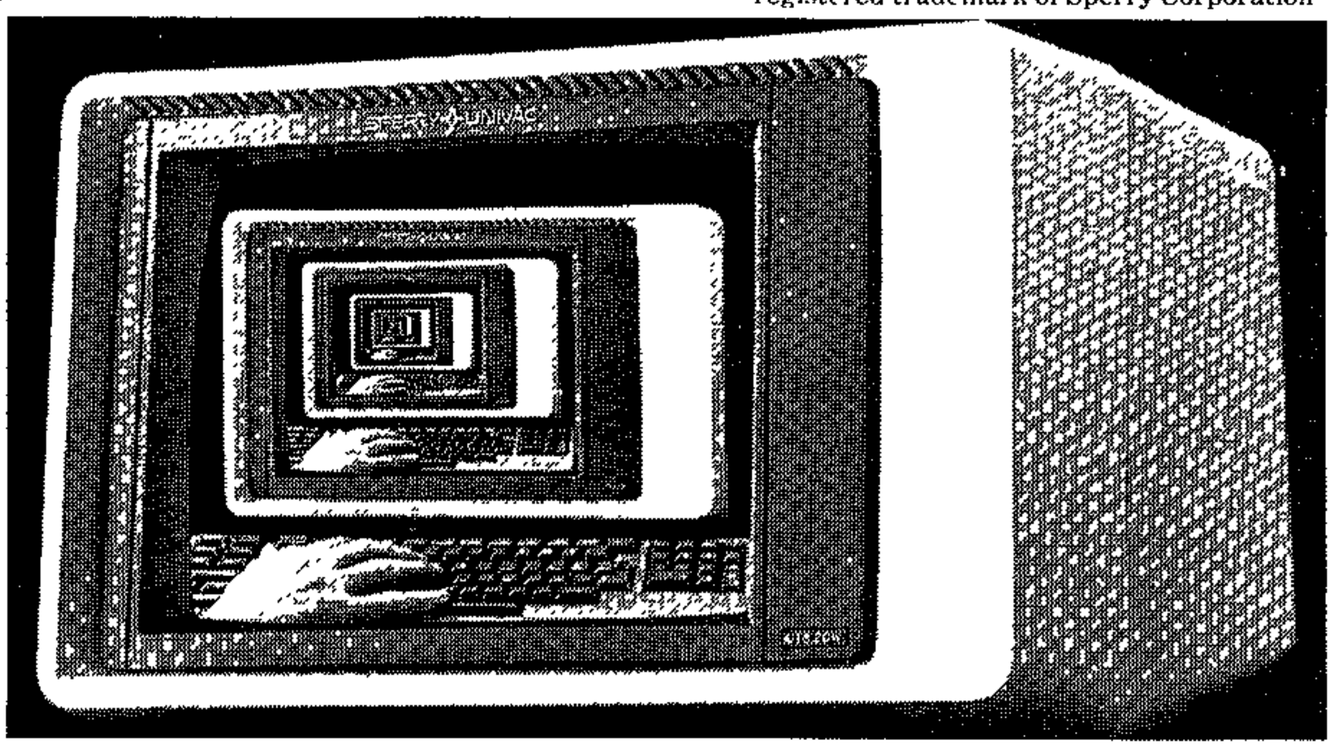

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We understand how important it is to listen.

Inevitably, it happens.

That marvelous machine in the glass-walled room becomes inadequate to the task. Work gets deferred. Output lags.

Congratulations. Your company has outgrown its computer.

But brace yourself. What follows next is going to be costly. In time lost. In dollars spent.

Because upgrading a computer system involves not only replacing hardware, but converting the data base, rewriting programs, and retraining your DP people.

Unless, by chance or foresight, you happen to be using one of our 1100 Series computers.

The Sperry 1100 Series allows you to upgrade computer capabilities painlessly. Whether you're moving up to the next model or right up to the top of the line.

Our model-to-model compatibility is no accident. (It's also not typical of the industry.) Technically, we achieve compatibility through unique software called the 1100 Operating System. Effectively, the 1100 OS is insurance against obsolescence when you upgrade. It protects your sizable investment in existing software and procedures, while allowing total flexibility in hardware configuration.

Now here's the bottom line. With the 1100 Series, from the entry level model to the super-fast supercomputer at the top, you can achieve more than a 4000% increase in power and capacity. Which means that no matter how much your company grows, you can't outgrow the 1100 Series.

Potentially, you save money at every step along the way. Because you pay only for the capabilities you need. Not for "hedge" capabilities you might need someday.

The Sperry 1100 Series. Designed for growth without growing pains. A case study in the value of listening to the real-world concerns of business and the people who manage it.

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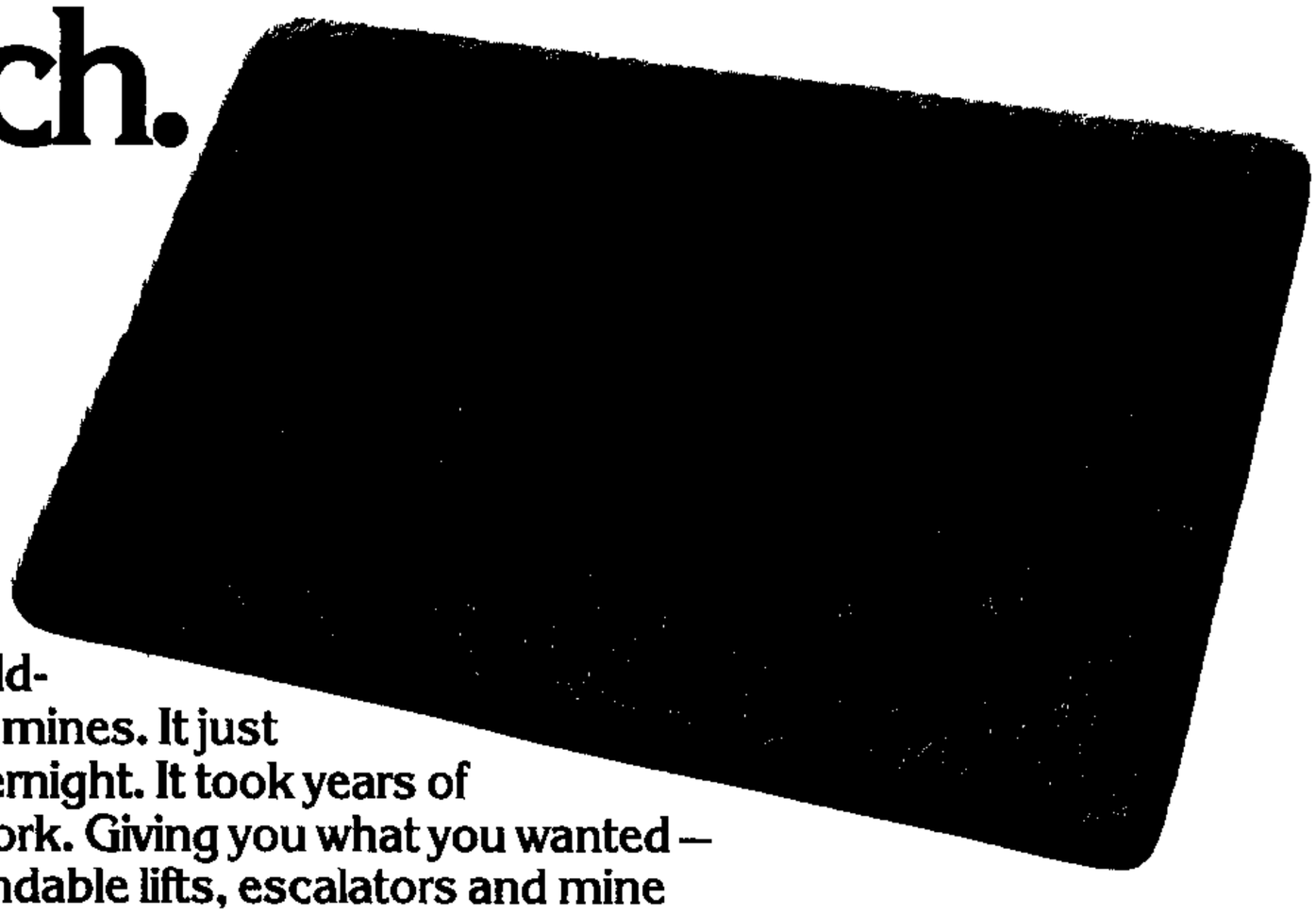
1100 Series

The reason we're in so many high places could be our down-to-earth approach.



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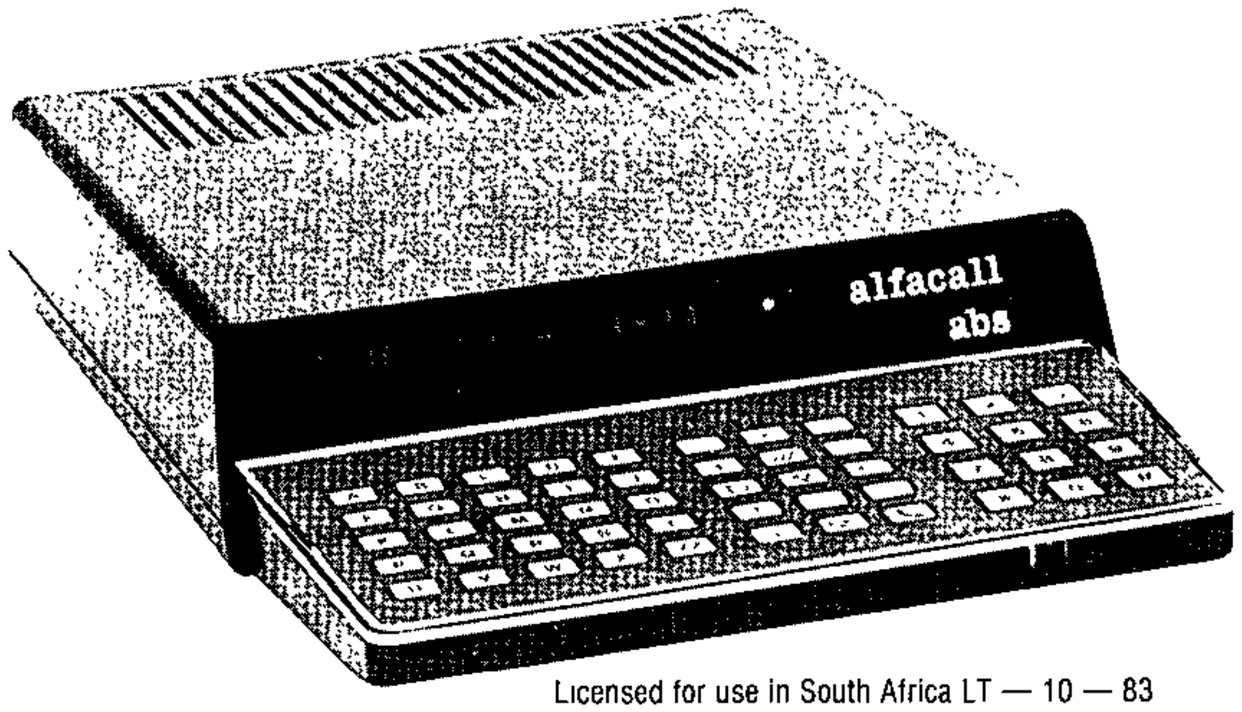
But we've saved some of the features to tell you in person. If we told them all to you now you may not quite believe us.
Instead, we suggest you give us a call. And test-speak one today.



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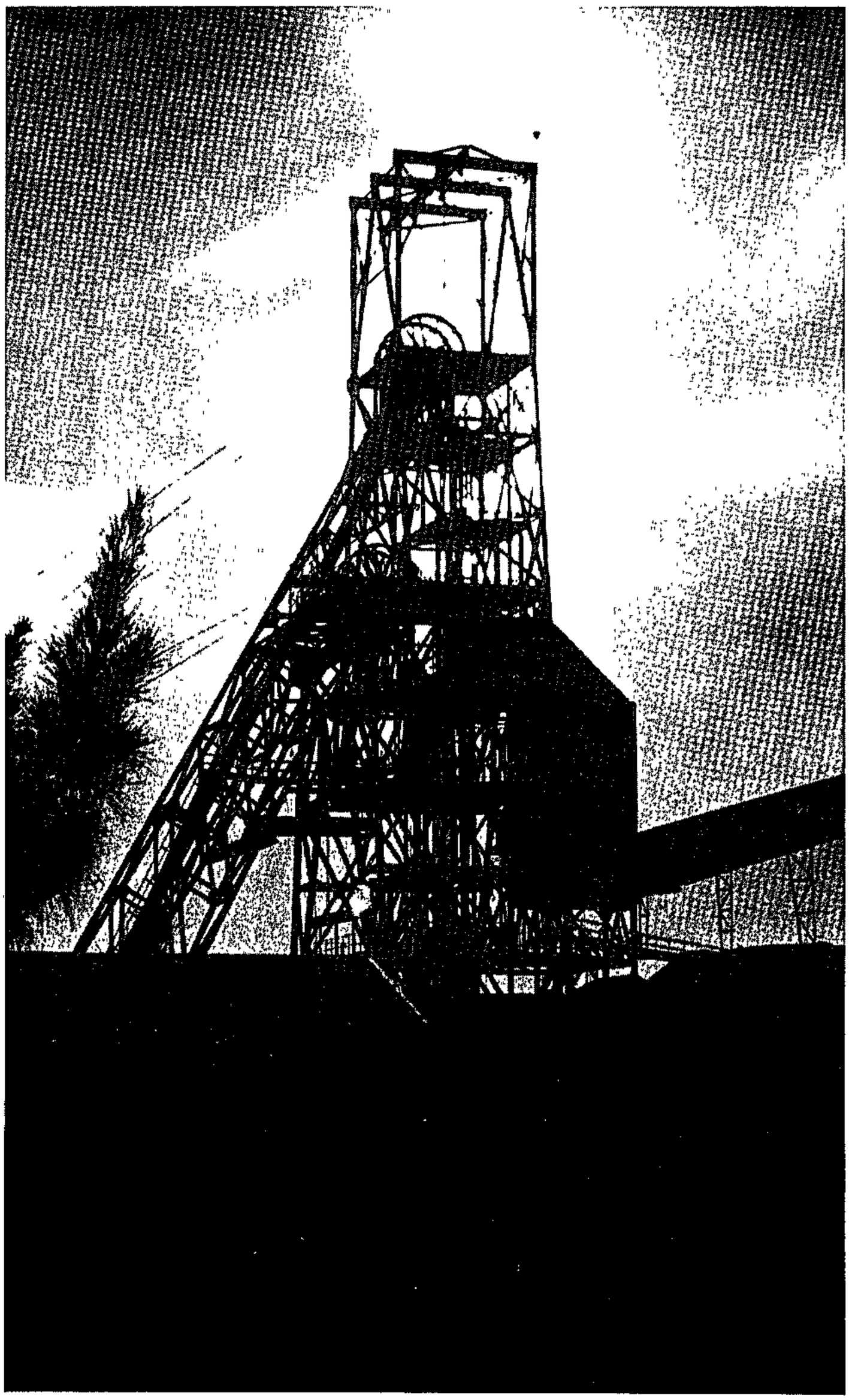
Pushing still higher

The JSE again turned in a better-than-expected performance



Mining . . . mixed performances

What a market! In 1981, after solid growth for the previous three years, overall share prices on the Johannesburg Stock Exchange closed only 4,6% lower. But in 1982, with gold struggling part of the time and having to endure disappointing industrial profit performances, the JSE put on another 20,1% on average. This means Diagonal Street has turned in a compound annual growth of some 16,3% since January 1980. It's probably a safe bet that no other major market can boast such figures.

In this survey last year we mentioned that 1981 had started rather slowly and gathered steam from mid-year. This helped move the market off its low and meant the industrial board — following still sound profit increases — closed up 13,7% 1982 followed a similar track. In fact, the accompanying table of foreign bourses confirms that in 1982 only Amsterdam and Antwerp beat the JSE overall, while Wall Street made a good finish in anticipation, it appears, of better times ahead.

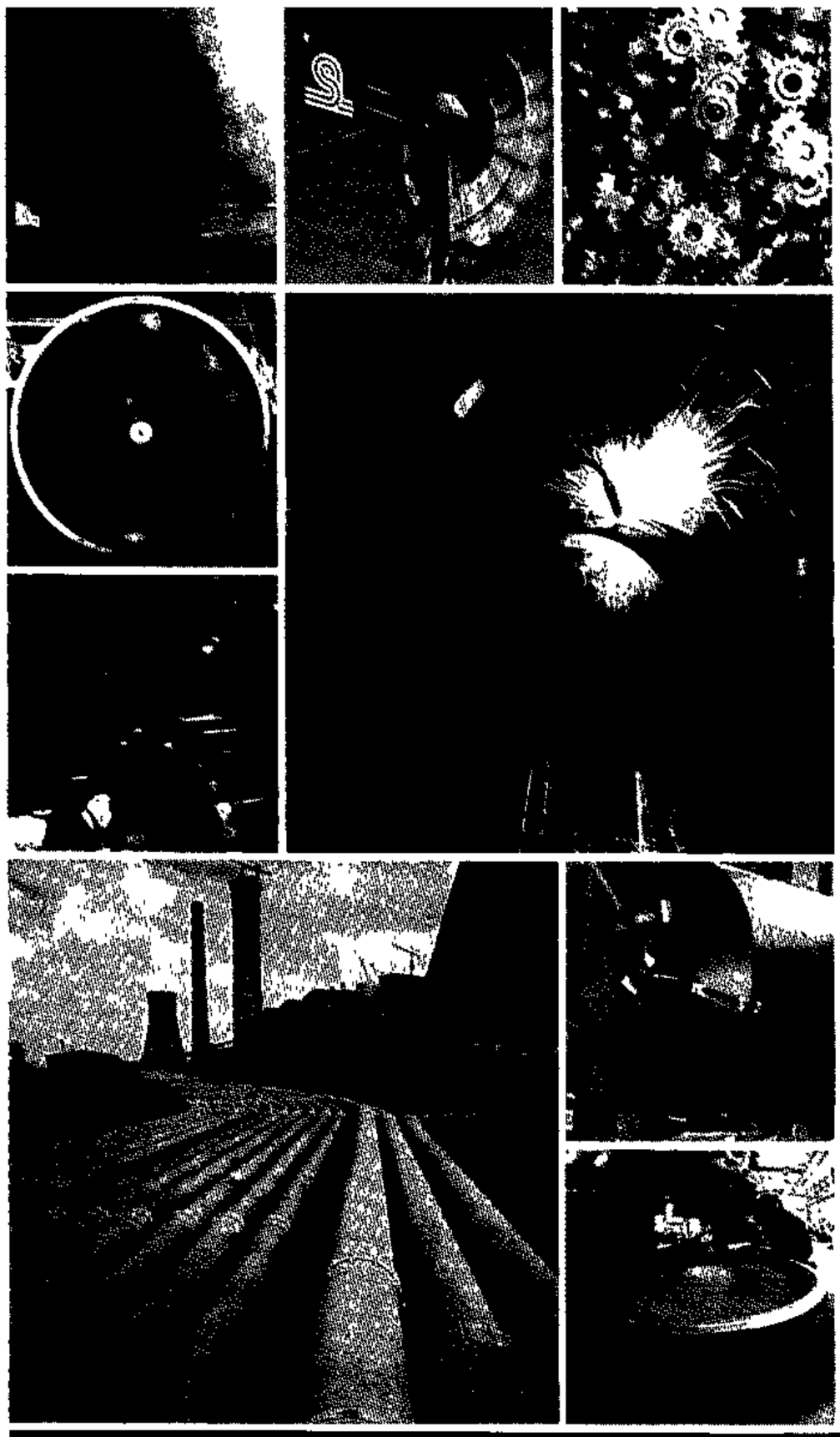
But in January 1982 many small to medium investors were casting around for profitable opportunities because, they reasoned, the JSE just could not offer much. Their arguments sounded very well based Company profits were falling and the economy was sliding downhill — with real gnp growth of about 1% expected And gold was in the doldrums.

These predictions came true. The US economy's continued recession and high interest rates kept the lid on most metal prices, while other exports from SA also slowed. In addition, the current account of the balance of payments swung into the red because of the still high level of imports Combine that with a prime overdraft rate of 20%, and it is not surprising that everybody, or almost everybody, expected 1982 to be a shocking year on the market.

In these circumstances it was not surprising that the number of new listings on the JSE started slowly. In fact, of those in the "New Listings" table only six remain. But as the market eventually turned out there were a number of companies which must have wished they had used paper. It would not have been the expense it looked earlier in the year.

So the JSE fulfilled the doomsayers talk up to end-June. Then it bowled ahead. Volumes beat the averages for the previous year though they were still some way off the highs in 1980. But the record day for 1982 was within a whisker of 1980's peak R35,2m trade (see table).

In particular, the gold board was a winner. The index stood at 541 at end-1981 and in the following 12 months it almost dou-



Baldwins Steel Bundy Tubing Centurator

Climax Fultons Hollosec Koolmaster Metek

Pipe Couplings Salcast Salchain Salister Diesels

Salmac Saltronics Salvalve Salweir Saunders Valves

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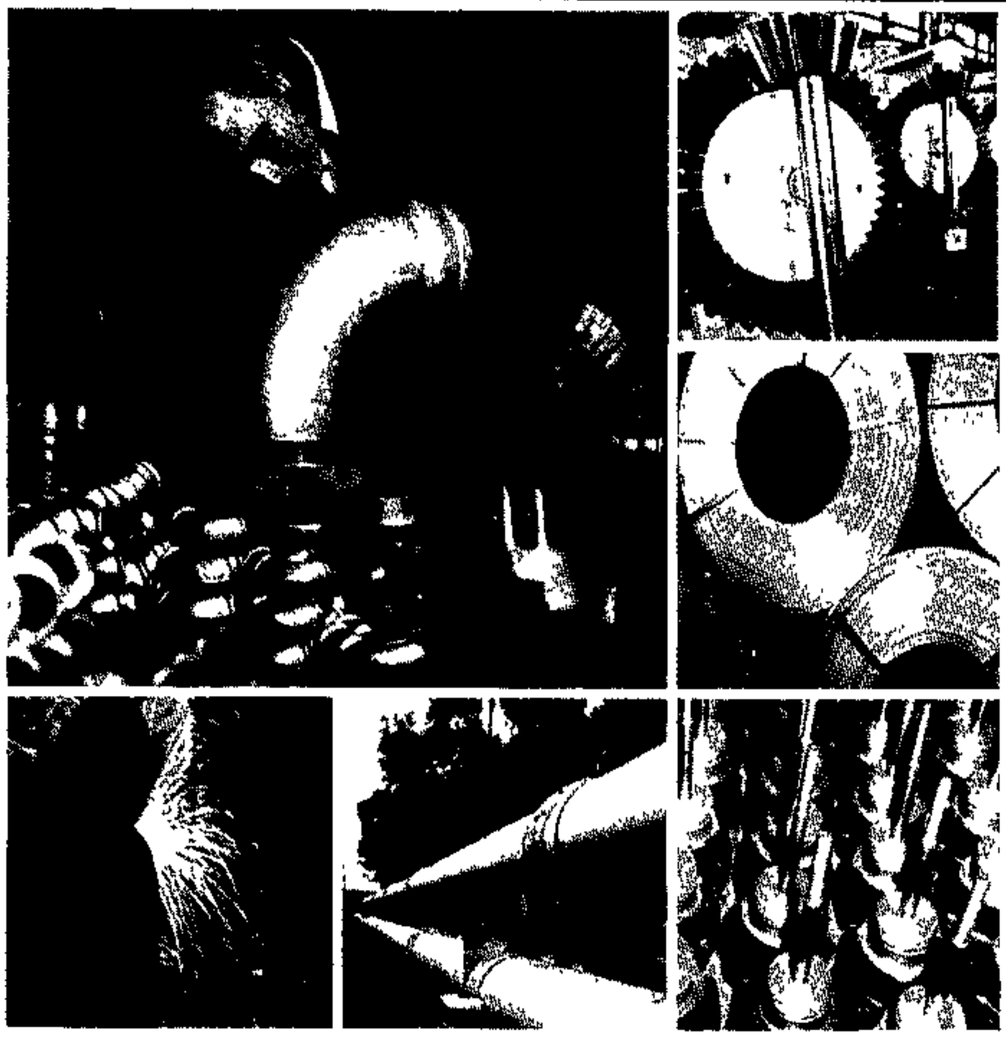

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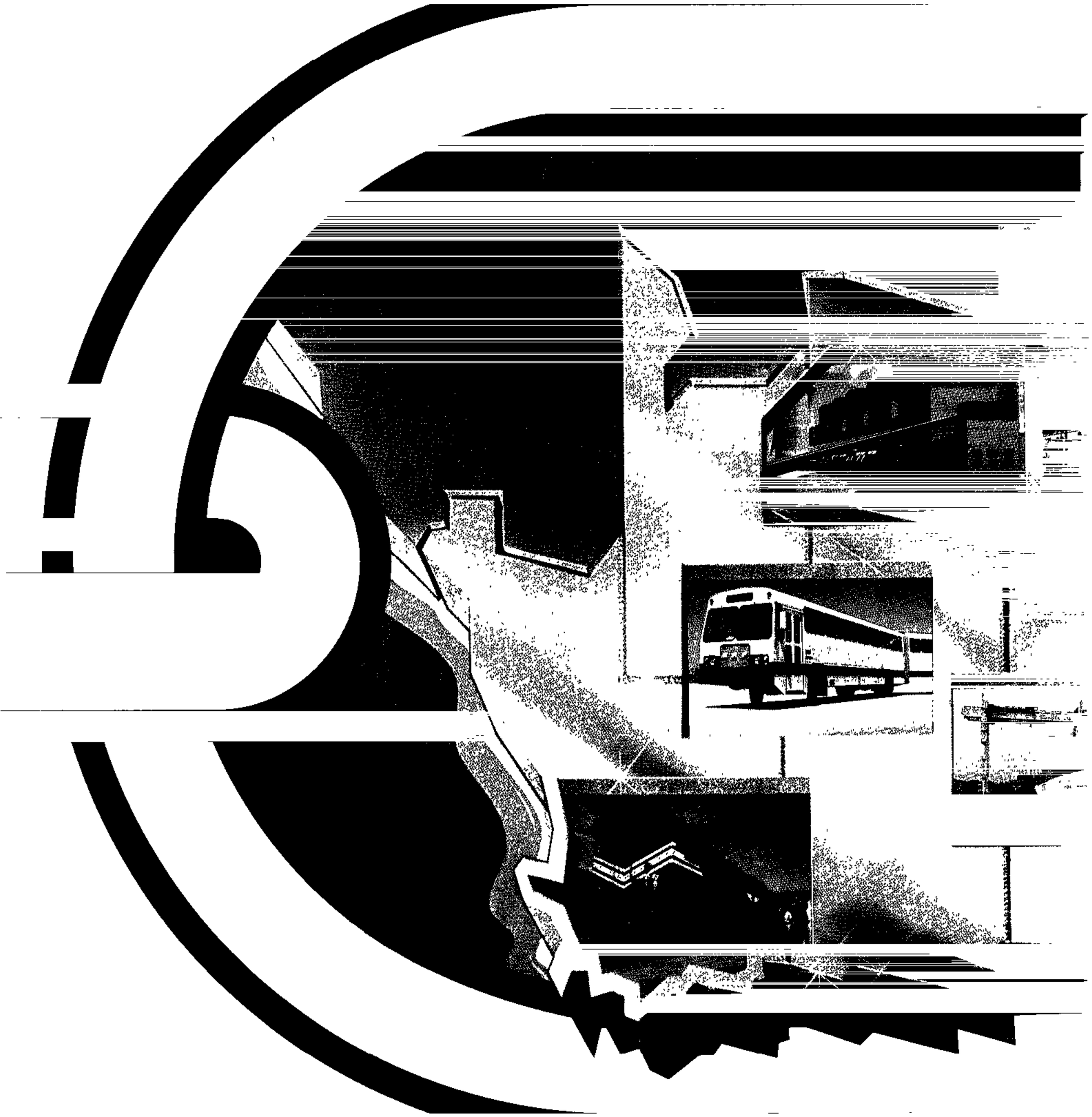
THE TOP 100 MARKET LEADERS

RANKED BY

Market capitalisation end-Dec 1981		Market sector	Market capitalisation Last year Rm	Market capitalisation Previous year Rm	Pre-tax profits Last year Rm	Pre-tax profits Previous year Rm
1	**Anglos**	Mining Houses	4 834,5	3 633,8	715,6	612,3
2	**Dries**	Gold — West Wits	4 513,5	2 839,1	762,6	722,0
3	**Amgold**	Mining Holdings	3 270,8	2 239,1	250,7	317,6
4	**De Beers**	Diamonds	3 004,2	3 094,2	754,1	1 163,6
5	**Vaal Reefs**	Gold — Klerksdorp	2 888,0	1 596,0	542,4	712,3
6	**Gencor**	Mining Houses	2 353,5	1 854,9	468,3	408,5
7	**Sovaal**	Gold — Klerksdorp	2 132,0	962,0	160,8	197,4
8	**Western Deep**	Gold — West Wits	2 111,2	996,3	346,8	599,3
9	**GFSA**	Mining Houses	1 977,4	1 511,0	137,5	179,3
10	**Kloof**	Gold — West Wits	1 784,2	1 176,3	262,3	361,4
11	**Sasol**	Chemicals & Oils	1 676,3	1 443,8	347,7	281,6
12	**SA Brews**	Beverages & Hotels	1 668,3	1 089,8	308,5	241,5
13	**Barlows**	Ind Holding	1 599,9	1 324,6	667,6	652,6
14	**Amic**	Ind Holding	1 425,1	903,6	272,6	232,7
15	**AECI**	Chemicals & Oils	1 174,0	1 528,6	250,9	202,6
16	**Elands**	Gold — West Wits	1 072,5	502,4	9,8	36,8
17	**Harties**	Gold — Klerksdorp	1 030,4	728,0	225,8	326,6
18	**West Hlds**	Gold — OFS	1 007,0	799,1	202,7	342,7
19	**Pr Steyn**	Gold — OFS	1 005,1	575,4	175,4	280,9
20	**Remgro**	Tobacco & Match	978,8	595,1	245,3	183,4
21	**Pr Brand**	Gold — OFS	940,7	610,7	191,8	363,4
22	**Rusplat**	Platinum	927,4	664,2	85,8	266,2
23	**Randfontein**	Gold — Rand & Others	894,6	398,7	183,1	213,4
24	**Nedbank**	Banks & Fin Serv	893,0	583,2	n/a,	n/a,
25	**Johnies**	Mining Houses	859,3	657,8	107,9	127,5
26	**Barclay**	Banks & Fin Serv	825,1	460,5	n/a	n/a
27	**Buffels**	Gold — Klerksdorp	814,0	492,3	163,4	246,1
28	**C G Smith**	Ind Holdings	776,3	623,3	240,3	196,2
29	**Harmony**	Gold — OFS	766,2	430,2	140,0	249,8
30	**Freguls**	Gold — OFS	720,4	407,2	148,4	378,5
31	**Winkels**	Gold — Evander	633,4	414,1	111,3	140,3
32	**Deelkraal**	Gold — West Wits	632,1	398,2	22,4	16,1
33	**Amcoal**	Coal	617,1	953,2	238,3	123,9
34	**Blyvoor**	Gold — West Wits	600,0	306,0	131,8	168,2
35	**Implats**	Platinum	599,6	472,7	156,7	209,7
36	**St Helena**	Gold — OFS	577,5	375,4	180,0	187,1
37	**Kinross**	Gold — Evander	549,0	262,8	63,6	79,1
38	**Samanco**	Manganese	538,7	449,3	55,1	36,7
39	**Unisel**	Gold — OFS	504,0	285,6	66,7	54,1
40	**Stanbic**	Banks & Fin Serv	489,5	354,9	n/a	n/a
41	**Trans Natal**	Coal	476,7	596,5	104,3	66,2
42	**Palamin**	Copper	474,3	356,8	35,3	79,3
43	**Tongaat**	Sugar	466,0	296,1	80,2	67,1
44	**UCI**	Mining Holdings	448,5	302,3	37,5	38,6
45	**T C Land**	Mining Houses	444,4	567,3	126,7	113,6
46	**Prem Group**	Food	438,6	384,1	90,6	67,7
47	**Tiger-Sugar**	Food	414,3	n/a	69,8	n/a
48	**Ass Mang**	Manganese	372,6	319,3	28,0	17,6
49	**Liberty**	Insurance	371,1	251,0	n/a	n/a
50	**Ergo**	Gold — Rand & Others	369,0	305,5	69,3	93,9
51	**Libanon**	Gold — West Wits	365,1	156,8	65,9	91,8
52	**Nampak**	Paper & Packaging	355,8	275,0	83,8	80,1
53	**Senchem**	Chemicals & Oils	344,6	541,6	97,9	118,3
54	**Wool Tru**	Stores	342,4	298,9	60,1	46,5
55	**Tiger Oats**	Food	330,7	234,2	†91,0	73,2
56	**Doorns**	Gold — West Wits	327,5	200,0	77,9	121,6
57	**Wits Cols**	Coal	325,0	491,0	96,6	70,8
58	**Stilftn**	Gold — Klerksdorp	323,3	244,9	124,3	190,7
59	**Liberty**	Insurance	318,4	200,6	n/a	n/a
60	**Pick 'n Pay**	Stores	317,9	247,4	38,5	28,1
61	**Highveld**	Steel & Allied	312,5	336,3	72,8	70,0
62	**Sappi**	Paper & Packaging	302,8	272,4	73,0	53,0



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• Dorbyl Projects and Construction • Dorbyl Railway Products • Dorbyl Structural Engineering

THE TOP 100 MARKET LEADERS

RANKED BY

Market capitalisation end-Dec 1981		Market sector	Market capitalisation Last year	Market capitalisation Previous year	Pre-tax profits Last year	Pre-tax profits Previous year
			Rm			
63	**W Areas**	Gold — West Wits	284,2	193,5	57,6	157,1
64	**Sentrust**	Mining Holdings	274,5	180,9	24,2	24,4
65	**Volkskas**	Banks & Fin Serv	255,7	196,3	n/a	n/a
66	**Fugit**	Investment Trusts	253,4	212,4	14,2	10,9
67	**Suthsun**	Beverages & Hotels	247,1	269,3	47,0	38,1
68	**OK**	Stores	244,1	253,0	54,7	46,9
69	**Altech**	Electronics, etc	239,6	160,5	35,5	21,4
70	**Kaapwyn**	Beverages & Hotels	238,0	217,0	66,9	65,4
71	**Angvaal**	Mining Houses	234,5	99,0	173,6	140,1
72	**Safmarn**	Transportation	230,3	287,9	77,4	67,7
73	**Haggie**	Engineering	228,2	218,7	61,4	46,5
74	**Grootvlei**	Gold — Rand & Others	208,8	114,4	38,9	58,3
75	**Unisec**	Ind Holding	203,2	170,6	31,9	21,0
76	**M & R**	Ind Holding	200,0	174,7	77,8	50,8
77	**Edgars**	Stores	186,0	177,0	†51,5	44,0
78	**Mid Wits**	Mining Holdings	183,8	149,0	11,1	19,3
79	**ATI**	Ind Holding	181,2	159,0	146,7	98,4
80	**Met Box**	Paper & Packaging	176,3	174,4	39,9	32,6
81	**Bankorp**	Banks & Fin Serv	171,1	81,3	n/a	n/a
82	**Afrox**	Engineering	170,7	167,7	31,8	30,7
83	**ERPM**	Gold — Rand & Others	165,2	79,0	37,1	77,2
84	**P P Cement**	Building & Constr	161,8	152,7	80,3	65,1
85	**Romatex**	Cloth, Foot, Textiles	159,7	193,7	39,6	51,7
86	**Unidev**	Property	158,8	83,9	11,5	8,2
87	**A Alpha**	Building & Constr	153,4	150,4	58,8	47,2
88	**Afcol**	Furn & Household	150,6	164,3	44,3	41,6
89	**Dunlop**	Motor	150,5	105,0	38,0	22,8
90	**Plate Gl**	Ind Holding	148,2	180,1	67,1	57,4
91	**Loraine**	Gold — OFS	142,4	52,4	14,8	11,1
92	**Amaprop**	Property	140,3	163,7	18,0	5,4
93	**Modder**	Gold — Rand & Others	136,1	43,3	0,9	n/a
94	**Fedfund**	Property Trust	134,5	121,4	10,5	7,8
95	**Rennies**	Ind Holding	131,7	114,3	41,0	25,7
96	**D & H**	Ind Holding	127,3	161,2	33,9	24,9
97	**Venters**	Gold — West Wits	122,5	50,5	13,1	31,5
98	**Durban Deep**	Gold — Rand & Others	117,4	48,8	26,2	45,0
99	**Dorbyl**	Engineering	117,1	123,8	48,7	36,4
100	**Fed Volk**	Ind Holding	115,8	169,4	91,0	79,4

† Annualised

bled. In fact, after December it rose even further, peaking at 1026 in the week prior to the abolition of the financial rand. This latter move killed the upward momentum, which had been based on bullion's advance to $500 after struggling to keep above $300 an ounce early in the year.

Industrial shares followed the general direction of bullion but even seasoned JSE watchers were left scratching their heads at why the index should have moved 32% off its 1982 low. Lower demand, increased costs and high interest rates chopped profits. For example, the cumulative pre-tax profit of the Top 50 companies in the Market Leaders table was 13% lower in 1982 at R10,4 billion (R12,0 billion). And the reductions were not only in the also-rans. Bluechips, like 13th-ranked Barlows, reported lower earnings, while at No 14, Amic only managed a 17% gain.

A possible explanation for this advance in share prices is that, with gold rising again and some sign that the US might leave its super recession behind (not a consensus view, however) along with a tendency for lower interest rates locally, industrial profits were ready to rebound. This view is obviously not far-fetched.

Another important factor in any rise in Diagonal Street is that the large insurance companies and pension funds continued to receive increased contractual savings from the substantial salary increases during the boom This money has to go somewhere.

NEW LISTINGS

1982	1981	1980
Enyati Resources	Alfred McAlpine	Cape Wine
Advance Industries	Solarsh Holdings	KWV Beleggings
Omnia Fertilizer	Acrow Engineers	Tomkor
New Bernica	H & J Cables	Frasers Consolidated
Tiger-Sugar	Triton	Xactics
Afex Corporation	ADK Industries	Dan Perkins
Garlick Consolidated	Trans Hex	Centrecity Property Fund
	CBD Property Fund	
	Pick 'n Pay Holdings	

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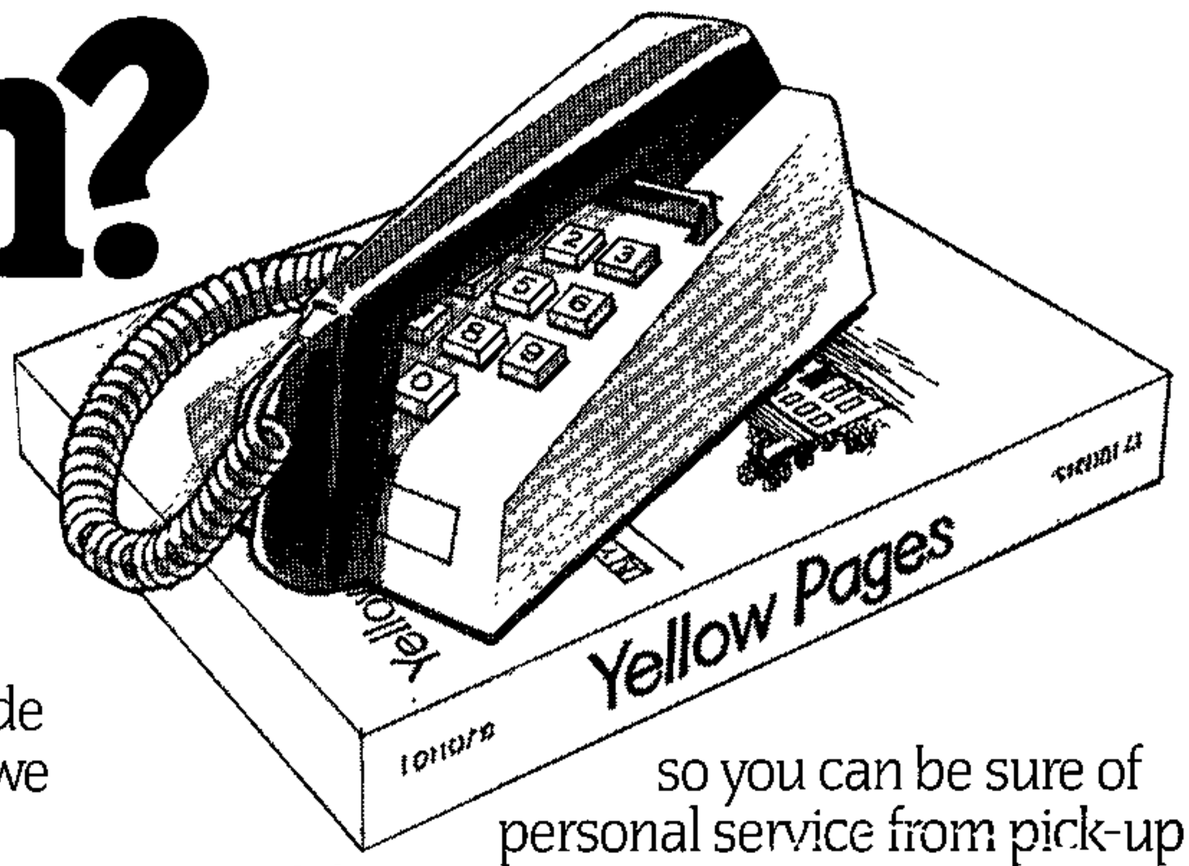

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DHL WORLDWIDE COURIER

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Previously a great deal was parked in the money market because of high rates. But with a major easing in rates a substantial weight of funds returned to the JSE.

SA is an investment hothouse and so the stock market appears well underpinned. January's switch of an 8%-odd stake in Protea Holdings from Anglo American Life to Old Mutual has been offered as evidence of that. Right or wrong, such beliefs contribute to better markets. But the relaxation of exchange controls did lead to some speculation that the Minister of Finance might allow some overseas investment by the insurance companies. Nothing happened in the Budget, but any such move could hurt the JSE a bit.

Even so, 1982 belonged to the mining boards. Unlike the previous year they performed better. But this was only on the share price front. Profits from the mining companies were, by and large, poor as metal prices plummeted. This despite the rand's weakness boosting the local receipts of the mines whose products are generally priced in dollars or sterling.

The JSE Actuaries Index ratios reveal that the overall market reported an 11,7% earnings fall in 1982. This was after a 6,9% gain in industrial company profits (very little when compared with the 14% inflation rate). So the non-industrial boards had a rough time.

In the table a look at our No 1, Anglo (whose subsidiaries and associates fill the top five spots), confirms that. Pre-tax profit rose 16,8%, but that hides the 15,4% decline in investment income to R479m (R566m). Investment income is by far the largest component of Anglo's profit.

Further down the table, at position 16, there was a major profit drop in Anglo's Elandsrand gold mine Pretax profit plunged 73% to R9,8m as lower grades of 4,29 g/ton (5,33 g/t) and lower gold production combined with a 16,7% unit working

MAJOR MARKET MOVEMENTS WORLDWIDE

	End-December Index		Increase (decrease)
	1981	1982	%
Amsterdam	83	63	31,7
Antwerp	103	80	28,8
Copenhagen	128	107	19,6
Frankfurt	763	693	10,1
Hong Kong	783	1 381	(43,3)
London	599	518	15,6
Milan	167	190	(12,1)
New York	1 047	873	19,9
Paris	101	92	9,7
Singapore	732	758	(3,4)
Stockholm	903	614	47,0
Sydney	486	605	(19,7)
Tokyo	594	568	4,6
Toronto	1 858	1 935	(4,0)
Zurich	288	264	9,1
JSE Actuaries Indices			
All Market	855	712	20,1
Gold	905	541	67,3
Metals & Minerals	353	275	28,4
Industrials	714	695	2,7

Blue chip companies deserve

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cost increase to hammer earnings.

Though Elands was the worst profit performer of the 28 gold mines in our table, other gold mines reported a similar trend. Driefontein Cons, the second largest company in terms of market capitalisation, managed a small 5,5% pretax profit hike. So did No 32 Deelkraal, Unisel (No 39) and Lorraine (No 95). But the others did not. In fact, many profits droppped more than 50%.

But the capitalisation picture was better. Look, for example, at the one position improvement of Driefontein Cons to No 2 and Vaal Reefs to No 5 (No 6). In addition, seventh-ranked Southvaal closed 1982 at No 7 after being No 14 in 1981. Such rises in the capitalistion stakes were not uncommon on the gold board. Hence more gold mines made it into the table in 1982. But the best of the lot, which explains why the JSE Actuaries Gold index ended the year almost double, was Randfontein. This JCI mine closed with pretax profit down 14%, but market capitalistion was more than twice the end-December 1981 figure. It rose to R894,6m (R398,7m). Randfontein is one of the highest priced shares on the market — at around R160 a share.

Libanon Gold Mining, at No 52, gained 34 places as its market capitalistion also doubled to R365,1 (R156,8m) despite a one-third reduction in profit.

This picture on the gold mines obviously influenced the mining houses. GFSA (No 9) in particular, being the most reliant on bullion (Anglo, Gencor, JCI, Anglovaal and Barlows have major other mining and industrial interests) reported a profit dip of 23,3% to R137,5m. The other houses did not suffer as much.

But, as with the gold mines themselves, the mining houses advanced in the capitalisation league. First-placed Anglo rose 33% to R4,8 billion while Amgold jumped 46% to R3,3 billion. GFSA too, reported a gain, but given its bullion gearing, it was surprisingly small at 30,9%.

Mining stocks under the whip were Rustenburg Platinum (No 22) and Palabora Mining, which produces copper. Platinum, being affected in much the same way as gold, caused a 68% plunge in the profits of

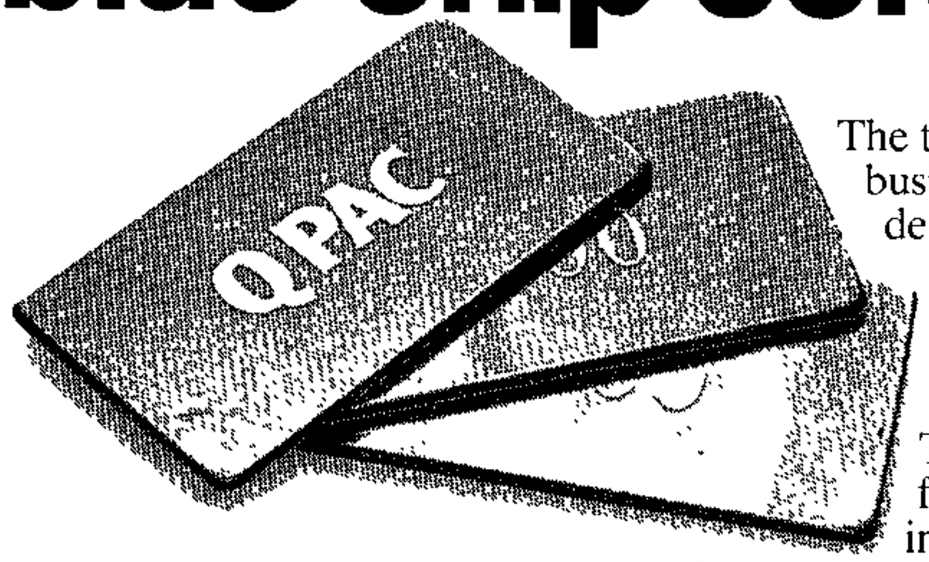
AVERAGE VALUES

Average Value of Daily Trade on the JSE (ordinary shares)

	1980	1981	1982
		Rm	
January	22,5	12,6	7,9
February	15,3	12,0	8,9
March	13,2	13,1	9,4
April	9,4	8,6	5,8
May	12,2	8,8	6,9
June	14,8	10,3	5,5
July	18,6	7,7	7,0
August	16,8	7,2	12,5
September	16,8	12,3	16,4
October	15,8	11,5	20,0
November	15,8	9,4	14,3
December	12,7	5,5	16,4
AVERAGE (Rm)	16,0	9,9	10,9
HIGH (Rm)	35,2	22,5	31,8
Total Value (Rm)	4 036	2 498	2 796
Total volume (m)	848	567	600
Number of deals (000)*	849	515	501

*(excluding gilts).
High of R31,8m on October 8

blue chip software systems.



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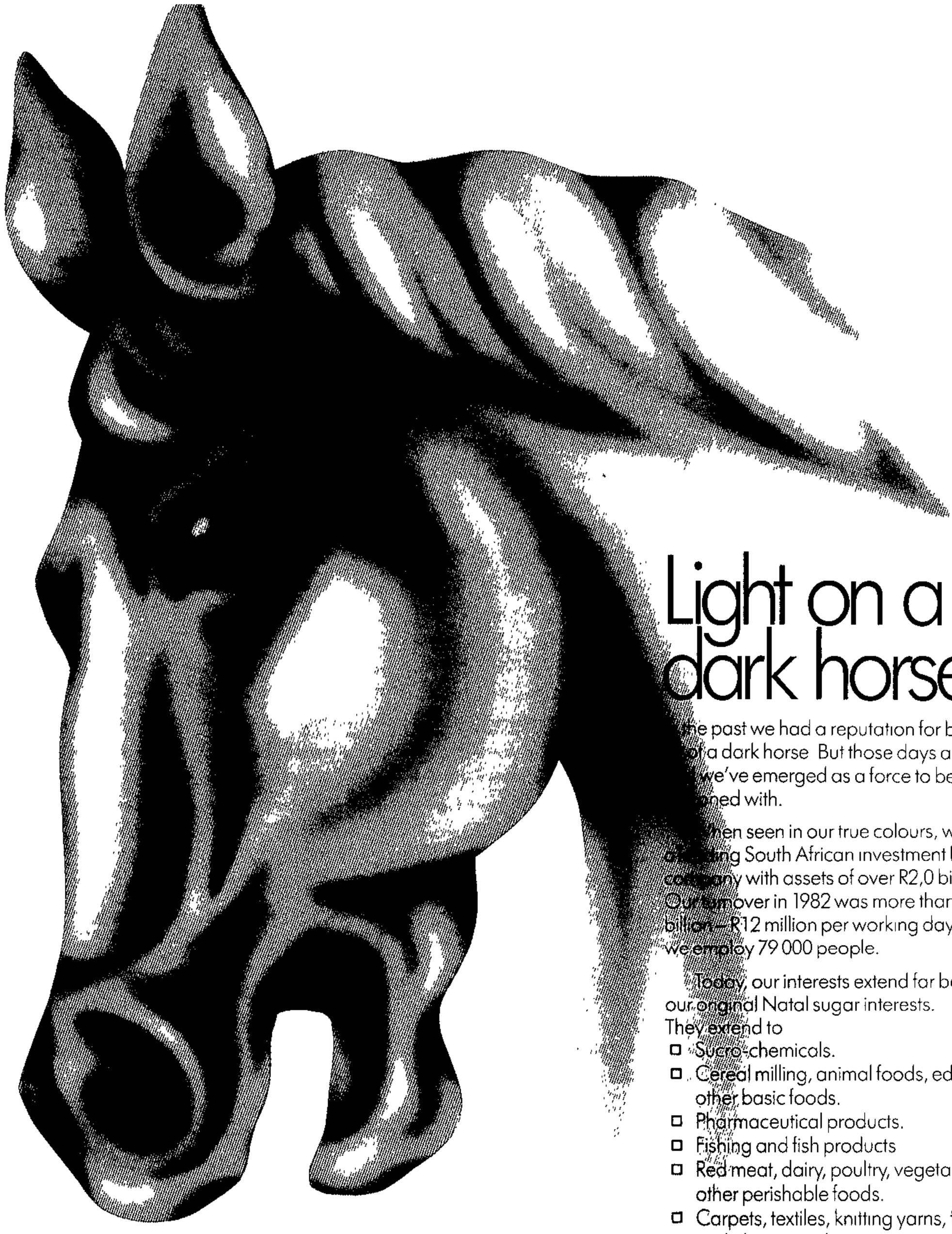

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- Pharmaceutical products.
- Fishing and fish products
- Red meat, dairy, poultry, vegetables and other perishable foods.
- Carpets, textiles, knitting yarns, footwear and plastic products.
- Packaging and paper products

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Rustenburg. Yet with foreign interest in the shares, which discounted a metal price much higher than current levels, allied to local buying, the price was boosted 40% in 1982.

Impala Platinum moved in a similar direction in terms of market capitalisation, but managed to boost profit marginally to R209,7m (R205,9m).

The position at Palabora was similar. Profits more than halved to R35,3m (R79,3m) as copper prices remained weak for most of the year and costs continued rising. But the share price gained to more or less maintain the mine's position at No 42 (No 43). this reflects not only the belief that a US recovery would benefit the company, but also the fact that this mine is one of the most efficient copper producers in the world.

But it was really only De Beers where the profit fall was accompanied by a deterioration in market rating. De Beers had a terrible year with profit down 35,2% after only marking time the previous year. Hence the company's market capitalisation fell to R3 billion from R3,1 billion and the share dropped to position No 4 (No 2) in the Market Leaders table. The profit drop of course influenced Anglo's growth. This year should see some improvement as the diamond market is a bit healthier. In fact, of late there have been "buy" recommendations from certain US companies, including the financial hypermarket Merrill Lynch. Unfortunately, the Minister of Finance chose about that time to make his move on the financial rand, so De Beers did not get the demand it might otherwise have experienced.

Coal mining shares continued to report profit growth, though on near-term energy and price considerations the market capitalisations were lower. This is shown in the accompanying table where there is a 32,2% fall in the *RDM* coal index — other than diamonds the only fall in mining market. Of course, the Western recession and reports that Japan was looking for a downward adjustment in coal import prices do not help

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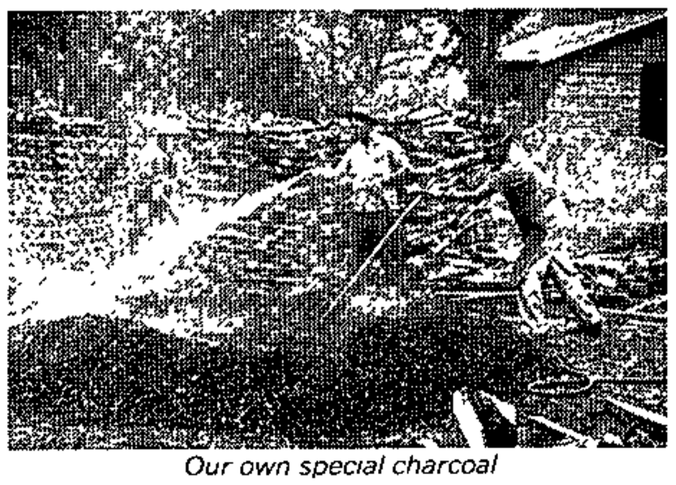

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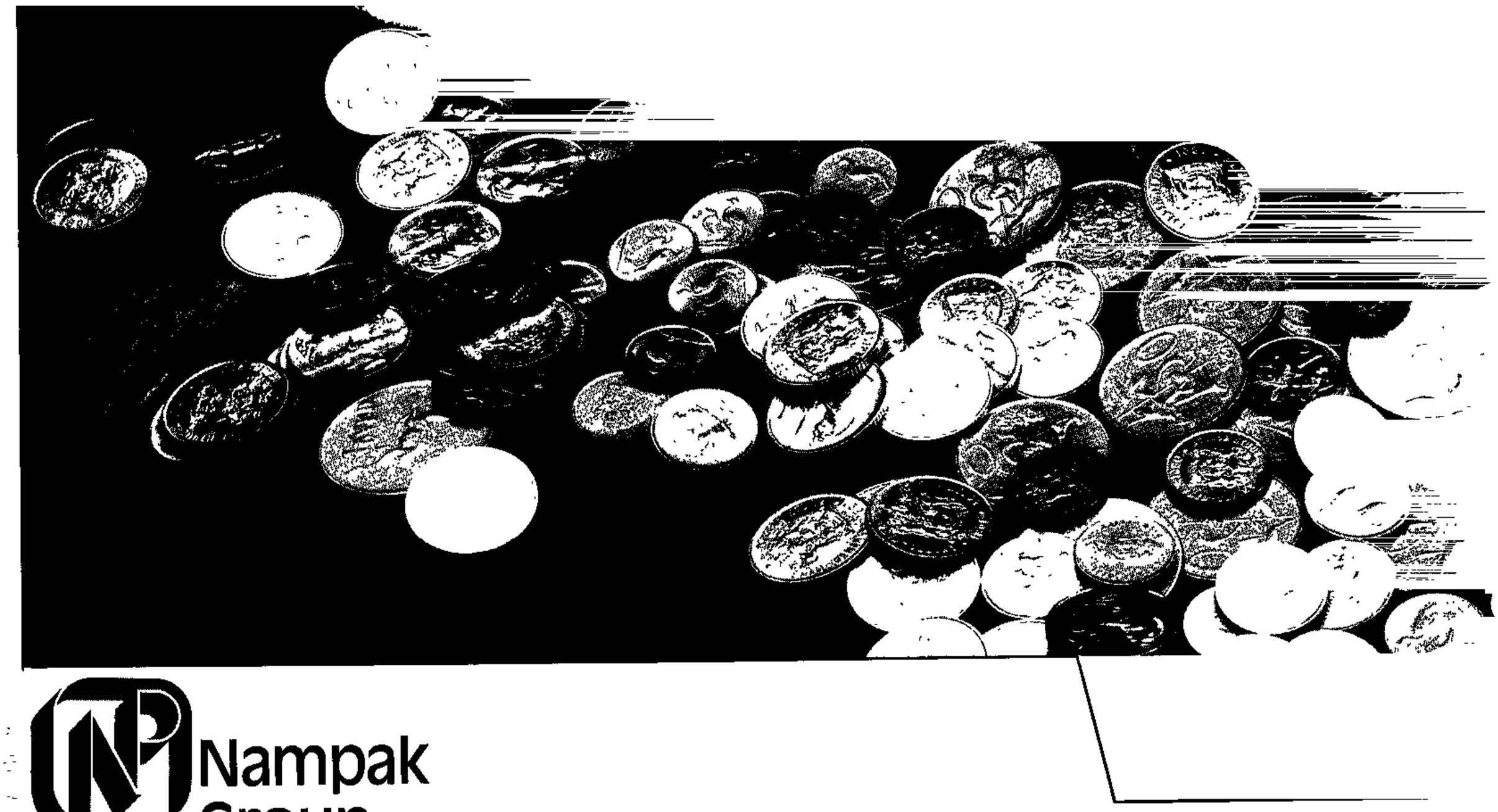

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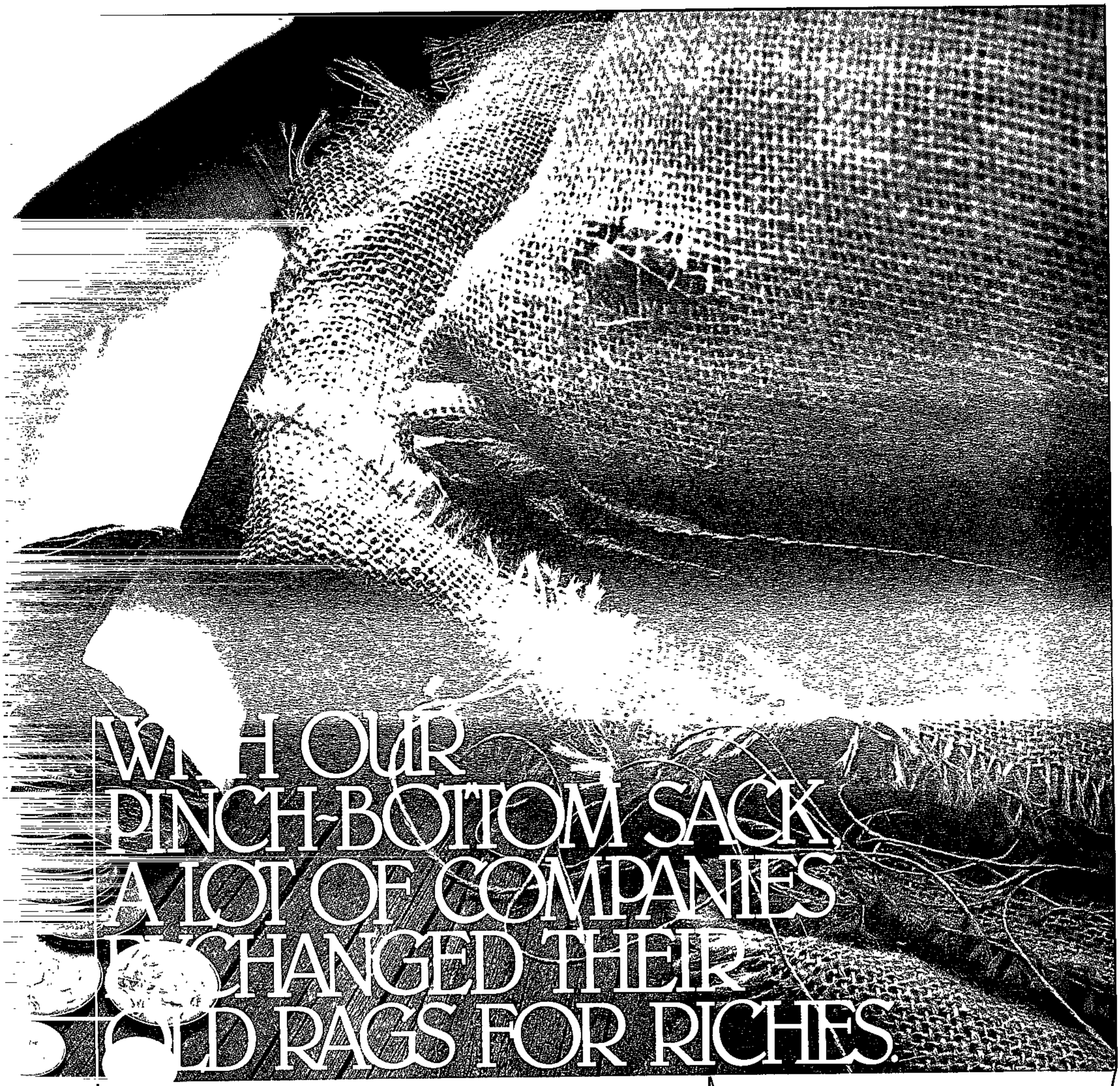

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the market's near-term view on these shares. Nor perhaps does a low oil price and increasing mining costs.

The coal mines which appear in the Top 100 Market Leaders table are: Amcoal (yet another Anglo satellite), Trans-Natal and Wit Colls. Considering the importance of the coal sector to the local economy, this is a small representation. Of these, Amcoal is by far the biggest. Its market capitalisation of R617,1m places it at No 33 — R140,4m ahead of Gencor's Trans-Natal.

But in the 1981 table, Amcoal was at position 15 with a market capitalistion of R953,2m. Its pretax profit figures nevertheless nearly doubled to R238,3m from the previous year's R123,9m. This gives some indication of how much coal shares came under the whip last year.

Besides the substantial fall recorded by Amcoal, major movements in our table in the mining sectors also included Barlow Rand subsidiary, TC Land. This company, which housed most of the Barlow mining interests including coal, fell from position 27 to 46. This was because the group's market capitalisation declined 21,7% to R444,4m. This presumably reflected the coal interests as pretax profit managed a small gain to R126,7m (R113,6m). Since the end of the year all the rest of Barlow's mining interests have been transferred to TC Land.

In the non-mining sectors the best performances came from Beverages, Electronics and Tobacco. The rise of 31,5% in the Beverages Index is a reflection of a 27,7% increase in SA Breweries' profit before tax and a 23,7% hike in Southern Sun's fortunes. It seems likely these companies will be able to maintain sound performances, though SA Breweries might be hurt a bit by its furniture interests in a weak market.

Surprisingly, however, Southern Sun itself fell in the ratings. The hotel group closed at No 68 (No 55). Its market capitalisation lost R22,2m to R247,1m although profit before tax rose to R47m from R38m. This loss in

NEW ENTRANTS

Tiger-Sugar	Sugar
Bankorp	Banks
ERPM	Gold
Unidev	Property
Dunlop	Motor
Loraine	Gold
Modder	Gold
Venterspost	Gold
Durban Deep	Gold

THOSE WHICH DID NOT RETURN

Debincor	Chemicals
Huletts	Sugar
Stew & Lloyds	Engineering
Metro	Stores
Clydesdale	Coal
Kanhym	Food
Fedfood	Food
Blue Circ	Ind Holdings
Kohler	Packaging

Diamond mining . . . looking for an upturn

六指算盤家的故事

A CHINESE RIDDLE

...A wise old man of ancient China was known far and wide for his wisdom and ability to solve difficult problems. Many men came to him asking for advice. One day a merchant brought him this problem:

"I have six men, each skilled with the Abacus. In a short time I am going to need more such men to deal with an increase in my business which will amount to one fifth as much as I now have. But I cannot afford the capital investment of another man and another Abacus and even if I could, one man would not be enough and two men would be too much. After three moons have come and gone I will no longer need any extra men, for my business will then return to normal. Oh Wise One, what shall I do?"

THE SOLUTION

The wise man pondered the problem for several days, and finally summoned the merchant.

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The merchant smiled, his problem was now solved. He thanked the old man a thousand times and bowed out of his presence. As he was leaving, he hesitated, and turned to speak to the old man once more —

"Oh Wise One, you have truly given me the solution to my problem. But" . . . he paused ". . . how do I get my Abacus men to grow extra fingers?"

The wise man looked at the merchant — puffed on his pipe for a moment — and said,

"That is a good question, my son, and you are to be commended for asking it. But, alas, I only make policy recommendations, the details are up to you."

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Gold ... flowing into higher profit

ACROSS THE SECTORS

Sectoral performances in 1982

RDM Indices at end-December

Sector	Index	Increase (decrease) %
Coal	1 241,8	(32,2)
Diamonds	1 536,4	(0,6)
Gold	988,3	73,2
Wits	788,9	109,9
Evander	843,6	51,9
Klerksdorp	2 138,9	70,6
Free State	730,9	57,2
West Wits	1 370,9	85,3
Metals	304,8	20,5
Copper	201,7	26,3
Manganese	571,7	14,1
Platinum	571,0	26,7
Tin	203,7	(7,3)
Other minerals	119,2	(10,4)
Mining houses	764,8	14,5
Mining holdings	553,3	47,6
Banks	960,7	54,7
Insurance	279,8	46,1
Investment trusts	347,9	14,7
Property	192,5	29,0
Industrial holding	1 003,9	(4,2)
Industrial	737,4	1,0
Beverages & hotels	1 325,9	31,5
Building & construction	553,4	5,1
Chemicals	304,8	(13,1)
Clothing	346,7	(14,5)
Electronics & electrical	373,4	30,4
Engineering	300,7	(7,6)
Fishing	139,0	(12,6)
Food	718,4	14,8
Furniture	224,5	(9,2)
Motor	456,5	(6,9)
Paper/packaging	976,1	7,3
Pharmaceuticals	105,8	—
Printing	439,4	(7,6)
Steel and allied	330,6	(16,1)
Stores	871,7	—
Sugar	1 385,1	21,9
Tobacco	622,2	58,1

rating presumably reflects expected lower occupancy rates in hotels this year, though for Southern Sun the Bophuthatswana operation should keep earnings up. More recently the group has announced a major casino venture in the US.

The Electronics sector as usual owes much to Altech, which produced a 66% advance in pretax profit. This company, though only at position 70, is without doubt one of the JSE's better performers over the past six years.

Not surprisingly the 58% advance in the Tobacco index reflected the Rembrandt group. Only one company, Remgro, appears in our lists at No 20 because we eliminate pyramids. But the 34% pretax profit advance posted by Remgro would have been repeated in the other three group companies, TIB, Tegkor and Rembrandt Beh.

Further down the table at No 63 (No 45) is Highveld Steel — yet another Anglo company. Profits level pegged in 1982 but market capitalisation was lower because of the recession in the steel and allied industries.

In most other tables throughout this survey the banks feature highly. The Market Leaders section is not much different. Barclays, however does not take pole position in this section. That belongs to Nedbank which has a market capitalisation of R893m (R583m) which places it at No 24 (25). This position owes much to Nedbank's high growth rate and return on equity. Thereafter come Barclays (No 26) and Stanbic (No 40). This year the position of the banks could be harmed by the dissolution of the banking cartel and increased competition.

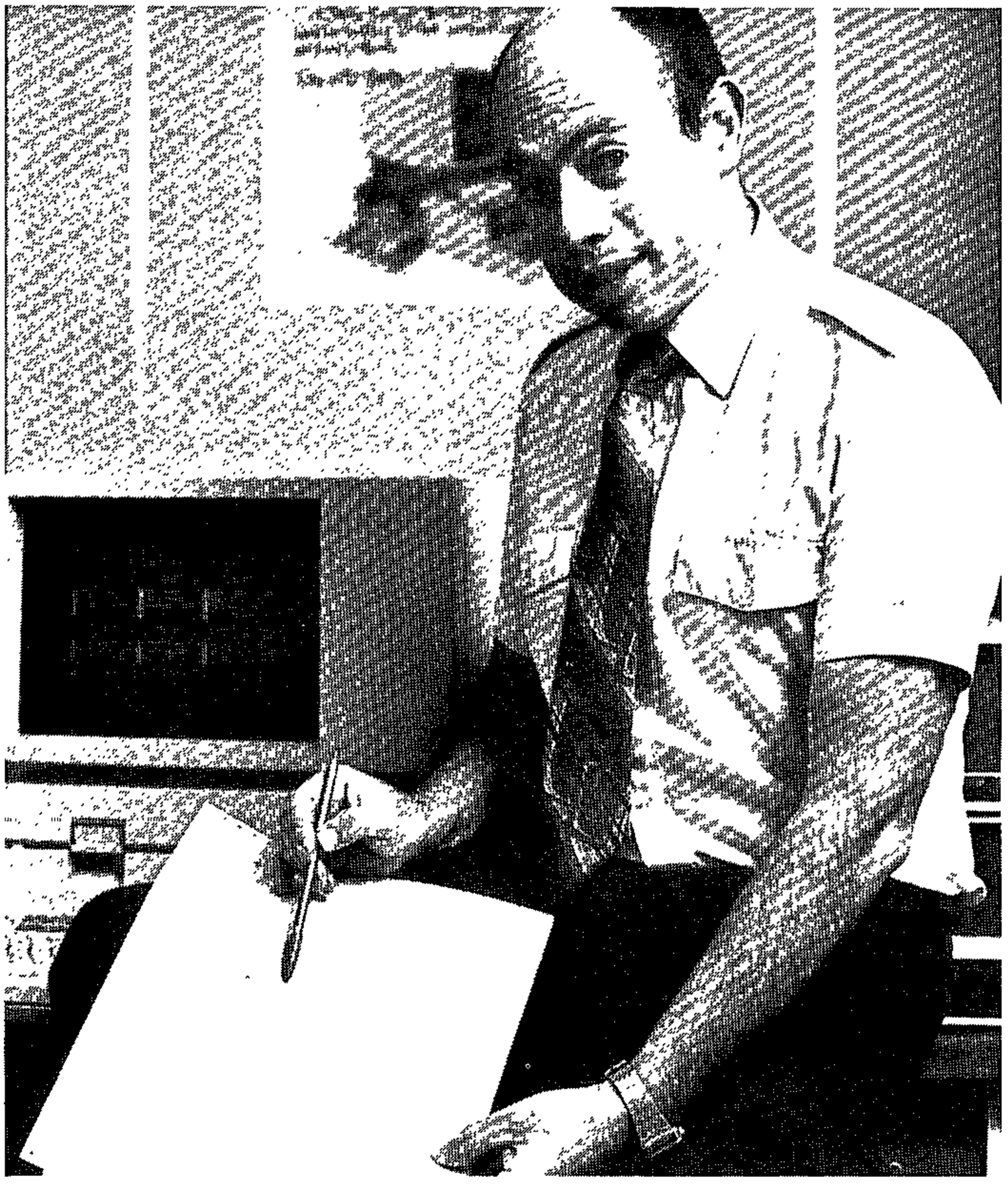
Top retailers appearing in the table include Edgars, Pick 'n Pay and OK Bazaars and Wool-Tru. Only the latter two lost ground — OK to 68 (58) and Wool-Tru to 54 (51).

The losers in terms of market capitalistion on the industrial boards were steel, clothing, chemicals and fishing. This contrasts with 1981 when there was not one loser in the industrial sector. But then, earnings advances were far superior and interest rates much lower. However, the year still ended well as the market's late recovery meant the ground lost was relatively small. In all cases the declines were understandable, though at the time of writing all sectors had regained points and stood above their year-ago levels.

New entrants to this year's table include Tiger and Sugar Holdings. This company was formed by Barlow Rand. It holds 100% of C G Smith Sugar and 53% of Tiger Oats. It is a subsidiary of C G Smith which is itself a subsidiary of Barlow Rand. The company comes into our table at 47 with a market capitalisation of R414,3m and pretax profit of R127,0m.

Those leaving the table include Debincor, which was acquired by Amic, and Huletts, which became the Tongaat-Huletts group. The others which did not return were victims of relatively poor profit performances which translated into lower market

Hewlett-Packard partner?



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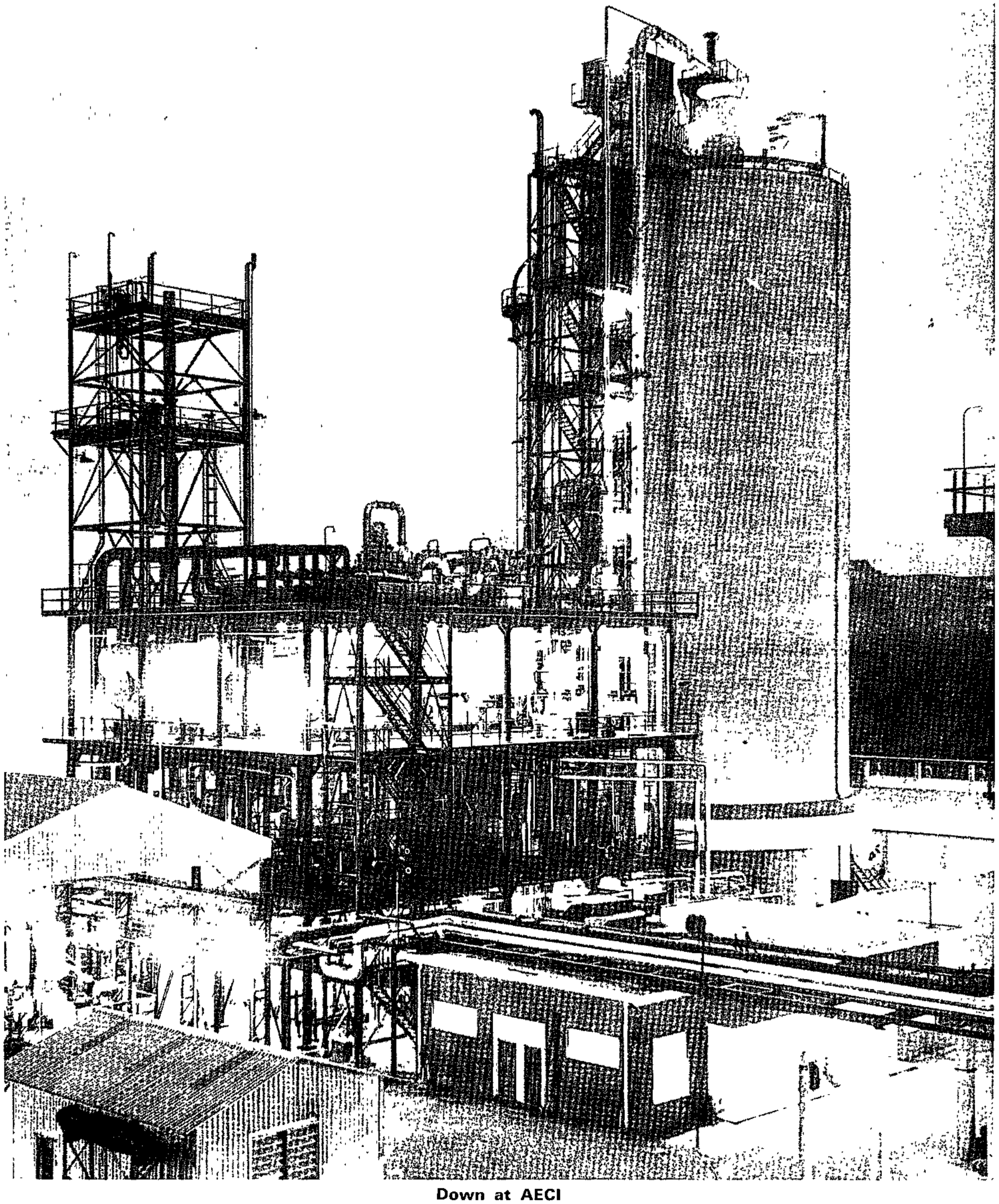

Down at AECI

But just as the JSE pleasantly surprised everyone this year, so it could easily disappoint. The recovery since end-June 1982 was fragile and the abolition of the financial rand hurt. In one day, for example, about R2,4 billion was wiped off the value of the market when foreign investors took the opportunity to get out at high — sometimes record — prices after being locked in for years. However, brokers and local investors took solace in the fact that the government must be ultra confident to remove exchange control for non-residents, particularly during a recession.

Overall in 1983, however, there will be some slowdown. With almost nil growth in profits, investors other than the institutions are bound to feel some liquidity squeeze even though interest rates look like falling further. Perhaps that will not squash share prices directly, but it could harm sentiment, which is a vital part of a market's direction.

Consequently, it would be hazardous to state that the JSE will continue its record-breaking run. But even if the market falls there is a good chance that any revival in gold will spur it on once more. Industrial companies also seem bullish as most have held dividends even though earnings have fallen. There is a danger in believing that the JSE is immune to anything; on its recent performance, however, and the financial rand crack aside, it is tempting to do so.

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Trucking with the Professionals

A final fling

Corporate profits are wilting under the effects of the economic slowdown. Nevertheless, there have still been some big gainers in the big profits league.

The marked difference between the real world and the rosy-tinted one at which the JSE was peering during the last six months of 1982 is highlighted by some of the figures in this year's R5m pre-tax profit league. While the stock market soared on the back of a firm trend in gold, the financial performance of industrial companies on the JSE was clearly deteriorating rapidly.

As a guide, the 159 companies represented in our table turned in combined pre-tax earnings of nearly R6,2 billion. Though this looks impressive, it is less than 17% above the total of the year-ago figures in the table — and there were four companies which did not have meaningful comparative figures, including giant food group Tisugar which produced nearly R120m on an annualised basis at the pre-tax level.

If these four are left out of the comparisons, the average rise is closer to 14% — right in line with the inflation rate and indicating no real growth in the profitability of the major SA industrial companies over the past year.

Supporting this unexciting view is the very small increase in the number of companies in the list. In our 1982 *Top Companies* we had to change the parameters of this table from pre-tax profit of over R2m to earnings of over R5m in order to keep down the size of the table. This year, there was no danger of things getting out of control and the list is only 9 members longer than in the previous year.

There are, however, at least 20 new names on the lists. Not surprisingly, though, the bulk of these new entrants had financial year-ends which were nearer the start of 1982 than the end — so the results available reflect the last part of the economic boom rather than the early part of the current downturn.

Companies such as SA Bias, Sterns and Mooi River which have entered the table very low down may well fall out of favour again by next year as their performance comes under recessionary pressure. There were nevertheless some which have come into the table higher up and which are likely to maintain membership of the big league from now on.

Powertech, for instance, has now started generating big profits for the Altron group. Altron itself, of course, is not represented, as we do not include pyramid companies in this table. The power engineering company in its financial year to February 1982 turned in a strong profit advance from R1,8m to R7,5m and leapt from 219th in our table to 124th this year. A further good advance is probable this year as Powertech is unlikely to be as hard hit by the recession as some other companies.

A bigger splash was made by new entrant Goldstein, though for different reasons. Goldstein's rise comes after the reverse takeover of ailing housing company Gough Cooper. The takeover was a popular one with the market and Goldstein's R13,2m pre-tax profit, compared with the previous year's R1,2m, put the new group in the table at number 94, against 233 in 1982.

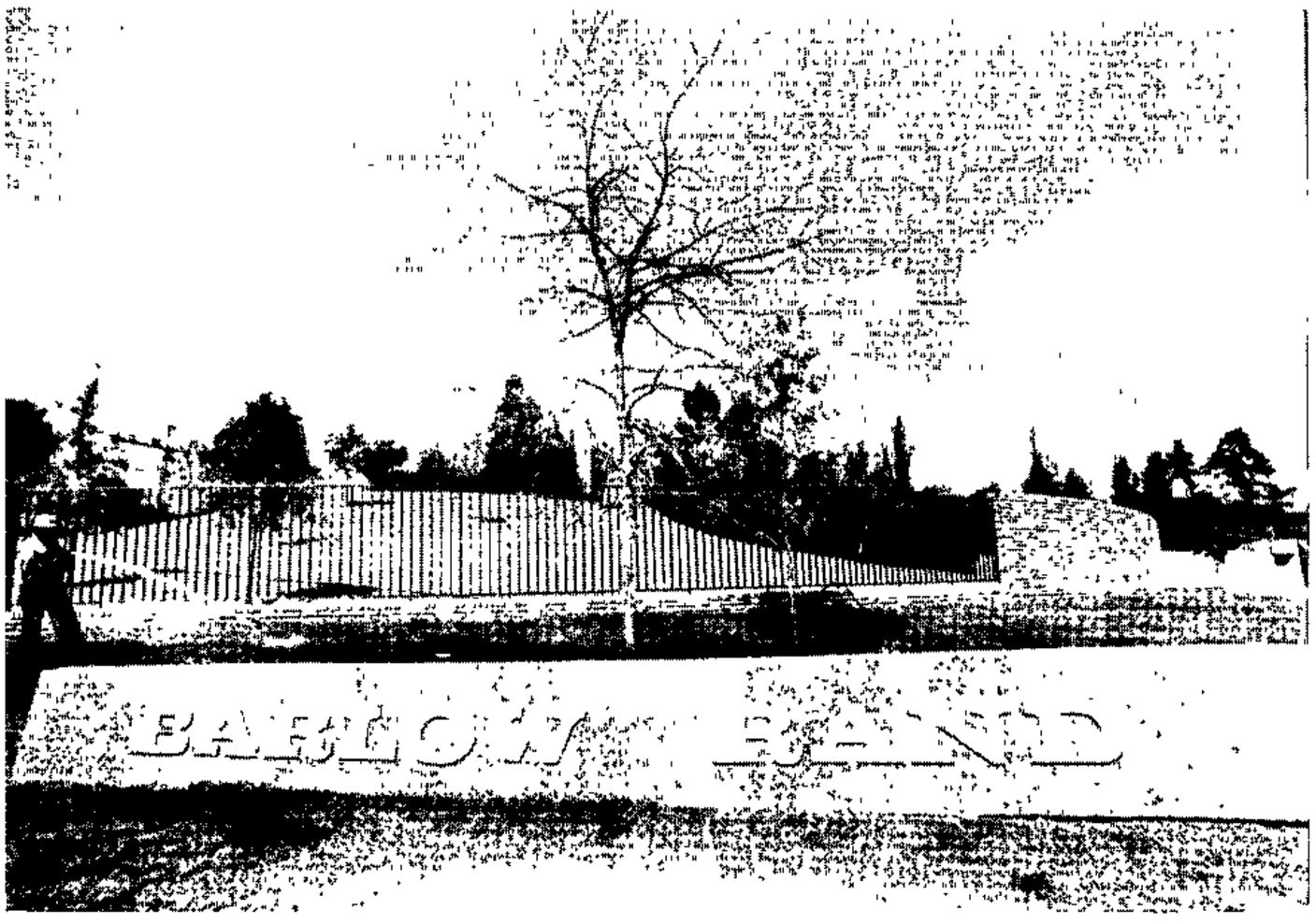
At the top end of the table, on the other hand, there was very little change. Unfortunately, the problems caused by differing year-ends is amplified at this level. For instance, the year-end of revamped Amic is December 1981, while the effective date of the merger with De Beers Industrial was January 1 1982.

The merger will push Amic much closer to the top by next year — though probably not toppling Barlows from pole position — but at this stage it is obviously too early to assess the fortunes of the new group. As a result, the top end of our table is a little distorted. Fortunately, mergers of this magnitude are not common and from next year the table will be back in kilter.

This aside, Barlows is still number one this year, despite its financial year-end falling in September 1982 and thereby reflecting the beginning of the poor economic conditions now being experienced. Whether or not this industrial and mining giant will be at the top of the tree next year, in the face of the Amic/Debincor merger, is virtually impossible to predict, especially given the difficult conditions under which both companies will operate this year. Amic's Vereeniging Refractories, for instance, is not expected to perform at all well this year and will help curb Amic's profit growth. But then Barlows' Middelburg Steel will also be labouring in 1983.

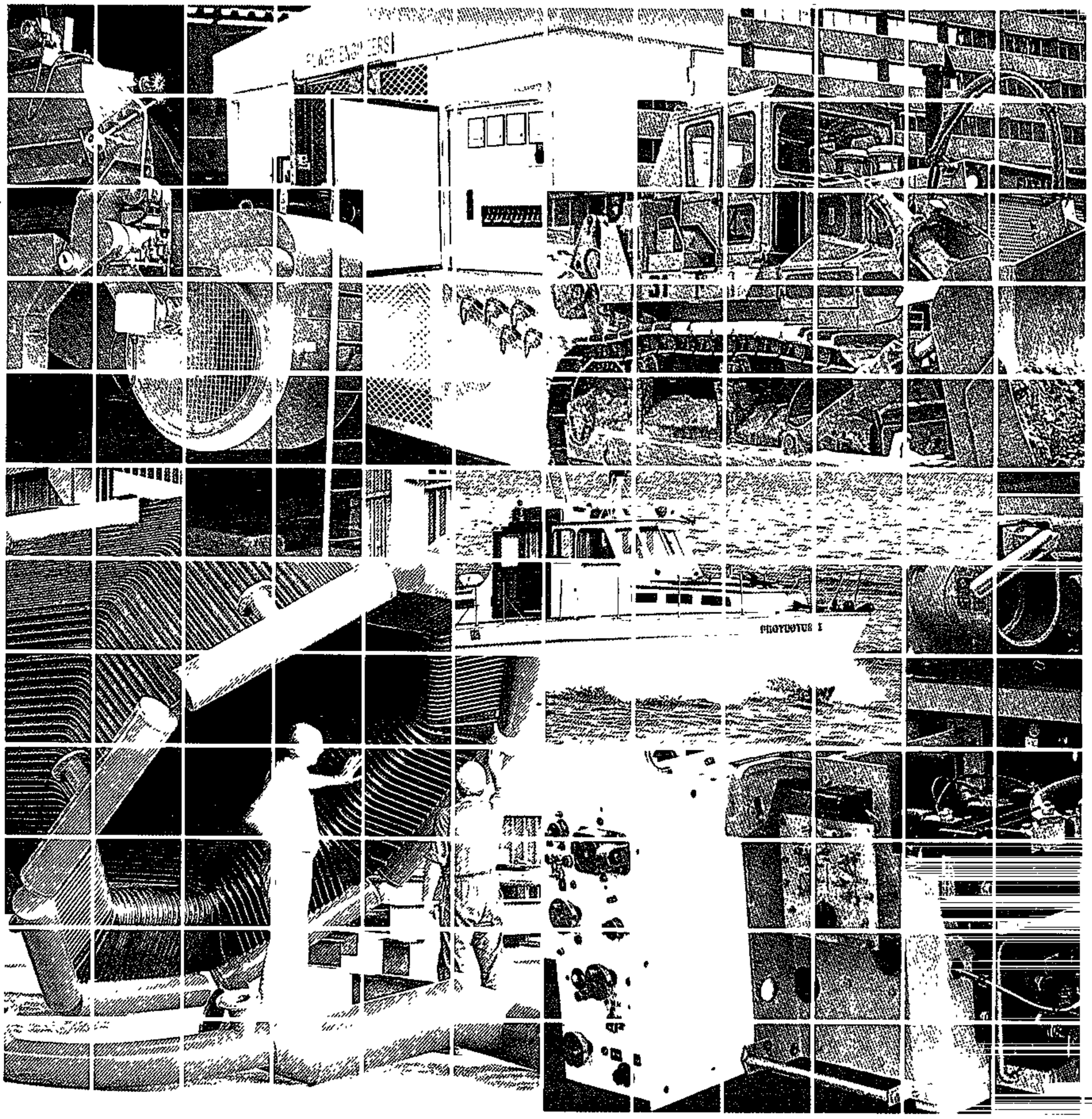
Barlows improved pre-tax profit by a meagre 2,2% last year, from R652m to R668m but it still earned a massive 92% more in pre-tax earnings than its nearest rival Sasol. At this level, Barlows accounts for an enormous 11% of the combined pre-tax profits of SA's top 159 companies.

There was no change last year in the top five companies in our list. And the first shift — which saw Remgro advancing to 6th position, replacing CG Smith — can reasonably be explained by restructuring and differing year-ends. Remgro's financial year ended in March 1981, while that of CG Smith was wound up in September — a much poorer reporting period. In addition, of course, CG Smith has been revamped with the forma-



Barlow Rand ... more growth at the top of the tree

building a powerful future



International Combustion Africa Limited
Steam and hot water boiler manufacturers

John Thompson Africa (Pty) Limited
Shell boiler and industrial watertube boiler manufacturers

Cummins Diesel (South Africa) Limited
Cummins & ADE diesel engine sales and service

Reyrolle Parsons of South Africa Limited
Electrical switchgear manufacturers

Thomas & Taylor Limited
Fiat-Allis construction machinery sales and service

Power Engineers (Pty) Limited
Distribution transformer manufacturers

NEI AFRICA
Northern Engineering Investments Africa Limited

capitalisations.

In the coming year what can be expected? Last year the total market capitalisation of the Top 50 companies in the Market Leaders table rose 15,7% to R59 939m (R51 818m). And this came on top of a 9,8% gain the year before, a 33,1% rise in 1980 and 91% in 1979. In addition, last year's small overall pretax profit fall followed a 56,8% hike in 1981 and a 54% gain the previous year.

Bear in mind that the local economy is expected to pick up only next year after a negative performance in 1982 — the first such move since in about 37 years — and that the recent spate of company profit statements make dispiriting reading. For example the Gencor paper and packaging companies retreated after some years of sparkling results. So did Kanhym. In addition, gearing has generally increased and while interest rates remain high and demand low, profits will suffer.

The sectors which are bound to feel the tight conditions most severely are consumer durables and semi-durables. Hence the highest historic yields on the lists are in motors, furniture and clothing. These type of companies often have fairly high overheads.

On the other hand, food companies traditionally remain reasonably stable during bad times. So do the makers of alcohol. Costs of course will still hurt margins, but at least demand does not evaporate.

But on the plus side are the cash-flush institutions and interest rates which are relaxing from their giddy levels. If gold breaks upwards the yield should improve as capital gains prospects are added in. This is the reason why there is room for some confidence about 1983. In addition, the current account on the balance of payments moved into the black in the final quarter of 1982 which at least removed one stricture on growth.

A word of caution though. If the gold price moves the other way and our major trading partners do not recover, the companies listed in Diagonal Street are going to rue the day they geared up and investors will have a heavy time of it. So far dividends have been mostly maintained despite earnings falls (on the industrial board). This is to let investors know that "next year will be better". It also meant that the average dividend cover in the industrial market fell to 2,6 times (2,7) — the first fall in three years.

JSE INDICES

JSE Actuaries Indices

	1981 High	1981 Low	1982 High	1982 Low
Mining Producers	969	648	1 082	448
Coal	1 895	1 315	1 799	1 141
Diamonds	1 964	1 483	1 568	715
Gold	752	446	918	325
Wits	367	191	456	142
Evander	659	408	892	306
Klerksdorp	1 656	1 030	2 413	813
Free State	709	385	717	247
West Wits	958	574	1 142	425
Metals	329	243	349	178
Copper	180	116	188	105
Manganese	552	383	596	398
Platinum	580	412	605	229
Tin	297	198	216	134
Other minerals	119	67	136	75
Mining finance	935	658	1 083	454
Mining houses	839	578	936	401
Mining holdings	469	324	562	221
Finance & Industrial	826	630	878	569
Financial	505	418	712	362
Banks	672	569	965	505
Insurance	201	148	265	152
Investment trusts	314	192	356	206
Property	163	89	203	111
Property trusts	79	57	100	67
Industrial	704	544	706	460
Industrial holdings	1 044	817	1 046	622
Beverages & hotels	1 028	638	1 247	719
Building	510	387	499	331
Chemicals	390	220	359	223
Clothing	462	237	421	263
Electronics etc	333	283	437	283
Engineering	316	254	315	217
Fishing	127	85	130	93
Food	665	485	688	457
Furniture	253	187	243	148
Motor	531	401	514	386
Paper/packaging	885	686	925	622
Pharmaceuticals	110	62	110	71
Printing	702	363	623	343
Steel & allied	423	323	445	284
Stores	826	541	842	556
Sugar	1 154	779	1 461	713
Tobacco	418	226	638	283
Transport	1 194	871	1 197	854
Overall	764	596	881	439

Diamonds . . . improving prospects

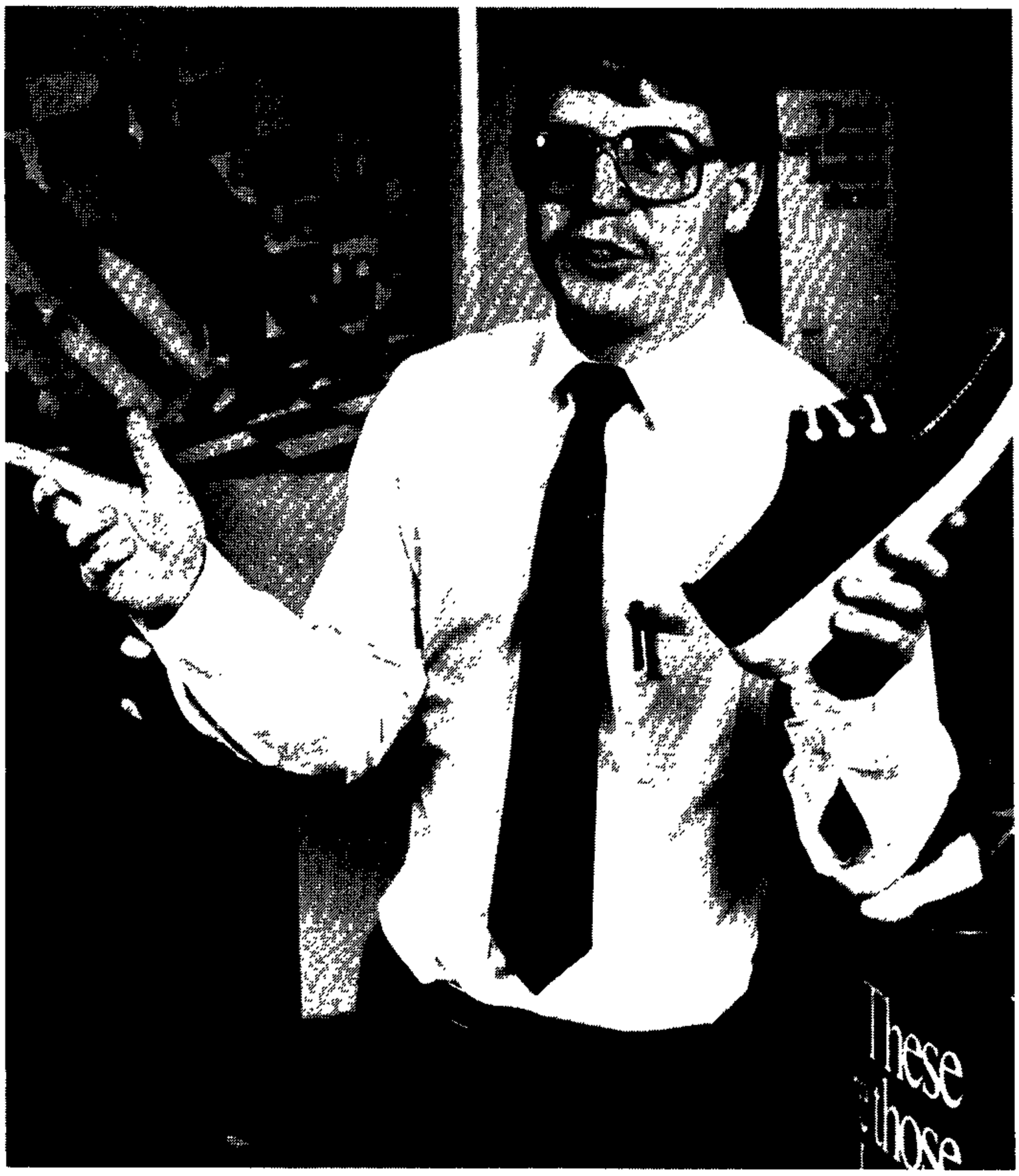
FIVE MOST ACTIVE STOCKS

	1982 Volume (000)
SA Selected Holdings	26 461
Retco	26 145
Egoli	16 766
De Beers	16 648
Trumcor	15 042
	1981
Retco	20 986
Retco New	20 513
Sasol	12 791
Russel	10 514
De Beers	9 758

Like Amstel, this Broadwood Forte Piano
is the result of a special kind of dedication.
Presented to Ludwig von Beethoven in 1810, it is
one of only seven hand-built examples of this
manufacturer's early work. Such was its quality
that Beethoven, in his letter of thanks, wrote:
"I shall immediately send you the fruits of the first
moments of inspiration I spend at it ... and I hope that
they will be worthy of your instrument."

CREATED FOR THE CONNOISSEUR

What if you chose as a computer



"At Jordan Shoes, an HP 3000 computer is maximising cost efficiency at every stage of production" says: Terry Oram, Production Administration Director.

Having produced 1,5 million pairs in 1982, Jordan Shoes is one of the largest manufacturers of medium-priced men's footwear in South Africa.

Terry Oram says: "The HP 3000 gives us up-dates on material stocks and availability, daily work load, labour requirements and incoming orders day by day. This enables us to schedule our materials and resources accurately, and identify and eliminate wastage or shortages before they affect our profitability!"

This improved monitoring and forecasting facility has helped us look forward to growth in a very competitive market".

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People who are not computer

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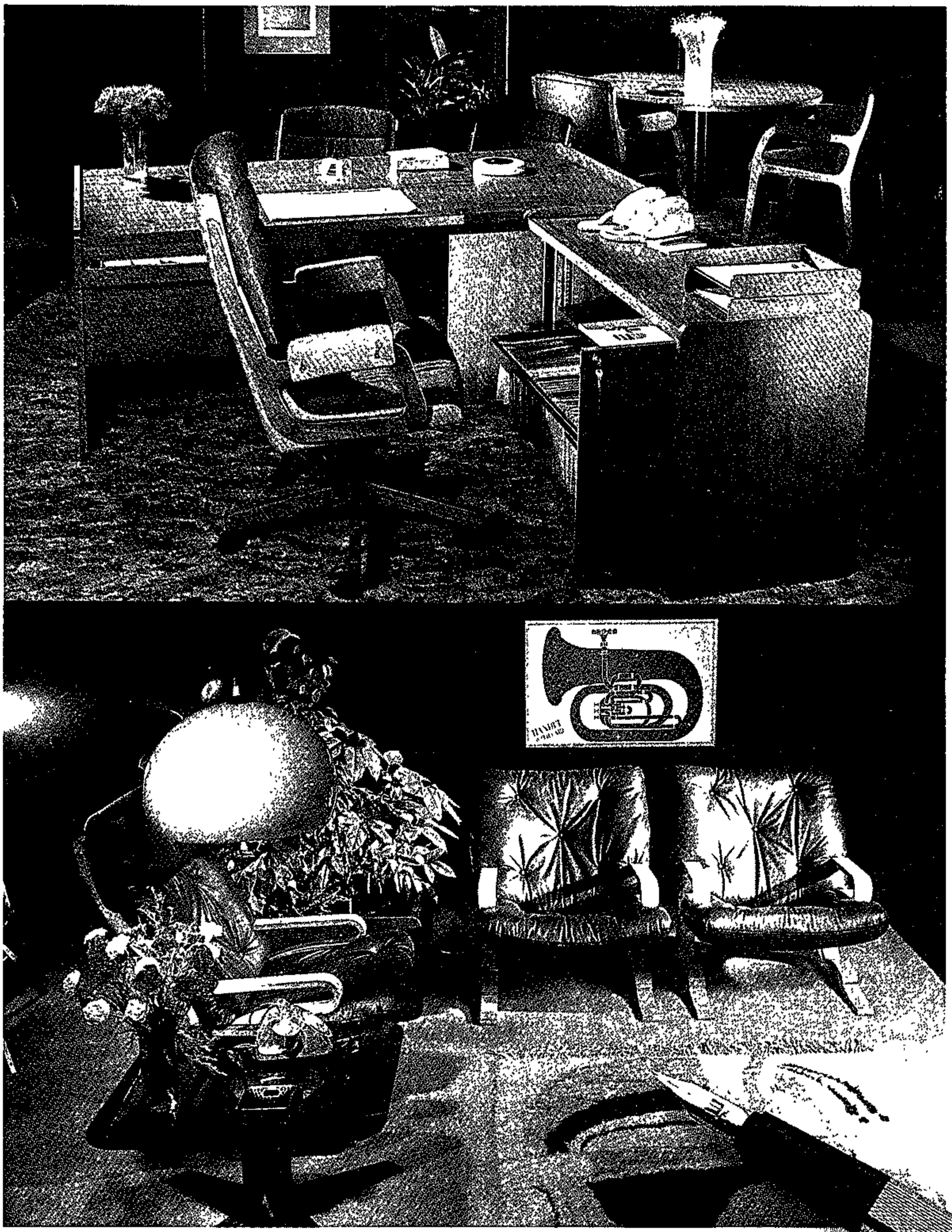

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Quality

You can see it Come along to our showrooms and you'll feel it Not just in the craftsmanship but in the materials and the finish to give any office, boardroom or reception polish and style ✓

Design

Superb "Designer Tech " furniture that ranges from traditional elegance to gleaming, clean-cut contemporary And the comfort of ergonomic contouring ✓

Price

Amazingly cost-effective and probably better than competitive in most cases. Whether it's one unit or a fully integrated system, it'll be our pleasure to prove it. ✓

Delivery

When you have finally decided on a choice that suits you, we will guarantee to deliver on time anywhere in your area ✓

Service

We not only promise you enthusiastic service before and after but we *guarantee* you satisfaction and we've proved it Our sales staff don't just sell, they service. If you do have a complaint he'll take it personally – then fix it fast We think you'll agree it makes all the difference ✓

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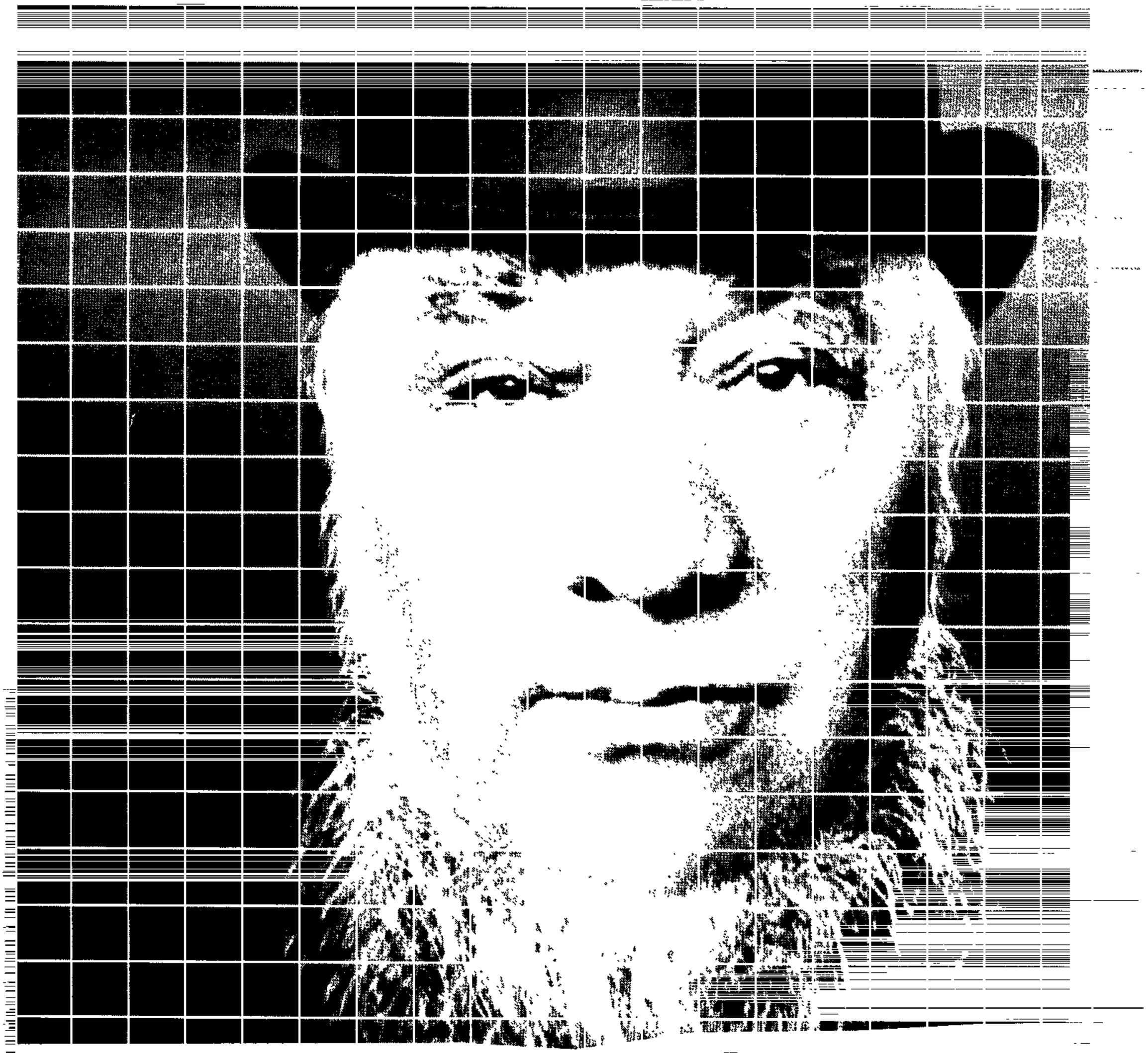
*** Average reading time.**

Lyle Vaughan Retail 2069 FM



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In 1908 we changed our name to Pretoria Portland Cement. We also paid out our first dividend. And haven't stopped paying since.

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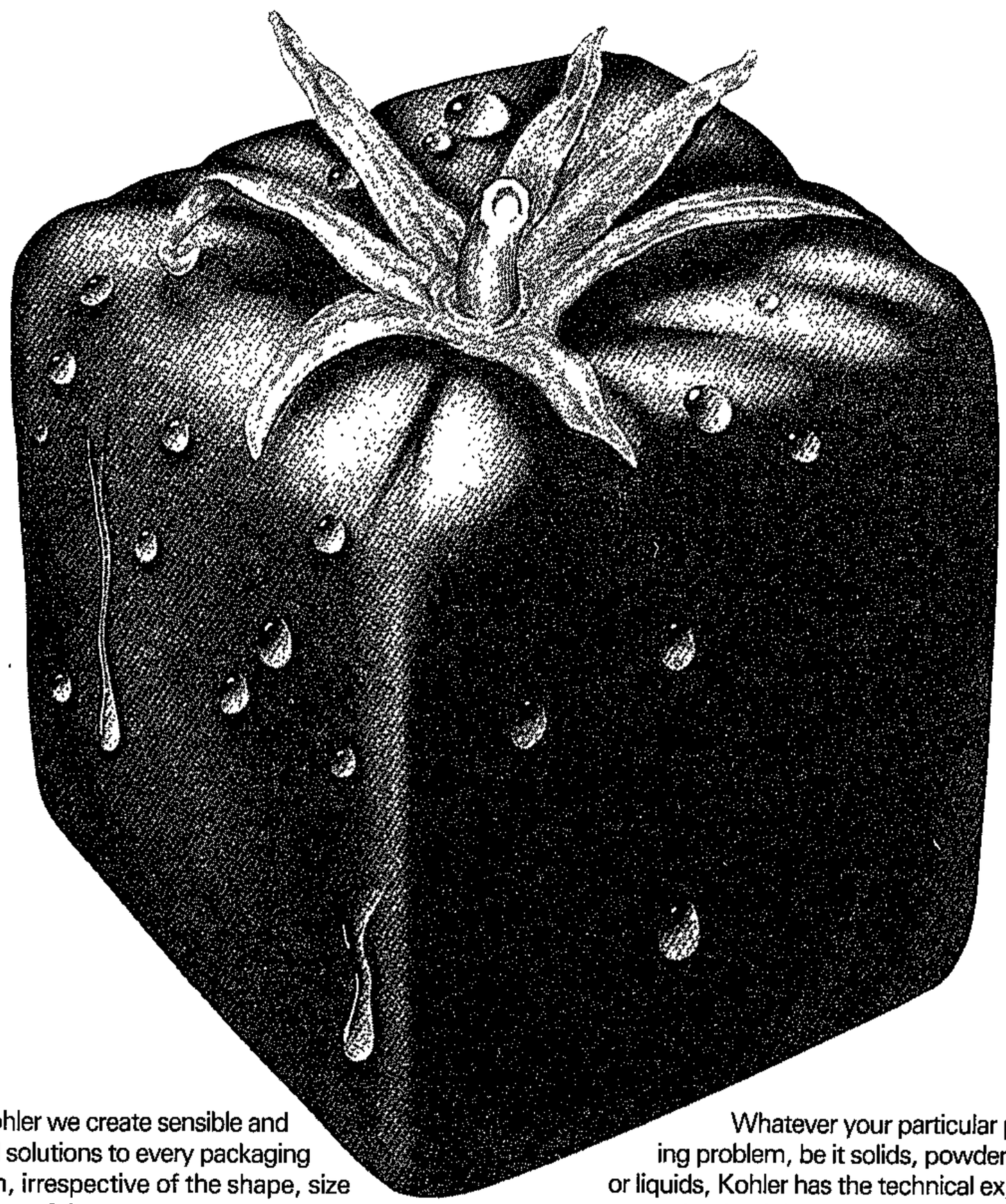
Kohler Know-How



At Kohler we create sensible and practical solutions to every packaging situation, irrespective of the shape, size and nature of the contents.

As it is, the chances are that we already have an answer for your particular packaging needs, and can offer a wide selection of economical designs that provide the finest protection for your product.

We also acknowledge that some products call for a unique packaging specification, and in this regard you'll find that Kohler has the expertise, advanced technology and on-going facilities to cater for your every requirement.

Whatever your particular packaging problem, be it solids, powders or liquids, Kohler has the technical expertise to come up with the right answer at the right time.

Kohler

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AC&R 3154

R5M PRE-TAX PROFIT LEAGUE

RANKING: Latest	RANKING: Previous		Pre-tax profit: Last year Rm	Pre-tax profit: Previous year Rm	Financial year-end
1	1	**Barlows**	**667,6**	652,6	Sep '82
2	2	**Sasol**	**347,7**	281,6	June '82
3	3	**SA Brews**	**308,5**	241,5	March'82
4	4	**Amic**	**272,6**	232,7	Dec '81
5	5	**AECI**	**250,9**	202,6	Dec '81
6	7	**Remgro**	**245,3**	183,4	March '81
7	6	**CG Smith**	**240,3**	196,2	Sep '82
8	9	**ATI**	**146,7**	98,4	June '82
9	—	**Tisugar***	**119,7**	N/A	Sep '82
10	12	**Tig Oats***	**108,9**	91.0	Sep '82
11	8	**Senchem**	**97,9**	118,3	June '82
12	11	**Fed Volk**	**91,0**	79,4	March '82
13	15	**Prem Grp**	**90,6**	67,7	March '82
14	10	**Nampak**	**83,8**	80,1	Sep '82
15	18	**PP Cemnt**	**80,3**	65,1	Sep '82
16	16	**Tongaat**	**80,2**	67,1	March 82
17	23	**M & R**	**77,8**	50,8	June '82
18	14	**Safmarn**	**77,4**	67,7	June '82
19	21	**Sappi**	**73,0**	53,0	Dec '81
20	13	**Hiveld**	**72,8**	70,0	June '81
21	19	**Plate Gl**	**67,1**	57,4	March '82
22	17	**Kaapwyn**	**66,9**	65,4	June '82
23	29	**Haggie**	**61,4**	46,5	Dec '81
24	28	**Wooltru**	**60,1**	46,3	June '82
25	26	**A Alpha**	**58,8**	47,2	Dec '81
26	27	**OK**	**54,7**	46,9	March '82
27	33	**Toyota**	**53,2**	38,5	Dec '81
28	36	**Dorbyl**	**48,7**	36,4	Sep '82
29	32	**Tedelex**	**48,0**	38,6	June '82
30	34	**Suthsun**	**47,0**	38,1	March '82
31	31	**Afcol**	**44,5**	41,6	March '82
32	—	**Messina**	**40,9**	63,7	Sep '82
33	38	**Met Box**	**39,9**	32,6	March '82
34	22	**Romatex**	**39,6**	51,7	Sep '82
35	29	**Edgars***	**38,7**	39,7	April '82
36	45	**Pick n Pay**	**38,5**	28,1	Feb '82
37	59	**Dunlop**	**38,0**	22,8	Dec '82
38	35	**Protea**	**36,6**	37,2	June '82
39	72	**Metro***	**36,5**	39,7	April '82
40	43	**S Atlant**	**36,0**	28,1	June '82
41	64	**Altech**	**35,5**	21,4	Feb '82
42	56	**Anchusa**	**34,5**	23,2	June '82
43	52	**D & H**	**33,9**	24,9	Dec '81
44	54	**Grinakr**	**33,7**	23,8	June '82
45	47	**Consol**	**32,4**	25,7	June '82
46	67	**Unisec**	**31,9**	21,0	Dec '81
47	39	**Afrox**	**31,8**	30,7	Sep '82
48	61	**Argus**	**31,5**	21,6	Feb '82
49	41	**Toncoro**	**28,0**	28,6	March '82
50	51	**Plevans**	**27,3**	25,0	Sep '82
51	44	**Everite**	**27,3**	28,1	June '82
52	40	**Fedfood**	**27,0**	30,6	March '82
53	73	**Kanhym**	**26,9**	19,7	Dec '81
54	63	**Ellerine**	**26,7**	21,4	June '82
55	74	**HLH**	**26,5**	19,3	Feb '82
56	46	**Russell**	**26,2**	27,6	April '82
57	66	**Kohler**	**25,6**	21,3	Dec '81
58	55	**Amrel**	**25,4**	23,7	March '82
59	69	**BTR**	**24,8**	20,1	Jan '82
60	81	**Verref**	**24,0**	17,3	March '82
61	70	**Curfin**	**23,8**	19,8	June '82
62	37	**McCarthy**	**23,7**	35,7	June '82
63	60	**Reunert**	**23,1**	22,4	Sep 82
64	49	**Aurochs**	**23,0**	25,4	Feb '82
65	53	**Wm Hunt**	**22,3**	24,8	Feb '82
66	77	**Foschini**	**22,2**	17,9	Dec '81
67	86	**Aberdare**	**21,2**	14,9	Dec '81
68	115	**Metkor**	**20,7**	8,5	Sep '81
69	62	**Beares**	**20,4**	21,5	June '82
70	99	**Kimet**	**20,1**	10,9	April '82
71	85	**Malbak**	**20,1**	15,9	March '82
72	83	**Boumat**	**19,3**	16,7	March '82
73	71	**Gen Tire**	**18,9**	19,8	Feb '82
74	42	**Blucirc**	**18,8**	28,2	Nov '82
75	91	**I & J**	**18,6**	14,3	June '82
76	84	**Berzack**	**18,6**	16,0	June '82
77	273	**Cokicor**	**18,6**	0,1	April '82
78	80	**Cullinan**	**18,2**	17,4	June '82
79	87	**Seardel**	**17,7**	14,9	June '82
80	90	**LTA**	**17,4**	14,4	March '82
81	96	**Saficon**	**17,2**	12,8	March '82
82	68	**Pepkor**	**16,9**	20,4	Feb '82
83	58	**Stew & Ll**	**16,9**	22,9	Sep '82
84	89	**W & A**	**16,8**	14,5	June '82
85	145	**Chemsve**	**16,1**	5,7	Dec '81
86	57	**Bonuskor**	**15,7**	23,1	March '82
87	95	**Putco**	**15,6**	13,7	June '82
88	131	**Gallo**	**15,4**	6,9	March '82
89	82	**Af Cable**	**15,3**	17,0	July '82
90	104	**SAAN**	**15,0**	9,8	Dec '81
91	93	**SA Drug**	**14,5**	14,0	March 82
92	109	**Sage**	**14,4**	9,1	Dec '81
93	75	**Trek**	**13,2**	18,6	Dec '81
94	233	**Goldstein**	**13,2**	1,2	June 82
95	110	**CNA**	**13,0**	8,7	Feb '82
96	101	**Carlcor**	**12,9**	10,6	Dec '81
97	106	**NEI Afr**	**12,9**	9,4	Dec '81
98	50	**ICS**	**12,8**	25,3	Sep '82
99	65	**Abercom**	**11,4**	21,4	June '82
100	97	**L Match**	**11,2**	11,2	Sep '81
101	94	**Adcock**	**11,1**	13,7	Sep '82
102	121	**Asea**	**10,5**	8,0	Dec '81
103	130	**Bromain**	**10,5**	7,0	Feb '82
104	98	**Picbel**	**9,9**	11,1	June '82
105	137	**Rex True**	**9,9**	6,5	June '82
106	140	**Suncrsh**	**9,6**	6,0	June '82
107	116	**Scot Cab**	**9,1**	8,4	Dec '81
108	108	**Picfin**	**9,1**	9,3	June '82
109	112	**Otis**	**8,9**	8,6	Nov '82
110	100	**Contex**	**8,7**	10,8	June '82
111	113	**Lucem**	**8,6**	8,6	March '82
112	119	**Becket**	**8,5**	8,3	June '82
113	105	**Units**	**8,5**	9,5	Sep '82
114	132	**T & I**	**8,4**	6,6	June '82
115	125	**Cadswep**	**8,4**	7,4	Jan '82
116	107	**Lambert**	**8,3**	9,3	Sep '82
117	122	**Masnite**	**8,1**	8,0	Aug '82
118	124	**E Haddon**	**8,0**	7,5	Dec '81
119	185	**Omhold**	**7,8**	2,8	Dec '81
120	123	**Curries**	**7,8**	7,6	June '82
121	88	**Tolgate**	**7,6**	14,8	June '82
122	103	**Afr Pers**	**7,5**	10,1	June '82

R5M PRE-TAX PROFIT LEAGUE

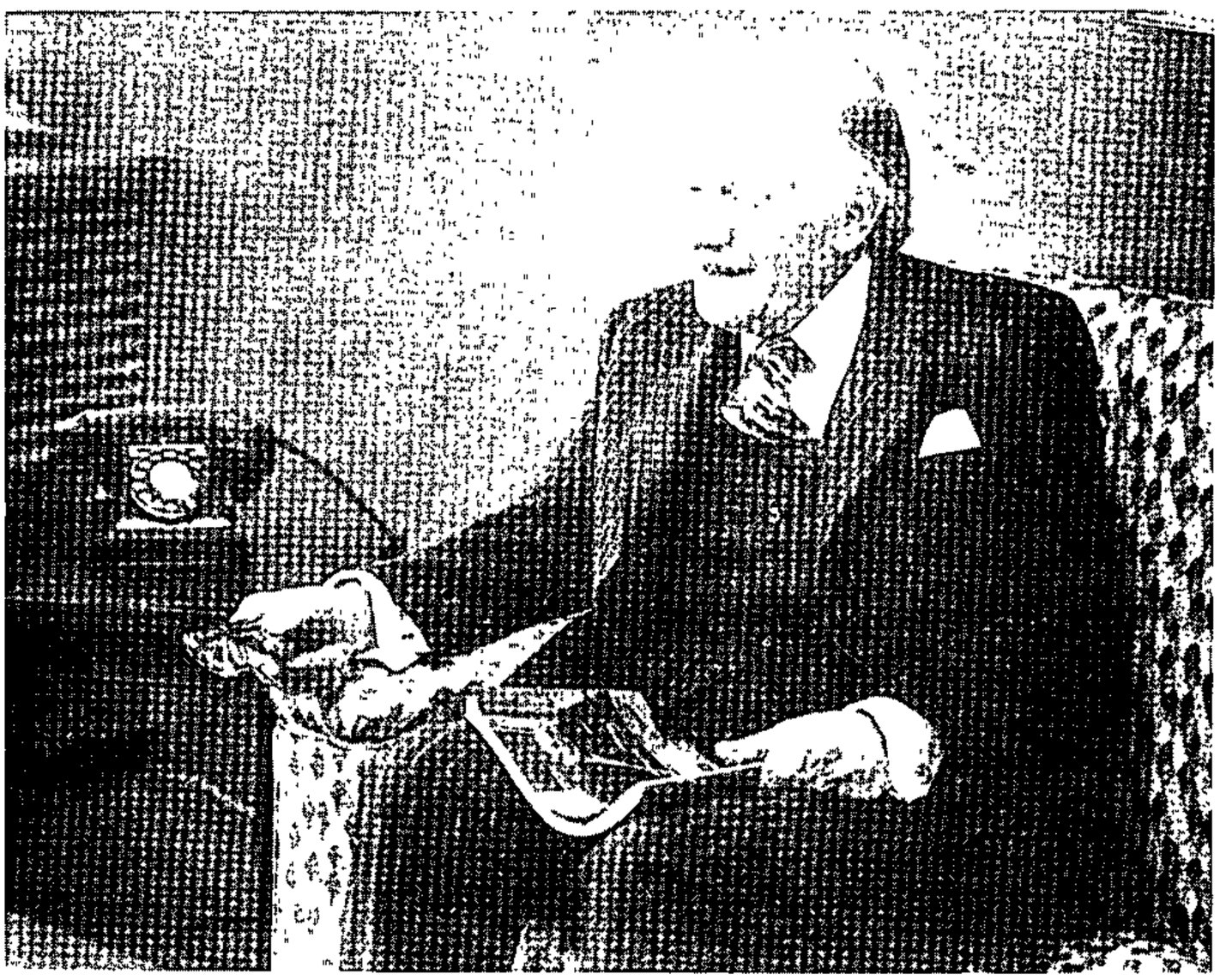
RANKING: Latest	RANKING: Previous		Pre-tax profit Last year Rm	Pre-tax profit Previous year Rm	Financial year-end
123	128	**Ind Inv**	**7,5**	7,2	June '82
124	219	**Powtech**	**7,5**	1,8	Feb '82
125	135	**Gypsum**	**7,5**	6,5	June '82
126	25	**Triomf**	**7,3**	47,3	Dec '81
127	126	**Group 5**	**7,3**	7,4	Dec '81
128	144	**Cemenco**	**7,3**	5,8	Sep '82
129	170	**Concor**	**7,1**	3,6	June '82
130	78	**Frasers**	**6,9**	17,7	Sep '82
131	139	**Std Brass**	**6,7**	6,0	Dec '81
132	134	**Quincor**	**6,6**	0,1	June '81
133	215	**Hortrio**	**6,6**	2,0	Dec '81
134	149	**Oil**	**6,5**	5,0	Feb '82
135	117	**Nat Trd**	**6,4**	8,4	Dec '81
136	153	**Xactics**	**6,2**	4,8	Feb '82
137	159	**Kaapkun**	**6,2**	4,3	Dec '81
138	133	**Clicks**	**6,1**	6,6	June '82
139	147	**Picfood**	**6,0**	5,3	June '82
140	118	**GIC**	**6,0**	8,4	March '82
141	192	**Hortors**	**5,9**	2,6	Dec '81
142	162	**Samstel**	**5,8**	4,1	Aug '82
143	150	**Mobile**	**5,7**	5,0	June '82
144	160	**Ninian**	**5,7**	4,3	Dec '81
145	92	**Utico**	**5,7**	14,0	Dec '81
146	155	**Pr Paper**	**5,6**	4,6	Sep '82
147	216	**Porthld**	**5,6**	2,0	Aug '82
148	163	**World**	**5,5**	4,1	June '82
149	111	**DRG**	**5,4**	8,6	Dec '81
150	156	**Metaclo**	**5,4**	4,6	Dec '81
151	143	**Garlick**	**5,3**	5,8	June '82
152	—	**Alexandr**	**5,2**	N/A	May '82
153	176	**Globe**	**5,2**	3,2	June '82
154	174	**SA Bias**	**5,1**	3,4	Dec '81
155	167	**Sterns**	**5,1**	3,7	March '82
156	169	**Mooiriv**	**5,1**	3,7	Dec '81
157	161	**Waltons**	**5,1**	4,1	Feb '82
158	—	**Fralex**	**5,0**	N/A	May '82
159	164	**Cafca**	**5,0**	4,0	June '82

* Annualised

tion of Tisugar which saw Smith's sugar interests hived off in the takeover.

That rejig of the food industry in SA saw the newly-created Tiger-Sugar enter the big league at number 9 with profits, on an annualised basis, of nearly R120m. Tiger itself, now firmly in the Barlows camp, moves up two places to 10th position also on annualised figures. Once again, only time will tell how these newly-reformed companies perform and what the effect will be on their rankings in future.

The next reshuffle, however, is straight up and down. The burgeoning Anglo-Transvaal Industries group moves up to 8th position, pushing Sentrachem down to 11th after the latter's profit fall from R118,3m to R97,9m in its June financial year. Sentrachem is likely to be significantly lower down the charts next year following its extremely poor showing at the interim stage.



Tiger's Frankel ... boosting Barlows

Federale Volksbeleggings moved up one place though, again, financial 1983 is likely to be a lot more difficult. Its subsidiaries and associates, including Fedfood, Massey-Ferguson manufacturer Fedmech and Sentrachem, are not doing nearly so well this year. And Fed Volks is likely to get the worst of the imminent tyre/synthetic rubber battle as it has interests in both camps.

Following these mixed performances, the first of the majors to make a significant advance at the top of the pre-tax profit league this year is food group Premier which gained two places from 15th to 13th. Its pre-tax profit advance was a healthy 34% to R90,6m but Tony Bloom's operation will have to maintain this sort of performance in the longer-term, too, if it is not to lose out increasingly to the bigger, Barlows-backed Tiger group.

Also improving particularly well towards the top of the table and, in fact, moving more strongly than Premier, was PP Cement which has recovered from a five place fall in 1982 to attain 15th spot. Even more impressive, and also linked to the building and construction industry, is Murray & Roberts, which gained six places from 23rd to 17th.

Top of the stores sector was blue-chip Wooltru following the merger between Woolworths and Truworths. Though the merger caused some initial problems, things now appear to be sorting themselves out and a further profit advance, albeit small in the light of recessionary conditions, is possible this year.

Next in this sector was OK Bazaars, which boosted profits from R46,9m to R54,7m in its March financial year. Pick 'n Pay, however, was the bigger mover and is

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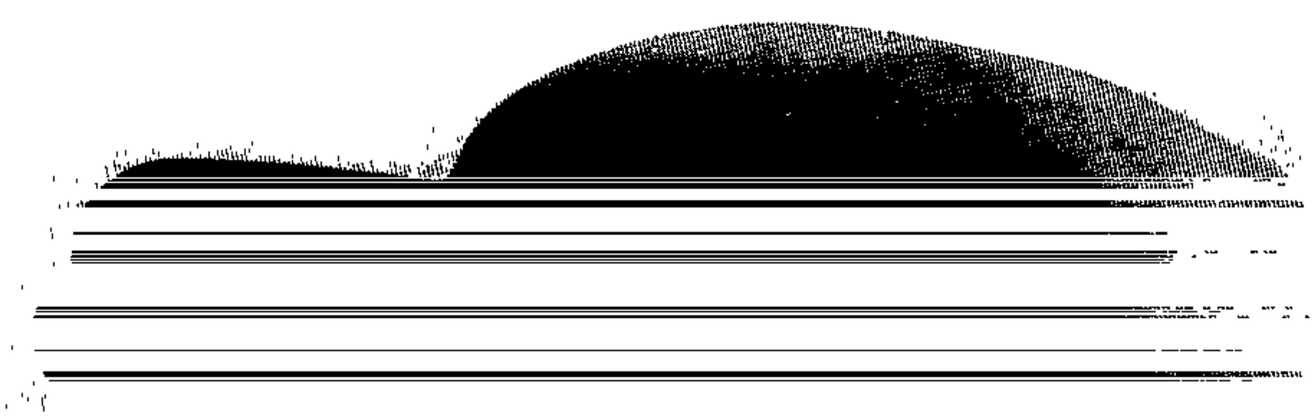

THE NATURE OF COMMUNICATION.

ABERDARE AYCLIFFE

rapidly catching up with the larger chain. Pick 'n Pay gained nine places from 45th to 36th on the back of a 37% profit improvement to R38,5m. Both OK and Pick 'n Pay should be gaining further ground this year at the expense of the ailing Checkers group. And it is quite likely that Raymond Ackerman's Cape-based group will be the biggest beneficiary, working off a smaller base but also having a superb market image on which to build.

Another stores company to gain significant ground was the Kirsh group's Metro which moved up from 72nd place to 39th, chasing close on Pick 'n Pay. However, the performance to the half-way stage this year indicates that the group will lose ground once more, probably dropping down the table as profits are hit by tighter discretionary spending.

Also in the Kirsh group, furniture chain Russell saw smaller profits in the year to April 1982 and dropped 10 places down the table to 56th. This year will have been even more difficult. Nevertheless, holding company Coki, which also holds the Kirsh stakes in Dion, Checkers and Union Wine, shot up the table from 273rd to 77th.

One thing that does emerge from an analysis of the middle-orders of our table is the strength of what have come to be called the second-rank industrials. With not quite the status of a blue-chip company, operations such as Darling & Hodgson, Grinaker, Tedelex, Kohler and the like have shown their worth when times are reasonably healthy.

In a recession, companies such as these may tend to be rather more vulnerable and their earnings graphs may be more volatile than is the case for the major holding groups. But when things are going right, a company like Toyota can provide handsome returns on investment. With the SA recession looking like ending before the year is out shares such as these could well outperform the market.

Nevertheless, it must be said that the pre-tax profit league in next year's *Top Companies* report is likely to be a lot less impressive than this one. Profits of even the biggest groups are going to be hard hit by the demand slowdown and some of the smaller companies will find themselves under intense pressure.

Of course, inflation will tend to keep apparent profits rising and, as a result, the number of companies reporting pre-tax earnings in excess of R5m is unlikely to fall sharply. Nevertheless, it is a fair bet that there will be very few additions to the big league other than those accounted for by mergers and takeovers. Results so far available that will fall into next year's table have already given us an indication of what to expect for 1983. The growth slowdown is evident in this year's table but there have still been some powerful performances. Next year's table may not be such a pretty sight.

Market surprise

The market was strong in 1982. But gains were selective

In rating companies by market capitalisation is a tendency to assume that size is the vital criterion. But, in this section of our *Top Companies* survey, where the country's leading industrial companies are ranked by the value investors place on the ordinary shares, size is not all that affects the market capitalisation. There is also an element of performance attached to the market capitalisation since share prices are only one variable in the total rating equation. The others are profitability, dividends and prospects.

To put this in perspective, consider the top three in the table. Sasol is No 1 with a market capitalisation of R1 676,3m — a clear R76m ahead of Barlows, which is slotted in at No 3 (the country's largest industrial company in terms of assets and market capitalisation). Yet, in 1982 Barlows turned in a pre-tax profit of R667,6m while Sasol managed only R347,7m. The reason Sasol is graced with a better market rating is that its earnings are seen to be more stable. Similarly, Barlows earned more than SA Breweries, but SAB still merited a higher market capitalisation of R1 668,3m. This is because SA continues to drink increasing quantities of beer, while diversified interests remain strong.

What we are talking about, is the PE ratio — in a word, rating. Sasol, on the figures above, stood at a pre-tax PE of 4,8 times compared with 2,4 for Barlows and 5,4 for SA Breweries. So, of the Top Three, SA Breweries had the best market rating, but it still did not top the Capitalisation League

And, on a total asset basis (see *SA Giants League*), Barlows is the biggest, followed by SA Breweries and Sasol. Not even the revamped Amic (at position 4) touched Barlows. So, the rankings in this table must be seen as a mix of size and profit (past and future).

This rating is vital to a company since it determines how expensive equity funds will be if the company is considering issuing paper for raising capitalisation or making acquisitions. It also tells management what shareholders want of them. For shareholders, market capitalisation is one way of exercising some influence on management. If investors regard management, profits or prospects inadequate, they will mark share prices down.

Information is another variable in the ratings game, since share prices often discount underlying value if there is a scarcity of knowledge. Given investor apathy generally, and corporate inability to communicate, it is as well that share prices do give some idea of how the share is rated.

A further variable in the rating equation is the dividend paid. When analysing the return available on a share an investor must take into account the expected dividend and the expected capital gain. If the dividend is high, then a lower capitalisation gain would be called for, and vice versa. So the level of the dividend influences the value of the share. The view that high dividend-paying shares are given a better market rating is often incorrect, since part of the return expected by the investor is factored out of the share price because of the distribution.

The rating/performance angle explains why the changes in this year's table are so varied. In the last *Top Companies* survey, we noted that total market capitalisation of the first 100 industrial companies — the inclusion of mining companies would knock the No 1 industrial outfit into position 11 (see *Market Leaders*) — had increased 16% and that 1982 promised to be a difficult year. But 1982 swung in with an even greater improvement. The total capitalisation of the top 100 industrial companies jumped 20,6% to R20 621,1m from R17 093,8m.

Despite this, the bottom limits for inclusion in this year's table actually fell. Last year Afgate (since acquired by Metkor) slotted in at No 100 with a market capitalisation of R35,2m, whereas the bottom of this year's table is T W Beckett with a market capitalisation of R31,2m. This shows that instead of a sharp overall improvement in industrial share prices, the JSE produced a two-tiered advance.

Obviously, the market was better overall, but in contrast to 1980 and 1981 when the economy was growing fast, the gains were more selective in 1982 because many industrial and commercial sectors were blown out from the previous two years' run. Sectoral indices show this. Motor companies, for example, were among the major profit gainers in the previous two years, but felt

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the effect of high interest rates and slack demand in 1982. So motor shares lost 6,9% last year. A look at recent results of chemical companies like Sentrachem will clarify the two-tiered advance and show why that sector was 13,1% down at end-1982. Analysis is not that difficult either on the plight of steel companies, hence that sector toppled 16,1% last year. On the other hand, there were some strong advances — like beverages and hotels, electronics, food, sugar and tobacco (See *RDM* Indices Table)

Johannesburg Stock Exchange ... two-tiered advance

These indices explain many of the changes in the *Capitalisation League*. But first it should be explained that of the eight companies which did not return to the table this year, five are no longer listed or were merged. Debincor, which was ranked at No 9 last year with a market capitalisation of R501,9m, is now part of Amic. Huletts is now the Tongaat-Hulett group (at position 8); Karoo was acquired by Kanhym; Johnstone was acquired by HLH; and Afgate is now part of Metkor. This leaves Vereeniging Refractories, Bonuskor and Gallo as the only companies disappearing from the list for natural reasons.

Some members of the new entrants list also owe their positions to special situations Tiger-Sugar was born out of a reshuffle of the Barlow interests in the sugar and food fields, while Messina made it into the lists because it was reclassified and placed in Industrial Holdings. Previously it was listed in the Copper sector but the growing importance of non-mining interests, in particular motors, via Datsun, made that classification inappropriate Had Messina been reclassified in 1981 it would have been placed 56th, so in effect its ranking has dropped. This reflects tough conditions in the copper, engineering and motor markets where the group operates.

Of those companies in the table called *Changes*, the most notable improvements were I & J up 27 ranks to 51, Metkor up 26 to 42, Aberdare up 25 to 44, Sage up 22 to 72 and Amrel up 21 to 63

To put these gains in perspective, it is important to note that though I & J moved up more rungs in the table than any other company, its actual rand rise in market capitalisation was tiny in relation to the larger companies whose rankings hardly changed, and in some cases even fell. Sasol's market capitalisation, for example, closed 1982 R232,5m higher, while SA Breweries was even better in gaining R578,5m (34,7%) So even though I & J's percentage gain was large at 63,2%, the actual magnitude is not that impressive. The gain represents an increase in the I & J share price on a year-on-year basis of from 195c to 310c.

This price rise in I & J was in the forefront of a generally good food sector. Of the eight food and related companies listed in the *Capitalisation League*, only Fedfood and Kanhym reported major falls. In Fedfood's case the drop was by R40m to R86m and into position 52 (40). The fact that the others did well, or remained unchanged, reflects the market's typical rating of food shares in a downturn in the belief that expenditure in this area is least likely to be cut. The fact that blacks spend up to 52% of monthly disposable income on food also helps

In addition to the above-mentioned good performances, Murray & Roberts company Anchusa jumped 17 places to 62, while Clicks and Ellerine moved 16 places up the ladder, the former to 56 and the latter to 81 Match and packaging company Lion was

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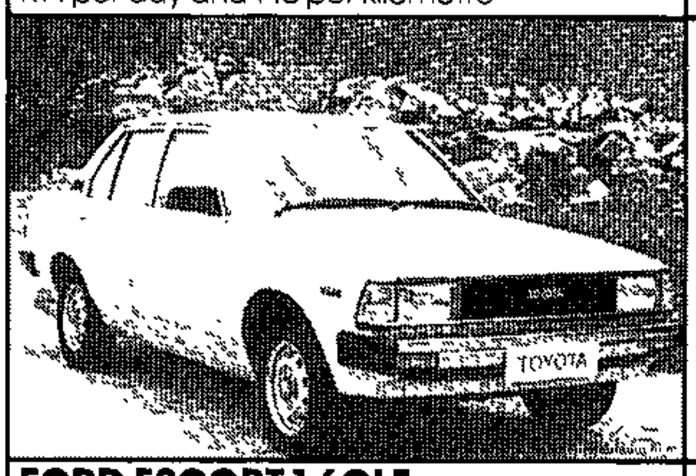
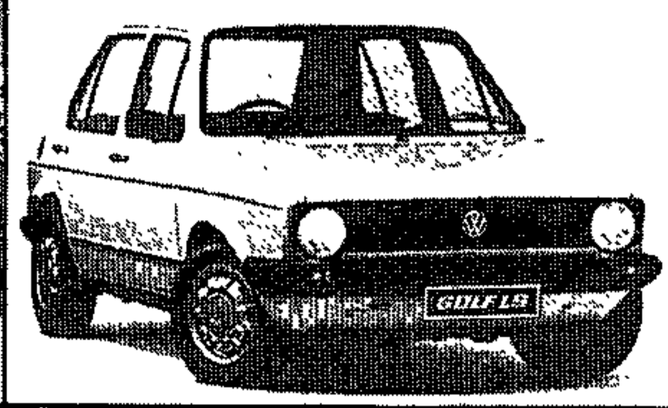
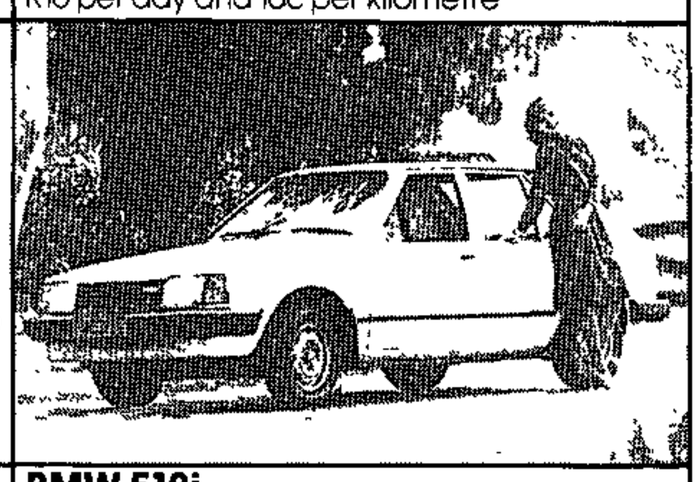


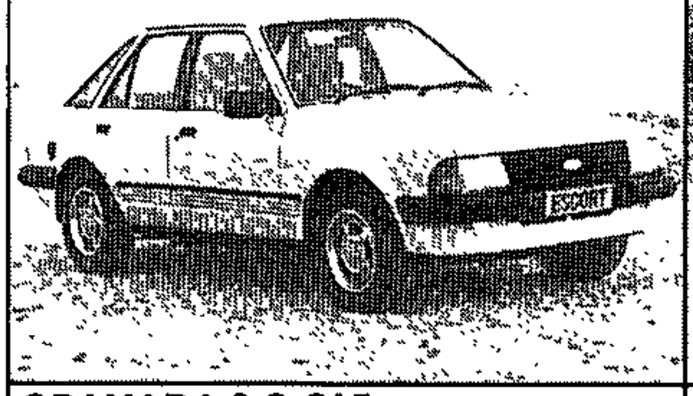
GOLF 1.3S
R14 per day and 14c per kilometre



MAZDA 1.3 HATCHBACK
R16 per day and 16c per kilometre



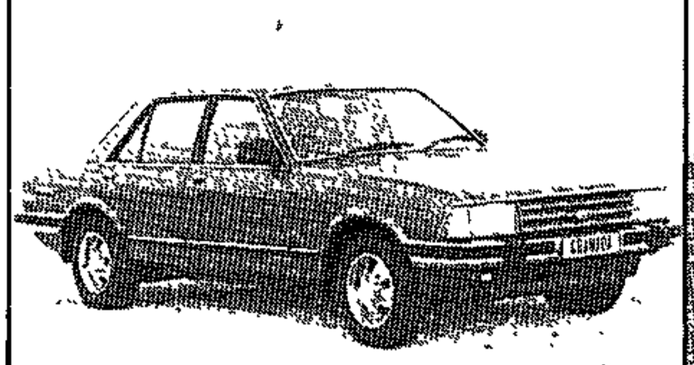
FORD ESCORT 1.6GLE
R21 per day and 21c per kilometre



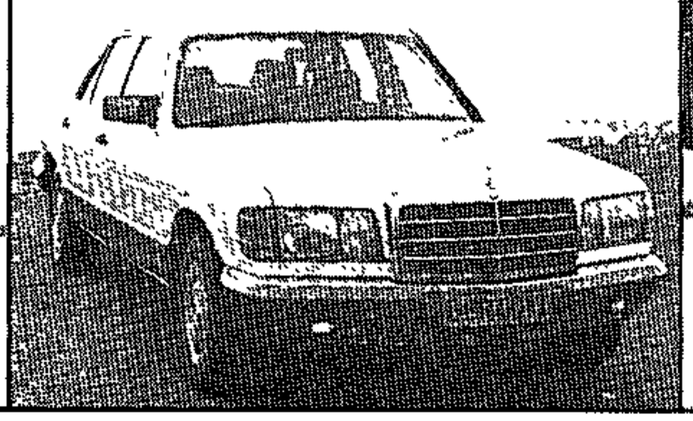
TOYOTA CRESSIDA 2.0
R25 per day & 25c per kilometre

BMW 518i
R30 per day and 30c per kilometre

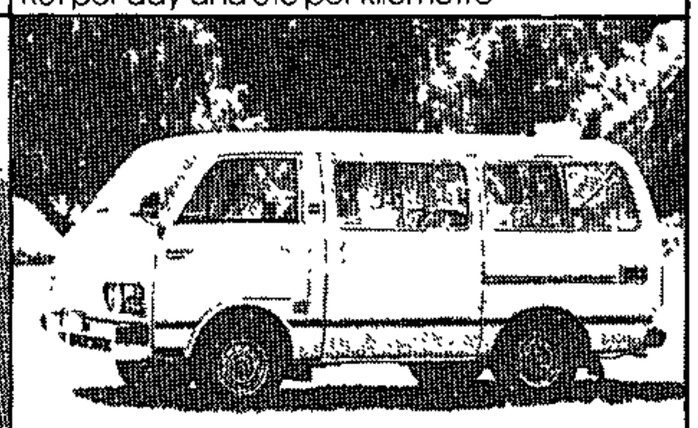
GRANADA 3.0 GLE
R33 per day and 33c per kilometre



MERCEDES 280 SEA
R83 per day and 83c per kilometre



TOYOTA HI-ACE
R31 per day and 31c per kilometre



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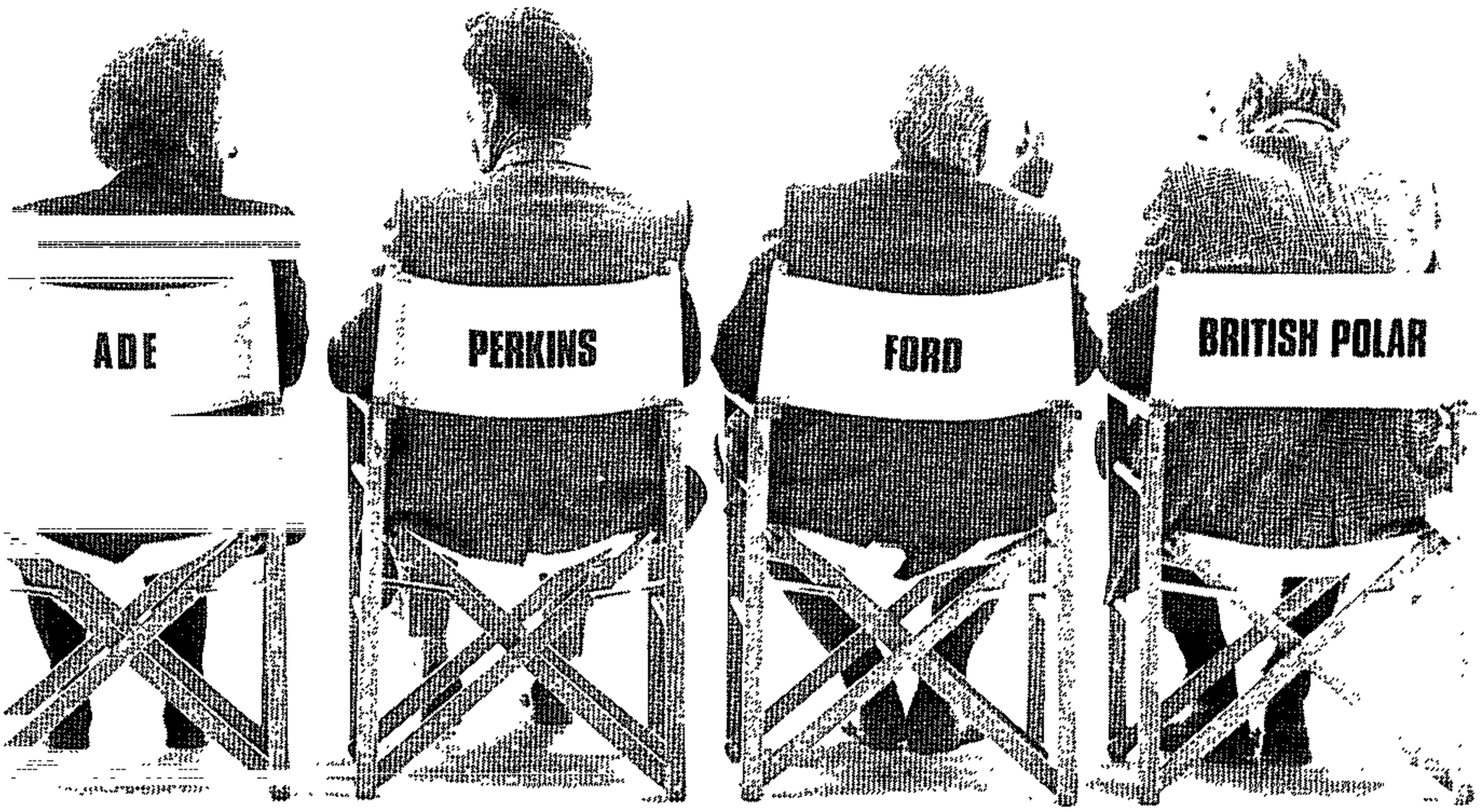

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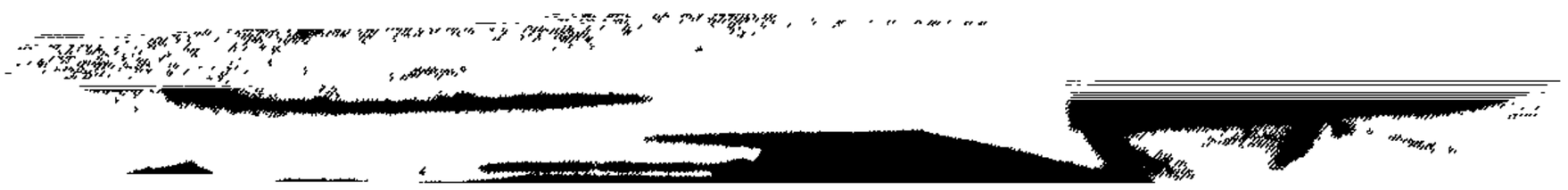
also a performer, making 68 (83) in 1982, while Trek, SA's only oil company, closed 1982 at 73 (88). The latter was a reflection of high liquidity in a company whose major product is as good as cash and whose business is basically a cash one. In the electronics sector, Altech gained 14 places to No 20, and tyre, flooring and sportsware company Dunlop moved a similar amount to 34. Glass manufacturer Consol was 41 (54) and NEI made 76 (90).

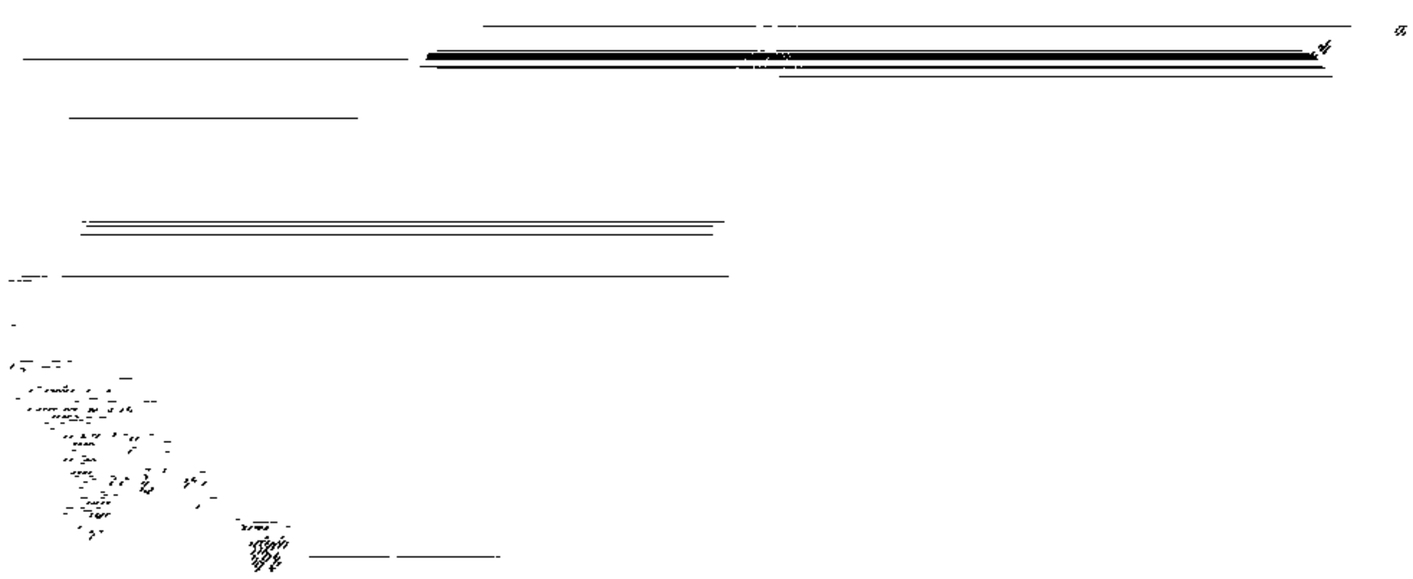
The fact that Aberdare and Altech were among the strong gainers tells the story of what is happening in the electrical and electronics market. All the companies listed in that sector which appear in the table showed some improvement. In money terms, Altech's gain was the greatest, adding R79,1m, or 825c a share to 2 500c at the year-end. Altech's advance mirrors the group's contracts in the telecommunications and electronics sectors where growth is still good, and its subsidiary diversifications in the past two years.

Now, a look at the bad performances. The worst in pure money terms was AECI, which slotted in at No 5 after ruling the list in 1982. This Anglo associate saw its market capitalisation decline by R354,6m as the mining and chemical sectors, on which it relies for business, slumped. A similar fall was noted in Sentrachem Its rating fell four places to No 12 as poor performance and prospects knocked R197m of the market capitalisation The group's results since the year-end fully justify this fall, while AECI managed to stem the decline somewhat. Fellow fertiliser company Triomf (AECI has a 49% interest in subsidiary Triomf

CAPITALISATION LEAGUE

RANKING: '81	RANKING: '82		Market Capitalisation Dec '82 Rm	Market Capitalisation Dec '81 Rm
(2)	1	**Sasol**	1 676,3	1 443,8
(4)	2	**SA Brews**	1 668,3	1 089,8
(3)	3	**Barlows**	1 599,9	1 324,6
(5)	4	**Amic**	1 425,1	903,6
(1)	5	**AECI**	1 174,0	1 518,6
(7)	6	**Remgo**	979,8	595,1
(6)	7	**C G Smith**	776,3	623,3
(12)	8	**Tongaat**	446,0	296,1
(10)	9	**Prem GRP**	438,6	384,1
(—)	10	**Tiger-Sugar**	414,3	N/A
(15)	11	**Nampak**	355,8	275,0
(8)	12	**Senchem**	344,6	541,6
(12)	13	**Wooltru**	342,4	298,9
(20)	14	**Tig Oats**	330,7	234,2
(19)	15	**Picknpay**	317,9	247,4
(11)	16	**Hiveld**	312,5	336,3
(16)	17	**Sappi**	302,8	272,4
(17)	18	**Suthsun**	247,1	269,3
(18)	19	**OK**	244,1	253,0
(35)	20	**Altech**	239,6	160,5
(22)	21	**Kaapwyn**	238,0	217,0
(14)	22	**Safmarn**	230,3	287,9
(21)	23	**Haggie**	228,2	218,7
(29)	24	**Unisec**	203,2	170,6
(27)	25	**M & R**	200,0	174,7
(26)	26	**Edgars**	186,0	177,0
(36)	27	**A T I**	181,2	159,0
(28)	28	**Met Box**	176,3	174,4
(31)	29	**Afrox**	170,7	167,7
(37)	30	**P P Cemnt**	161,8	152,7
(24)	31	**Romatex**	159,7	193,7
(38)	32	**A Alpha**	153,4	150,4
(33)	33	**Afcol**	150,6	164,3
(48)	34	**Dunlop**	150,5	105,0
(25)	35	**Plate GL**	148,2	180,1
(44)	36	**Rennies**	131,7	114,3
(34)	37	**D & H**	127,3	161,2
(41)	38	**Dorbyl**	117,1	123,8
(30)	39	**Fed Volk**	115,8	169,4
(39)	40	**Kanhym**	111,5	139,1
(54)	41	**Consol**	108,5	89,9
(68)	42	**Metkor**	107,6	65,9
(50)	43	**Foschini**	104,8	97,0
(69)	44	**Aberdare**	100,8	64,6
(56)	45	**I C S**	99,9	81,5
(42)	46	**Blucirc**	98,0	118,7
(43)	47	**Kohler**	97,4	118,6
(47)	48	**Everite**	92,4	105,2
(52)	49	**Af Cable**	91,3	91,3
(51)	50	**HLH**	90,0	92,0
(78)	51	**I & J**	86,8	53,2
(40)	52	**Fedfood**	86,0	126,0
(53)	53	**Grinaker**	78,5	90,0
(45)	54	**Stew & Lloyds**	75,8	112,9
(57)	55	**Toncoro**	75,2	80,9
(72)	56	**Clicks**	75,0	60,0
(63)	57	**Plevans**	74,9	70,9
(32)	58	**Metro**	74,1	164,9
(49)	59	**Protea**	72,2	99,0
(61)	60	**Tedelex**	71,5	77,4
(71)	61	**S Atlant**	70,1	60,0
(79)	62	**Anchusa**	66,9	52,7
(84)	63	**Amrel**	61,0	48,2
(74)	64	**Toyota**	56,9	57,7
(—)	65	**Messina**	55,1	84,4
(55)	66	**Abercom**	55,0	87,1
(64)	67	**Russel**	54,8	70,7
(83)	68	**Lion Match**	54,4	50,8
(46)	69	**BTR**	53,0	111,1
(62)	70	**Pepkor**	52,6	N/A
(67)	71	**Contex**	52,0	68,0
(94)	72	**Sage Ltd**	52,0	41,9
(88)	73	**Trek**	51,7	46,7
(75)	74	**Carlcor**	51,2	57,5
(81)	75	**Scot Cab**	50,7	51,3
(90)	76	**NEI**	50,5	44,8
(76)	77	**LTA**	50,4	55,5
(58)	78	**Kimet**	50,1	79,9
(65)	79	**Reunert**	49,7	70,1
(85)	80	**Asea**	48,3	47,7
(97)	81	**Ellerine**	46,9	37,9
(89)	82	**SA Drug**	44,6	46,6
(95)	83	**Curfin**	43,5	41,4
(66)	84	**Triomf**	43,4	70,0
(80)	85	**Malbak**	42,3	51,8
(92)	86	**Argus**	41,8	42,7
(—)	87	**Hanhill**	40,7	6,7
(—)	88	**Nat Cons**	39,8	31,4
(59)	89	**Cokicor**	39,3	78,5
(82)	90	**McCarthy**	39,3	51,2
(98)	91	**Adcock**	39,0	37,1
(101)	92	**Boumat**	38,4	35,1
(73)	93	**Culinan**	37,6	59,5
(87)	94	**Checkers**	37,3	47,0
(91)	95	**Beares**	35,5	43,1
(70)	96	**Frasers**	34,7	61,1
(101)	97	**T & I**	34,4	35,1
(96)	98	**Otis**	34,0	39,1
(—)	99	**Picfood**	32,9	34,6
(—)	100	**Beckets**	31,2	33,0





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the world. How we [illegible] people
to supply over 80% of the country's electricity
needs. How our growing [illegible] is
counteracting the effects of [illegible]
We're gearing up to supply [illegible]
South Africa's [illegible]
the end of the [illegible]

And [illegible]
South [illegible]

But [illegible]
an individual — someone whose only [illegible]
an electricity bill at the end of each month —
should know about Eskom.

And that simply is that we've always
believed size in itself is not an indication of
strength.

Indeed it's our policy to use our [illegible]
the people who use us.

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And as an individual, we feel the same
way about you.

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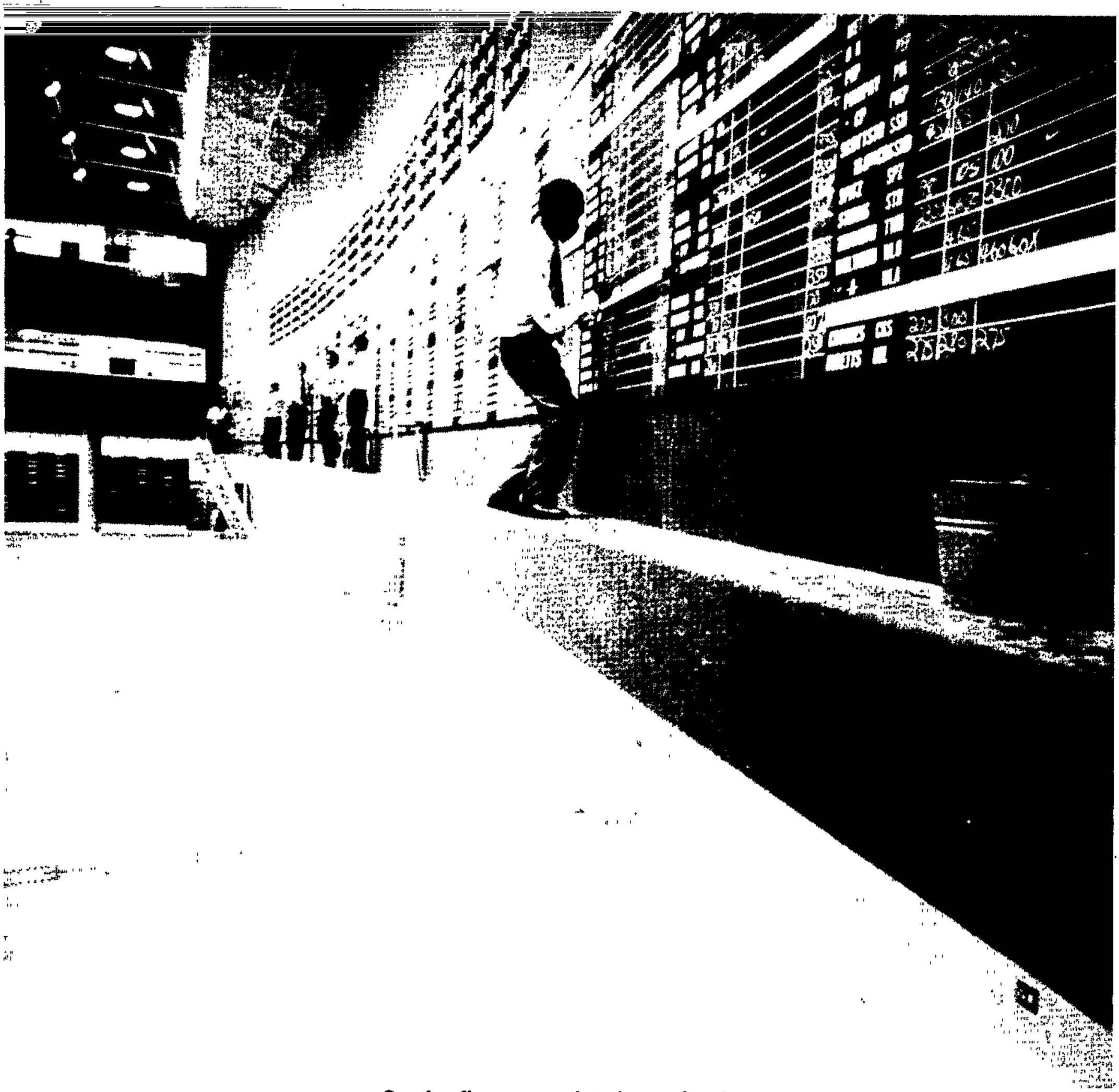
The power behind South Africa.



On the floor . . . quiet times ahead

Fertilizer) also felt the chop with its market capitalisation dropping 45,5% to R43,4m and into slot 84 (64) The exception to the chemical slump was Hanhill, whose share price closed substantially lower at 120c (210c) but whose issued capitalisation was increased from 2,8m shares to 35,1m shares. So market capitalisation rose to R40,7m (R6,7m).

A major change in the table this year was in the Kirsh group companies. Without exception, they slipped. Top of the list was Metro which moved to 58 (32), while Russell was at 67 (64), Kimet at 78 (58), Coki at 89 (59) and Greatermans, now Checkers, at 94 (87). The fall in the ratings of these companies, which were stars the previous year (with the exception of Greatermans), followed the poor publicity and financial impact of the Greatermans acquisition and generally poor trading results. Coki alone lost R39,2m in market capitalisation — over 50%.

Elsewhere, losers were confined to the engineering and steel-linked sectors as over capacity and relationship to industries like motors suggested limited profit potential in the near-term.

It has become usual to compare growth in market capitalisation with inflation. In 1982 the JSE industrial giants listed in the *Capitalisation League* table beat the CPI advance. But that is of little importance since, as mentioned earlier, the return to investors is not limited to capitalisation gain. If the average dividend increase is added, then the overall gain in return (not realised, necessarily) would be closer to 28% for the Top 100. This is substantial after two previous boom years.

What then of 1983? So far, the market has remained surprisingly strong despite most companies reporting lower profits. The strength flows from expectations of better times in the fourth quarter of the year or the first quarter of 1984, and the fact that liquidity has allowed many dividends to be maintained. In any event, no major falls are expected.

For the balance of this year, it would be surprising if the industrial board showed any great improvement. Lower interest rates and expectations of good times have been discounted, and this, barring a zooming gold price, suggests flat times ahead.

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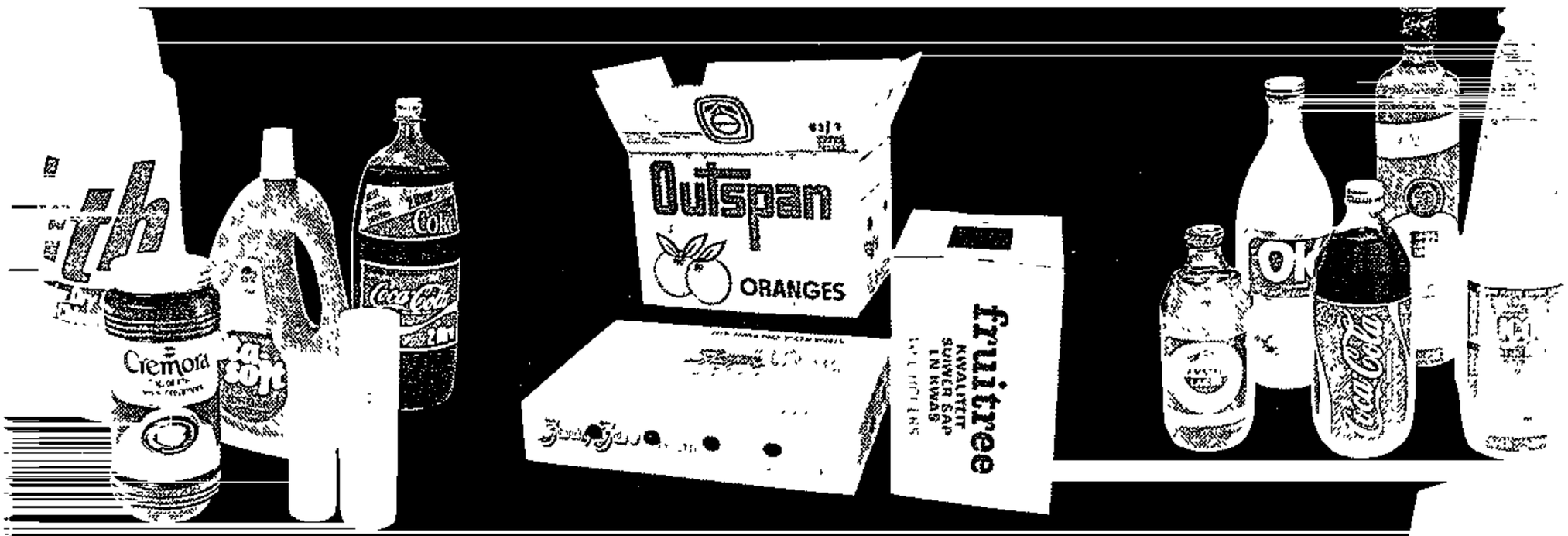

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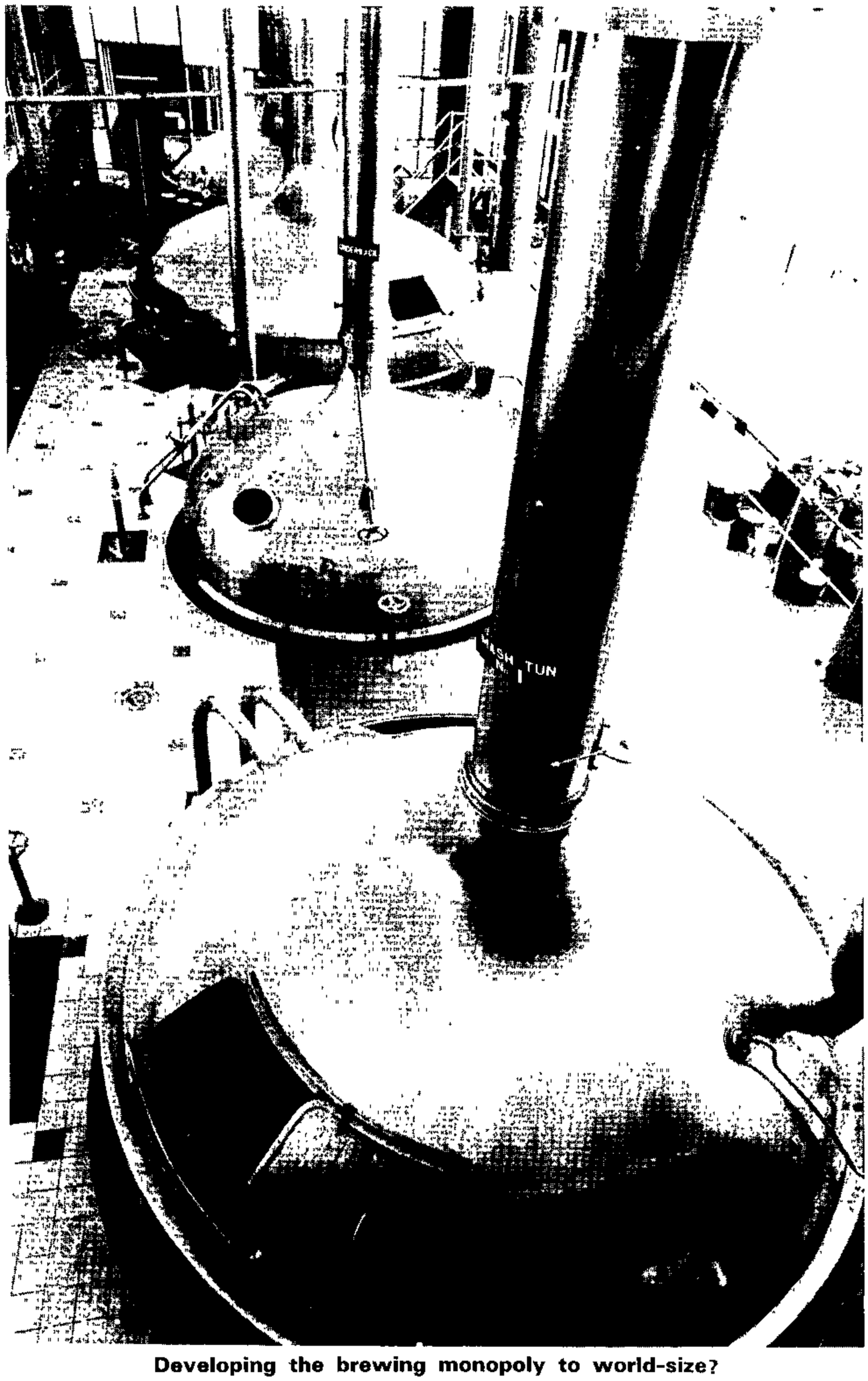
Strong brew

SA's first listed industrial company spells out its management and planning strategy



Developing the brewing monopoly to world-size?

As far back as 1897 SA Breweries was the first industrial company to be listed on the JSE Between end-December 1975 and 1982, the share price grew by an average 40% a year, compared with an average 25,5% for the *FM*'s top 10 industrials. Over a similar period earnings have risen by an average 30% a year (25,7% for the top 10), and dividends by 29% (21,2%). Small wonder that SAB shares are regarded as perhaps the deepest blue chip available on the JSE.

What sort of factors does management see as contributing most strongly to this performance? Group MD Dick Goss believes that one policy is particularly important: that of "focused diversification." The years between 1970 and 1975 were the period during which this policy emerged as an important plank in the SAB outlook. Surplus funds, barred from re-investment through acquisitions in the liquor industry, were redeployed to broaden the investment base.

But, specifically in 1975, the decision was taken, says finance director Selwyn MacFarlane, to restrain diversification and concentrate on consolidation. Between 1975 and 1980, a recessionary phase, SAB trimmed its assets and tightened its disciplines. It also refined its own view of its scope, to basically a mass-marketer in the consumer sector.

Last year's takeover of Edgars was, says MacFarlane, "planned years ahead." He makes a similar claim for the acquisition of Scotts Stores, suggesting that expansion opportunities and acquisition candidates are important parts of group long-range plans.

But with the beer monopoly, the control of OK Bazaars, Amrel (furniture retailing), Afcol (furniture manufacture), Southern Suns (hotels and gaming), and last year of Edgars Stores, the opportunity for further expansion in the SA consumer field by acquisition or development surely begins to look limited.

Goss is quite specific that future development of SAB's resources is to concentrate on overseas situations. Not that SAB will change its character. "Whatever we do," says Goss, "we will avoid turning into a jack of all trades." The objective is to use the skills that SAB already has.

"Although SAB will continue to concentrate on the mass consumer market of southern Africa," says Goss, "as far as overseas developments are concerned, the line will be to seek out and develop under-developed situations." That could involve both acquisitions and greenfields developments as well as such activities as licensing opportunities for SAB products in the countries concerned. As a general policy, it must be a very flexible one but always related to SAB's base of expertise.

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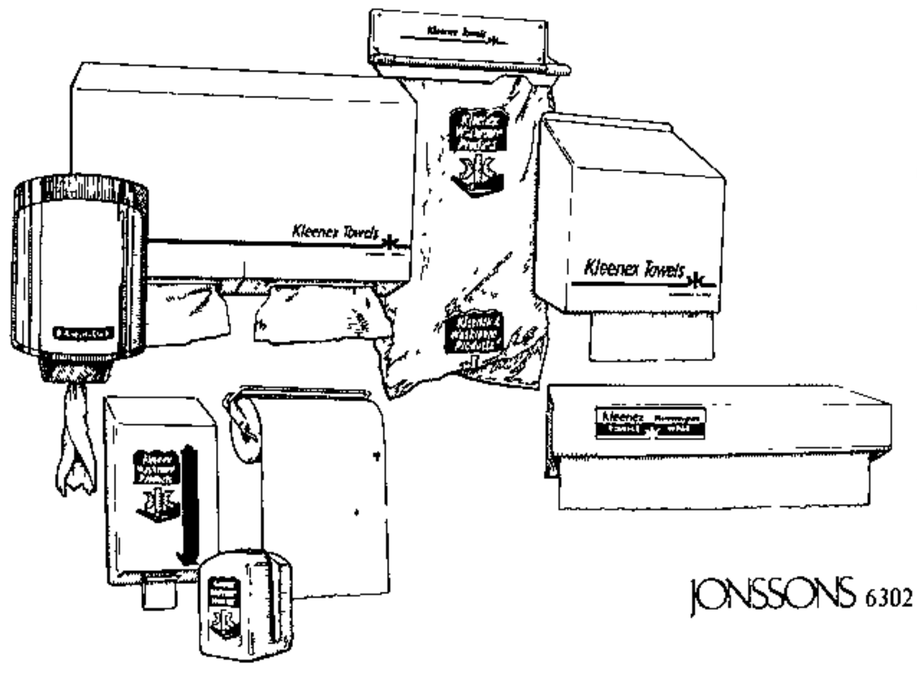

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For one thing in the years preceding 1981 SAB was able to meet increased demand by further use of capacity already installed. "Intercontinental," notes Lloyd, "was operating at only around 40% of capacity when we took it over."

Second, it is best to operate breweries at 90% of capacity, rather than the 100% of 1981 and much of 1982. That factor alone will take up the first 1m hectolitres from Rosslyn. Finally, if volume growth averages 10% a year or so, that will require all the additional capacity from Rosslyn. Rosslyn is expected to meet all additional capacity needs up to 1986.

From then on, plans are now in hand for the next major brewery at Vereeniging. On a site of no less than 90 ha, this one will in full production by 1990 add a further 10m hectolites to SAB capacity. Much careful planning will go into an installation of this size. Among other matters, Lloyd is hopeful that water needs will be reduced. Traditionally water:beer needs of a brewery are around 10:1. "We are trying to get that down to 4:1," explains Lloyd, "by recycling water in non-process operations.

"Although the authorities would like us to decentralise our breweries, we feel that we can best achieve decentralisation through distribution depots," he continues: "that is where we are labour-intensive."

The economic downturn has meant that sales volume growth during calendar 1982 has dropped to around 8%. In 1983, believes Lloyd, it will be "somewhat lower." Does that not mean that the massive costs of Rosslyn will seriously reduce profitability? "Not really," says Lloyd. "About half of Rosslyn will have been paid for by end-March; and distribution is a big variable slug of cost in our operations."

If volume is the key to competition on price, the size of the new breweries must make the task of possible rivals in the beer market all the more daunting. Certainly SAB executives seem confident about the situation. "We would welcome some competition," states Williams. Its absence, he says, can all too easily take the edge from marketing drive.

But, despite such views, the impression is that competitors will have to move into the game quickly if they are to stand much chance of success.

Volume growth has been 12% compound over the past 20 years. Lloyd is looking to an average of 10% during the rest of the Eighties. Williams believes that the range of six brands is enough for a market the size of SA. "In a country with SA's climate," he says, "lager beers are inevitably consumers' choice." The only non-lager beer SAB brews is Castle milk stout. That holds about 6% of the market, and is mostly drunk by blacks. "We do try different marketing devices," explains Williams.

He points to the recently introduced shrink-wraps for dumpies, which make handling easier and reduce shrinkage. "So far as the beer itself goes, one can make it sweeter or drier, and of a higher or lower alcohol content — and that's about it." But he is pleased with the success of the up-market Amstel line.

On financing of the group MacFarlane notes that there is need for a more flexible approach to each financial package. At the same time SAB has kept to a debt:equity limit of 60% for the past seven years, and shows no sign of changing this substantially.

Last year's report suggested that the deferred tax provision, which stood at R52,4m (R36,2m), was under review. "Especially in the beer division," says MacFarlane, "our rate of expansion means that we are sloshing money into the provision without much likelihood that it will ever be brought to account." SAB's most likely move in this respect will be to slow down or even stop increasing the size of the deferred tax account. "Our general line on the financing of the group," says Goss, "is to follow prudence rather than conservatism." In many ways that looks to be an overall approach to its business by SAB.

Management sees 1985 and 1986 as the years that should provide the next real growth-jump for the company, as for SA. If those years emerge as another 1980 and 1981, the need for an overseas investment policy will look even more apposite.

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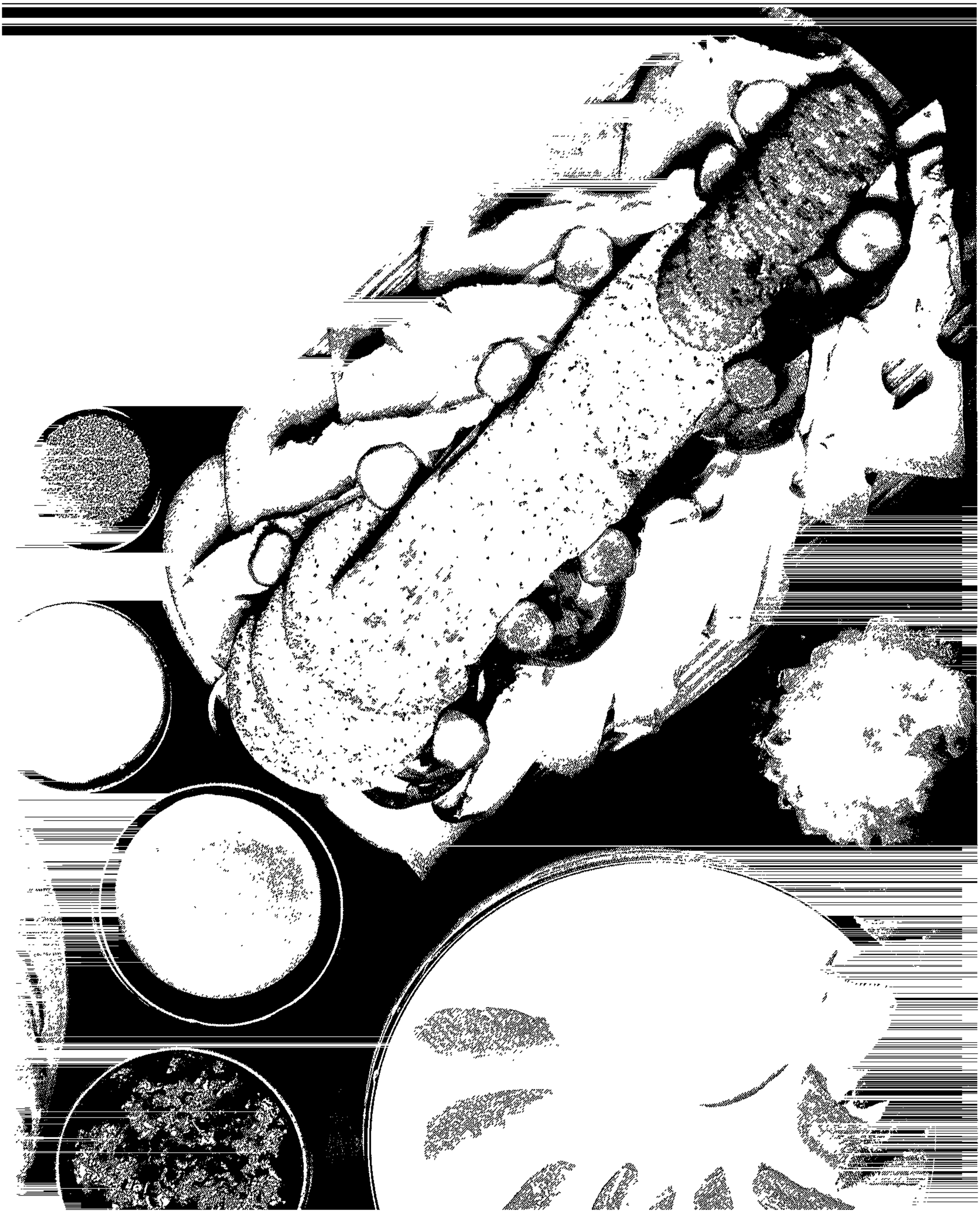

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Escom closes in

Three of the companies in the giants league now have assets of over R10 billion

When the *FM* Top Companies survey went to press last year, there was a definite mood in the country, and the stock market in particular, that 1982 was going to be tough. Consequently it was expected that the giants in our survey would register little appeciation in the value of their total assets. After all, who rushes in to invest if hard times are around the corner?

The previous four years had been good for the country. The Johannesburg Stock Exchange responded with records all round. But business cycles exist and as the country ran up against bottlenecks in some areas — notably the current account of the balance of payments — so the recovery moved off the top and growth slowed. The general feeling was that GNP growth in 1982 would average only about 1% after figures like 4,5% the previous year and 8% the year before that.

ANGLO AMERICAN IN PROFILE

	Value of investments %		Earnings source %	
	'82	'81	'82	'81
Gold	44	46	40	45
Diamonds ...	6	9	9	17
Coal	8	8	9	7
Platinum	3	4	3	3
Copper	1	2	-	1
Other mining	3	1	1	1
Finance	7	4	4	4
Industrial	25	24	31	21
Oil & gas ...	1	1	1	1
Property	2	1	2	-
TOTAL	100	100	100	100

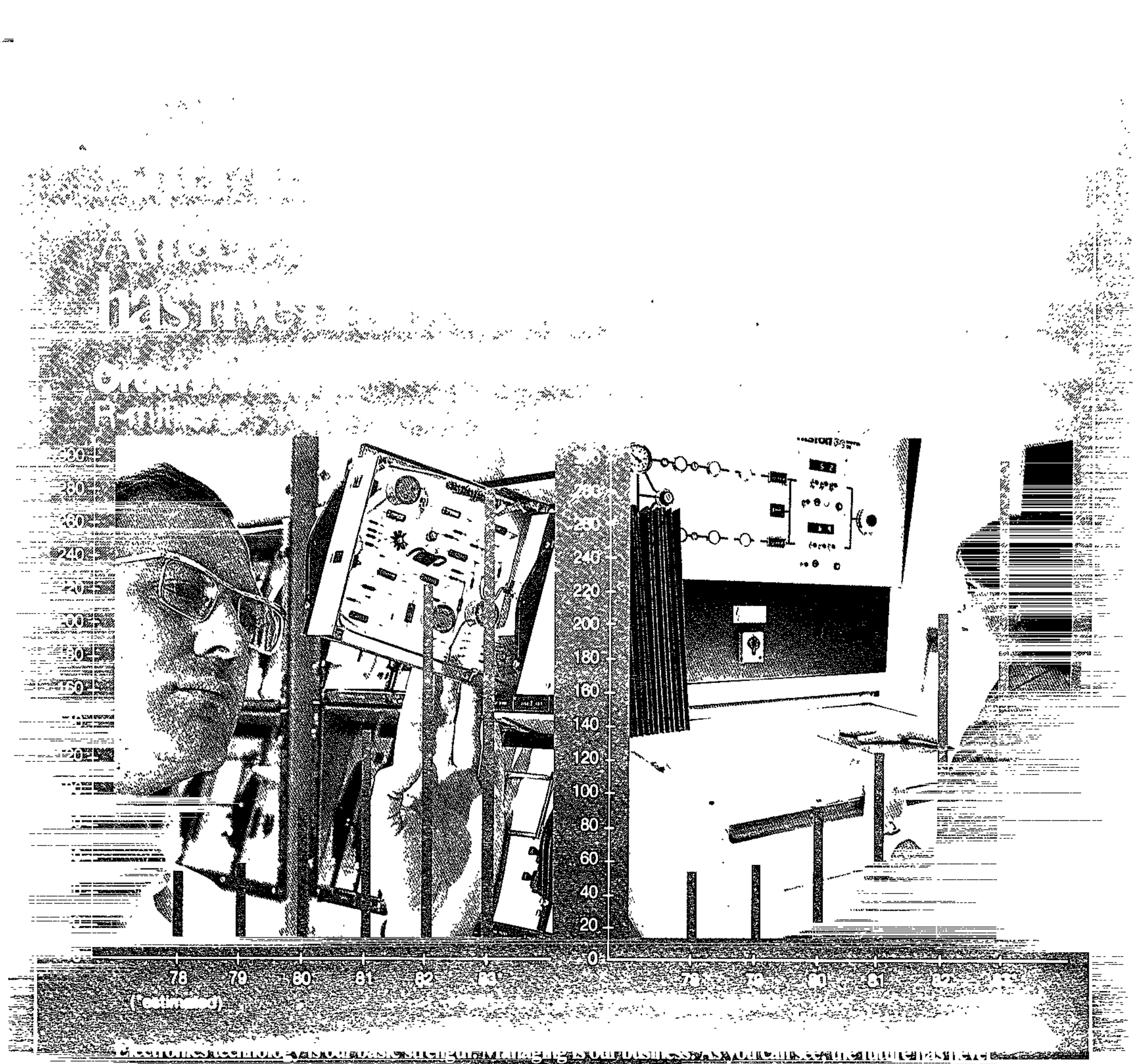
The year started as expected. The Johannesburg Stock Exchange moved gradually lower with the JSE Actuaries All Market index falling from an end-December 1981 figure of 692,2 to 452,1 by end-June. In fact, earlier that month the index dropped to 438,9 — what was to be the lowest level reached all year

At that time, the gold market was in turmoil with the metal price in the low $300s on its way to a year's low of $296,75 on June 22. This was the lowest London price since August 1979 and compared with an average of $458,80 for the previous year. Coming in an already difficult year economically, the effect of this price on the market was understandable.

Gold's recovery, however, boosted the JSE and by the year-end the share market was close to its high. This was despite the general drift in industrial company profits.

The result is that many companies ended

Anglo American ... moving down the rankings



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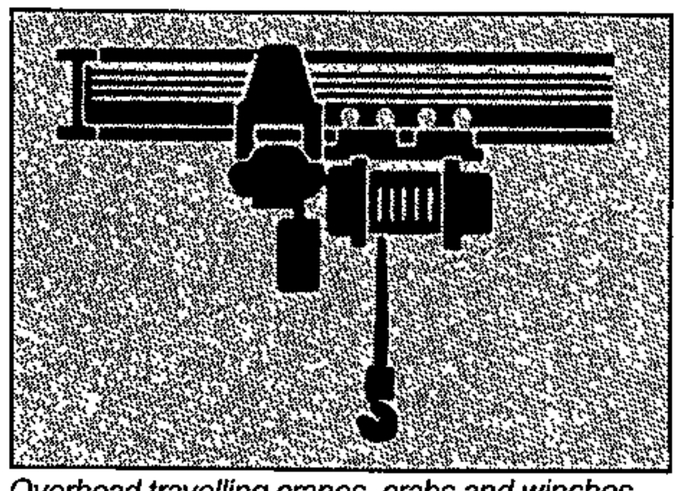
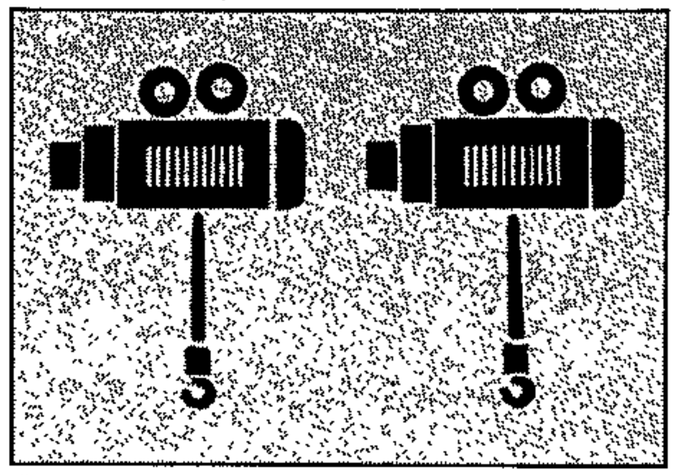
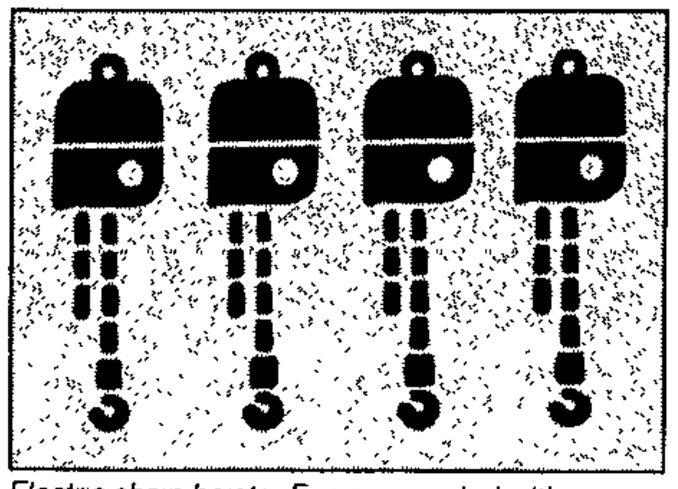


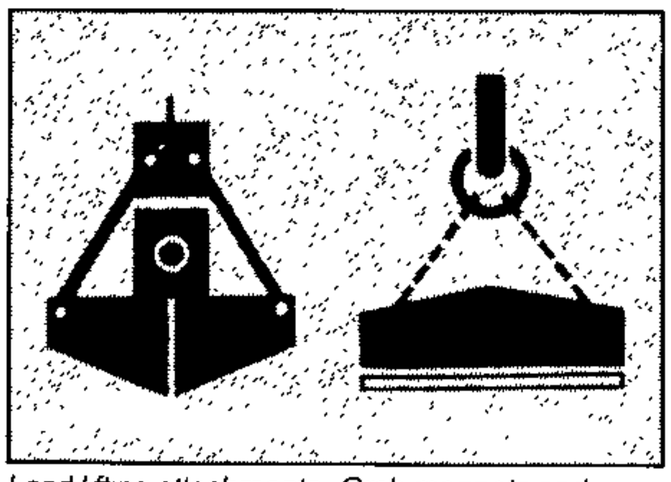
Overhead travelling cranes, crabs and winches, modular suspension tracks and pillar slewing jibs, portal and semi-portal cranes.



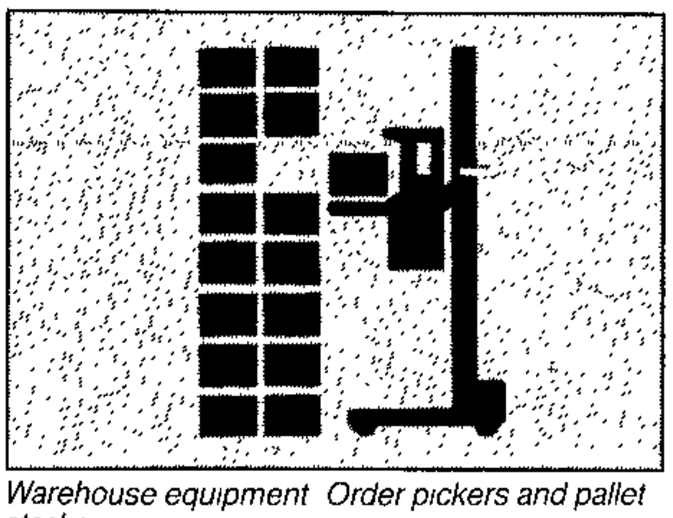
Electric wire rope hoists: Foot mounted, or with travelling carriages.



Electric chain hoists: Eye suspended with travelling carriages.



Load lifting attachments. Grab magnets and special attachments.



Warehouse equipment Order pickers and pallet stackers.

Mannesmann Demag (Pty) Ltd.

Mannesmann Demag builds machinery, plants and systems – metal making plants, metal shaping plants, materials handling equipment, compressors and pneumatic equipment, construction equipment and plastics machinery

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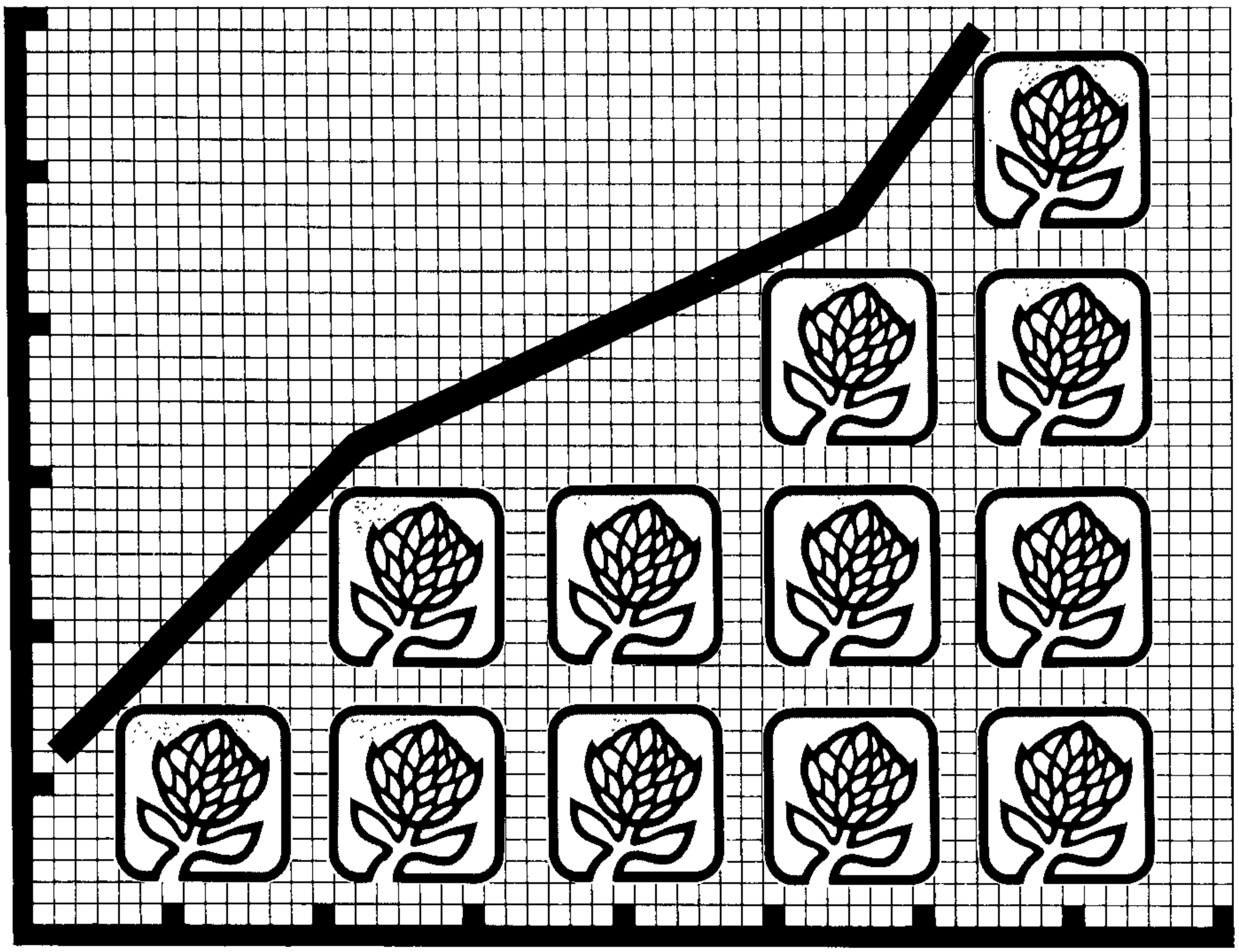

GROWING

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THE SA GIANTS LEAGUE

Ranking: '82	'81		Total Assets Latest (Rm)	Total Assets Previous (Rm)	Increase Decrease (%)
1	(1)	**SATS**	11 817,3	10 186,0	16,0
2	(3)	**Escom**	11 021,0	8 955,0	6,5
3	(4)	**Barclays**	10 795,1	8 694,8	24,2
4	(6)	**Stanbic**	8 354,6	6 459,3	29,3
5	(2)	**Anglo**	8 298,1	9 802,0	(15,3)
6	(8)	**Nedbank**	8 137,0	5 495,4	48,1
7	(10)	**Bankorp**	6 721,1	4 622,4	45,4
8	(9)	**Volkskas**	6 068,8	4 770,0	27,2
9	(7)	**De Beers**	5 893,1	5 603,8	5,2
10	(5)	**SA Reserve Bank**	5 840,0	7 692,6	(24,1)
11	(11)	**SA Mutual**	5 359,7	4 298,5	24,7
12	(14)	**Barlows**	5 337,7	3 688,6	44,7
13	(13)	**United Building Society**	4 666,7	3 769,7	23,8
14	(12)	**Gencor**	4 323,0	4 091,8	5,7
15	(19)	**Landbank**	4 184,9	2 691,7	55,7
16	(17)	**Sanlam**	3 930,0	3 073,0	27,9
17	(15)	**Iscor**	3 749,0	3 492,9	7,3
18	(16)	**SA Post Office**	3 674,9	3 190,0	15,2
19	(20)	**Trust Bank**	3 331,4	2 575,7	29,3
20	(18)	**SA Permanent**	3 233,5	2 961,4	9,2
21	(22)	**Allied Building Society**	2 456,5	2 189,5	12,2
22	(39)	**C G Smith**	2 175,7	940,1	131,4
23	(23)	**IDC**	2 136,9	2 006,8	6,5
24	(21)	**Amgold**	2 041,2	2 537,0	19,5
25	(25)	**SA Breweries**	1 973,4	1 507,6	30,9
26	(26)	**Liberty Holdings**	1 841,2	1 418,3	29,8
27	(27)	**Liberty**	1 803,3	1 387,0	30,0
28	(31)	**Remgro**	1 711,6	1 221,9	40,1
29	(24)	**GFSA**	1 559,1	1 649,1	(5,4)
30	(33)	**Amic**	1 551,0	1 168,2	32,8
31	(30)	**Sasol**	1 444,1	1 232,5	17,2
32	(32)	**Natal Building Society**	1 361,2	1 189,2	15,0
33	(28)	**Anglovaal**	1 339,4	1 249,8	7,2
34	(34)	**Armscor**	1 278,3	1 156,9	10,5
35	(35)	**AECI**	1 239,6	1 103,6	12,3
36	(38)	**Mine Officials Pension**	1 114,6	959,2	15,0
37	(37)	**Saambou**	1 113,3	967,6	15,0
38	(29)	**JCI**	1 083,3	1 241,9	(12,8)
39	(36)	**Vaal Reefs**	1 058,5	968,4	9,3
40	(40)	**Southern Life**	1 053,7	957,3	10,1
41	(42)	**Sentrachem**	1 011,3	745,5	35,7
42	(—)	**Tiger-Sugar**	990,7	—	—
43	(41)	**Fedvolks**	968,5	812,3	19,2
44	(52)	**Tiger Oats**	883,6	587,9	50,3
45	(43)	**Prudential**	855,9	727,5	17,6
46	(44)	**Iscor Pension Fund**	846,5	715,0	6,5
47	(45)	**TC Land**	831,4	704,8	18,0
48	(47)	**ATI**	820,6	666,6	23,1
49	(46)	**Driefontein Cons**	807,3	672,9	20,0
50	(48)	**L & G Volkskas**	772,6	632,3	22,2

the year with total assets figures better than expected. Remember that the asset base of some of the country's largest corporations lies the value of their listed investments.

Even so, 1982 ended with the State still at the top of the assets pile, and its assets have little to do with the stock market. SA Transport Services, which has headed our table for some years now, retained top spot with total assets growing 16,0% to R11 817,3m.

In last year's survey, SATS was the first undertaking in SA to break through the R10 billion assets mark. This year's table sees three such deca-billionaires — another State corporation, Escom, and the country's largest bank, Barclays.

Before looking in more detail at the growth of South Africa's top corporations and pension funds certain points should be made about the accompanying table.

Firstly, in order to render as accurate a comparison as possible in terms of total assets, some of our figures are months out of date. The table detailing the year-ends of the Top 10 shows this. The most recent SATS figures are those to end-March 1982, and whereas it was possible to obtain more up-to-date figures for, say, Barclays and Stanbic, we have used those which in time terms render the comparisons more valid.

This is obviously a disadvantage to Barclays and Stanbic and an advantage to Nedbank, Volkskas, Bankorp and Anglo. In fact, had we used the most up to date figures for Barclays, which were released early in February, the bank would have been No 1 with total assets of R13,1 billion — up 21,6% on the previous year. In addition, Stanbic's R10,0 billion total assets for financial 1982 would have made it the fourth deca-billionaire. But its relative positioning would not have changed.

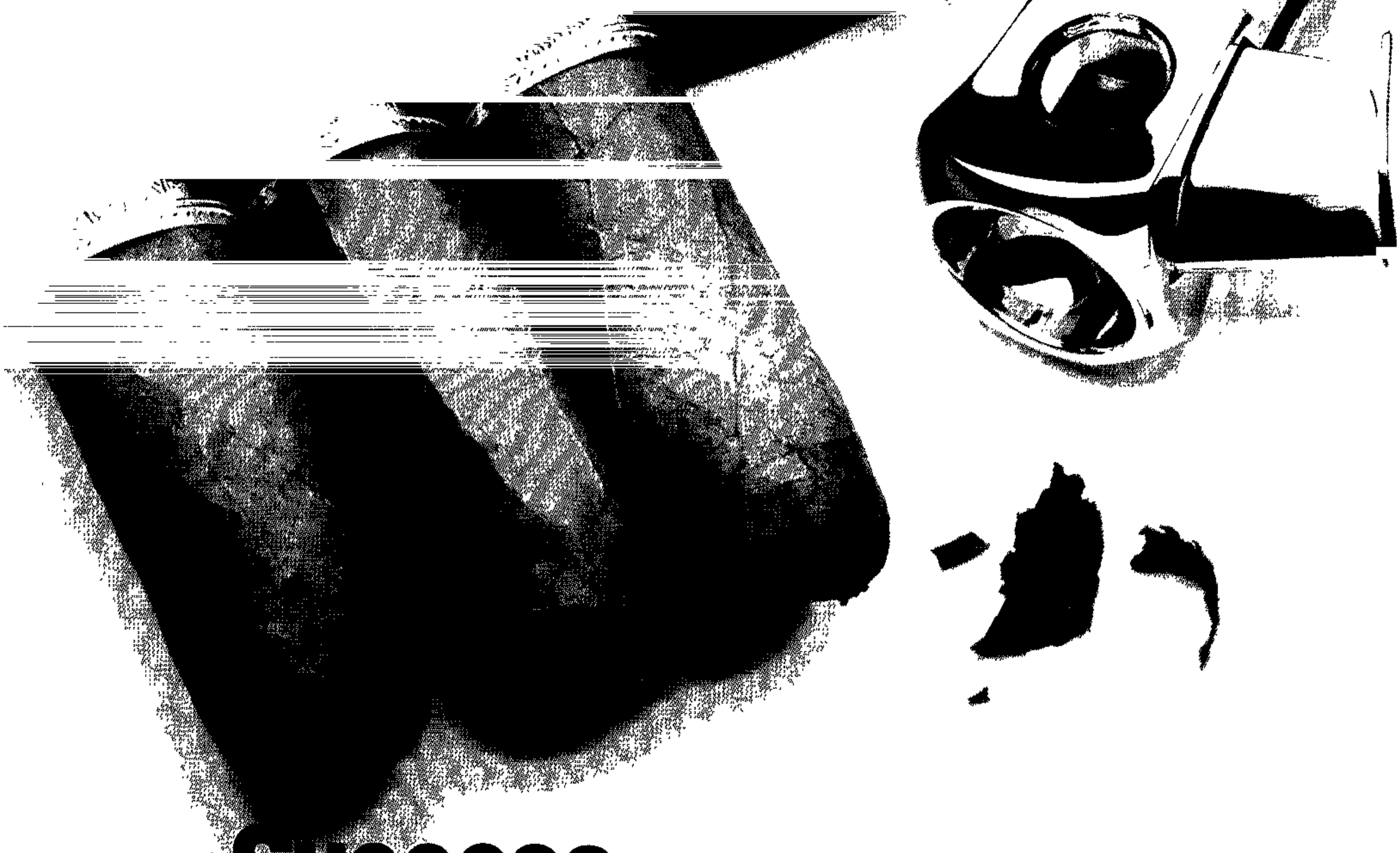
In a survey such as this which collates information over so many sectors, a cut-off has to be introduced. The spread between year-ends is thus kept to a minimum, and anyway, other than the Barclays example, it would probably make little difference to relative positions if the most contemporary numbers were used.

Another point to remember is that our tables throughout this survey ignore pyramid companies. So, three Rembrandt group companies have been eliminated as has Fed Mynbou, Pikwick, Anamint and the like. This avoids double counting of assets since the aim of this section of the survey is not to show which group has the greatest number of companies on the JSE, but rather who has the greatest asset base.

Of course, this is not to say that assets are everything. Companies have to return something on those assets — in other words report profits. This is where the private organisations in our table have a big edge over the State corporations. Perusal of other tables in this survey will show that.

A further reminder about the table is that companies which disappear from the lists of the JSE or are merged with others are excluded when recalculating the year-ago positions for the "Previous" column. So, Debincor, which became part of Amic, was No 50 in last year's table. But for the current table its position in the "Previous" rank has been taken by Safmarine.

In the event, the overall growth of the country's Top 50 asset giants surprised many. Excluding C G Smith, which is a special situation, growth in most cases compared favourably with the previous year and with the rise in the consumer price index. Last year the CPI advanced 14,1%. In comparison the cumulative total asset figures of our Top 50 rose 18,3% to R165,7 billion from the previous year's R140,1 billion. And the upper limits of the table advanced 16,0% or R1,6 billion compared with an increase in the floor on the Top 50 of R153m to Legal & General Volkskas' R772,6m. The latter is a 25% increase.



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This is our success Not just the ability to overcome problems, but to improve on the solutions

So next time when the cigar case is passed around to celebrate a successful transaction, quietly put an extra one aside

For Iscor

You're well off with Iscor.

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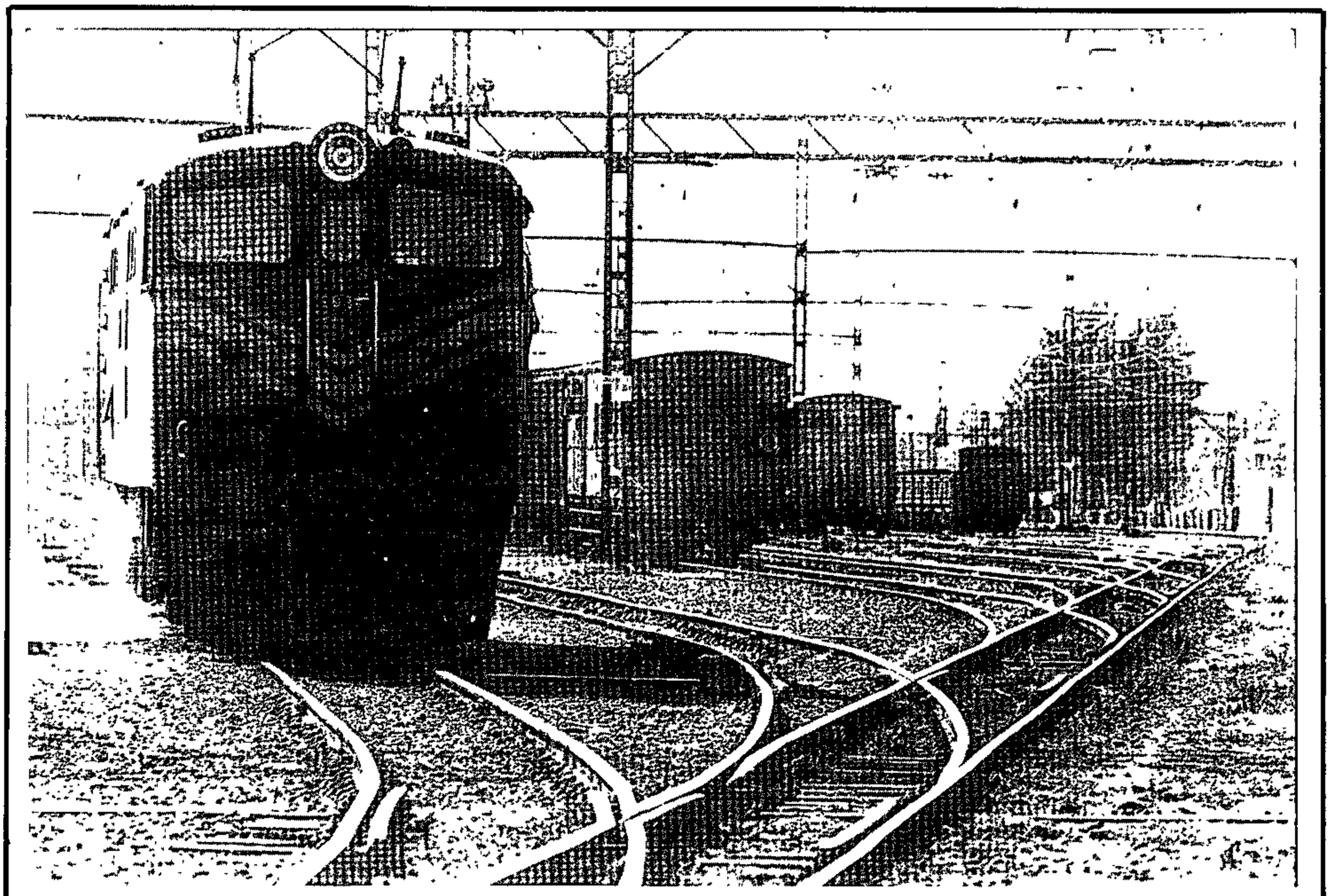

SA Transport Services . . . moving even higher

A further point about the broad picture is that the Top 10 Giants account for 50,1% (52%) of the Top 50's total.

In 1982, the table registered more companies with lower total assets. Four companies ended 1982 with reduced figures compared with only two smallish reductions the previous year — GFSA at 16,7% and Safmarine at 3,9%. 1982's casualties were, by and large, mining companies whose total investment base was heavily influenced by the gold and metal prices. The effects of the recent recovery are not noticeable since in most cases year-ends were prior to bullion's revival and the advance on the JSE. Consequently, Anglo dropped 15,3%, GFSA by 5,4% and JCI by 12,8%.

The other fall, and by far the largest, was the SA Reserve Bank which ended 1982 with total assets of R5,8 billion. This was a reduction of R1,85 billion, or 24,1%. It also knocked the country's central banker down from the fifth rank to position 10.

This reduction resulted from the bank's gold and gold coin account. At end-March 1982 total holdings of gold and gold coin were recorded in the bank's balance sheet at R2,8m (R4,7m). This 40,4% reduction reflects a reduced gold holding and the use of a lower $305,93 gold price to value the bank's bullion compared with $381,18 the previous year.

This would also reflect gold swap transactions entered into during the year. The Reserve Bank in fact not only sold all the country's gold output during the year but also entered into swap agreements in the fourth quarter of 1981, and again subsequent to the year-end in July 1982. The net result is that the bank's gold holding declined from 12,2m ounces of gold at the end of 1980 to 7,7m ounces at end-July last year.

Another feature of the table is the divergence in growth between public and private sector companies. In our survey last year we commented that it was the year of the private sector. The State corporations which made it into our table last year performed better than the inflation rate, but generally growth rates in privately funded companies were the reason why the average advance in total assets was 21,2%. This year's survey sees a narrowing of that gap. For example Escom, the Land Bank, the Post Office and SATS produced rapid growth. Only Iscor, which is suffering the effects of the recession in the steel industry, and the SA Reserve Bank did not keep pace.

While SA Transport Services did not produce anything like the growth in total assets that many of the private companies did, its continued momentum is ensured by its key position in the economy. As private sector business increases, SATS has to be prepared to meet demand for transport. The accom-

TOP CORPORATION

SATS Highlights for the year to end-March

	'81	'82
Total revenue (Rm)	4 507	5 495
Total expenditure (Rm)	4 626	5 553
Total wage bill (Rm)	1 567	1 987
Total staff (000)	271	276
Total route distance (Km)	23 596	23 581
Distance electrified (%)	29,9	30,2
Total rolling stock (000)	205	205
Aircraft	38	38
Tonnage through ports (Mt)*	77	85
Total SATS road vehicles	17 807	17 807

* Excludes all strategic products

Behind every successful company is a great philosophy.

Ours is putting our customers first.
Treating them like royalty.

A simple enough philosophy perhaps, but one that has been conscientiously adhered to since we first opened our doors in 1967.

We have consistently supported the South African consumer in the fight against rising prices, often providing our own subsidy on basic commodities such as bread, meat and cheese to maintain the old prices.

In the interest of the consumer, we have always strongly opposed monopolies and cartels, to maintain our low price structure and avoid price-fixing.

It is a working philosophy that has earned us the support of millions of South African shoppers, and placed us once again in the prestigious "Top 100 Companies".

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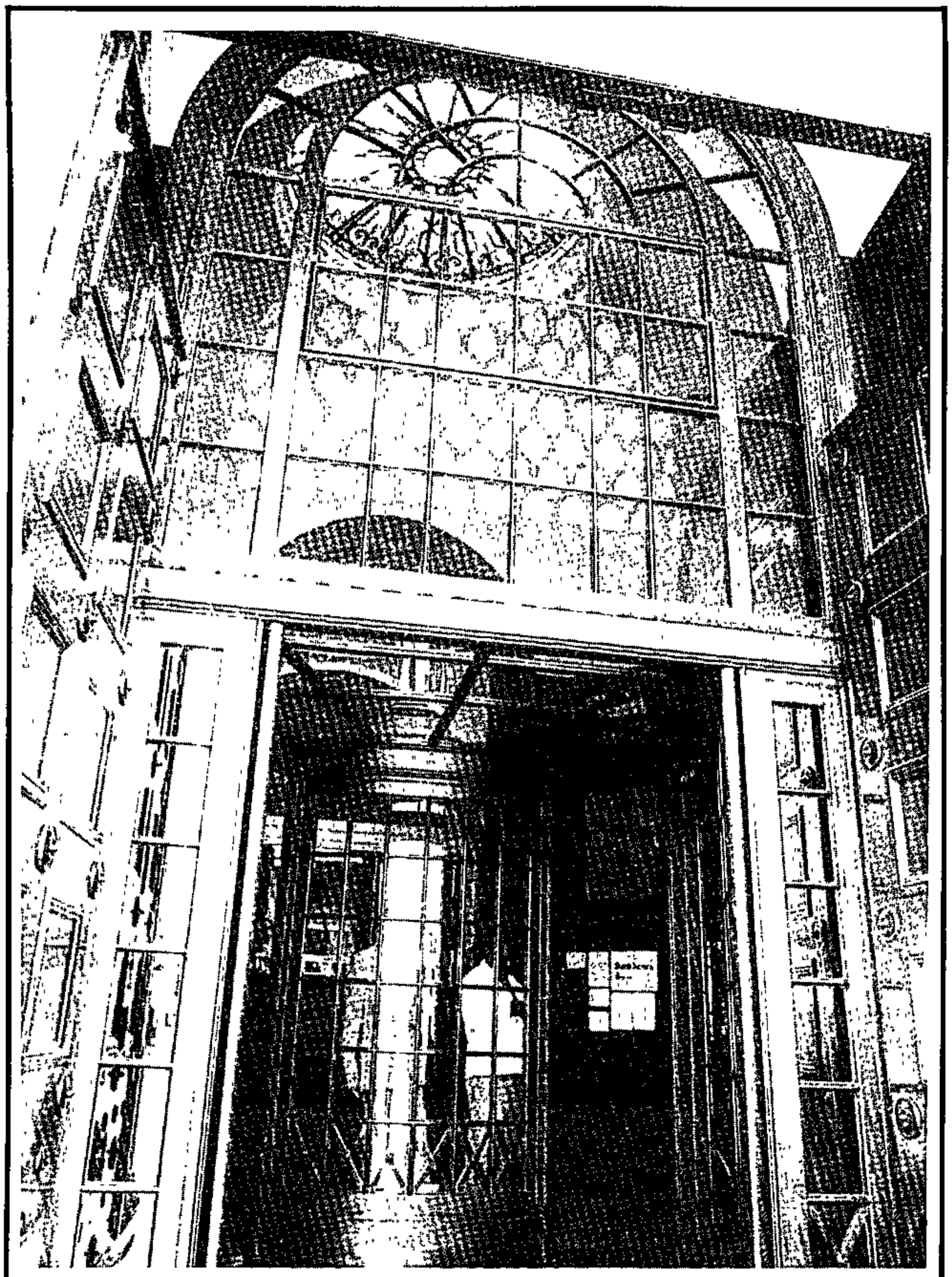


SA Reserve Bank ... swaps hurt the ranking

panying summary of SATS data gives some indication of the true size of this giant. For example, SATS employs more people than all but the SA Defence Force — about 1% of the SA's total population.

What was the reason for the increase in SATS' assets? As usual, a host of projects contributed. The Hex River Tunnel, scheduled for completion in 1984 at a total cost in 1982 terms of R63m, is but one. There are also projects like the R400m marshalling yard — Sentrarand — which is currently being completed and is one of the largest of its kind in the world. In addition, SATS had many new lines to complete, as well as maintenance of existing rail routes and ongoing capex for replacement of rolling stock and other equipment.

The size of these and planned projects suggests that SATS will be at the top of the Giants' pile again next year, though the gap between it and fellow State corporation Escom, which is firmly in position No 2, has narrowed to R796,3m from R1,2 billion the previous year.

Like SATS, Escom is guaranteed a place at the top of our table. Since its formation in 1922, Escom's growth has been steady, and it never stops expanding. It now provides 93% of all electricity generated and distributed in SA. At end-1981 it had installed capacity of 20 049 MW (18 349 MW). Its national grid consisted of over 128 000 km of overhead and underground cables delivering 21% of all energy used in this country.

Like SATS, the size of Escom's projects is staggering. Jan Smith, chairman of Escom, says that electricity consumption in this country is still expected to grow fast. In the 30 years to end-1981, the Commission faced demand which was rising at an average compound rate of 8,8%. And until the end of the century, an annual demand increase of over 7% is expected. This means a doubling every 10 years. By the end of the century, Escom's generation ability must rise four times to about 80 000 MW.

In the next 25 years Escom will thus have to move fast Some 20 base-load stations the size of Duvha or Matla — 600 MW — will have to be built to meet demand. Not only will this impact on the total assets of Escom, but with the Commission, for example, consuming some 40% of all coal in this country and being a major customer of construction companies, this expansion will impact on many of the companies in our SA Giants table in the years to come. In fact, there is nothing to stop the utility giant from usurping SATS' prime spot.

Below Escom comes the top privately-owned company in SA in terms of total assets — Barclays National Bank. This company has in fact been at the top of our table in the past before we changed our policy regarding year-ends mentioned earlier. Besides a continual tussle with the two State giants, Barclays normally has to wrestle with Anglo for a top spot. But this year the country's leading mining house has dropped back.

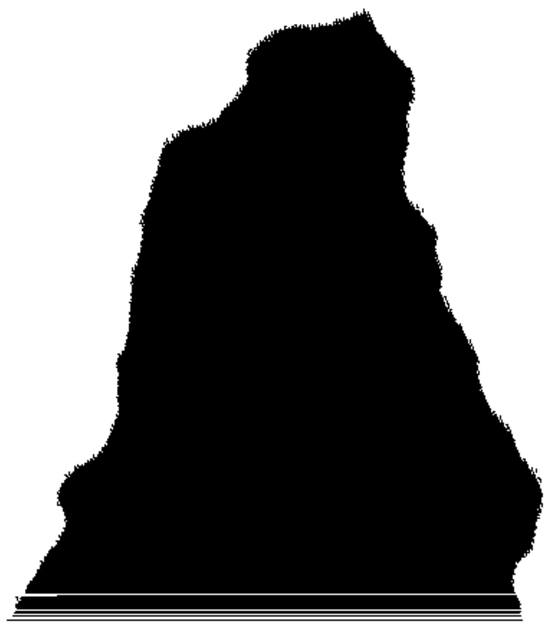
Barclays' growth in 1981-82 was above average for the members of the table, though it was not the highest chalked up by a bank. In 1982, which for comparison purposes falls outside this table, Barclays reported pre-tax profit growth of 22,3% to R152,5m and attributable profit of R101,45m — the first local bank to break R100m post tax. It was also the first Barclays International subsidiary to break that barrier So for next year's table Barclays seems to have booked its spot again in the top three.

The honour of fastest growing bank goes to Nedbank, which nearly topped the growth stakes. In fact, Barclays assets rose proportionately less than any other major bank. But the gap between it and No 2 bank Standic is still R2,44 billion (R2,24 billion).

The source of Barclays' growth from the balance sheet was advances and other accounts, and customer liabilities. These two categories rose from R6 279m to R8 728, while fixed assets grew just under R20m to R205m. Since the year-end, Barclays total assets will have continued growing, helped by marketing innovations.

Before leaving the banks, Nedbank's growth should be mentioned. After lagging the leaders in 1981, Nedbank reported impressive growth of 48,1% in total assets to R8,1 billion in 1982, which pushed it into 6th place. Deposits grew 50,2% to R6,1 billion in the year to end-September 1982, while advances finished the year at R3,7 billion (R2,5 billion). Bankorp, Trust Bank and Volkskas weighed in with substantial advances and gains in rankings.

In fifth place this year is Anglo American, last year's No 2. The tough conditions for gold which prevailed for a great part of its financial year when compared with the strong performances in 1980-81 is the rea-



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ROUGH A RECESSION

comfortable, economic motoring.

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All could on average be traded-in for 85% of original value.*

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*Based on average retail prices for 1980 and quoted trade-in prices per January 1983 M&M Trade Value. Trade-in prices can vary according to a car's condition.

Mercedes Benz

Escom ... catching up with the leaders

son for this fall. For example, the market and directors' value of investments fell 25,8% to R4 961,4m (R6 688,5m). When it is considered that investments in 1982 comprised 59,8% (68,2%) of total assets, the impact of a falling market on Anglo's asset base is immense.

Though Anglo missed the boat on the R10 billion league after being only a whisker away in 1981, it is very likely that the corporation will move back up towards the Top Three in 1983. For a start De Beers, in which Anglo holds 31,1% of the equity, is slated to face an improving diamond market. Consider what this could do for the share price which was around 850c at end-December 1982 compared with up in the 1 200c range in 1980. This alone would make a R392m difference to the value of Anglo's holding in the company As it was, the value of Anglo's holding in the company at end-1982 was only R882m compared with R1 036m a year earlier.

Even so, De Beers itself managed a marginal rise in its total assets, though it fell two places to No 7. Again, this year could well see an improvement for this giant which a few years back was No 5.

Of the other Anglo companies which appear in the SA Giants league, Amic was the best performer. Its 32,8% gain in total assets owes a great deal to the acquisition of Debincor Amic is still not the biggest industrial company in the country. It has grown fast in recent years but is still R3,8 billion behind the total asset figure of Barlow Rand — at No 12 in our table.

Barlow Rand's 44,7% growth is helped by its coal and mining interests and by the acquisitions during the year of Tiger Oats and ICS. The result of 1982's growth was fixed assets increasing to R2,4 billion (R1,5 billion) and investments and associates to R567,5m (R353,4m). However a poor economy and more shares in issue as a result of the Tiger and ICS deals meant earnings fell for the first time since 1971 — to 175,1c (204,2c) a share. Even so, Barlows' growth in recent years is such that Amic is unlikely to

ESCOM'S PERFORMANCE

	1980	1981
Revenue (Rm) ...	1 772	2 141
Expenditure (Rm)	1 870	2 218
Electricity sold (M kWh)	87 539	93 844
Coal burnt (Mt)	46,8	53,9
Water used (Bl)	214 8	235 1
Staff (000)	47	52

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SA Post Office ... weighing in at No 18

take the lead in the near future.

This year should see still substantial growth at Amic. Subsidiary Mondi, for example, is expanding fast. In 1981 Amic reported capital spending of R180,7m and at end-December had commitments of R759,7m. Of this R702,6m related mainly to the construction of a new mill for Mondi at Richards Bay. The mill is to be commissioned in 1984 around the same time as Sappi's R800m mill complex at Ngodwana.

The reduction in Anglo's own asset figures are thus temporary. In fact, of the nine Anglo related companies in the Top 50 table, all should see substantial growth in the year ahead, particularly if the gold market goes better as appears to be in prospect. For example, 1981 and 1982 were dull years for 24th-ranked Amgold — 8,3% growth in 1981 and 19,5% last year. If the gold price moves this company is geared to move fast.

A continuing feature of our table is Armscor, which though only in position 34, seems guaranteed continued strong growth. The corporation now employs over 25 000 people and in 1981-82 reported turnover of R1,5 billion.

Elsewhere in the table, the major changes were gold mines, with major mine Vaal Reefs losing three positions to 39 and Driefontein Cons three places to 49.

Strong growth came from Remgro, SA Breweries, Liberty, Sentrachem, Tiger Oats, Premier Group, the insurance companies, the building societies and Land Bank. Of them all, the Land Bank performance was most impressive and meant this public corporation moved up four positions to No 15. This acvance is a result of increases in all manner of loans to farmers, co-operatives and control boards. To some extent this increase in total assets was financed from a rise to R2,2 billion (R953m) in loans from banks, as well as higher deposits

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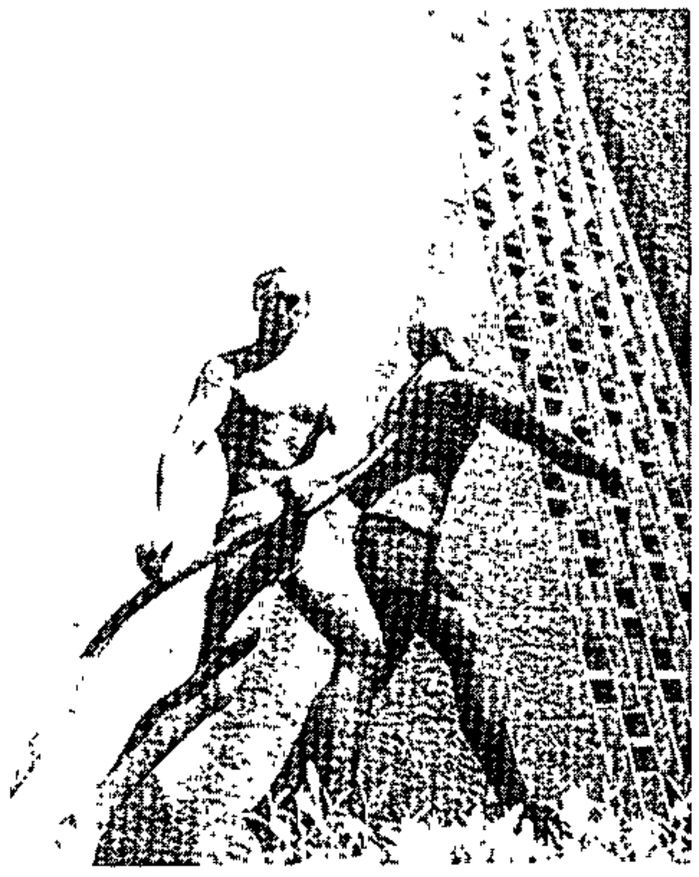
THE TOP TEN

		Financial year-ends
1	**SATS**	March 31 1982
2	**Escom**	December 31 1981
3	**Barclays Bank**	December 31 1981
4	**Stanbic**	December 31 1981
5	**Anglo American**	March 31 1982
6	**Nedbank**	September 31 1982
7	**Bankorp**	June 30 1982
8	**Volkskas**	March 31 1982
9	**De Beers**	December 31 1981
10	**SA Reserve Bank**	March 31 1982

of R371,4m (R280,7m). Perhaps the increase in the Land Bank's assets, when combined with those public corporations further up our table, explain why some claim SA can boast one of the most "involved" governments in the world. In the Top 50, R43,7 billion — 26,8% — of the total assets fall under State control. This excludes Sasol and the Iscor Pension Fund. But, via IDC, part of Sasol is included in State ownership or control.

Of the other fast growers, SA Breweries benefited from its beer monopoly and increasing diversification into retailing, with Edgars and Scotts now under its belt, while Tiger Oats bought Monis & Fattis and the Premier Group made a fat profit on its holding in that company.

In the insurance arena, SA Mutual (Old Mutual) is still tops in size with the gap between it and Sanlam at R1,4 billion (R1,2 billion) SA Mutual was the first insurance company to breach the R5 billion barrier and aims to be at R10 billion by 1985, with for example its property portfolio budgeted to rise to R1 billion from the current R714m.



Land Bank . . . most impressive performance

JUST OUT

Rank			Assets Rm		Growth (%)
	51	(49) **Mine Employees Pension** ..	725,7	(627,2)	15,7
	52	(50) **Safmarine**	696,1	(618,6)	12,5
	53	(56) **Western Deep**	688,3	(552,1)	24,7
	54	(53) **Boland Bank**	657,2	(578,1)	13,7
	55	(60) **Premier Group**	644,4	(510,7)	26,2

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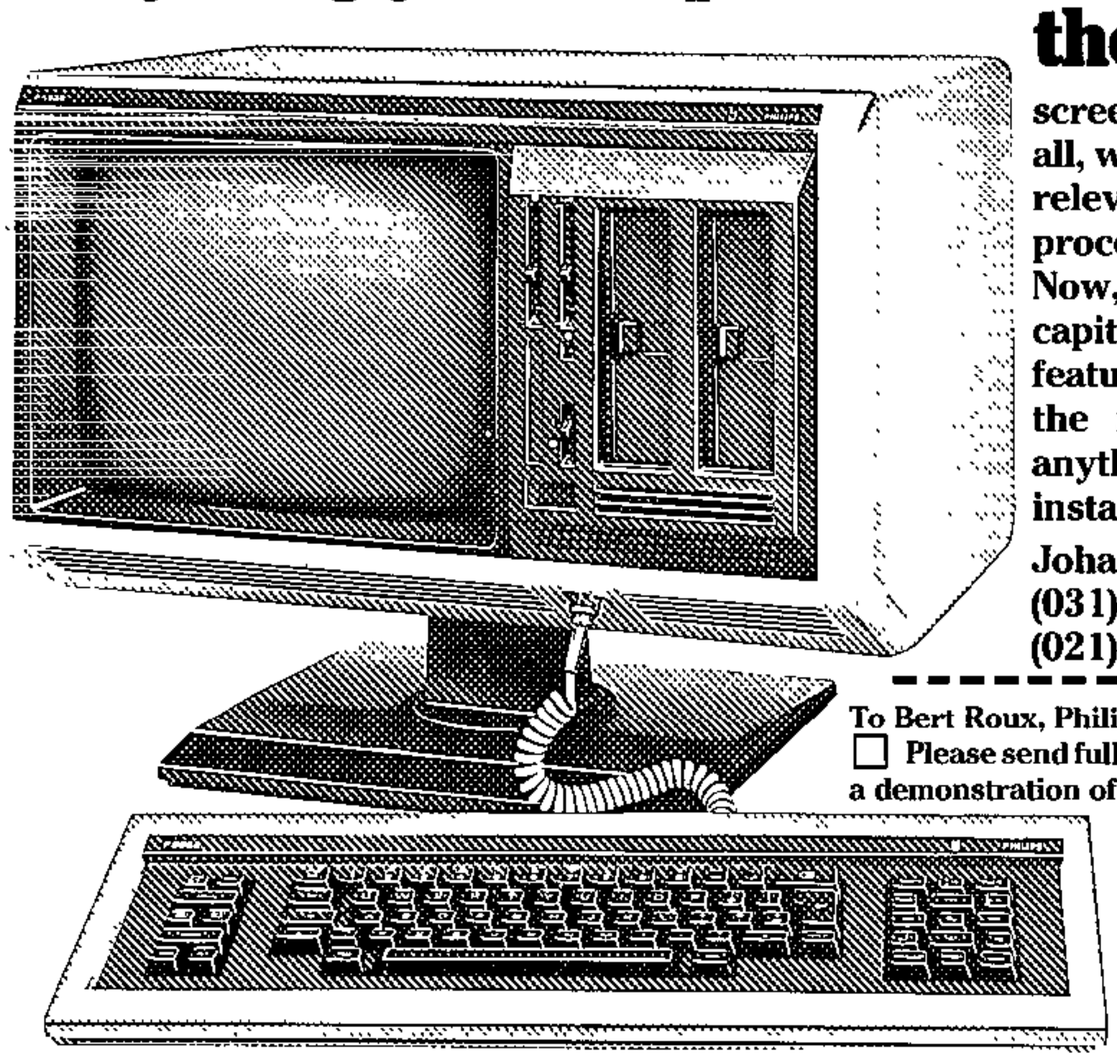

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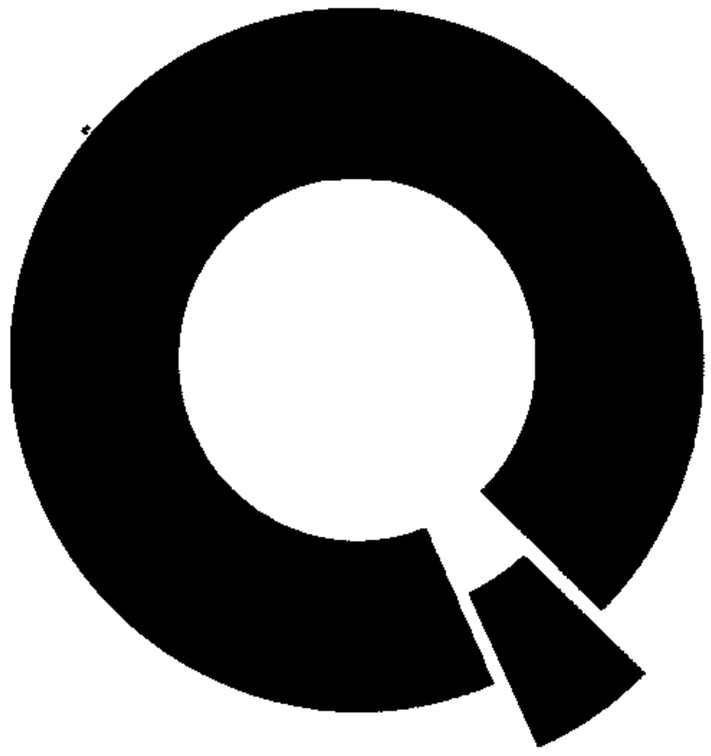

The meaning of Blue Chip.

In today's business world there are many more trendy phrases than 'blue chip'.

For instance 'red hot' is a fashionable expression for fashionable performers.

But perhaps there's more to the value of a "blue chip" than is at first apparent.

Proven sustained growth over a long period is where it starts.

But without exception blue chip companies provide more than just performance; they play a role.

They will have a product that isn't tied to the vagaries of fashion. An essential product.

They have as essential a place in society, especially in a volatile, developing one like ours in terms of training, growth and personal progress for all employees.

In industry and our society Blue Circle is such a company.

Growth? Blue Circle sees its shareholders as integral elements of its operation, and will continue to meet their long-term expectations.

Products? Few are more essential than Blue Circle's cement range together with those of its engineering, heavy equipment and contracting operations.

Social role? Again, few companies can claim to give as much growth opportunity, with as little discrimination to every Smith, Naidoo, Wong, van der Merwe and Dladla.

Perhaps a better word than 'chip' is 'circle'. What we take out of our economy, we more than put back; a structure of reciprocal growth.

Blue Chip? Blue Circle.

THE BLUE CIRCLE GROUP OF COMPANIES.

Barclays ... still bank No 1

BARCLAYS IN PROFILE

	1980	1981	Increase %
Total deposits (Rm)	5 572,2	6 754,5	21,2
Shareholders' funds (Rm)	346,4	408,6	18,0
Net income (Rm)	76,4	80,6	5,4
Earnings (c)	143,6	151,4	5,4
Dividends (c)	58,0	63,0	8,6
Return on equity (%)	22,1	19,7	n/a
Return on assets	0,88	0,75	n/a
Staff (000)	22	23	4,5

Sanlam too reported a good year with a 27,9% rise in total assets and a 43% hike in investment income. When organisations reach this size, 27,9% growth is nearly R1,1 billion in total assets!

The building societies maintained their relative positions with the battle for market share continuing as everybody vies to be the best in the automatic teller area. This year UBS promises to become a R5 billion organisation while SA Perm is still far behind.

Looking further down the list, there is less change. The only new entrants were Tiger-Sugar and Tiger Oats, the former being yet another strand in the Barlow Rand reorganisation and acquisition programme. Those which disappeared from the table were the Mine Employees Pension Fund (No 51) and Safmarine (No 52).

What of this year? Given the profit drops still being experienced, it is unlikely there will be a major rush to increase capacity in many companies. For example, the motor market is expected to drop another 7% or so, while construction is in the doldrums. Nevertheless, the volume of long-term expansion either in progress or on the cards suggests that 1983 will not see a material reduction in the growth stakes for the SA Giants League. The inclusion of State corporations alone will see to that. And if the gold price is kind, the market could regain its post financial rand shock losses and boost the mining houses again.

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A commitment to excellence and a depth of continuity of management skills that continues to pay dividends year after year.

Covering a broad spectrum of industries manufacturing and selling products that comply with the highest standards of excellence the Seardel Group of Companies comprises:

The Desirée International and Dubin Divisions
The largest apparel manufacturing organisation in the country. Besides supplying the local market, the Group exports to the U.S.A., U.K. and Western Europe.

The Charmfit Division
This highly successful division manufactures internationally famous Triumph foundation garments, lingerie and swimwear under licence in South Africa, and also produces household textiles and the Caro Range of ladies outerwear garments as well as the House of Marisa range of leather and synthetic accessories.

The Sharp Electronics Division
One of the country's leaders in consumer electronics, manufacturing and marketing radios and accessories, portable radios, public address systems, mechanical pencils and disposable pens. Further marketing video equipment, micro wave ovens, micro computers, photo copiers, calculators, hi-fi equipment, cash registers, prestige pens and pencils, closed circuit television and solar batteries.

The Prima Toy Division
The largest South African toy producer manufacturing dolls, plastic toys and games, baby toys, soft toys, plasticine, balls, toy hats, wheel toys and racing sets.

The Oceanair Division
Involved in customs clearing, shipping, freight forwarding, transport, warehousing and travel.

Seardel Group of Companies

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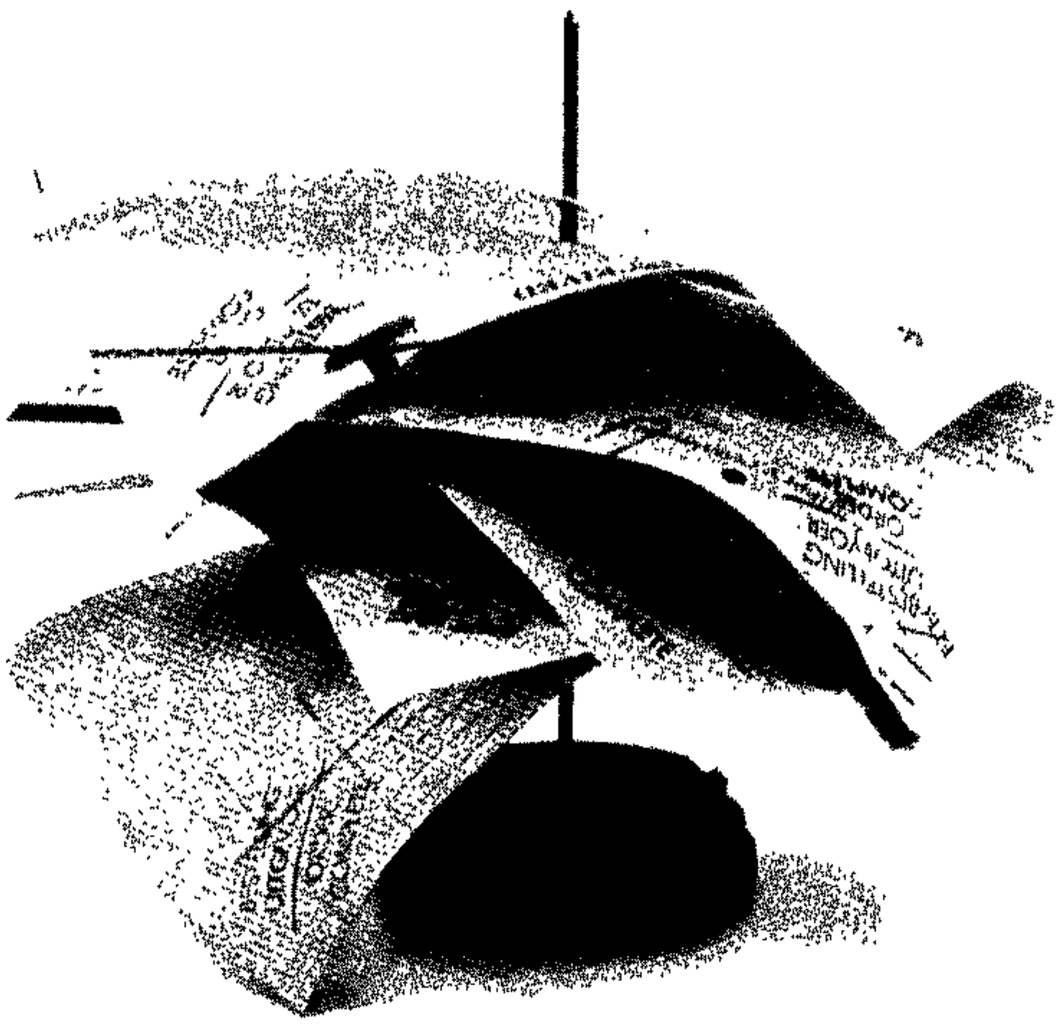

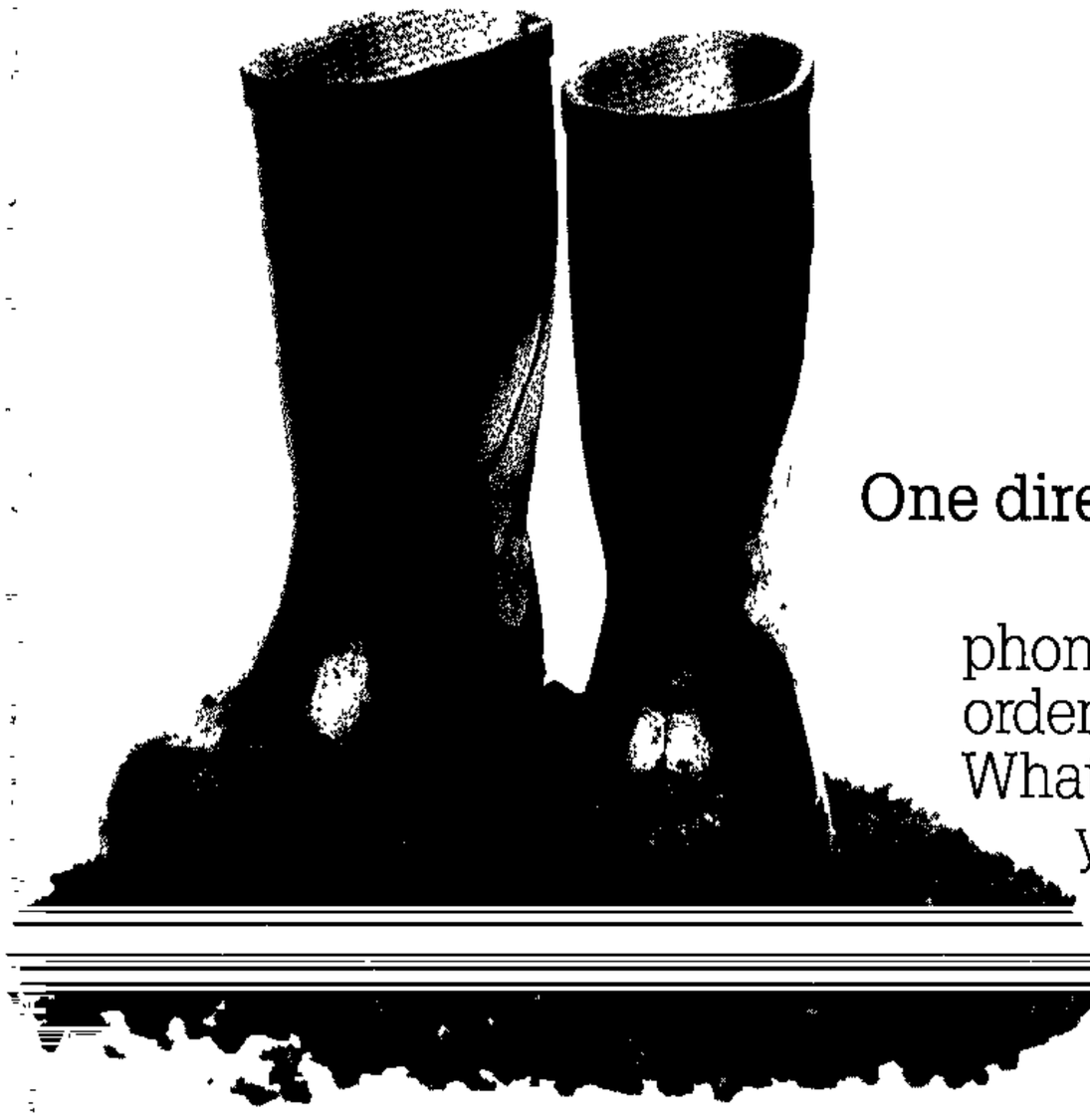

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At African Cables it takes only one phone call to get things done. You may have an order, a query or some technical problem. Whatever it is, the relevant people will attend to your needs. Once you've called us you can rest assured that we will take care of you down to the last detail.

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For more information about how we operate at African Cables, contact us on (016) 21-3143

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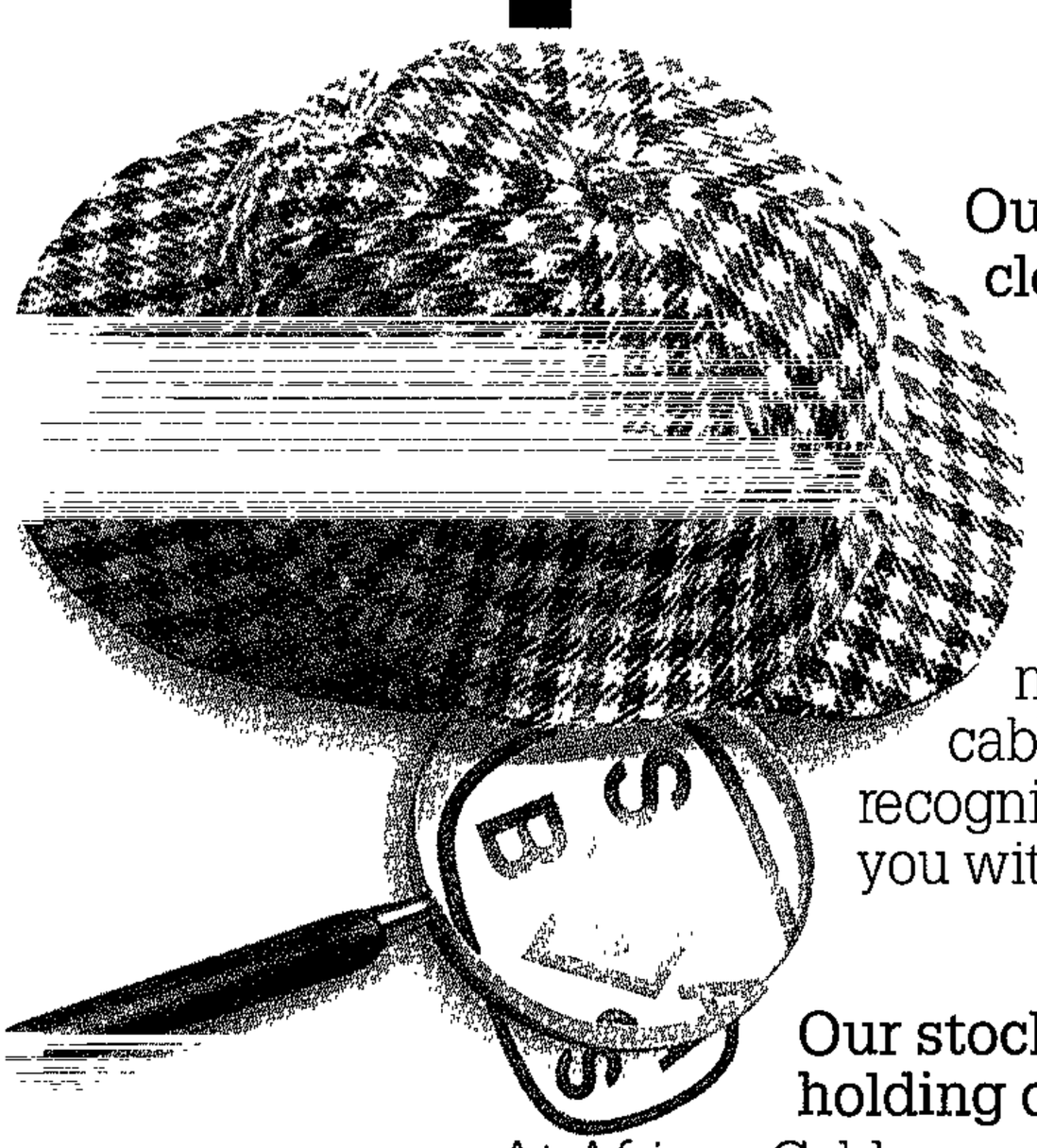

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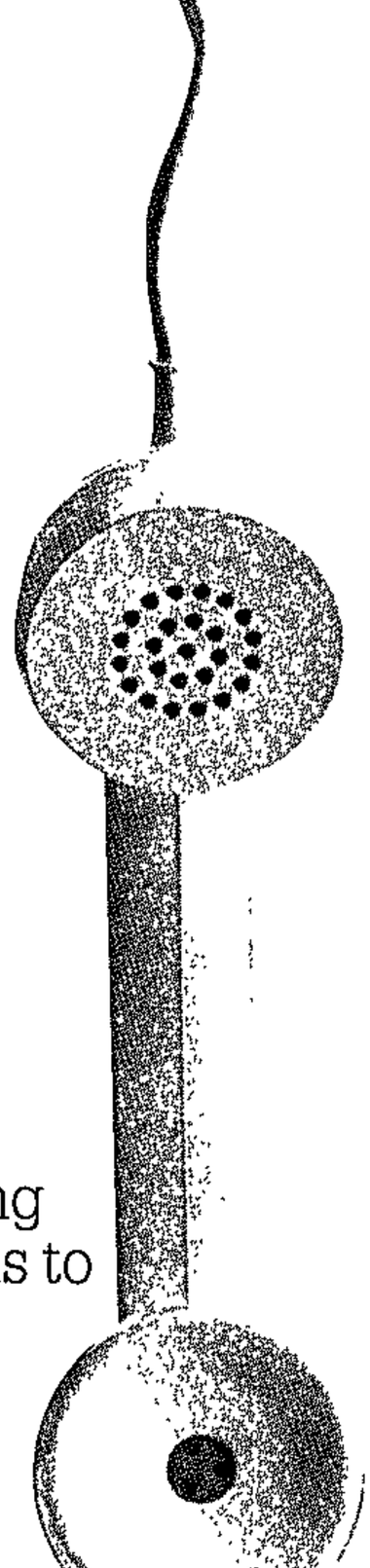
Our Quality Control Department is dedicated to ensuring that we produce the highest quality power cables available in South Africa. This means manufacturing power cables to SABS and other recognised specifications to provide you with cables you can rely on.



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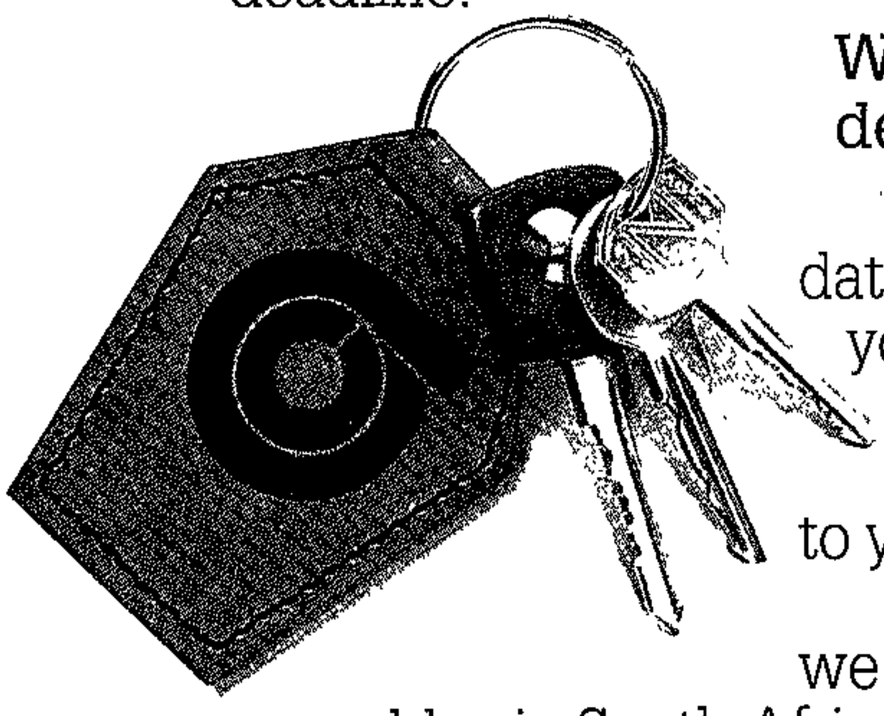
At African Cables our warehouses are currently holding stocks of the more popular power cables. For you. This allows us to work off the shelf with many orders. We have your urgent cable requirements in stock because we don't want you to miss your deadline.



We've got the wheels to meet your delivery date.

We realise the importance of delivery dates. We respect our delivery dates so you can meet your deadlines. A fleet of trucks is ready to move at a moment's notice, and no matter where our power cables may be required, we'll get them to you on time.

We're doing this for you. At African Cables we're more than just the largest manufacturer of power cables in South Africa, but an organisation concerned with the usage of our products, before and after sales.

BBDO INDUSTRIAL 3096

Hard bargaining

Recession made 1982 a difficult year for labour relations, although there were important shifts in union attitudes

Manpower's Van der Merwe ... reforms continue

Few employers and unionists are looking back on the past year with great fondness. It was a difficult period in which the economic downturn harmed industrial relations. Wage bargaining became an extremely difficult process, while both management and union leaders often struggled to assess government's real intentions in the labour field

Perhaps it was inevitable that confusing signals should have come from government as it went through a period in which its role in labour was being redefined. Inevitably, some branches of government responded quicker than others to the challenges of the post-Wiehan era.

This, however, has not made life easier for management and unions On the one hand, government, in the form of the Department of Manpower, displayed a growing willingness to withdraw from playing an interventionist role in industrial relations. But on the other, the detention and banning of unionists continued, increased use was made of the Intimidation Act to prosecute unionists involved in strikes, and tougher enforcement of influx control laws weakened some unions.

During the year senior officials in the Department of Manpower even chided employers for being slow to respond to labour reforms. The department also moved to speed up official dispute-settling mechanisms and to make them available to unregistered unions. One implication of this is that the whole status of union registration — long seen by government as a means for the strict control of union behaviour — has been significantly downgraded. This paved the way for mining employers' decision to recognise representative unions, even if they are not registered

The department's major lapse in its efforts to leave collective bargaining to employers and unions was the creation of a R2m fund to aid "loyal" workers who had not struck during labour unrest in the eastern Cape motor industry. This fund was deplored by employers and leaders of some emerging unions. Some believed it had been established to placate white workers who had lost earnings during the unrest and who were being wooed by right-wing opposition parties.

The department continued to have a busy legislative programme — and major targets for reform were occupational health and safety laws and legislation governing conditions of employment. At the same time, the Industrial Court began to play a more important role.

The department displayed a more sensitive approach to the needs of emerging unions and its director general, Piet van der

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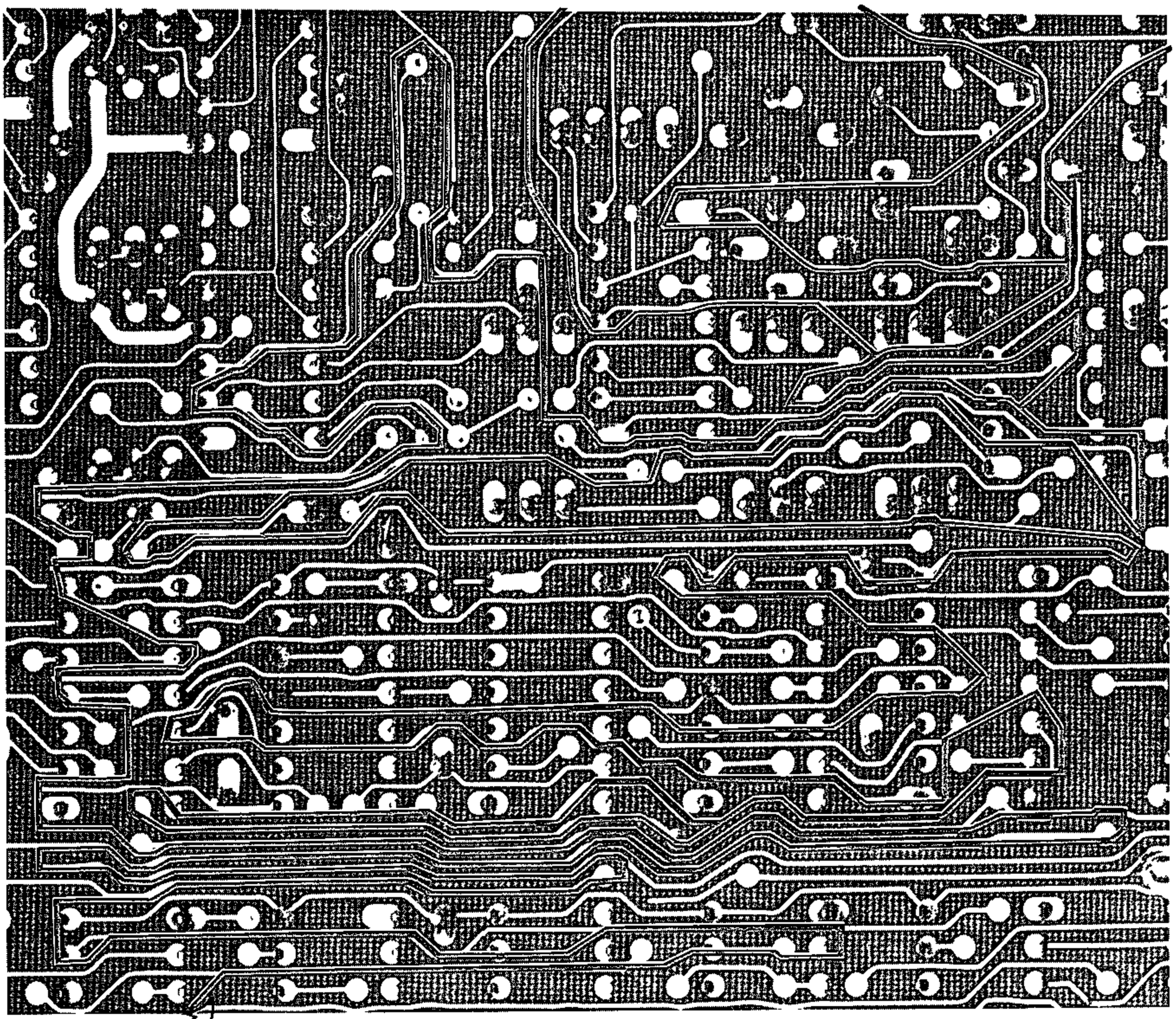

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Merwe, enjoys a remarkable degree of respect from the parties in labour, including leaders of some emerging unions. However, other government departments adopted a hardline approach — an approach difficult to justify in the light of the authorities' inability to provide proof of subversive actions by unionists. Of 19 unionists in detention during the year, one, Neil Aggett, died in custody, 10 were released without being charged, three had charges against them dropped, four were released and then banned, and one was tried and acquitted.

One department accused of not acting in the spirit of government's labour reforms was SA Transport Services (SATS) which refused to recognise the General Workers' Union. Despite substantial pressure from employers in SA and international union movements, SATS refused to budge from its policy of dealing only with its staff associations. The dispute, which culminated in the dismissal of hundreds of black SATS workers, was one of the most widely publicised events in SA labour during the year — both within the country and abroad.

Some private sector employers have made substantial revisions to past attitudes and perceptions, and organised commerce and industry has kept up pressure for further reforms. The Federated Chamber of Industries (FCI) continued to criticise government's use of registration to control unions, while organised commerce called for strikes to be decriminalised. Especially impressive was the sympathetic approach of employer bodies to the brief work-stoppage by an estimated 100 000 workers in protest against Aggett's death in detention.

However, employers generally were reluctant to speak out against arbitrary government action against unionists. One of the few voices was that of Premier Group executive chairman Tony Bloom, who declared: "As far as recent instances of detention without trial are concerned, I am absolutely appalled at the lack of courage displayed by the business community in not speaking out ... These are the people with whom we are going to have to sit down and negotiate when they are released from prison."

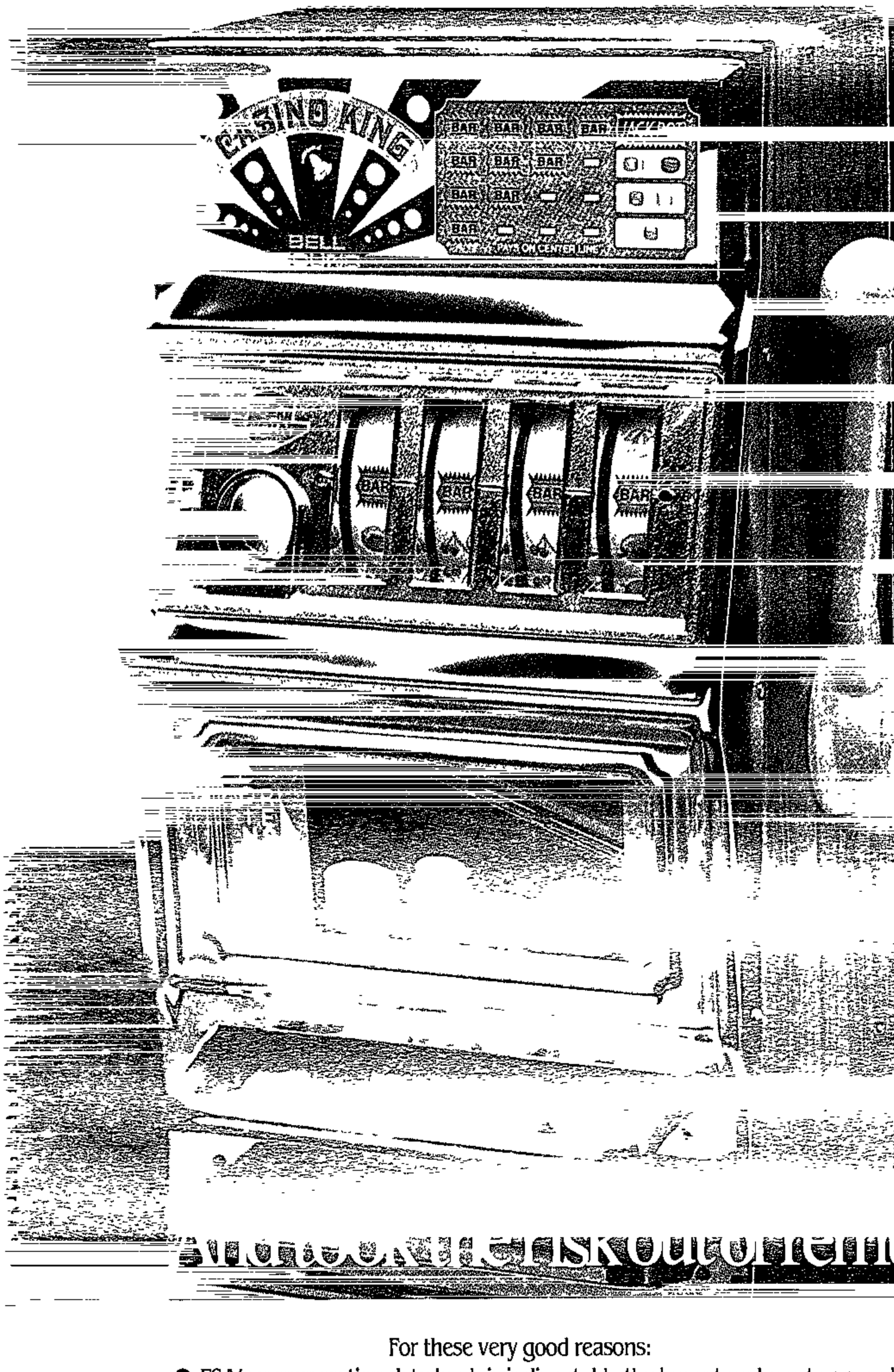
There were important shifts in union attitudes during the year. Emerging unions, especially those affiliated to the Federation of SA Trade Unions (Fosatu), began to revise their previously strong opposition to joining industrial councils. This was good news for employers who feared that the council system was being undermined by the numerous recognition agreements the emerging unions had been negotiating with individual employers.

There were a number of reasons for the union's changing attitude. They faced tougher employer resistance to negotiations outside councils, while they also found it difficult to administer numerous individual agreements. In addition, the recession and tougher enforcement of influx control laws had eroded their factory-floor strength in some industries.

There are signs that this movement to join the councils will probably result in very hard bargaining in future as emerging unions try to make the councils more responsive to the interests and priorities of their members. During the year there were some councils which appeared to appreciate the need for changes The metals industries council, which concludes agreements affecting about 500 000 workers, tried to speed up dispute-settling procedures and attempted to provide for procedural agreements between unions and management at company level.

However, a number of difficult issues will have to be resolved One of these will be the unions' insistence that industry-level negotiations can only supplement — and not replace — company-level bargaining. Many employers are opposed to two-tier bargaining, believing that when formal collective bargaining takes place at two levels, one ultimately becomes irrelevant.

Attempts to forge greater unity within the emerging union movement failed when differences arose over issues such as registration and industrial councils Among those opposed to registration and the councils were the Motor and Component Workers' Union of SA (Macwusa), the SA Allied Workers' Union (Saawu) and the Orange Vaal General Workers' Union. It appears, however, that a good working relationship has been achieved between Fosatu unions and the General Workers' Union, the Food and



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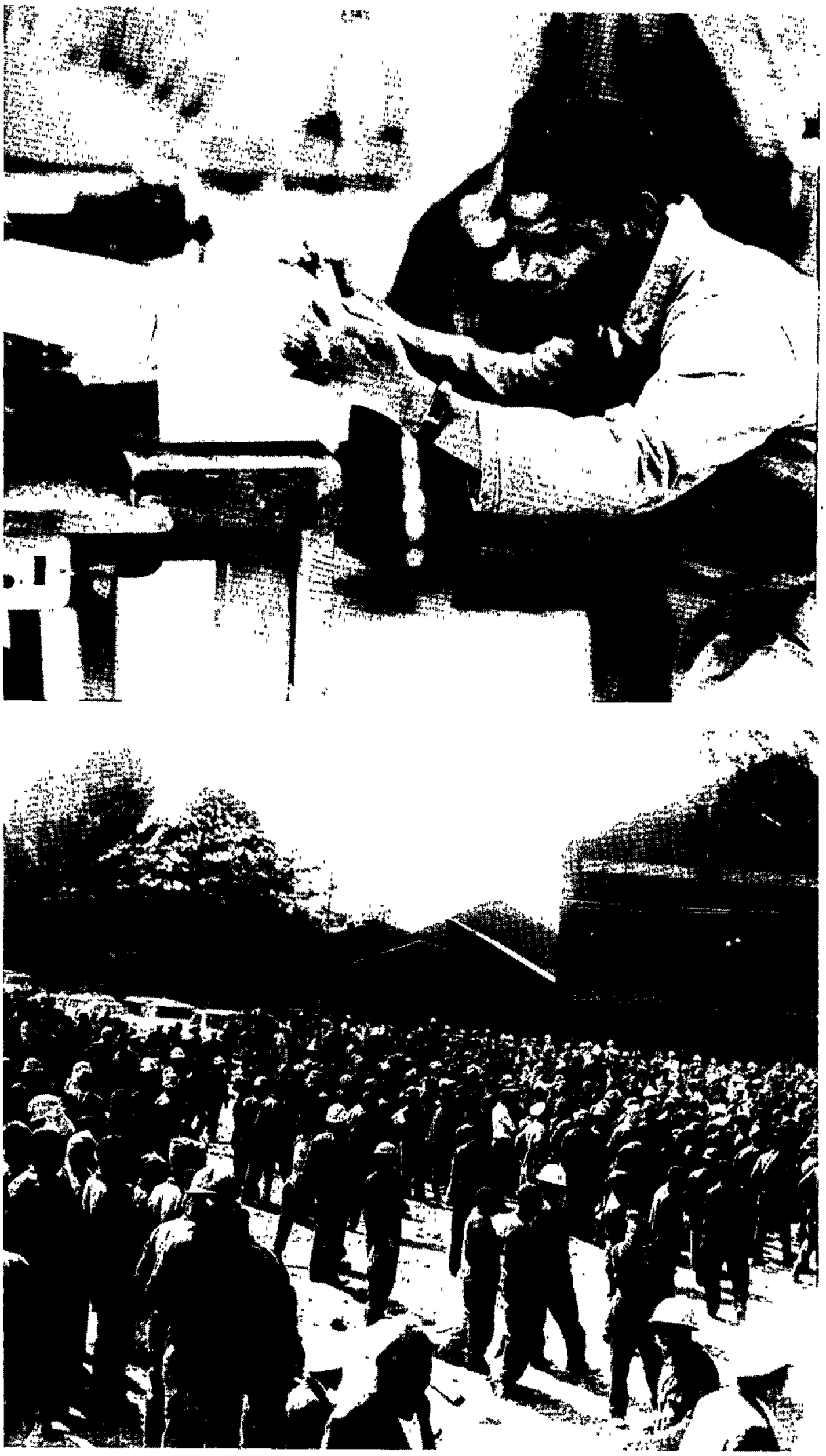
Canning and the African Food and Canning unions.

Relationships between emerging unions and those affiliated to the Trade Union Council of SA (Tucsa) deteriorated however. To some observers, Tucsa appeared to be drifting to the right, and at its annual congress there were differences between members on resolutions about detainees. A Tucsa statement deploring the work-stoppage in the wake of Aggett's death provoked anger from emerging unions and prompted two unions to quit the council.

Some established unions did begin to to revise past strategies. The SA Iron and Steel and Allied Workers Union followed the emerging unions' example of trying to upgrade skills of shop stewards — regarded by emerging unions as a crucial leadership group. The SA Boilermakers' Society, one of the country's most respected established unions, warned government that it could not rule out the possibility of industrial action by its members if the Orderly Movement and Settlement of Black Persons' Bill was not substantially amended.



There were predictions that the recession would curb unions' growth, and possibly even cause some unions to collapse. Some unions did lose members as thousands of workers were retrenched, but others continued to grow strongly. It was especially in industries where companies were competing vigorously for market share that unions found that their bargaining power had not been seriously affected by the recession.

There were strong gains by unions in some industries where black workers were not unionised. The Commercial, Catering and Allied Workers' Union made strong headway and was involved in clashes with major department stores and retailers. In the mining industry, the National Union of Mineworkers (NUM) began recruiting in August. By the end of the year had signed up about 15 000 members and was headed towards signing its first recognition agreement with employers.

The NUM's growth only served to underline the fact that the mining industry was moving into a period of profound change. Anticipating the need to accommodate the unionised black, coloured and Asian workers in the industry, the all-white Council of Mining Unions disbanded. This body, which represented eight white-led unions in the industry, was replaced by the Confederation of Associations and Mining Unions (Camu), which expressed a willingness to admit registered black, coloured and Asian unions. However, questions arose about Camu's future when it refused to admit the coloured and Asian Federated Mining Explosives and Chemical Employees Union.

Collective bargaining became a protracted process as employers facing declining business activity had to contend with high and rising aspirations of black workers. White workers were also determined to be compensated adequately for the erosion of their incomes by inflation. Deadlocks in wage negotiations occurred in the mining and metals industries and in the eastern Cape motor industry, where disputes were resolved only after protracted and difficult negotiations.

The number of strikes last year rose by 52 compared with 1981, and government statisticians recorded 394 strikes and stoppages — the highest in SA's labour history. Most strikes did not last long, but there were some which were very difficult to resolve. Particularly welcome, therefore, was the attempt to establish a private mediation service. This held out the prospect of potentially explosive disputes being resolved quickly.

SIEMENS

Keeping in touch with 50 000 students

Mr Chris Herbst, Chief Telephonist of UNISA (University of South Africa) reports on his new Siemens digital PABX.

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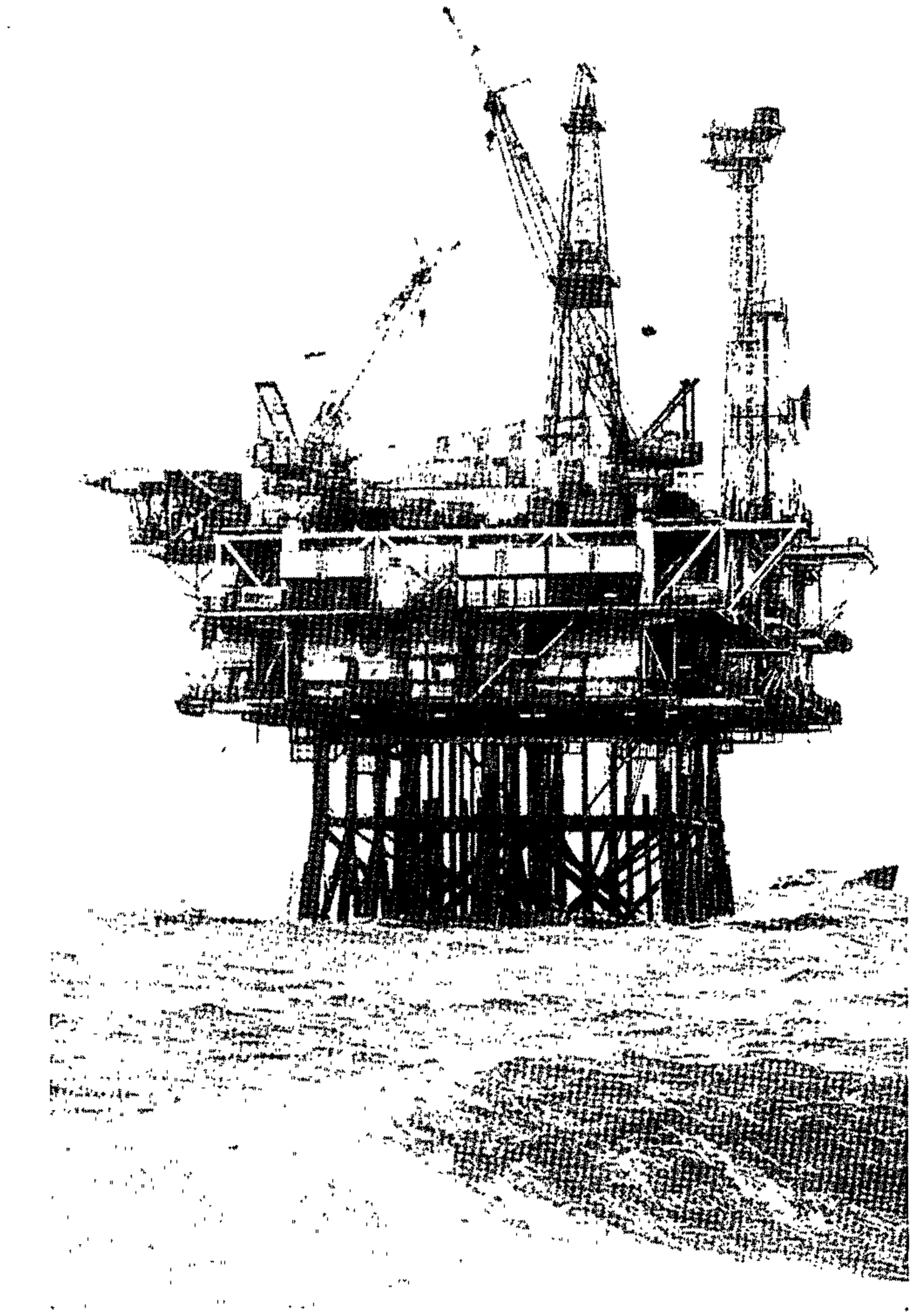
A slower rise

The oil giants hold their own in terms of size. Will the oil glut change the scenario this year?



Energy companies ... too much oil

Continuing the trend which began five years ago, oil companies still dominate the *FM*'s ranking of the world's largest companies. In a year characterised by continued inflation, recession in western Europe and the US and the emergence of an oil glut, the solid increases in total assets of the companies included in the directory may be somewhat surprising. Even so, the total value of some of the top 10 companies' assets have shrunk slightly over the year. But the fact that seven out of the 10 top companies on the list are in the energy business makes it clear that the oil giants have managed to hold their own during a difficult period for the industry.

As always, the *FM*'s ranking by total assets follows the bias of the *Fortune 500*, excluding banks and utility companies, as well as some of the world's most asset-heavy concerns — the Japanese trading houses. These massive companies such as Mitsui, C Itoh and Marubeni cannot be reliably ranked since the total value of their considerable assets varies greatly with the size of stocks held, differing strategies in the international money markets and a number of other factors.

To meet the *FM*'s definition of an industrial, a company must derive more than 50% of its revenues from manufacturing or mining — and the results must be published.

There is little doubt that if banks were included in the ranking, the list of the world's largest companies would be topped by banking and other financial institutions. The *Forbes 500* directory (of US companies ranked by total assets) includes no less than three banks — Bank America, Citicorp and Chase Manhattan — in its top five companies.

AT & T (better-known in the US as "Ma Bell") is again excluded from our lists on the basis that the company was still a monopolistic utility at the time of the cut-off date for the ranking. Even so, AT & T's assets last year totalled $137,7 billion — more than twice the size of Royal Dutch Shell, the largest company included in the *FM*'s directory. AT & T has, however, undergone major changes during the past year.

Last year a US District Court accepted an historic proposal for the break-up of AT & T, which will leave the restructured core of the company free to pursue its aim of entering into unregulated businesses such as computers. AT & T's early attempts at moving into data processing were vehemently opposed by IBM and other computer companies as being in contravention of US anti-trust legislation. This stemmed from Ma Bell's almost total control of the telecommunications network throughout the

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In terms of the agreement hammered out in the courts, AT & T will hive off its local telephone operating companies (Pennsylvania Bell, Ohio Bell, etc), while retaining an interest in Western Electric and Bell Labs. Once divested of its individual utility companies, Ma Bell will no longer be classified as a utility and will be permitted to move into other business areas, subject to certain legislative safeguards for customers and competitors. The company should feature near the top of the list of the world's largest corporations next year.

Meanwhile, Royal Dutch Shell has held its position at the top of our ratings, despite a fall in the value of its total assets from $68,4 billion last year to $65,3 billion. By contrast, Exxon (the largest US company included in the ranking) increased the value of its assets by 11,2% to $62,9 billion ($56,6 billion), narrowing the gap considerably between the top company and the runner-up. Even so, Exxon's results for financial 1981 reflected the oil glut. The increase in sales revenues was only one-third of the increase shown in total assets.

One new entry at the top of the directory is Petróleos Mexicanos, which resulted from a reorganisation of Mexico's private

THE GLOBAL GIANTS

Rank	Company	Country	Assets ($m)	Industry
1	**Royal Dutch Shell**	UK-Neth	65 256	Energy
2	**Exxon**	US	62 931	Energy
3	**British Petroleum**	UK	47 950	Energy
4	**Petróleos Mexicanos**	Mexico	45 073	Energy
5	**General Motors**	US	38 991	Motors
6	**Mobile**	US	34 776	Energy
7	**IBM**	US	29 586	Computer
8	**Texaco**	US	27 489	Energy
9	**Du Pont**	US	23 829	Chemical
10	**Standard Oil (Calif)**	US	23 680	Energy
11	**Ford**	US	23 021	Motors
12	**Standard Oil (Indiana)**	US	22 916	Energy
13	**ENI**	Italy	22 134	Energy
14	**ELF-Aquitane**	France	21 114	Energy
15	**General Electric**	US	20 942	Elect
16	**Petróleos de Venezuela**	Venezuela	20 714	Energy
17	**Gulf Oil**	US	20 429	Energy
18	**Shell Oil**	US	20 118	Energy
19	**Atlantic Richfield**	US	19 732	Energy
20	**Mitsubishi**	Japan	17 760	Ind-equip
21	**Philips**	Neth	17 405	Elect
22	**Tenneco**	US	16 808	Energy
23	**Nippon Steel**	Japan	16 734	Steel
24	**Hitachi**	Japan	16 152	Elect
25	**Standard Oil (Ohio)**	US	15 743	Energy
26	**IT & T**	US	15 052	Telecom
27	**Siemens**	Germany	14 653	Electronic
28	**Petrobras**	Brazil	14 036	Energy
29	**Francais des Petroles**	France	13 983	Energy
30	**Matsushita**	Japan	13 965	Elect
31	**Canadian Pacific**	Canada	13 765	Mining
32	**ICI**	UK	13 669	Chemical
33	**US Steel**	US	13 316	Steel
34	**Bayer**	Germany	12 854	Chemical
35	**Unilever**	UK-Neth	12 552	Food
36	**Dow Chemical**	US	12 496	Chemical
37	**Générale d'Electricité**	France	11 999	Elect
38	**Renault**	France	11 831	Motors
39	**Sun Oil**	US	11 822	Energy
40	**Nissan**	Japan	11 699	Motors
41	**Hoechst**	Germany	11 670	Chemical
42	**Nippon Kokan**	Japan	11 500	Steel
43	**Volkswagenwerk**	Germany	11 337	Motors
44	**Phillips Petroleum**	US	11 264	Energy
45	**Schneider**	France	10 453	Ind.equip
46	**Union Carbide**	US	10 423	Chemical
47	**Peugeot**	France	9 996	Motors
48	**Nestlé**	Switz	9 944	Food
49	**Toshiba**	Japan	9 741	Electronic
50	**National Coal Board**	UK	9 615	Coal
51	**BAT Industries**	UK	9 552	Tobacco
52	**Getty Oil**	US	9 536	Energy
53	**Eastman Kodak**	US	9 446	Photo
54	**Sumitomo**	Japan	9 358	Steel
55	**Philip Morris**	US	9 245	Tobacco
56	**Daimler-Benz**	Germany	9 128	Motors
57	**Rio Tinto Zinc**	UK	9 055	Mining
58	**Indemitsu Kosan**	Japan	8 903	Energy
59	**Ciba-Geigy**	Switz	8 898	Chemical
60	**BASF**	Germany	8 885	Chemical
61	**Kuwait Petroleum**	Kuwait	8 856	Energy
62	**Dome Petroleum**	Canada	8 605	Energy
63	**Michelin**	France	8 378	Rubber
64	**Western Electric**	US	8 338	Elect
65	**Westinghouse**	US	8 316	Elect
66	**Kawasaki Steel**	Japan	8 129	Steel
67	**RJ Reynolds**	US	8 096	Tobacco
68	**Occidental Petroleum**	US	8 075	Energy
69	**Toyota**	Japan	8 052	Motors
70	**Thomson-Brandt**	Germany	7 905	Electronic
71	**Ishikwajima**	Japan	7 881	Shipbldg
72	**RCA**	US	7 857	Elect
73	**Thyssen**	Germany	7 796	Steel
74	**Italsider**	Italy	7 712	Steel
75	**Montedison**	Italy	7 710	Chemical
76	**Xerox**	US	7 674	Photo
77	**British Steel**	UK	7 637	Steel
78	**Union Oil (Calif)**	US	7 573	Energy
79	**United Technologies**	US	7 555	Elect
80	**General Electric**	UK	7 548	Elect
81	**Usinor**	France	7 317	Steel
82	**Caterpillar**	US	7 284	Machinery
83	**Union Pacific**	US	7 096	Energy
84	**Procter & Gamble**	US	6 961	Food
85	**Boeing**	US	6 954	Airplane
86	**Broken Hill Pty**	Australia	6 911	Steel
87	**Saint-Gobain**	France	6 907	Bldg mat
88	**Volvo**	Sweden	6 675	Motors
89	**Esso**	US	6 546	Energy
90	**Kobe Steel**	Japan	6 529	Steel
91	**Shlumberger**	Neth	6 525	Sc.equip
92	**Steel Authority of India**	India	6 367	Steel
93	**Alcan Aluminium**	Canada	6 339	Metal ref
94	**Amerada Hess**	US	6 321	Energy
95	**Petrofina**	Belgium	6 281	Energy
96	**Chrysler**	US	6 270	Motors
97	**Monsanto**	US	6 069	Chemical
98	**Cities Service**	US	6 049	Energy
99	**Marathon Oil**	US	5 994	Energy
100	**Canada Development Corp**	Canada	5 979	Chemical

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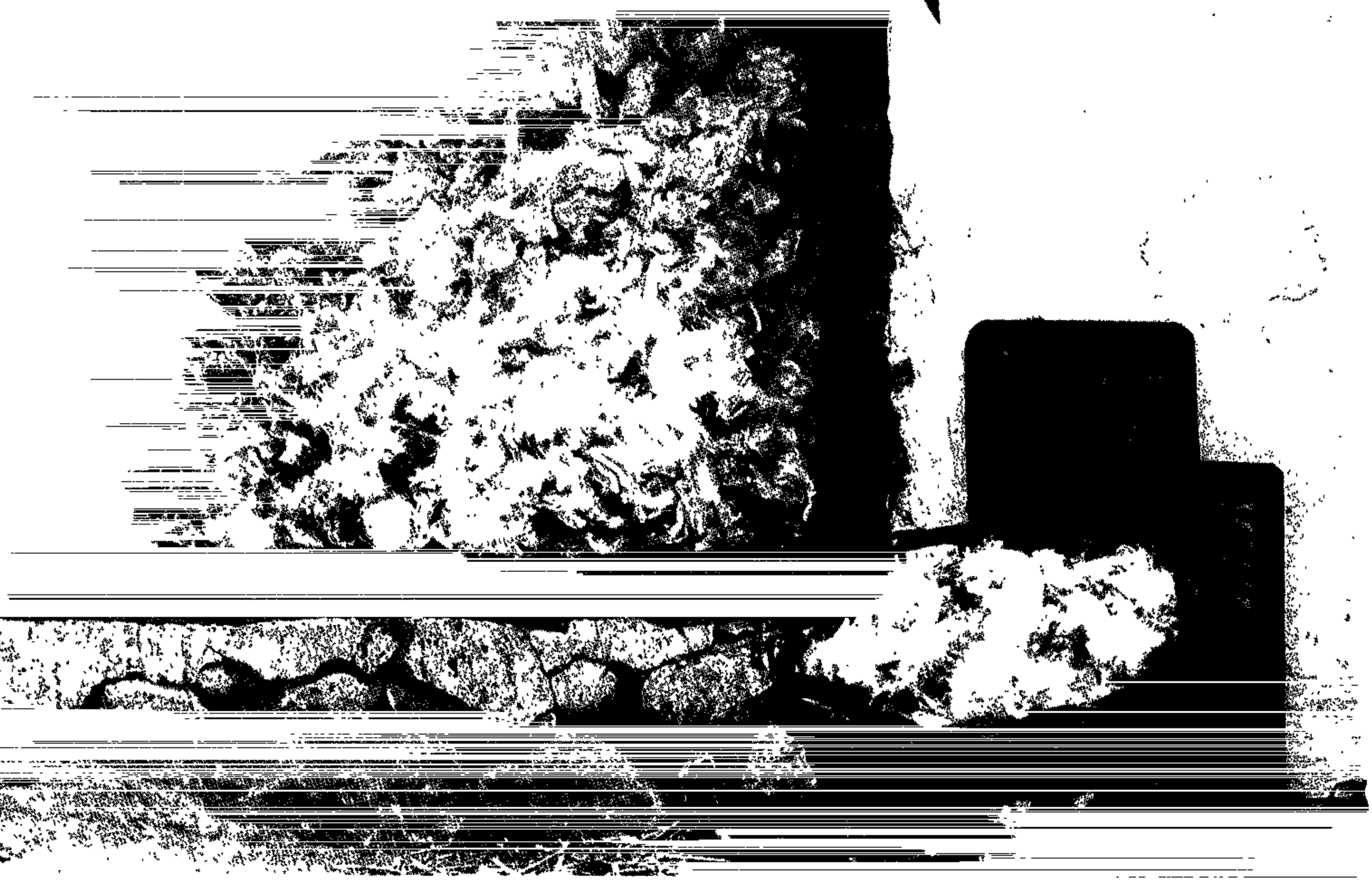

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oil interests after the industry experienced severe problems. The new company is government-owned.

Despite the weakness in sterling relative to the dollar, British companies fared reasonably well last year in terms of sales and profits. This was thanks largely to impressive increases in productivity. British companies included in the *Fortune 500* lifted their total revenues by more than 10% and profits by 7,3%. British Petroleum thus managed to maintain its number three position on the list, lifting total assets from almost $39 billion to close on $48 billion.

In a tough year for the US auto industry, General Motors held onto its position as the world's fifth largest company, with a surprising increase in the value of its total assets to $39 billion from $34,6 billion previously. Mobil also showed an increase in total assets, although the rise would have been far greater had the oil giant succeeded in either of its separate takeover bids for Conoco (the ninth-largest US oil company) and Marathon Oil. The US Securities and Exchange Commission (SEC) prevented Mobil's proposed acquisition of Conoco by putting out a regulation barring the top 20 US oil companies from acquiring one another.

Chemical giant Du Pont finally purchased Conoco in September 1981 for $7,4 billion, against hostile bids by both Mobil and Seagram. The acquisition more than doubled Du Pont's assets to $23,8 billion. In addition, Conoco turned into Du Pont's most profitable division, preventing the chemical company's earnings last year from being even lower than they were.

The Conoco acquisition was the biggest takeover story of 1982, but there have been a number of equally significant mergers and takeovers since the cut-off date for our table. In an acrimonious battle, US Steel gained control of Marathon Oil for $6,7 billion, after it fought off Mobil's bid to rescue the company.

Occidental Petroleum is currently struggling to digest Cities Service — the Oklahoma-based oil company — which it acquired for $4 billion last year after only nine days of negotiation. The takeover is not reflected in the accompanying table and Occidental is ranked at number 68, while Cities Service made an entry to the table last year at number 98. Management may now be questioning its rather hasty acquisition: Cities Service's profits dropped by $49m last year, mainly due to the shedding of an unprofitable plastics operation. "Oxy's" long-term debt has climbed from $1 billion to $5 billion and earnings have dropped from $722m to $221m.

Who lost ground last year? Some of the largest losses were recorded by state-owned enterprises. One of the largest of these — in terms of assets — was the British Coal Board. Some of the most profitable state-owned enterprises were oil companies that were not members of the Opec cartel and were therefore not locked into Opec's pricing structure. Among these was Italian energy company ENI. The oil glut also hit hard at the total profits of oil companies, but these were not necessarily reflected in decreases in total assets. In one of the less obvious consequences of the oil surplus, Exxon's total asset growth reflected a huge build-up of inventories.

Excluded from the ranking this year was Italian motor company Fiat, for which no reliable figures could be obtained. Last year, Fiat's total assets amounted to $18 billion. The company went through a tough period over the past year, with US sales steadily decreasing. The loss of market share to the terrifyingly efficient Japanese auto manufacturers culminated in a decision by Fiat's management to pull out of the US entirely.

Still in motors, General Motors slipped one place in the rankings to number five, while Ford moved down from slot number nine to 11 and Chrysler took a further dive to 96th in the rankings, compared with number 80 last year. In a year during which Japanese auto manufacturers more than doubled their profits — something which shows in the improved positions of Toyota and Nissan — the average profit increase for the industry worldwide was a slim 4,2%. Of the large US motor manufacturers, General Motors, Ford and Chrysler, only Ford did well from overseas sales. Its profits more than doubled last year.

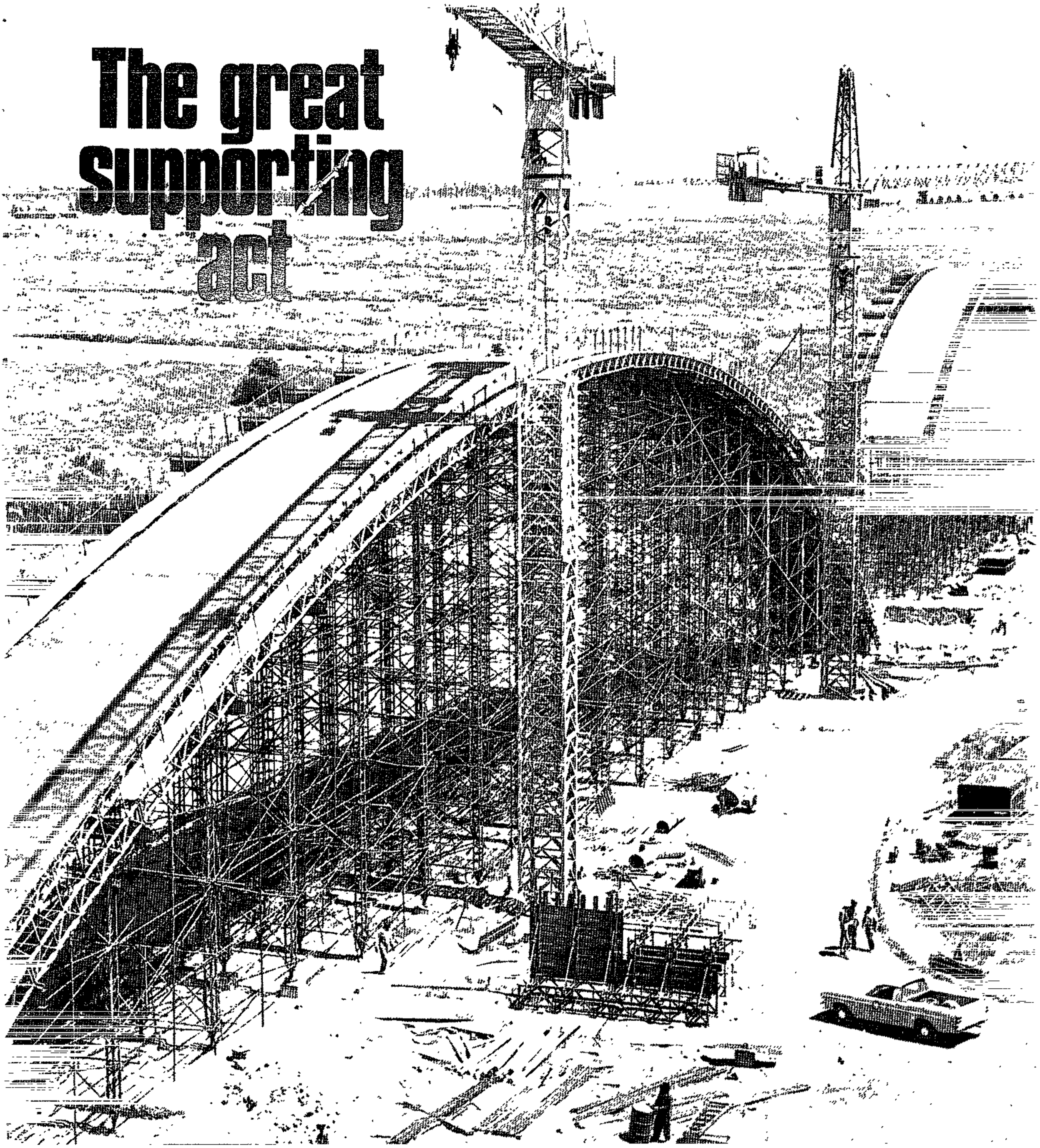
Swedish auto manufacturer Volvo entered the lists this year at number 88. A large portion of the increase in Volvo's total assets came from the acquistion of Beijerinvest, a large Swedish trading company.

Boeing, the world's largest commercial aeroplane manufacturer, was another new entry to the Top 100. But the growth in assets shown last year is hardly likely to be repeated in the current year. With airlines around the world beginning to cut back sharply on orders for the new 757 and 767 jets, Boeing's long-range growth plans appear to have been knocked out of kilter. In the first three months of this year, Boeing's earnings were down 58% to $61m, hit hard by the glut in the used-aeroplane market. An increase in US defence spending could help the troubled company, but such orders account for only 25% of Boeing's business. Orders from the airlines are well below the level of the previous year and it appears that Boeing's fortunes are set to take a tumble in financial 1983.

All in all, last year was not particularly successful for the world's largest companies. But declining interest rates and slower inflation in western Europe and the US suggest a slow recovery during the current year. This should provide some relief for the lossmakers and better profits for those who have so far managed to stay in the black. Acquisitions, however, are likely to continue to have a particular influence on the asset ranking of the global giants.

Boeing ... new entry, but doubts about future asset growth

The great supporting act



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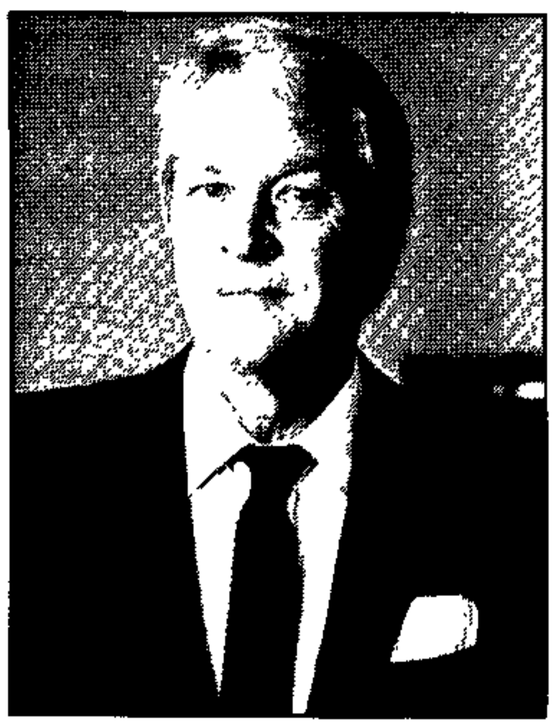

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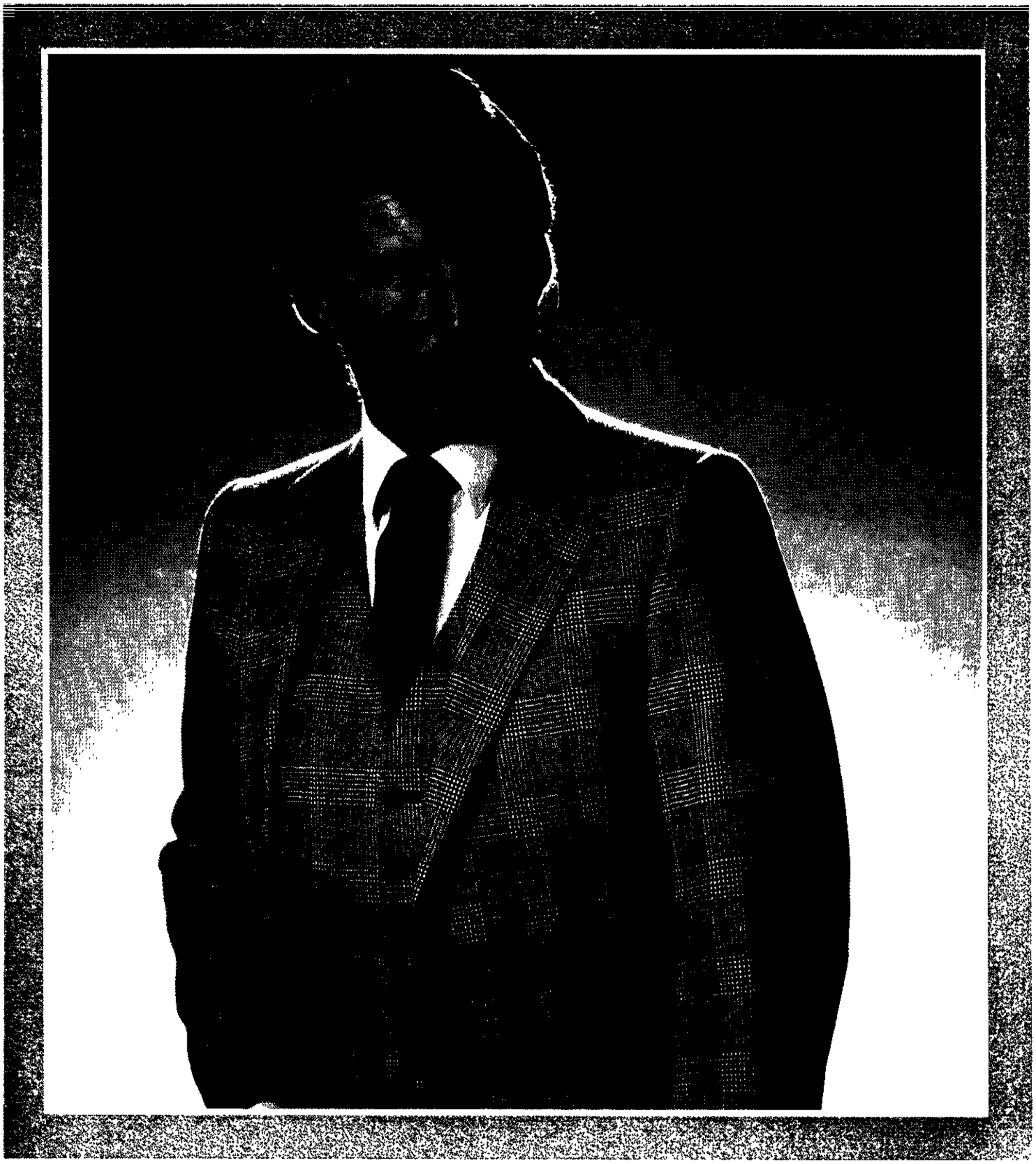

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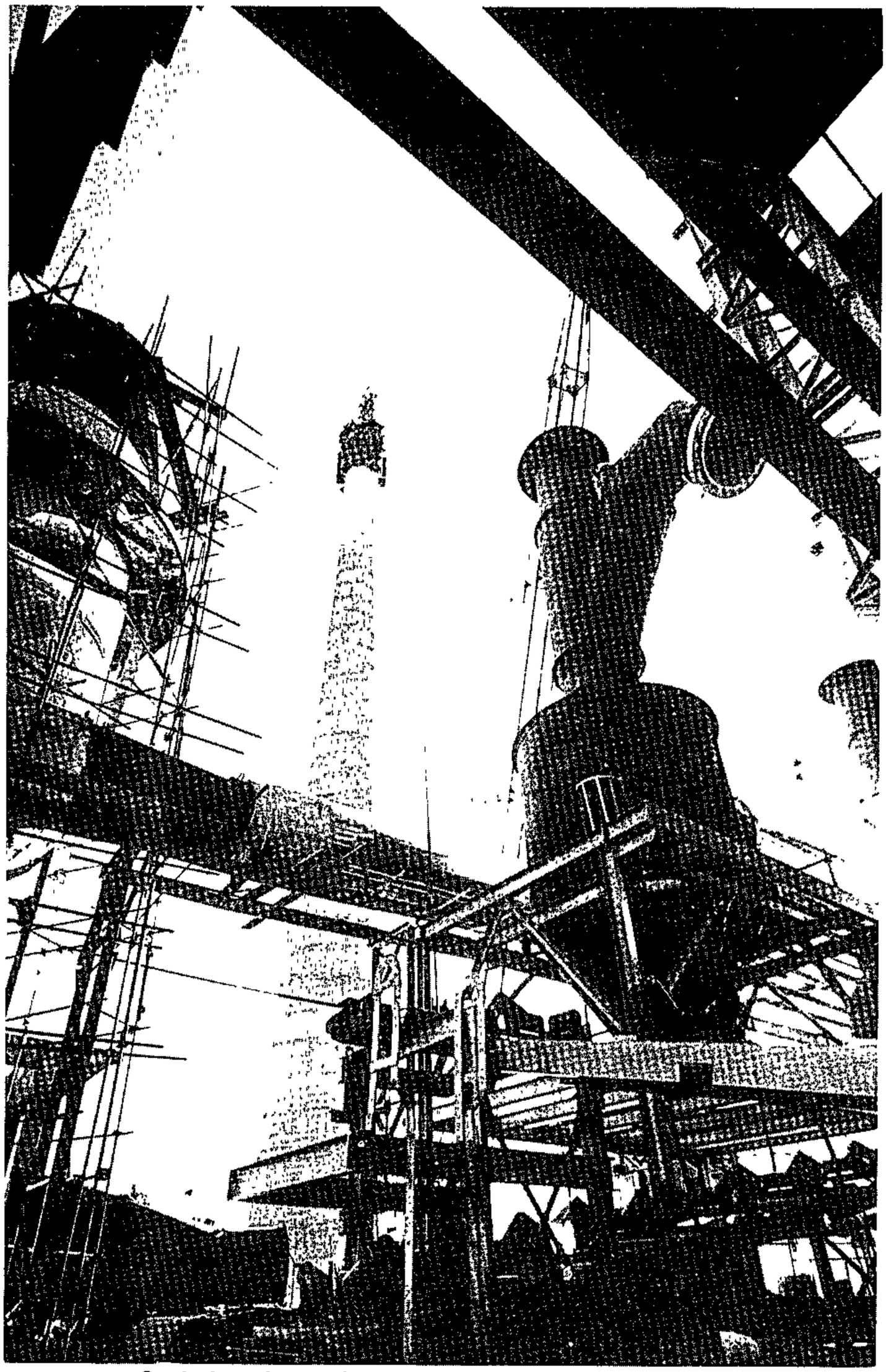
Diversity of interests has smoothed the mining houses' way through the recession. And they have lost none of their expansionary enthusiasm



Capital projects slowed as metal prices weakened

If any proof were needed that SA's mining houses provide probably the world's best diversified mining investment opportunities, it has been provided these past few years.

While minerals and mining groups elsewhere have been suffering from the effects of recession-induced declines in demand for raw materials, the SA groups have been able to rely on a number of alternative profit sources to keep earnings rising.

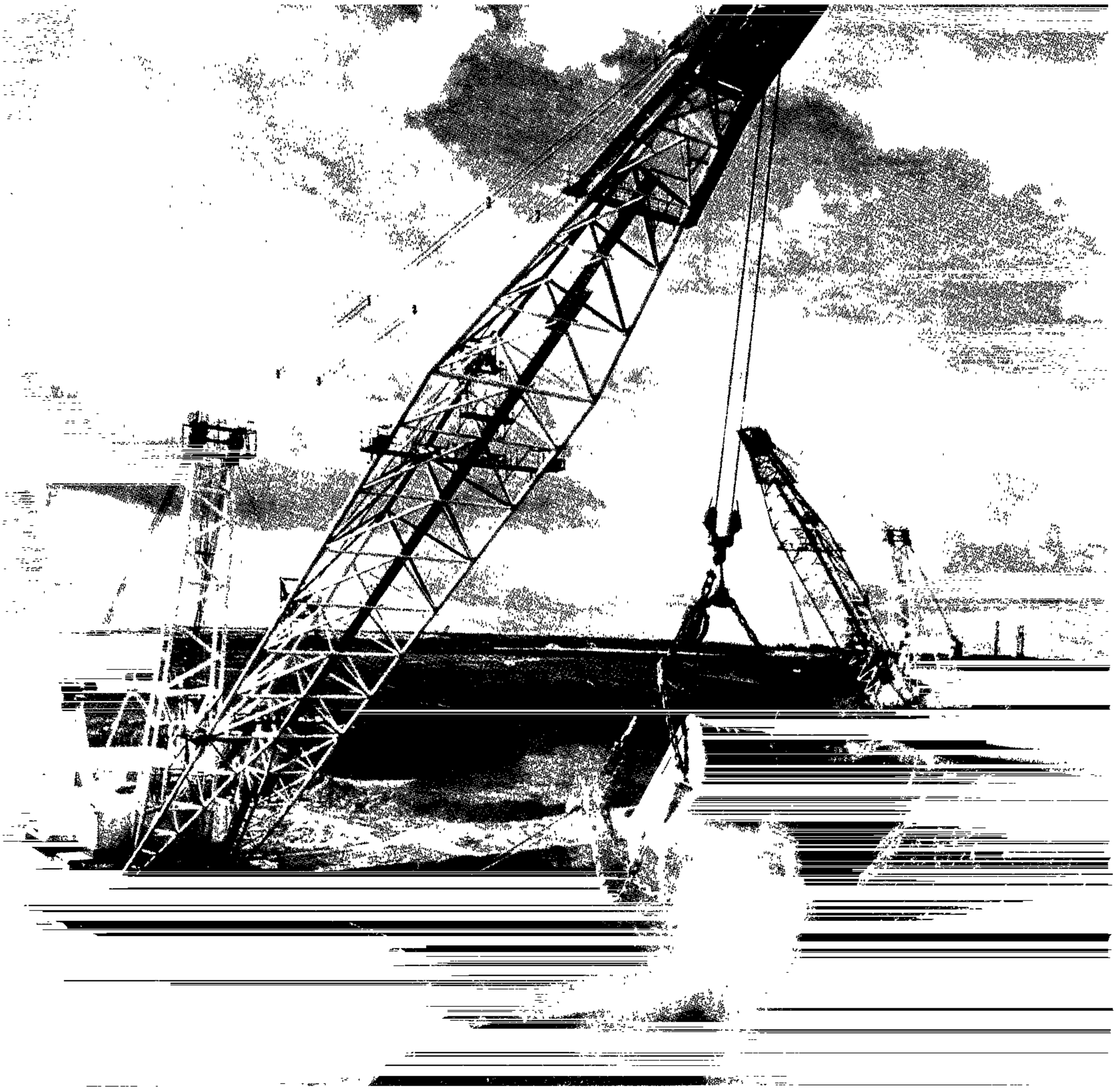
At the start of last year there were fears that gold's price decline would cut into the mining houses' earnings. In the event, the rand's fall against the dollar until August helped shelter rand-denominated gold mine earnings and dividends. Of course, this represented a decline when seen by non-SA investors. But as far as the houses were concerned, gold's dollar-denominated price drop did not materially affect all major capital spending programmes.

The same was not, of course, true in the base minerals fields. Major unquoted metals producers, such as Black Mountain and Prieska, produced depressingly poor results and profit forecasts; the steel industry metals producers suffered from weak export demand and a deterioration on the local front, and industrial minerals export sales, though they were protected by the rand's decline, became increasingly difficult.

While these market difficulties have led to mine closures, production cutbacks and stalled capital spending projects, quite the opposite happened on the coal front. Practically every mining house is expanding its coal interests or making plans to get into coal. To an extent this has been spurred by last year's export allocations, but more importantly it is because the houses realise that steadily growing and secure demand will come from Escom for at least the rest of this century.

There is no shortage of projects to occupy the mining houses in SA. One only has to look, for example, at the various gold mining ventures currently under way and the major papermaking expansions being carried out by subsidiaries of Gencor and Anglo American. Nevertheless, the two largest houses appear to feel that confining the pursuit of new ventures to SA imposes an unnecessary restriction on growth potential.

Anglo's foreign operations are well known — the group is busy on every continent. Gencor, on the other hand, tended to shy away from foreign ventures while the merger between General Mining and Union Corporation was being completed. This had to be paid for with cash derived from the sale of foreign assets which limited the abil-



The future of coal lies in strengthening,
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ity to expand overseas. Now that the merger is completed, the enlarged group is becoming more active abroad. It has competed strongly with Anglo American in SA, now the battle is likely to be joined overseas.

In the mid-Seventies, the **Anglo American** group was to all intents and purposes a collection of operating companies held on a fairly tight rein by corporate headquarters. At the same time, it had become almost totally unwieldy, with the risk that if the centre's tight grip was relaxed the entire structure would fly apart. These considerations appear to have been important to Harry Oppenheimer as he considered what sort of corporate structure he would leave when he retired. Between then and the end of last year, when Oppenheimer retired from the chairmanship of the group, there has been an almost complete restructuring of the greater group. Clearly defined interests have been neatly compartmentalised, as far as possible central control has been relaxed and the major operating divisions have been structured to stand alone and generate their own growth.

All this has not been achieved without problems. There were, for example, some earlier false starts before it was decided that Minorco should be the major overseas arm; millstones such as Botrest had to be located where they would not restrict the growth of otherwise dynamic divisions; and there were frequent bouts of indigestion as acquisitions were slotted into place. Sigma's problems in the motor sector are an obvious case in point.

In the event, though, Oppenheimer has left behind a group, which for all its size, is looking aggressively outwards and which is determined not to yield control of those sectors it has managed successfully for so long. Last year, for example, Anglo had to scramble for additional De Beers shares when it became clear that someone with a deep pocket was buying the diamond company's shares with the apparent intention of wresting control from Anglo.

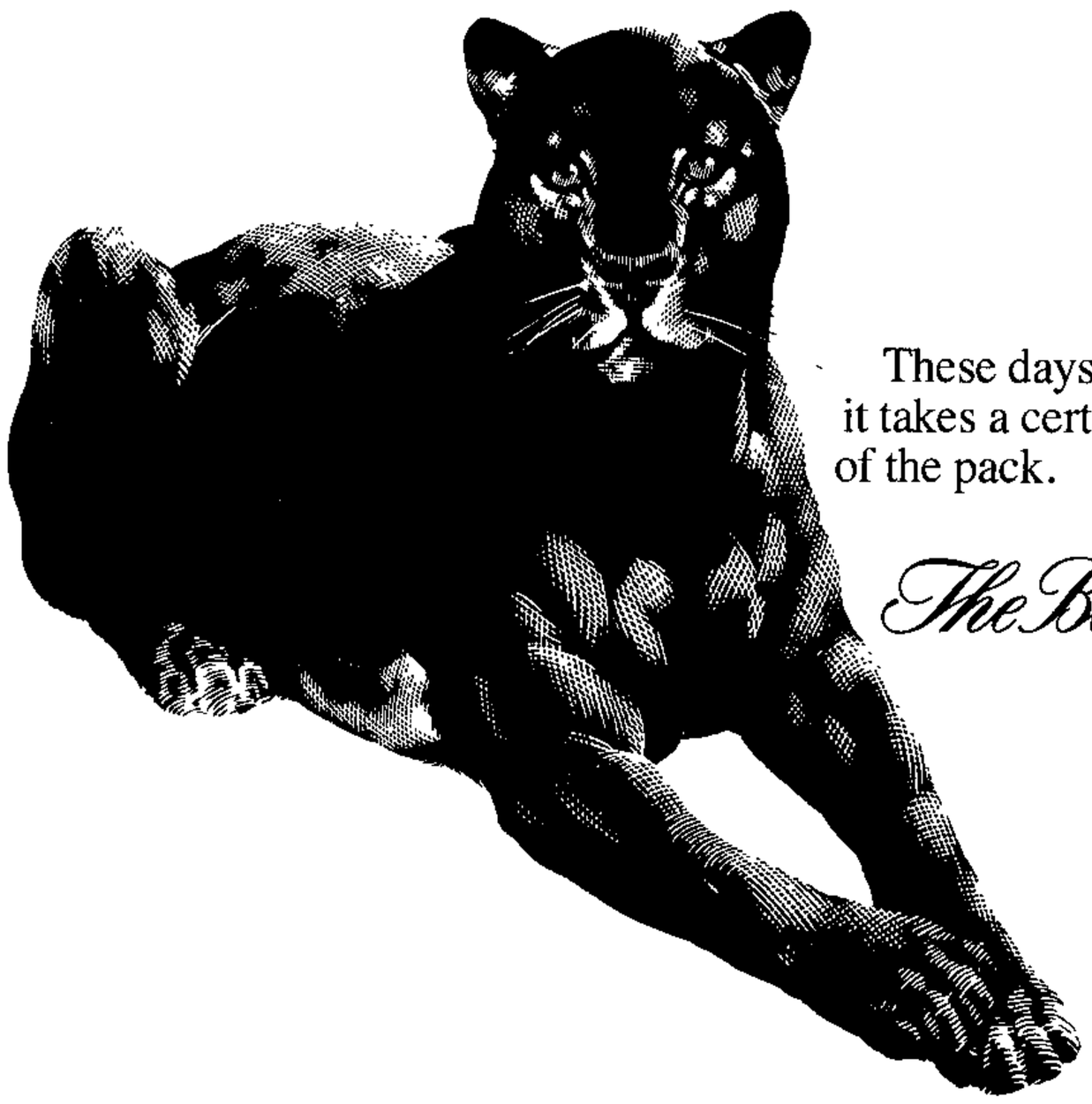
Meanwhile, the past few years have been a time of major acquisitions. There was the raid which netted almost 30% of UK-headquartered mining house Consolidated Gold Fields; the move into Latin America with new partners Empresas Sudamericanas Consolidadas; and the acquisition of a 30% interest in the diversified ferrous metals company Samancor.

The next few years may well see a consolidation of the newly-structured group. It is hard to see a continuation of the acquisitive activity of the past few years, particularly as a great deal of management time will have to be devoted to current problem areas such as diamonds and motor vehicles. However, while Anglo continues to develop both through greenfields projects and acquisition in SA, it seems almost inevitable that emphasis in the remaining years of this century will be placed on developments on the world stage. Quite simply, SA alone is too small to satisfy Anglo's ambitions.

While Anglo American was seeing the end of an era, so, too, was SA's second largest mining house, **Gencor**. In what most observers thought was an unseemly way, the architect of the group's growth of the past decade, Wim de Villiers, was ousted from the chair. But the group has achieved most of its near-term ambitions and, perhaps, it needs time to settle down before embarking on its next major growth phase. In any event Gencor has sufficient projects to keep it busy for some years. In the Orange Free State it is bringing two uranium/gold mines into operation; the coal arm is completing two major Escom-tied collieries and plans to establish more while gearing up for a major advance in export sales; and papermaker Sappi is in the middle of a major expansion.

Some areas are in a contractionary phase. Impala was forced to cut production last year as a result of the platinum market's decline; the enlarged asbestos interests came up against the problems of tight markets and health fears; and the chrome and ferro-alloys operations were set back by the difficulties of the world's steel industries.

On the whole, Gencor remains firmly rooted in what are essentially primary or heavy industries. It has hardly any interests in what can loosely be described as the



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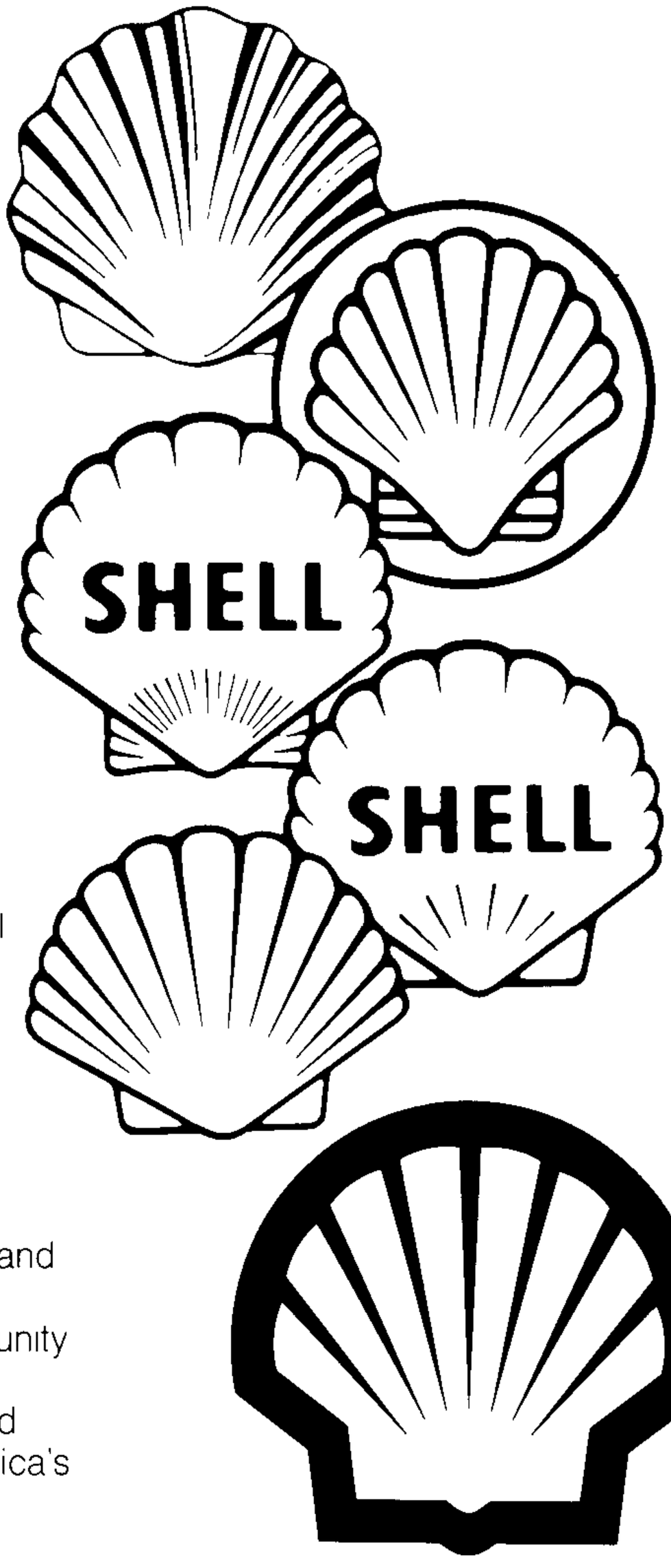

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consumer sector and it is showing no real signs of wanting to move out of those sectors in which it is so well established. Of course, they have plenty of scope for development. All they need is a recovery by the economies of SA and the rest of the world — something which shows no signs of appearing in a hurry.

Ten years ago General Mining, as it then was, decided that it would not operate anywhere but in SA. And even with the acquisition of control of Union Corporation that strategy was not breached. But as Union Corp's influence is felt, a different emphasis is being placed on the group's direction and, perhaps importantly for longer-term prospects, attention is once again focusing on opportunities outside this country. Gencor has a long way to go, but, like Anglo, is starting to find that though SA has opportunities, there are others abroad which cannot be ignored.

MINING HOUSE LEAGUE

RANKED BY:

Shareholders' funds	Mkt cap	Net profit		Shareholders' funds	Mkt cap	Net profit	Year-end
				Rm			
1	**1**	**1**	**Anglo**	**5 129,1**	**4 833,6**	**763,2**	March
1	1	1		6 555,2	3 625,2	864,4	'82
2	**2**	**2**	**Gencor**	**2 501,9**	**2 353,5**	**309,5**	Dec
2	2	2		2 421,2	1 854,9	270,9	81
3	**3**	**3**	**GFSA**	**1 474,9**	**1 977,4**	**131,8**	June
3	3	3		1 560,4	1 511,0	166,6	82
4	**4**	**4**	**JCI**	**653,9**	**859,3**	**86,1**	June
4	4	4		720,8	657,8	98,0	82
5	**6**	**6**	**Angvaal**	**418,3**	**234,5**	**49,1**	June
5	6	6		383,7	99,0	47,9	82
6	**5**	**5**	**T C Land**	**344,7**	**444,4**	**54,3**	Sep
6	5	5		332,7	567,3	60,0	82

GFSA is arguably one of the best gold investments available. Its fortunes are firmly founded on some of the country's soundest gold mines, and it is in no danger of suffering an early reduction in income because of mine closures. It is, however, a major tenet of the group's management that diversification away from gold is necessary. The problem, as far as outside shareholders are concerned, is that recent diversification moves have come unstuck or appear to be highly risky. Some years ago the group invested in a disastrous iron ore venture in Brazil. It seemed at the time that a perceived urgency to invest may have made management less careful than normal.

More worries are being generated by the Black Mountain lead/silver venture in the northern Cape. Tumbling metals demand and high interest rates have left the mine unable to service its debt and a major restructuring of its capital was scheduled for the early part of this year. In another development, GFSA's indirect link to Newmont through its parent Cons Gold's important stake in the American base metals company has led to GFSA underwriting a rights issue by Newmont's Namibian copper mine, Tsumeb. GFSA will end up with the major interest in a mine which is hardly in the front rank of copper producers and which, to boot, is in one of the world's most contested territories.

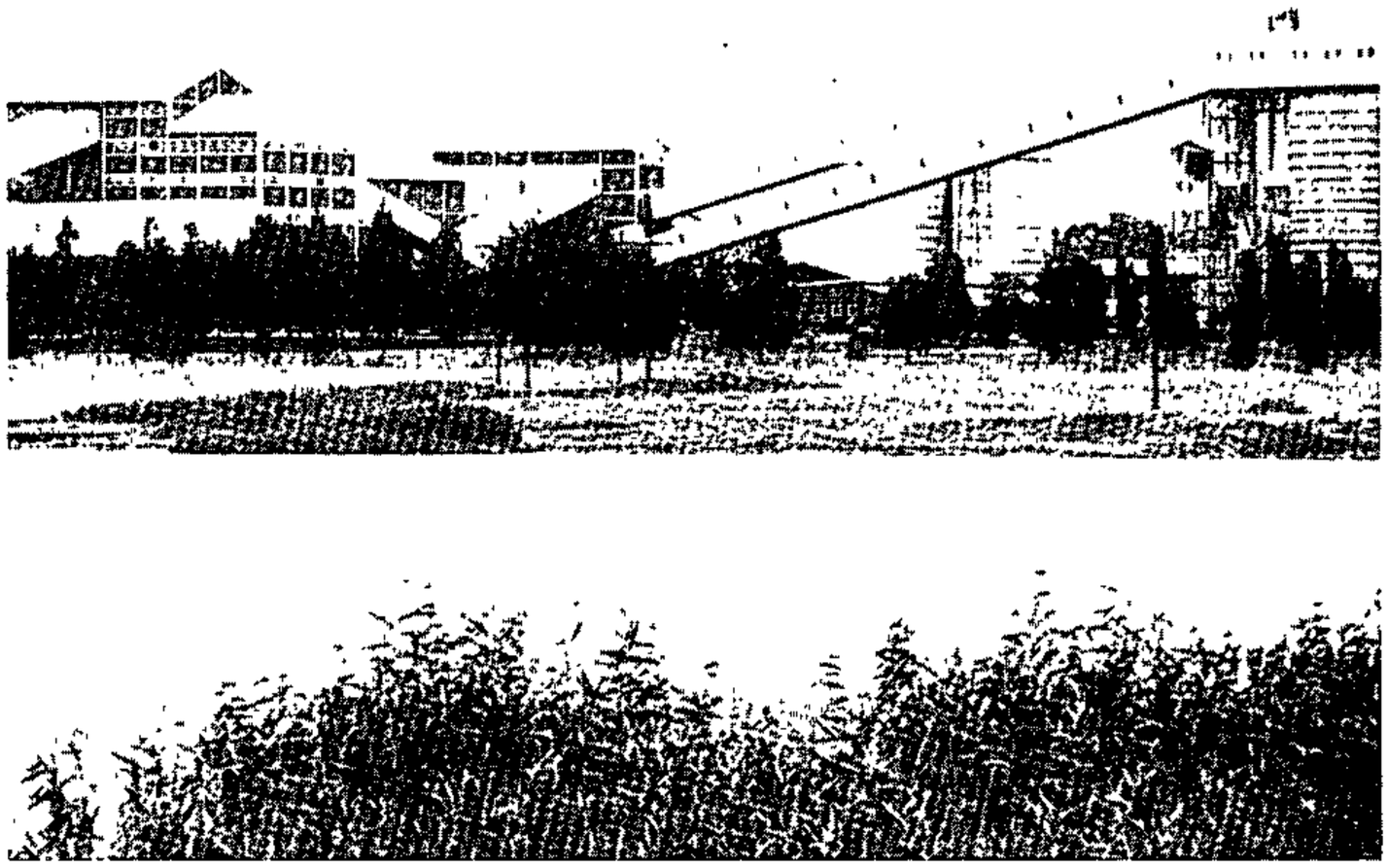
Finally, the group is planning a direct plunge into coal. It has been awarded a phase 4 export allocation of 1 Mt/year. Chairman Robin Plumbridge is hardly ecstatic over the size of the allocation and the group is probably having to think in terms of a mine with a capacity of more than 1 Mt if a new coal venture is to be profitable. Fortunately for investors looking for solid gold foundations, the improving gold price should more than compensate for less-than-attractive returns on the diversification ventures. And, apart from anything else, the group probably has enough new gold prospects to keep it busy for the next several years. Nevertheless, diversification is still an important consideration. The plan is to spend 10% of pre-tax profits seeking out new mineral deposits.

The long period of consolidation appears to be ending for **JCI**, though by the start of this year the house had not announced any specific expansion plans apart from those centred on its coal interests. Wholly-owned Tavistock has been awarded a 1 Mt/year export allocation in terms of phase 4 of the Richards Bay development programme. In addition, TESA, Tavistock's joint venture with the French oil company Total, has been awarded a 500 000 t/year allocation. This is providing the extra production facilities which will be needed by the end of this decade and is within JCI's capabilities. However, the house will no doubt do all it can to link the export expansion to other marketing possibilities. The old Phoenix mine is to be converted into an opencast operation and this, in itself, will mean that additional outlets will have to be found.

The only other development project in which the house could be involved directly centres on ground bordering on Randfontein up to and including the South Roodepoort mine. Sufficient drilling has been done to determine the area's viability. If it is to be exploited, a start will probably be made before completion of capital spending at Randfontein's Cooke No 3 shaft.

There remain some sectors of the group's operations which can best be described as problematic. The Consolidated Metallurgical Industries ferro-chrome operation, which is not consolidated in JCI's accounts, is struggling in a greatly over-supplied market and is unlikely to return to full-capacity working for several years.

On the other hand, platinum producer Rustenburg, which has been through a diffi-



Gold mining . . . still the houses' mainstay

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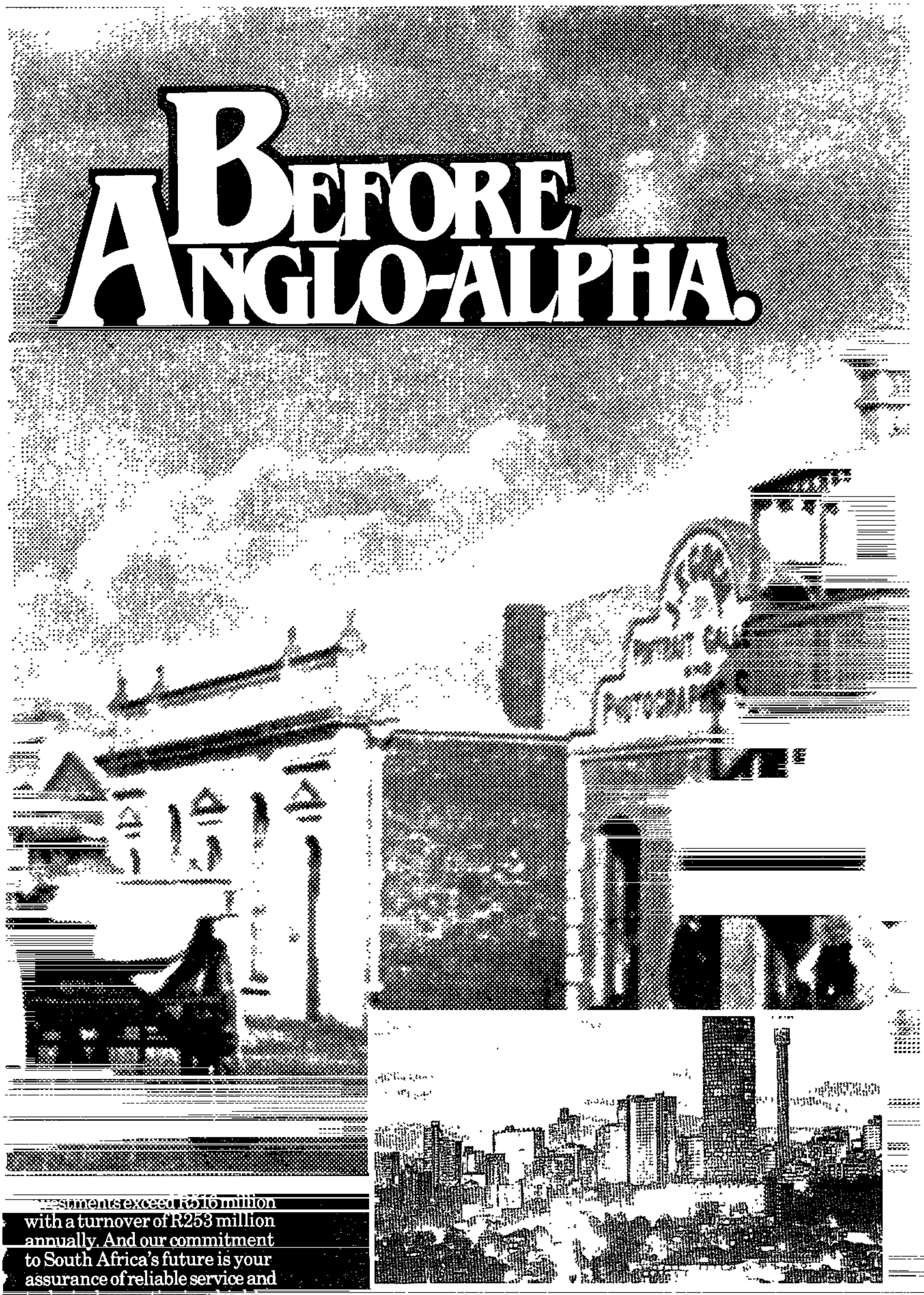

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Platinum mining . . . cut-backs stunted earnings

cult period of declining demand for its product, has radically changed its strategy and is taking a far more positive view of immediate prospects. This may not result in an immediately improved contribution to JCI's investment income, but it is an encouraging development.

Whatever JCI decides to do, a prime consideration will be the effect on the balance sheet. The objective now is to limit the debt element in the capital structure, much as do the other holding companies in the greater Anglo American group.

Barlow Rand's mining arm, **Transvaal Consolidated Land**, has been contending with a succession of problems over the last two financial periods. They all resulted from the world's present economic problems and most of them will have to await a general economic revival before they are resolved. The group is SA's largest producer of chrome ore and, as such, is probably the world's largest producer. Sharply reduced operating levels by the world's main steel producers, however, cut demand both for chrome ore and ferro-chrome. As a result, chrome ore production was reduced and all TC Land's chrome mines made losses in financial 1982. The steel industry's problems also led to the Marico fluorspar mine being mothballed — further losses could not be justified.

This sort of performance is hardly something management would want, particularly as the group is faced with a heavy capital spending programme for the rest of this decade. The group took the bit between its teeth last year and, instead of 70%-owned subsidiary Witbank Colliery tendering for further Escom contracts, TC Land went ahead on its own and won contracts to supply the new Khutala and Majuba power stations. The cost of the two mines needed to fulfil delivery contracts is estimated at R624m in mid-1981 terms. And though Escom will provide some front-end capital, TC Land will have to find outside funds.

Peak deliveries of 11 Mt/year will be reached in 1994. The mine tied to Khutala will be a multi-product operation. It is designed to provide 2,5 Mt/year of export coal at much the same time as deliveries to the power station start. By the start of this year there was less gloom at the company's four managed gold mines. Higher gold prices were allowing ERPM to dust off its previously shelved R300m capital programme, and Durban Deep was again thinking of ways of opening large tonnages of virgin ore within its lease area.

In another development, subsidiary Rand Mines Properties brought its sands retreatment project on stream at Crown Mines. Nevertheless the group's most important growth prospects over the remainder of this decade lie in coal. And this is despite the fact that the domestic and export coal markets are showing near-term signs of indigestion.

Anglovaal generally gives the impression that it is reluctant to extend itself with new grass-roots projects, particularly if they would mean having to raise additional equity funds. One has only to look at recent paper-based acquisitions by the industrial arm ATI and the agreement with De Beers over the Venetia diamond occurrence for this to become clear.

Venetia, on which the group has been most uninformative, has been turned over to De Beers to evaluate and, if warranted, open up and exploit. The mineral rights holders, Anglovaal and its 52%-owned subsidiary Middle Wits, will put up no development capital but are expected to receive 45% of any operating profit from the venture.

Over the next few years, the only major mining venture apparently on the cards will be the establishment of an export colliery. The group has been awarded a 1 Mt/year export allocation as part of phase 4 of the Richards Bay development programme. Whether this tonnage is sufficient on its own for a mine to be established is another matter. Anglovaal has been toying with the idea of a synfuels venture, but will not go ahead with it without the co-operation of the State authorities.

On the gold front, shareholders have very little into which they can sink their speculative teeth. The drilling programme on the eastern Transvaal escarpment has been wound down and prospecting in the OFS and western Transvaal is being played in a minor key. Elsewhere, it has been decided to close the Prieska copper mine in 1985. The mine was, in any case, hardly an attractive investment.

Anglovaal is the most exposed of the mining houses to SA's industrial sector. More than the others, then, it needs an improvement in the local economy to get profits on the move again.

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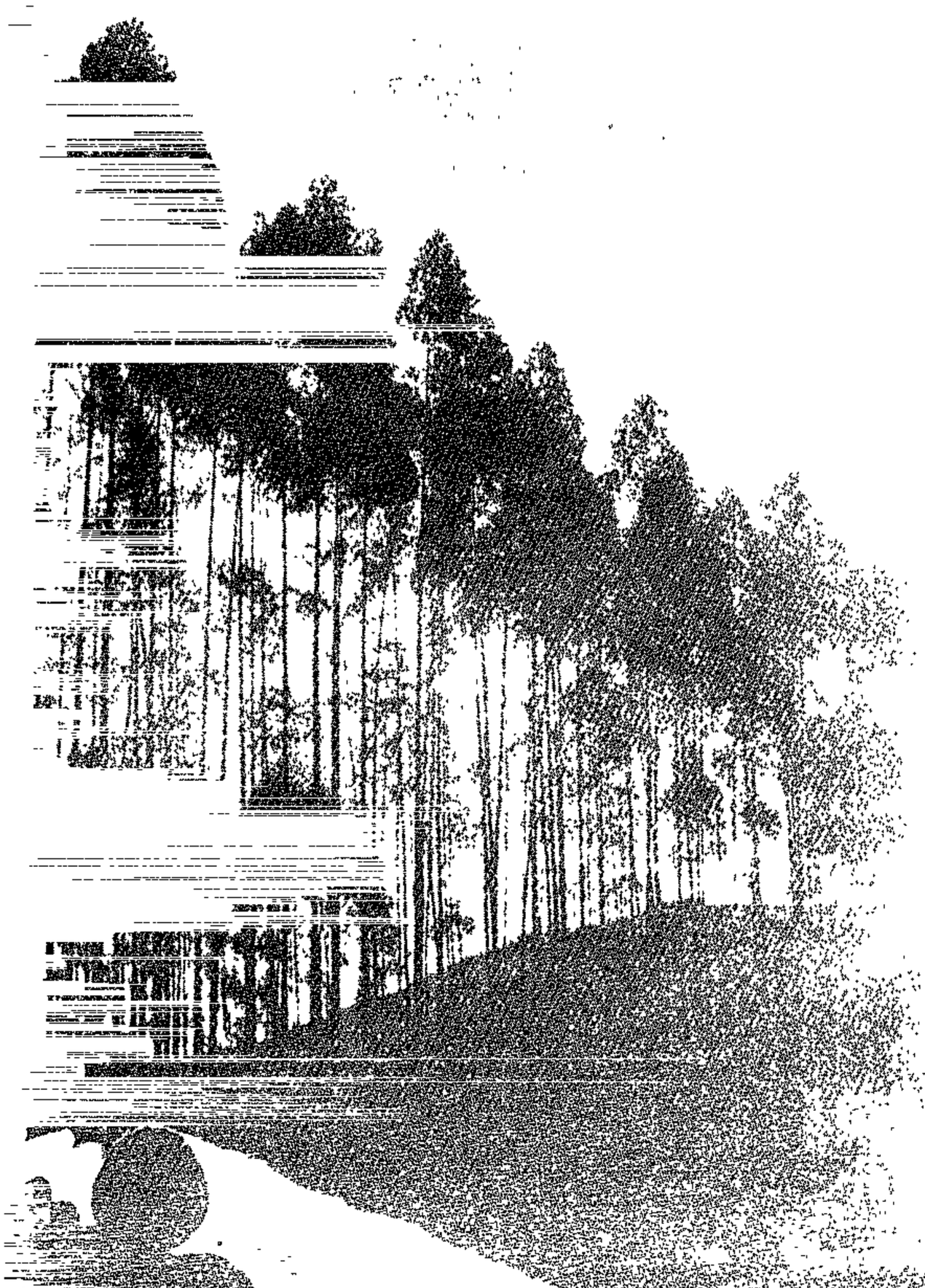

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Changing role

Incomes are starting to recover. But gold's price advance has not fired great interest in mineral rights

The main companies which are quoted in the market's mining financial sector are, on the whole, more diverse in their operations than some of those in the mining houses section. There are those which are really engaged in what their classification implies — the financing of mining ventures. But several have, over the years, become no more than investment holding companies. For these, the trend is away from participation in new ventures their parent houses are establishing. And when it comes to the exploitation of residual mineral rights, the frequent tendency is to dispose of them entirely in exchange for shares in the mine which wants them rather than take royalty income.

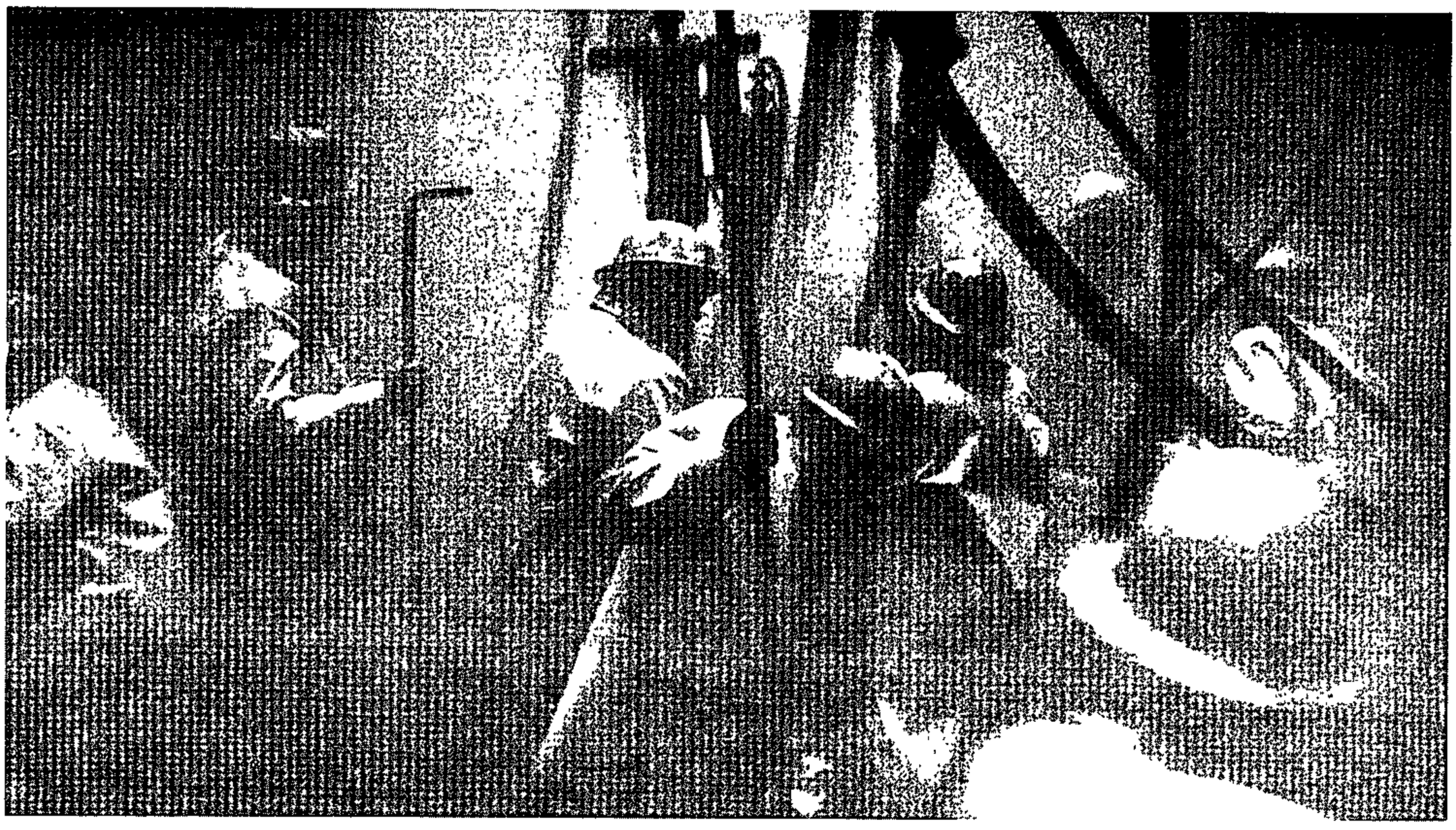
Nevertheless, these mineral rights tend to add speculative appeal to the companies which have them, particularly when gold prices are burgeoning. By the start of this year there was little or no interest in gold mineral rights. For the present, most of the operating gold mines which could be interested in absorbing neighbouring mineral rights seem to have their plates full with other developments.

The pattern which has emerged in the past year is that those mining financials with major exposures to gold have seen their earnings — derived from gold mine dividends — recover from the lows of mid-1982. The others, which are more orientated towards base metals and coal, are still having to take action to weather the world's economic recession.

Amgold is probably the safest stock for investors who are simply interested in gold. The company will not involve itself in other minerals or industrial ventures. This safety derives from the fact that the company's broadly based investment portfolio changes very little from year to year — there is little in the way of additions funded from earnings retentions. Breaking into new territory will depend on the Anglo American group's success in locating new, viable deposits. Amgold is participating to the tune of 9,5% in Easthold, which is behind the Erfdeel development in the OFS. This, though, could be small beer compared with the potential of Anglo's Brazilian ventures in which Amgold has a 20% interest. The tempo of exploration in that country is advancing though the investment is best seen as long-term rather than as one which is likely to provide near-term income.

Less exciting is the company's 23% interest in Anglo's Australian ventures. The group has still to discover a grass roots project and prospects are less promising than in Brazil. Despite all this foreign activity, Amgold's next green fields venture is most likely to be in SA. The most likely development will be in the OFS where the Anglo group should soon follow Erfdeel with a new gold mining project in the vicinity of Gencor's Beisa. Funding the company's participation in a new project should present little difficulty and it is unlikely that there will be any major increase in dividend cover. Amgold is, after all, a gold dividend channel.

There is little doubt that **Sentrust**'s investment portfolio is the most actively traded and, by the same token, managed of all the mining financials. This fine tuning has led to various shifts in emphasis, towards and away from gold, over the past 10 years and



Digging into mineral rights . . . adding investment appeal

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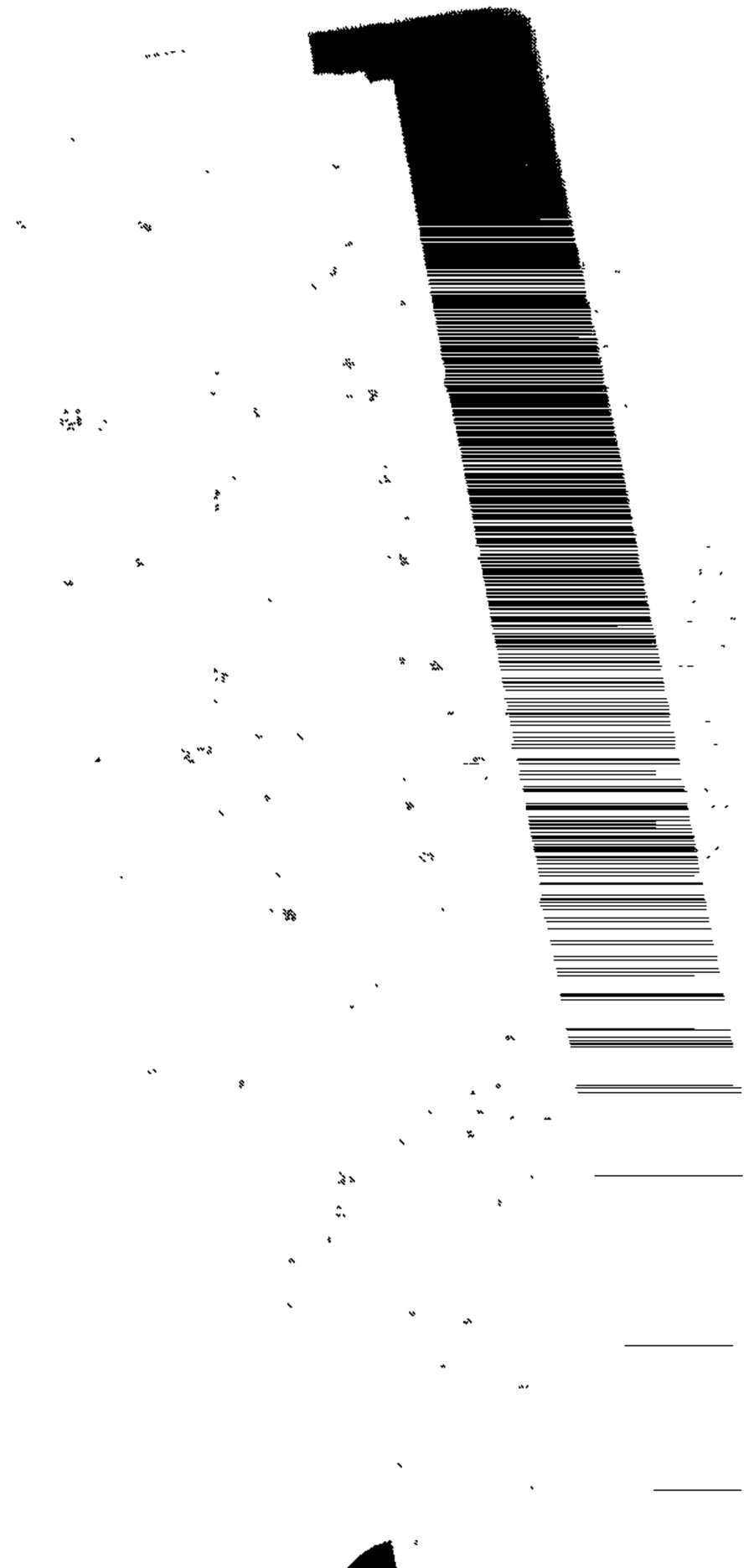

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See also **Persetech**

per-pet-u-al cal-en-dar, *n.* A calendar covering a long span of years and so devised that the day of the week for any given date may be readily determined.

per-pet-u-ate, per-pech′ö-at″, *v.t.–perpetuated, perpetuating.* [L. *perpetuo, perpetuatum.*] To make perpetual; to cause to endure or to be continued indefinitely; to preserve from extinction or oblivion.—**per-pet-u-a-ble,** *a.*–**per-pet-u-a-tion,** *n.* —**per-pet-u-a-tor,** *n.*

per-pe-tu-i-ty, per-pe-tu-i-ties. [O.Fr. *perpetuite* (Fr. *perpetuite*), <L. *perpetuitas,* <*perpetuus.*] The state or character of being perpetual; endless or indefinitely long duration or existence; something that is perpetual; a perpetual annuity. *Law,* of property, the condition of being inalienable perpetually, or for a period

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more. Nevertheless, gold still accounts for 50% of the portfolio's total value and the percentage is unlikely to fall significantly.

In addition to income from these portfolio gold interests, Sentrust's mineral rights are an increasingly valuable income source. In the Orange Free State, Loraine and Free State Geduld are exploiting Sentrust's properties on royalty bases. More important, however, is likely to be the 33% participation in the equity of Lucas Block Minerals whose mineral rights will eventually form a major part of Buffelsfontein's mining operations. Lucas Block royalties should exceed those from the OFS within the next few years.

At present there seems little likelihood that Sentrust's other mineral rights will be turned to account soon. Drilling on the farm Vermeulenskraal Noord south of Video has come to nothing. Sentrust itself does not have an active exploration programme; it prefers to let others evaluate mining prospects.

Middle Wits has spent steadily on exploration for several years, but appears to have come not much nearer to direct participation in more than one new mining venture. The gold prospecting on the eastern Transvaal escarpment, which was the cause of much speculative excitement two or three years ago, has been terminated. And the Venetia diamond project in the Soutpansberg has been turned over to De Beers for investigation and, if warranted, exploitation.

The company's next major direct grass roots venture is likely to be in coal. It is participating with Anglo-Alpha and Anglovaal in a coal venture near Ermelo — spurred by the 1 Mt/year export allocation in terms of phase 4 of the Richards Bay development project. In addition, Middle Wits has been active with its parent Anglovaal in acquiring more coal rights near Bethal. Reserves now controlled total several hundred million tons and are more suitable for exploitation than those near Ermelo. Eventually they may form the base for a synfuels project in conjunction with Anglovaal and Caltex. This, though, will depend on some positive encouragement from the State.

Apart from the coal prospects Middle Wits appears to be getting nowhere with its exploration programme. Base metals and gold searches have come to nothing, though they are continuing. Even so, there will be no relaxation in the rate of exploration expenditure, particularly on the company's extensive Transvaal and OFS mineral rights.

Duiker's two main products, coal and asbestos, both have problematic near-term prospects. And while the rand's exchange rate drop in financial 1982 meant that export revenues advanced despite slackening demand, the same may well not be true for the current year. Escape from these difficulties will depend on a resurgence of the domestic and world economies. Then profits should move ahead reasonably strongly. In the meantime, however, the new Piet Retief anthracite mine has come into production just as the anthracite market cracked. Blue asbestos sales are under pressure as a result both of health fears and slack end-user demand, and local bituminous coal sales are not altogether easy.

In the longer term Duiker will receive some benefit from its 36% interest in Eastern Gold Holdings, which has the major stake in the developing Erfdeel mine in the OFS. At this stage and as the bulk of capital spending has still to be incurred, the present value of the non-managed investment is virtually nothing.

Since giving up its direct participation in Beisa, **UCI** has become an essentially pure investment company. It has some residual gold and coal mineral rights in the Evander area but they are unlikely to be turned to account in the near future. More than 65% of its investment portfolio is comprised of four shares: Winkelhaak, Kinross, Impala and Gencor in descending size order. They are unlikely to be traded and changes to the remainder of the portfolio tend to be relatively minor.

UCI is a good example of how the role of the mining financials has changed. Originally they were what their name implies, companies which provided finance for mining projects and which had been created either for tax or financing reasons by the houses themselves. These considerations are no longer as important as they once were, with the result that mining financials have lapsed into the more passive role of being investment holding companies.

New management and a change of control have not improved **Rand London's** immediate prospects. Nevertheless, Burnett & Hallamshire, the go-go British coal group which owns 51% of Rand London's equity, is optimistic on the SA junior mining company's potential. All but one of the company's coal mines have been closed, though, by the start of this year, this had not resulted in operating profits from the coal interests. Adding to coal's losses, Rand London's commercial division was in the red as this year started. The only division to operate at a profit was minerals trading.

Returning the company to profitability will take time. The balance sheet is being restructured with additional equity funds replacing a too-heavy debt burden. It is possible that additional funds will be raised by further sales of superfluous operating divisions. If this is the case, the funds will almost certainly be absorbed in financing the development of one or other of Rand London's mineral deposits. The new management's approach seems to be that the group should position itself to take advantage of an improvement in demand for industrial minerals and coal as and when it takes place.

Things may have been bad for the SA-registered mining financials this past year, but shareholders can be grateful that they have invested in a country in which commercial considerations are more important than political ones to the mining industry. **ZCI**, the Bermuda-registered group which has 27,3% of Zambia's copper mines, remains on the floor between two stools. The Zambian copper industry is in a mess. It is generally unprofitable but keeps going as foreign exchange earnings are more important to the government than corporate profits. Furthermore, costs cannot be saved through labour force reductions — that would be political dynamite. To make matters worse, even though the Zambian operations have declared dividends, the government is in no rush to allow them to be externalised. The share merits a place in no-one's portfolio. Even though the Zambian investment has been written down by half, the book value is still five times the market value.

MINING FINANCIALS

RANKED BY:

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4	3	3		208,1	180,9	23,9	'82
5	**5**	**4**	**Duiker**	**79,7**	**52,4**	**12,3**	Sep
6	5	5		74,3	71,2	10,4	'82
4	**4**	**5**	**Mid Wits** ..	**137,4**	**183,8**	**11,0**	June
5	4	4		143,6	149,0	18,4	'82
6	**6**	**6**	**ZCI**	**†63,1**	**49,0**	**†1,5**	June
3	6	6		†221,9	61,3	†2,5	'82
7	**7**	**7**	**RanLondon**	**22,6**	**14,4**	***(5,3)**	March
7	7	7		30,9	44,5	4,4	'82

* 9 months
† US dollars

Setting the pace in construction

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Consolidating recovery

The gold mining industry has emerged strongly from a period of weak gold prices. It is now operating in a more flexible environment

Gold has given investors and the mining industry more surprises in the past 12 months than most would care to remember. One thing is certain, the price of gold bottomed last July and has established itself in a bull trend. But the early stages of this bull market have been far from easy. There have been few reliable indicators of the metal's price direction and, so it seems, no sooner had one fundamental established itself than investors in the metal took an entirely different stance.

There is, perhaps, nothing surprising in all this. Gold's price has to do a great deal of backing and filling in the early stages of a bull market. In this it is no different from any other commodity, particularly as speculative positions are established and unwound with growing frequency. Just how difficult the gold price has been to call is illustrated by the mixed fortunes of those mines which jumped into hedging. One or two did well at the game, but there were those whose losses seemed simply just to pile up.

By the start of this year the indications were that gold was in for a period of price tempering — just as one would expect. While gold bottomed out in June of last year, developments since then have not been altogether favourable for sharp gold price advances.

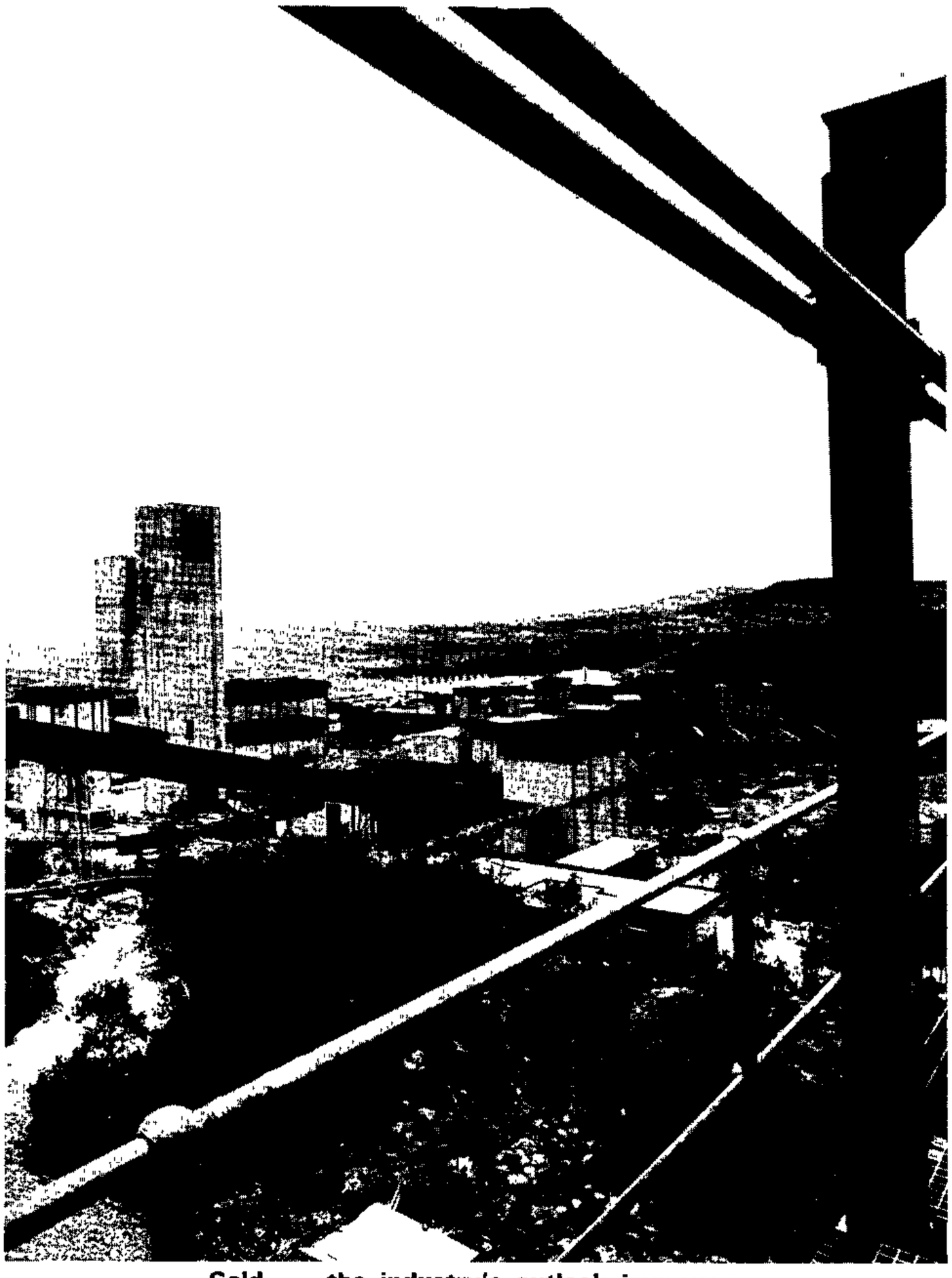
Most important has been the disarray of Opec. Basic economics of supply and demand have pulled the rug from under the oil cartel's feet and left it seemingly unable to prop up prices artificially. There are simply too many non-Opec oil sources on stream now. In addition, Opec itself cannot count on the support of its own members.

It was the two rapid oil price advances of the Seventies which triggered that decade's splurge of inflation and gold prices which romped ahead. Now that oil's price seems set for a period of structural decline, inflation rates and gold prices could, justifiably, be expected to reverse their earlier performances. Inflation has been brought well under control in most OECD countries and oil's price weakness merely assists national anti-inflation measures.

Oil's price drop does, however, affect gold in different ways. At a basic level there are many analysts who believe that the Soviet Union, the world's second largest gold producer, could well be obliged to sell gold to compensate for tightening foreign exchange earnings from oil exports Increased gold availability from the Soviet Union would add to any downward pressures on the metal's price.

None of the Opec nations with small populations, such and Saudi Arabia or Kuwait, seems likely to offload any of the gold hoards established when high oil prices were leading to major wealth transfers. On the other hand, oil producers such as Iran and Indonesia, which are either funding wars or major development projects, have been gold sellers as their oil export earnings have slithered.

Yet another fear which has helped support gold prices has receded — the fear of major banking collapses as debtor countries failed to service and repay the major loans they had taken from Western commercial banks. Mexico was clearly the most risky, but of the oil producers Indonesia and Venezuela were seen to be comparable. The risks



Gold ... the industry's outlook improves

GOLD $800

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appear to have receded both because the IMF has come up with lifeboat financing packages to allow the debtor nations breathing space and because declining inflation rates have led to falling nominal interest rates. These, in turn, have eased the problems of servicing major foreign debts.

All in all, by the start of this year, most influences on the gold price appeared to be downward pressing. The fact, though, that gold recovered so well from its mid-June low in spite of adverse factors should be seen as a major bull point.

Even though gold has strengthened since the middle of last year, it has not been an easy period for the mines. Several capital projects — notably that of ERPM which is designed both to increase the mine's production capacity and extend its life — which were put on ice have still to be reactivated. In the Orange Free State sinking of Erfdeel's main shaft, which was stopped early in 1982, was restarted as the year drew to a close. This was the tendency with smaller projects elsewhere — the advancing gold price had increased the tax-saving attractions of capital projects. Tax saving, as we discuss below, is an increasingly important consideration in the evaluation of mine development projects.

More important, though, are the structural changes which have taken place this past year. Leading them is the increasingly flexible approach to exchange rates adopted by the Reserve Bank. Last year, while the gold price was declining, the authorities allowed market forces increasingly to determine the rand's worth.

The rand, inevitably, fell fairly steadily with the result that the mines' incomes were protected to some extent from the deterioration of the gold price. The rand's decline did have the unpleasant side effect of helping to boost inflation rates and, with them, mine working and capital costs. The reverse trend has now set in and costs, though they are still rising, are advancing at far slower rates than was the case a year ago.

One skill the individual mines have never seemed to need to develop is marketing or trading. Of course there has been the successful Krugerrand marketing activity of Intergold since the late Sixties. But that has not been the responsibility of the individual mines Its success is simply not quantifiable, though there are many analysts who believe that had it not been for Intergold's success in introducing convenient gold ownership to a broad range of individual and institutional investors, the price of gold would have been a good deal lower than it is at present.

Last year, however, the mines themselves were given the choice of whether or not to try their trading skills in futures markets. Hedging as a means of ensuring future commodity prices is decades old. But until the authorities, as part of a general trend towards making the entire SA economy more market orientated, permitted the mines to deal in futures markets, the gold mining industry was effectively excluded from an increasingly important market sector.

In the event precious few mines made any substantial profits from their futures trading Essentially the majority paid the "premium" of ensuring specific near-term income flows. That is what hedging is all about. Some, such as Western Areas, learnt

GOLD MINE LEAGUE

RANKED BY·

Gold Production 1982	Gold Production 1981	Tons milled		Production Kg fine '000	Production Mt milled	Production Gold Recovery g/t	Working revenue Total Gold Rm	Working revenue per ton milled R	Working cost per ton milled R	Profit On gold	Profit Total	Dividend declared Rm	Tax and lease	Capital expenditure
1	2	2	**Vaal Reefs**	78,7	9,2	8,6	1031,1	112,1	47,7	592,2	535,3	180,5	229,1	129,7
2	1	5	**Drie Cons**	76,8	5,7	13,5	1020,7	179,1	49,4	739,1	835,4	252,2	440,0	100,8
3	3	3	**Westhold**	40,2	8,3	4,8	530,6	63,9	40,4	195,2	218,0	68,8	64,4	99,5
4	4	10	**W Deep Levels**	39,5	3,5	11,3	522,8	149,4	62,5	304,2	313,1	105,6	108,6	123,0
5	5	4	**Harmony**	31,8	7,7	4,1	425,5	55,1	N/A	N/A	161,6	47,0	58,9	47,7
6	6	13	**Harties**	29,9	2,9	10,2	396,0	135,3	61,9	214,8	239,4	64,4	126,3	46,0
7	7	20	**Kloof**	27,8	1,9	15,0	371,4	199,8	63,2	253,8	284,4	84,7	151,1	46,9
8	8	11	**Buffels**	27,5	3,2	8,6	368,0	114,7	63,7	163,7	163,7	59,4	73,3	44,7
9	12	6	**Randfontein**	27,1	5,4	5,0	356,4	65,9	29,2	198,2	231,8	59,5	65,1	96,9
10	9	12	**FS Geduld**	25,4	3,2	8,0	330,5	103,5	64,9	123,3	138,9	32,4	10,8	98,9
11	10	8	**Pres Brand**	25,1	3,5	7,3	329,1	95,0	46,6	167,6	192,7	61,1	84,1	43,8
12	11	7	**Pres Steyn**	24,9	4,0	6,3	330,8	83,6	46,5	146,8	183,8	55,4	84,1	41,4
13	13	17	**Blyvoor**	20,0	2,3	8,9	267,9	118,5	54,1	145,7	158,6	49,2	88,6	18,4
14	14	9	**Western Areas**	16,9	3,8	4,5	216,6	57,5	52,8	17,5	26,9	4,0	—	18,9
15	15	14	**St Helena**	15,3	2,8	5,5	202,5	73,4	31,3	116,0	114,7	40,9	7,1	58,1
16	17	19	**Winkelhaak**	13,1	2,1	6,3	175,5	84,2	31,9	108,9	113,9	38,1	67,1	10,8
17	16	22	**Stilfontein**	12,5	1,7	7,3	169,5	98,9	65,7	57,0	62,6	32,7	23,9	5,0
18	18	28	**Doornfontein**	10,8	1,5	7,4	142,9	97,6	55,9	61,1	72,6	20,0	22,9	28,0
19	19	15	**ERPM**	10,7	2,7	4,0	144,5	54,4	57,3	(7,7)	17,5	—	—	21,5
20	20	24	**Libanon**	8,1	1,7	6,4	141,1	84,0	44,8	65,9	75,6	19,8	23,2	30,4
21	21	23	**Kinross**	10,0	1,7	5,9	134,6	79,0	39,8	66,8	69,2	22,9	24,3	27,7
22	23	30	**Unisel**	8,6	1,2	7,2	114,6	95,5	38,7	68,2	70,6	25,2	39,3	4,1
23	22	16	**Durban Deep**	8,4	2,4	3,6	110,8	47,2	41,5	13,2	18,0	—	—	18,7
24	29	26	**Elandsrand**	8,1	1,5	5,3	111,5	72,8	47,1	39,4	48,1	14,5	—	25,8
25	24	25	**Loraine**	8,1	1,6	5,1	105,8	65,9	60,8	8,2	16,3	—	—	26,6
26	25	21	**Grootvlei**	7,1	1,7	4,1	95,0	54,6	31,6	40,0	40,3	13,3	14,5	13,4
27	28	29	**Deelkraal**	6,8	1,4	5,0	90,2	66,6	49,7	23,0	26,7	—	—	18,1
28	27	27	**Venterspost**	6,5	1,5	4,4	86,3	58,0	48,8	13,6	19,3	5,8	4,7	4,8
29	26	1	**Ergo**	5,8	19,2	0,3	77,3	4,0	2,4	N/A	69,4	31,8	9,3	44,3
30	30	31	**Leslie**	3,9	1,1	3,4	53,0	46,3	34,0	14,1	14,7	5,6	6,0	1,9
31	32	18	**WR Cons**	3,8	2,1	1,8	52,8	24,9	27,6	(5,7)	8,0	0,9	3,3	0,1
32	31	32	**Bracken**	3,3	1,0	3,4	44,1	44,9	31,5	13,1	14,6	5,7	7,8	1,5
33	34	35	**Barberton**	1,2	0,2	7,4	15,8	99,0	68,2	4,9	4,9	—	0,7	2,3
34	33	33	**Marievale**	1,1	0,5	2,3	14,8	30,7	25,0	2,7	3,2	1,8	1,5	—
35	35	34	**Wit Nigel**	0,9	0,9	3,2	12,7	43,2	37,7	1,6	3,8	—	—	0,9
36	36	36	**South Rood**	0,4	0,2	3,5	7,4	46,6	51,6	(0,8)	(0,4)	—	—	0,3

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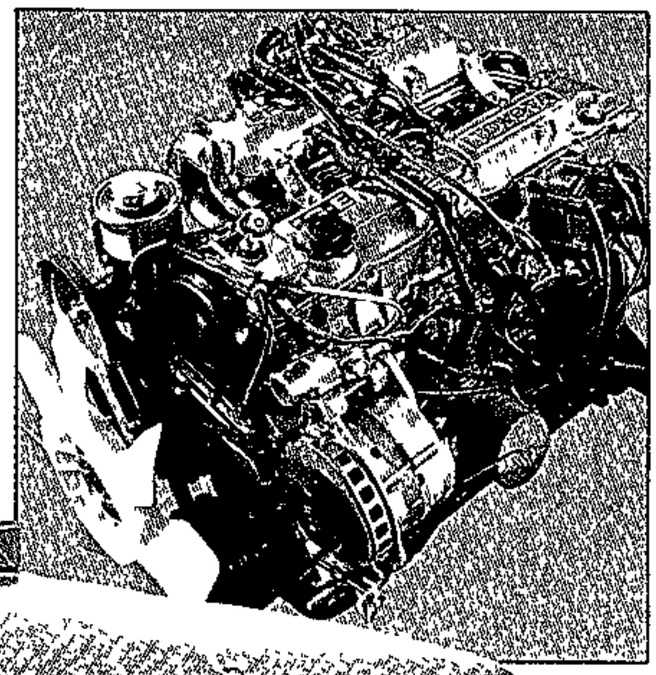

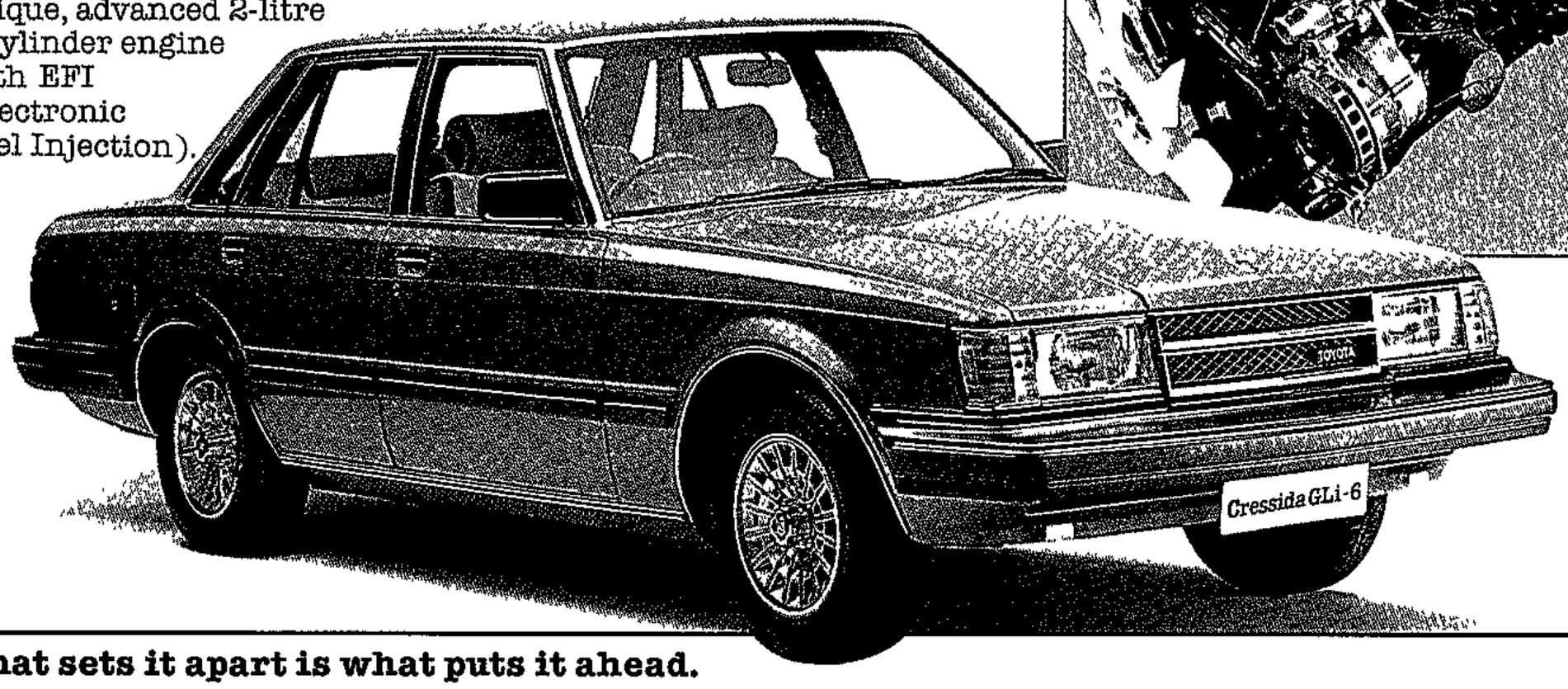

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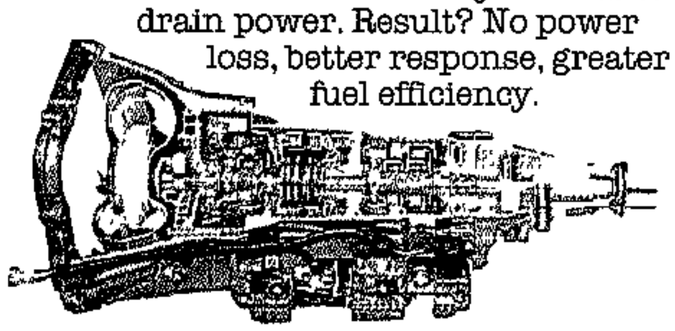

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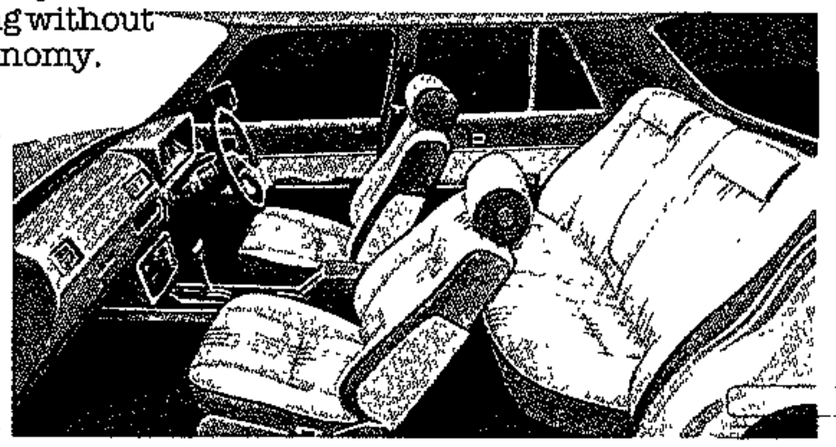

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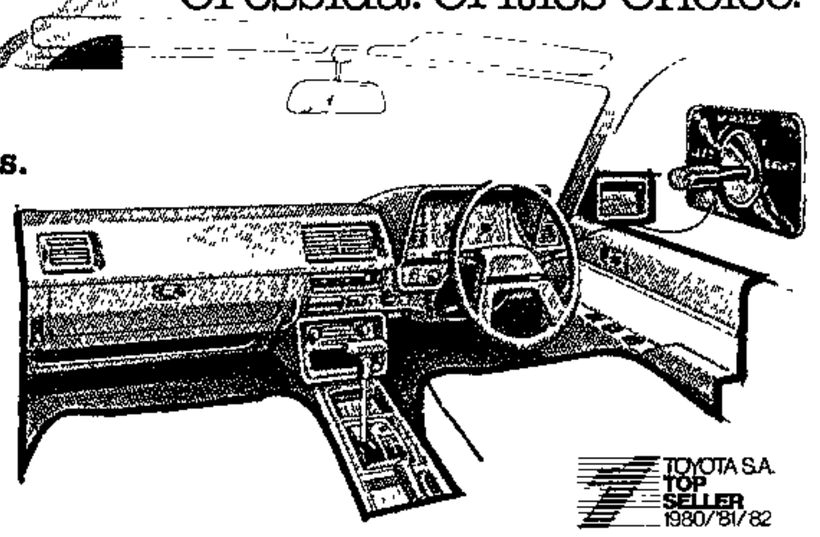

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late last year that hedging can be costly in terms of missed profits. At the end of 1982 it was the only mine not to have closed out its forward positions and, at the time, it appeared that this would lead to further losses of profit opportunities as the gold price established itself in a rising trend.

The industry's first dabble in the futures market, limited as it was by the refusal of the authorities to let the mines close out contracts with physical deliveries, was nothing to get excited about. This freedom which allows the mines to hook into certain future gold prices has, however, been cited as a reason justifying the scrapping of the State Assistance scheme which, since 1968, has helped keep marginal mines afloat during periods of low gold prices and temporary profit difficulties.

Government agrees with the Franzsen Commission, established in December 1981 to investigate the State Assistance scheme, which entered a majority opinion that it should be scrapped. Apart from anything else, by the start of this year none of the mines which qualified for State Assistance had called for help. Nor, with gold in a bull trend, were many of them likely to receive assistance in the near future. The scheme itself had come in for criticism from the industry largely because it was seen as a device whereby rich mines subsidised the poor and thus were compelled to bear an unnecessarily high tax burden.

One essential activity not affected by gold's price movements has been exploration, particularly in those areas near existing mines where reef extensions are possible. The most frequently mentioned area of prospecting interest is, perhaps, the Orange Free State. To the south of the area's major mines two new mines are being brought to full production: Beisa, whose main product is uranium, and Beatrix, whose main product is gold. Their arrival on the scene does not imply that no others are likely. Gencor, which manages both of them, remains active in the area, as do Anglo and GFSA.

Early this year a great deal of excitement was generated by reports that the tempo of drilling was speeding up in the area to the south and south west of Kloof which GFSA has been evaluating for the past five years. The house has put out the usual disclaimers, but they had little or no effect on gold bulls who believe that a brand new mine, or at least a major extension of Kloof, is in the offing.

Less has been said about Gencor's other exploration effort, in the Eendracht area near the Evander goldfield. The existence of Kimberley reef has been known in the area for many years, but its exploitation has always seemed unattractive until now. The nearby Bracken mine is nearing the end of its life and there is a strong possibility that its plant will be used to get a mine at Eendracht off to a quick start.

The problem has always been and always will be that the houses provide far too little detail of their exploration programmes to shareholders. Three years ago, for example, there was a great amount of excitement over a drilling programme being managed by Anglovaal and Anglo on the eastern Transvaal escarpment. It was finally terminated last year when it became clear that economic ore did not exist.

It does, of course, make a lot of sense to emphasise exploration drilling programmes near existing mines. Apart from the fact that valuable geological information is already available about the area, there is the attraction that by developing new properties as part of an already-producing mine, valuable tax saving benefits are possible. The cost of the new mine can be written off against current mining profits, leading to enhanced cash flow present values. This can make or break a new mining venture.

It is a device used twice recently in the OFS — at Beisa, which forms an operating arm of St Helena, and at Erfdeel, which is being established as an extension of Free State Saaiplaas and under the enlarged Western Holdings corporate umbrella. It is this very tax saving opportunity which has led to speculation that Kloof will be used as the vehicle for exploiting the virgin ground to its south. After all, GFSA did just that only recently when East and West Drie were merged as part of a scheme to exploit the North Drie area.

All this makes a great deal of sense. Even a small mine, say with a 100 000 t/month or so milling capacity, is likely to cost anything up to R500m these days. And as most of the country's higher grade ore zones have been tied up and exploited by the existing mines, the grades of new mines are unlikely to be anything spectacular. Every cent, then, which can be saved courtesy of the tax man, counts.

COAL

Taking stock

Coal producers may be cautious on near-term export prospects. But this has not dampened their enthusiasm for long-term growth

Two or three years ago there was little doubt in anyone's mind that SA's coal industry had tremendous growth prospects. After all, the world was crying out for coal in the wake of the oil crises of the Seventies and we were better able to supply that demand — given a certain amount of time — than most other countries. In addition, domestic demand for coal for power generation by Escom was on a steadily rising curve. And if this was not enough to whet investors' appetites, the major coal producers, and even some companies with no coal production facilities, had exciting plans for technologically advanced synfuels projects.

There were some industry executives who were calling for caution, but nobody paid them much attention. Graham Boustred, the chief executive of the country's largest coal producing group, Amcoal, was cautious on exports. Rather than increase annual export rates beyond those envisaged under phase 3 of the Richards Bay project, Boustred recommended that the authorities extend the periods for which exports were authorised. In the short term, at any rate, Boustred has been proved right. Just as the government was announcing export allocations in terms of Richards Bay phase 4, the world market for export coal was weakening significantly. Export prices were under pressure and SA producers, who were being sheltered by a declining rand: dollar exchange rate, started undercutting each other as a means of maintaining volume sales.

Then local steel producers succumbed to the world's economic recession. Steel production was cut back and Iscor negotiated lower deliveries from its unhappy coking and metallurgical coal suppliers. Synfuels projects were simply ignored by industry executives and even Escom, the mainstay of the major coal groups, warned of lower burning rates at its thermal power stations towards the latter part of last year.

The market slackness will, no doubt, be a temporary phenomenon. SA's own economic growth will ensure increased domestic demand and a world economic recovery will spur demand for export coal. But the next year or so could prove to be stodgy as far as the major coal companies are concerned.

In the meantime, of course, the majors are locked into large, long-term expansion projects, particularly to supply Escom with its feedstock. Export markets may be oversupplied at present, but those who were

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lucky in the latest round of export allocations have to provide additional production capacity by the end of this decade. All in all, the coal sector promises to be hungry for money for the next 10 or 20 years and it will have to cope as best it can with the present and temporary market difficulties.

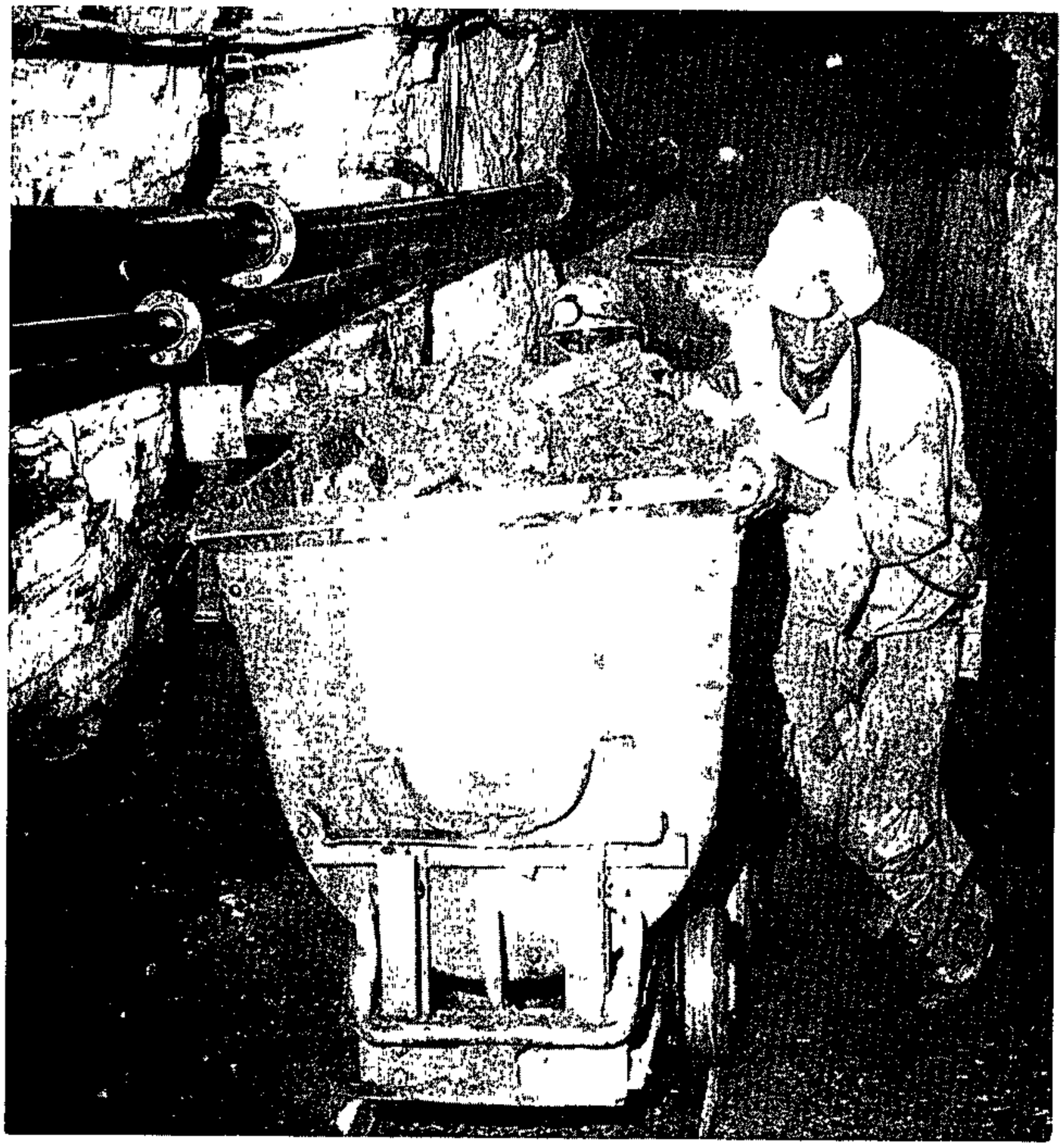
Though the Anglo American group's coal arm **Amcoal** continued on a profit growth curve during 1982, it has had to contend with more difficulties than it would have wished. Iscor has cut its demand for coking and metallurgical coal, export coal markets weakened, domestic coal demand was soft and Escom indicated that its burning rates would be lower during the summer months. But these difficulties should produce only a temporary hiatus in Amcoal's progress. The group controls coal reserves amounting to more than 12 000 Mt which are sufficient to maintain production at current rates for 300 years or so.

This, taking a fairly broad view, is the major factor exercising management's minds. Projects have to found to maintain profit and sales growth rates. Not that the group has any shortage of development projects. Excluding any possible synfuels ventures, capital spending plans already on the drawing boards are likely to absorb R2 billion or more in today's terms over the next 10 years. The level of spending is rising.

COAL PRODUCERS

RANKED BY Net profit	RANKED BY Turnover		Coal Sales Mt	Turnover Rm	Net profit Rm	Year-end
1	**1**	**Amcoal**	**•44,7**	**•802,7**	**•140,9**	**Mar '82**
1	1		33,7	465,5	85,3	
2	**3**	**Witbank Colliery**.....	**12,9**	**208,4**	**96,6**	**Sep '82**
2	3		11,4	158,6	70,7	
3	**2**	**Trans-Natal**...	**30,3**	**540,2**	**53,9**	**Jun '82**
3	2		27,9	379,5	59,4	
4	**6**	**Apex**	**2,4**	**49,6**	**16,0**	**Dec '82**
5	5		2,7	46,7	14,0	
5	**4**	**Clydesdale**....	**8,1**	**80,9**	**11,7**	**Jun '82**
4	4		7,1	63,7	14,7	
6	**5**	**Welgedacht**	**2,3**	**47,4**	**10,4**	**Sep '82**
6	6		2,2	36,9	6,2	
7	**7**	**McAlpine**	**n/a**	**26,5**	**2,9**	**Oct '82**
7	8		n/a	18,7	3,1	
8	**10**	**Indumeni**	**•0,4**	**•10,5**	**•0,9**	**Mar '82**
9	10		0,4	7,7	0,6	
9	**8**	**Vierfontein**...	**1,7**	**18,7**	**0,5**	**Dec '81**
10	9		1,3	12,2	0,3	
10	**11**	**Natal Coal** ...	**—**	**—**	**0,1**	**Dec '81**
11	11		—	—	0,1	
11	**9**	**Rand London Coal**..	**•0,6**	**†18,2**	**†(2,6)**	**Mar '82**
8	7		0,6	24,0	2,2	

* 15 months
† 9 months



Coal . . . more profit shove needed

Funding this spending is impossible from internally-generated cash flow. And while major customers, such as Escom, which takes about 60% of the group's total production, will provide front-end finance, Amcoal will have to raise a considerable amount from its own shareholders and outside lenders. Over the next three years borrowings of more than R500m are likely to be drawn down. The bulk of capital spending is earmarked for collieries dedicated to Escom. Capacity of the New Vaal colliery is to be doubled by 1985 to supply the enlarged Lethabo power station; the Central Mine of New Denmark is to come on stream within the next few months; and the new colliery to supply coal to Escom's Station "E" is to come on stream in 1988. Apart from this, the group will be spending heavily to increase its export capacity. Amcoal has been awarded a 4 Mt/year allocation in terms of phase 4 of the Richards Bay project and this will lift the total amount the company will be allowed to export to 15 Mt/year.

Little has been said recently of the proposed synfuels project to produce methanol from coal to be carried out in conjunction with AECI and Shell. Presumably it is still on the drawing boards.

Trans-Natal, which is Gencor's coal arm, has a sound future ahead of it. The main problem facing management, though, is how to fund the heavy capital expenditure necessary to reach optimum performance. The coal group has been awarded a 4 Mt/year export allocation in terms of phase 4 of the Richards Bay expansion project and this will raise Trans-Natal's eventual annual ex-

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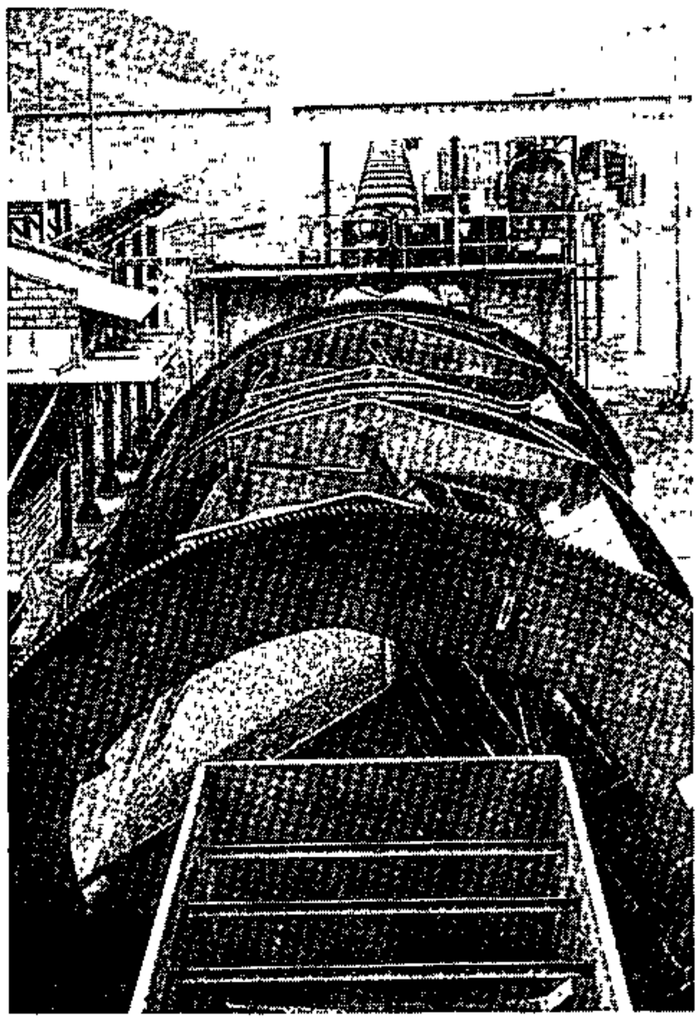
In addition, deliveries to Escom, which account for over 60% of the group's sales tonnage, are increasing as the 50%-owned Matla and 60%-owned Optimum collieries build up to full-scale operations. These two are the only Escom-tied producers managed by Trans-Natal which have still to reach full capacity. This will be achieved before the end of next year. However, the group is confident of winning further Escom contracts which will be awarded as the electricity utility's coal demand continues to rise at an annual rate of 7%. The effect of this is that Escom's coal consumption is doubling every 10 years.

Elsewhere on the local front matters are less encouraging. Iscor has cut its coal purchases in response to deteriorating domestic and export demand for its steel. And the mooted synfuels project based on coal reserves on the Springbok Flats appears to be occupying less of management's time than it was a couple of years ago. Nevertheless, Trans-Natal remains cash hungry. It recently raised R100m in local borrowings and, at the start of this year, was negotiating a further R45m from foreign lenders. In addition, the stage was being set for a rights issue to raise equity funds. All this is necessary. The cost of providing additional capacity to fulfil coal export allocations alone is estimated at R500m over the next 10 years. The group will remain an aggressive competitor in coal markets, if only as a means of accelerating the rate of exploitation of its extensive reserves.

Barlow Rand's major coal subsidiary **Witbank Colliery** was disappointed at not being granted an additional export allocation under phase 4A of the Richards Bay development programme. While this may be a blessing in disguise, as the company will not have to embark on expensive capital projects to serve an apparently increasingly difficult export market, it does remove one potential sales growth area.

At present the company has coal reserves amounting to some 1 500 Mt, which are sufficient to maintain production at current rates for well over a century. Management's task is to accelerate the orderly and profitable exploitation of these reserves. Immediate prospects are not particularly bright. The only obvious sales growth area is to Escom as the Duvha power station builds up to full-capacity operations. Last year 5,1 Mt of coal were delivered to Duvha, this year deliveries will rise to 7,2 Mt and next year full-capacity deliveries of 10,3 Mt should be achieved once the power station's sixth generating set is switched on.

While the coal company's immediate sales growth prospects (excluding Duvha) are apparently constrained, its capital spending programme will remain relatively heavy. This is necessary to maintain the firm's competitive position and the capital works in progress are designed to ensure greater operating efficiencies rather than expansion of production.



Coal exports take a tilt

Welgedacht, which operates two collieries in Natal, produced record results in financial 1982 and then proceeded to squash shareholders' optimism by forecasting increasingly difficult trading conditions in the near term. Last year's sales to Escom were a record, but the utility is likely to reduce its demand for coal from Natal as the large Transvaal thermal power stations come on stream.

On the export front, Natal Associated Collieries, the trade association which markets coal from Welgedacht and other coal companies in Natal, came up against stiff competition from Poland and the US. And on the non-Escom domestic market, controlled coal prices in Natal are unlikely to increase very much as the Price Controller has decided to narrow the gap between the prices of Natal and Transvaal coal.

The company is in the process of completing various capital projects which will improve its production capacity. Additional anthracite capacity has been installed to serve a long-term sales contract with a synthetic rubber producer. Capital spending will remain relatively high for a few more years until the present projects are completed. During that time, growth of distributable earnings and dividends is likely to be restricted.

The GFSA group's only operating coal company **Apex** appears to have reached its maximum development. Its parent, which holds 48% of the equity, decided that it would itself apply for export quotas. The allocation granted was not passed on to Apex which will not, as a result, be asked to exploit coal reserves belonging to GFSA. Apex does participate in export sales through the TCOA, however.

As far as the mine's domestic markets are concerned, Highveld Steel, which buys No 5 seam coking coal from Apex, has no near-term growth prospects. Furthermore, demand for No 4 seam coal, which is sold on the domestic market, and No 2 seam coal, which is delivered to Escom through the TCOA, is weak and the company is prepared to adjust production downwards in response to poor market conditions.

It is unlikely that Apex itself will ever tender for an Escom contract. Its prospects are such that capital spending will be fairly negligible for several years while GFSA concentrates its coal development efforts elsewhere.

Clydesdale has demonstrated a less-frequently recognised difficulty with which the coal mining industry has to contend — ageing Escom sales contracts. The two contracts held by Clydesdale's Coalbrook colliery expire in 1986 and 1989 and fulfilling them has to overcome the problem of inherently high colliery operating costs. There have been discussions with Escom on ways of optimising Coalbrook's remaining reserves which are committed to the electricity utility as well as the extensive uncommitted tonnages. Despite the difficulties management reports, it is hoping to extend supply contracts for a further 20 years. Two of the Matla mines which supply Escom are in operation and the third is due to come on stream this October. Clydesdale, which is itself a 50,4%-owned subsidiary of the Liberty Life insurance group, has a 50% interest in Matla.

The authorities' decision to give Clydesdale an export allocation of only 500 000 t/year as part of phase 4 of the Richards Bay project was not greeted with great joy by management. It believed a greater allocation should have been granted in recognition of the company's contribution to the overall domestic coal supply.

McAlpine, which made its debut as a quoted company in 1981, lost a certain amount of shine last year. Its managed operations increased their turnover by 42% to R26,5m, but trading profit slipped to R3,1m from R3,5m. Part of the reason for the profit decline was the increased cost of major plant reconditioning and the cost of establishing new opencast mining operations. These should be one-off charges. One unprofitable colliery has been closed.

The company remains in an expansionary mood. It has received a 500 000 t/year provisional export allocation as part of phase 4A of the Richards Bay project; a joint venture opencast operation is being undertaken with Kangra; and 5% of Natal Coal has been acquired with a view to participating in its opencast mining ventures. Despite all this activity, profits will continue to be affected by the domestic and export coal markets' slackness. Increased dividend income is flowing from the 40% interest in the Optimum opencast mine which is tied to Escom and which is developing some export capacity. As Optimum builds up to full capacity, its contribution to McAlpine's cash flow should continue its advance. In the longer run, however, the company's best hopes for

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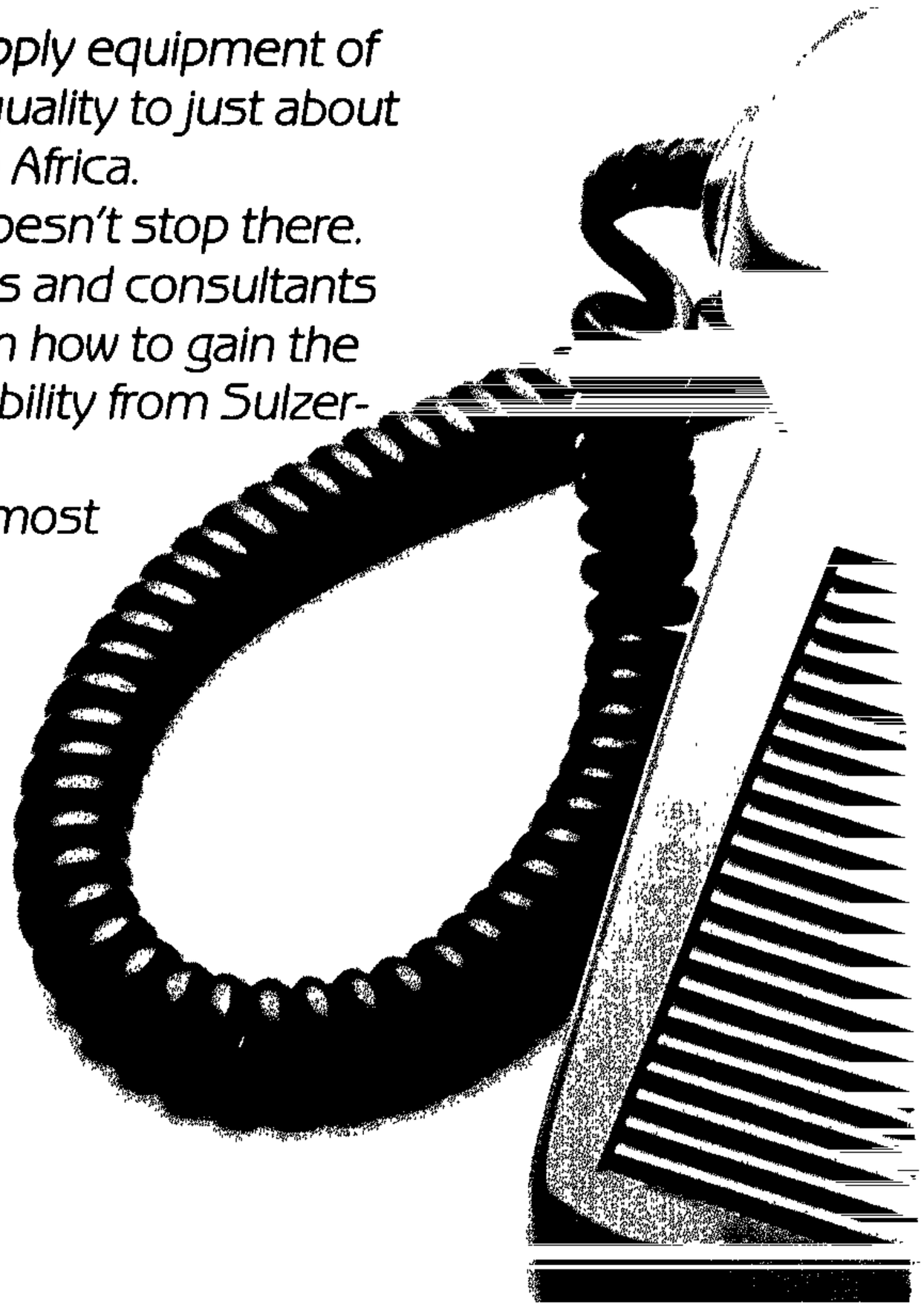

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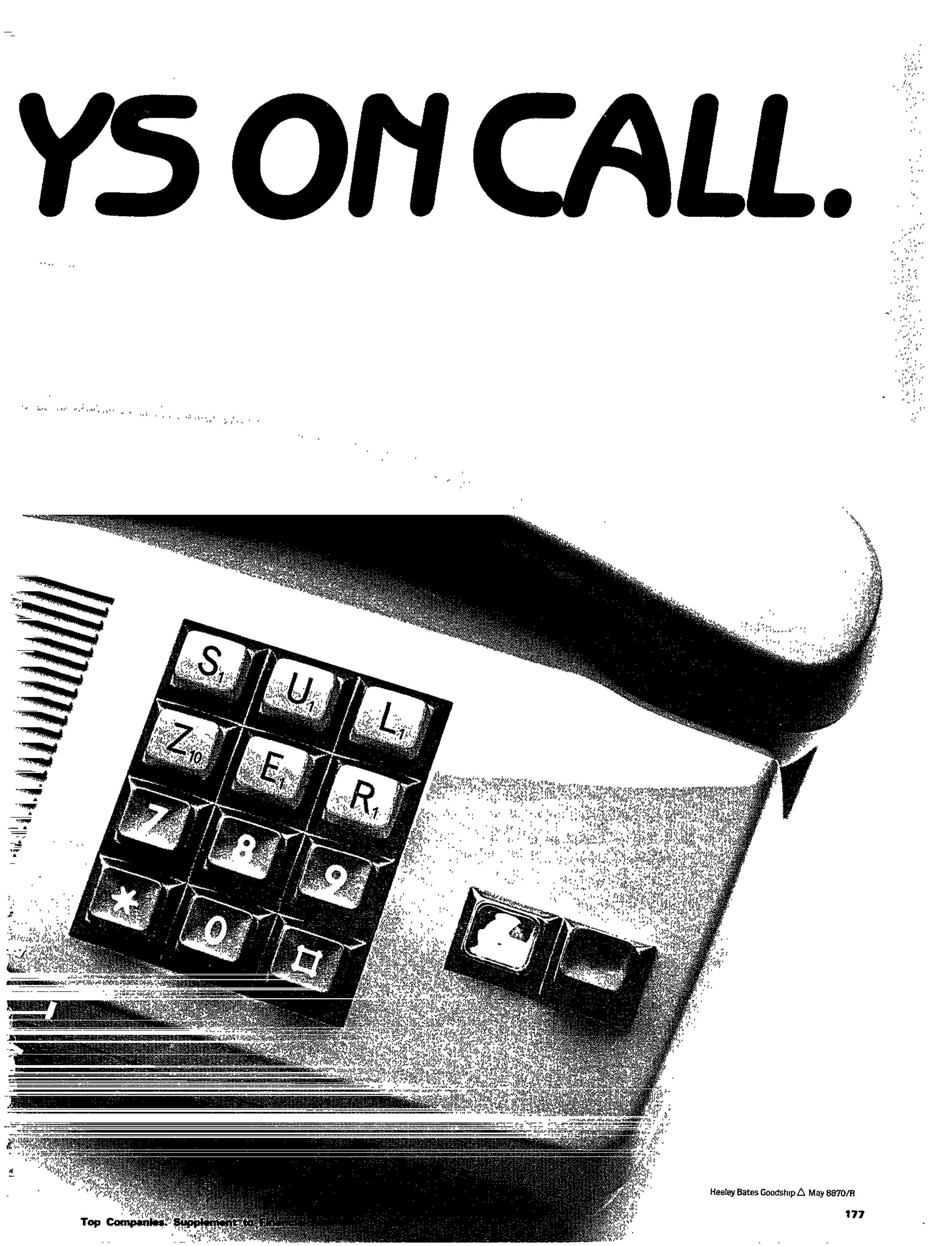
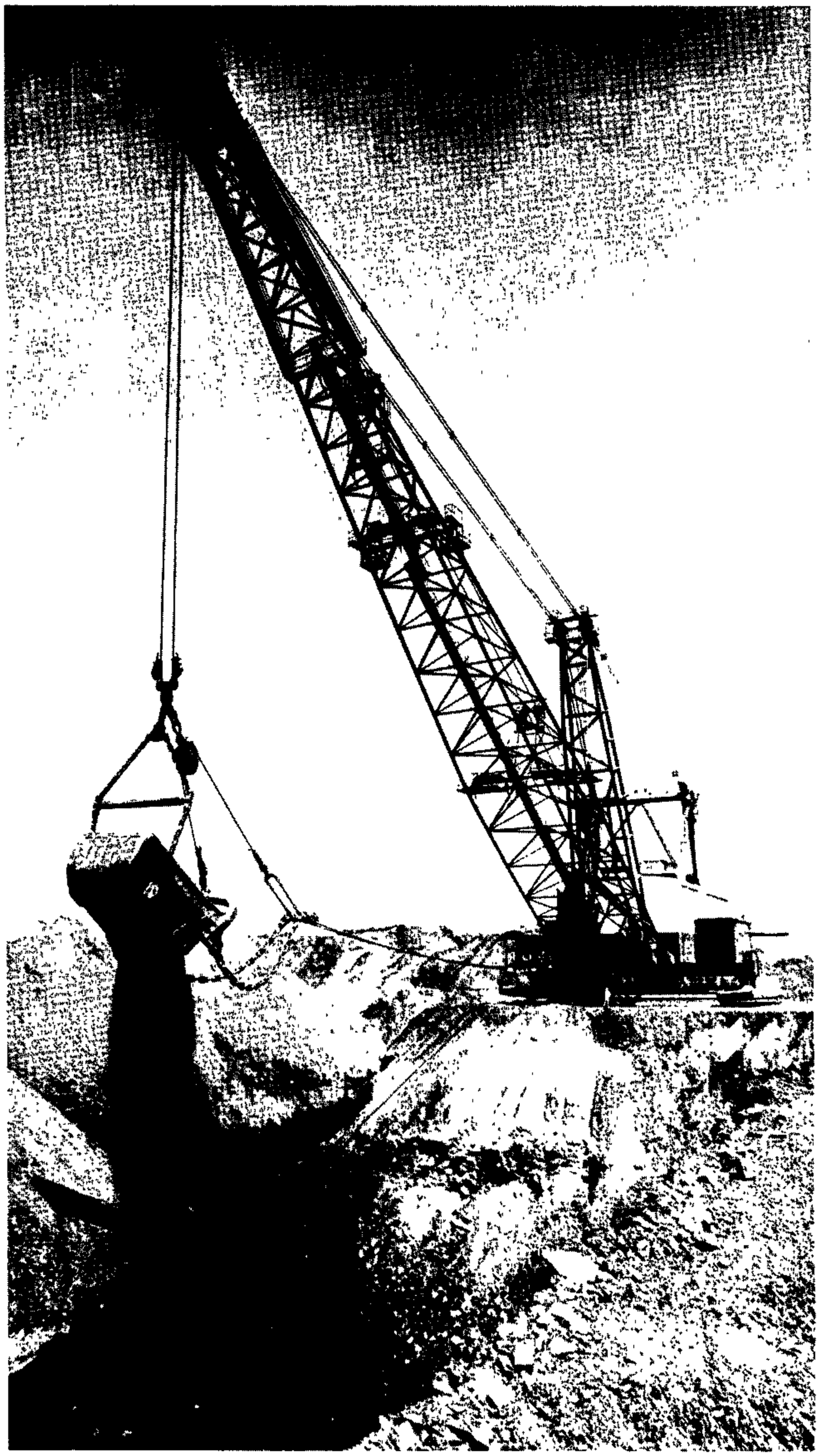


profit growth lie in its own operations and the contractual mining it carries out for others.

A year ago it appeared that **Vierfontein** would not continue in operation beyond the end of this decade. Apart from the fact that coal reserves are sufficient to maintain production at current extraction rates for not much more than seven years, there was always the chance that Escom, the sole customer, would phase the Vierfontein power station out of operation before the tied colliery's coal was exhausted. Escom has now come up with the good news that the Vierfontein power station is to be kept in operation for at least 15 years.



In coal, being small can be a drag

The colliery's problem is that it does not have good quality reserves to supply this extended demand. There is a possibility that life can be extended by opencast mining of some fringe areas and the reclamation of coal pillars previously left underground. Neither of these is particularly attractive from a profit-generating viewpoint.

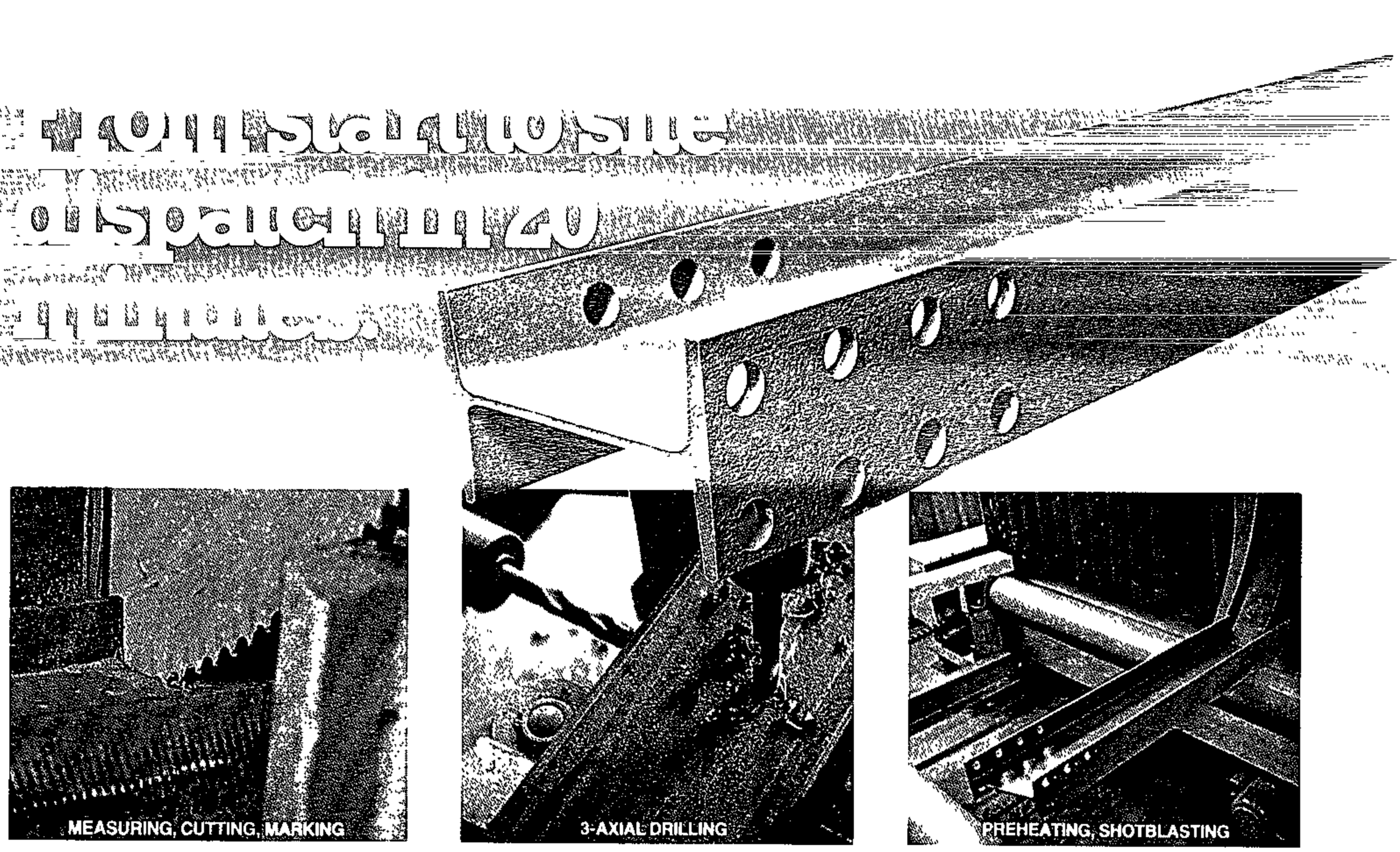
Under previous management, the operations of **Rand London Coal** were, to put it kindly, something of a mess. Under the wing of the British coal company, Burnett & Hallamshire, the company is being nursed back to some form of health. The Kempslust coking coal mine and the Brockwell mine, which produces anthracite, have been closed. The Zoetmelk colliery is producing sufficient coal to meet the company's contractual obligations and, it is claimed, has recovered some of the contracts lost through the previous management's incompetence

Full recovery will take time and money. Nevertheless, by the start of this year investors seemed willing to improve the rating of the share in the belief that the British management will revitalise the company. A 600 000 t/year export allocation has been awarded to R L Coal as part of phase 4 of the Richards Bay development. There will, of course, be no benefit from this until the end of this decade.

Natal Coal, which started 1982 as a cash shell earning income from the leasing of its 12,26% allocation of the Natal Associated Collieries trade, set about transforming itself into a coal producer by acquiring for shares Longridge colliery from Natal Ammonium and Bee Sting colliery from a company owned by the Krok twins. The latter simply owns mineral rights and coal reserves near Ogies in the Transvaal, while Longridge was producing some 570 000 t/year of anthracite. Bee Sting was to be developed to come into production in 1984. There were further plans to acquire the Springlake colliery near Dundee. This fell through, however, as the acquisition was felt to be inopportune in view of the depressed world coal market.

The good news to come from the Natal coking coal producer **Indumeni** last year was that the mine had been awarded a 450 000 t/year export contract under phase 4 of the Richards Bay development programme. The bad news was that the company's coking coal mine was closed down at the end of October at the request of the only customer, Iscor, as the steelmaker was reducing output.

If this was not bad enough, the mine announced that there was no prospect of exporting the remaining coking coal as it is high in sulphur and of poor quality. Furthermore, shareholders were warned that there are great difficulties in marketing profitably the types of coal for which export allocations have been granted. Needless to say, the company's future is in some doubt.



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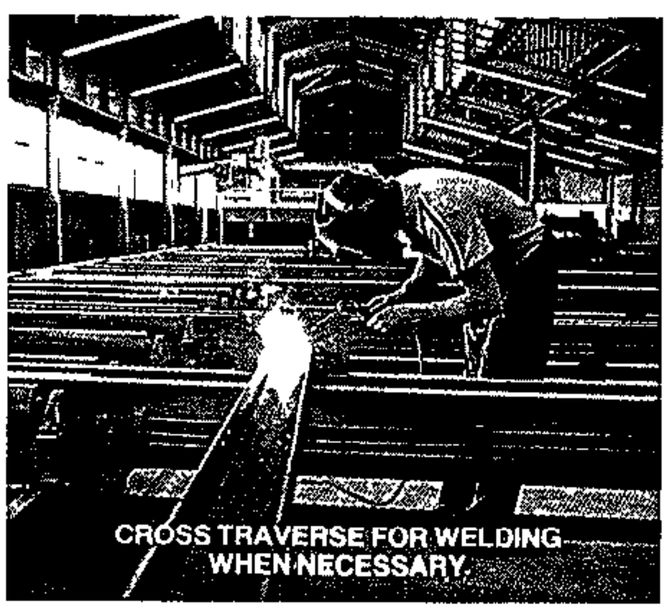

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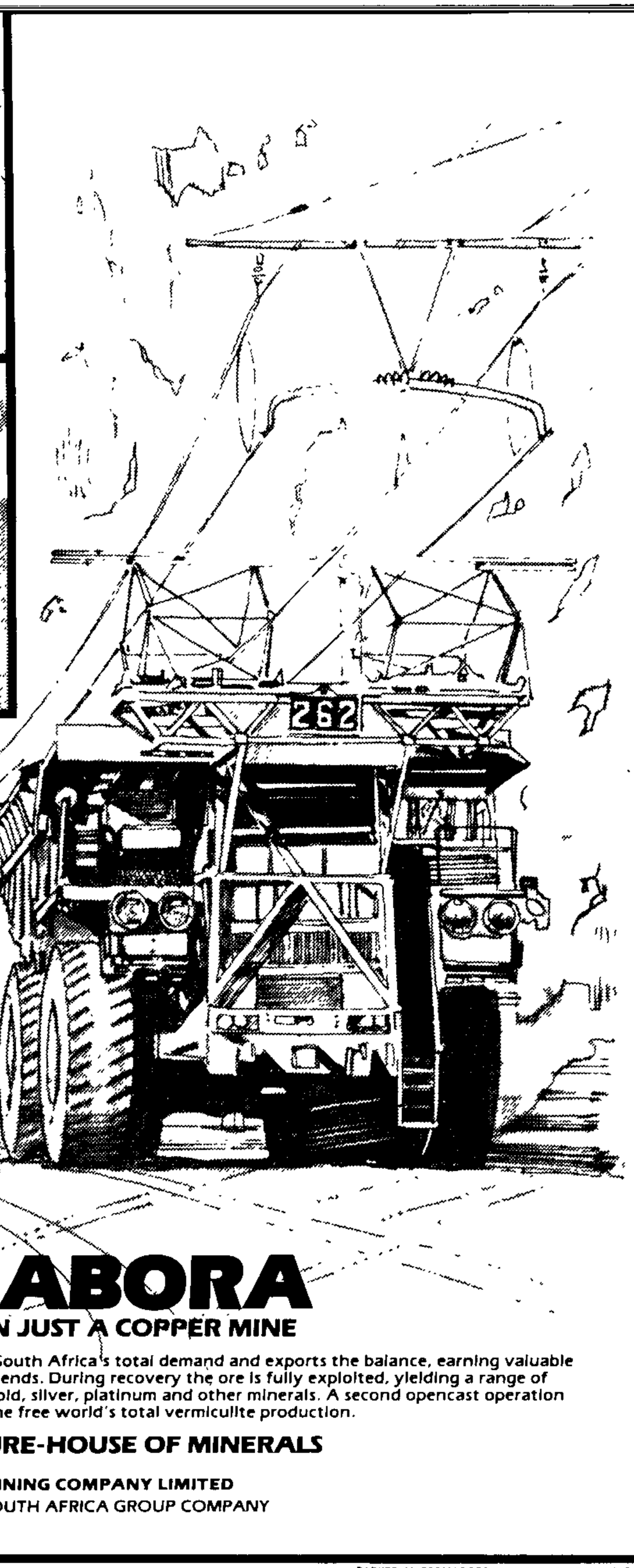

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Tougher times

Diamonds seem to be picking up but the markets for other metals are likely to stay down this year

The past year has been one of mixed fortunes for SA's mines. Not only have they had to contend with weak export markets, but they have been hit by a concurrent deterioration in local demand, as the metals processing industries cut back production.

No-one is prepared to hazard a guess as to when recovery might occur. The pragmatic seem to opt for the second half of next year as the likely recovery target, but no-one is willing to place too much reliance on that estimate. There have, of course, been one or two bright spots, though they are not of the mining companies own doing. Most important was the fact that the rand's deterioration last year protected those mines with major export sales.

Base metals ... prices are still in a hole ...

This year has started with generally gloomy predictions for most minerals. Diamonds are an exception. But the steel industry minerals, in particular, face a bleak period with prices under pressure, demand weak and little possibility of any improvement this year. The past few years have seen the rationalisation (merger is probably a better word) of various mining sectors, and the trend could well continue in 1983. Size and the production flexibility this provides are becoming important factors in the metals and minerals sector.

At the start of this year **De Beers** was still caught in the difficulties of the diamond market's recession, but its views on near-term prospects showed a degree of optimism not present for some time. There were several difficulties to contend with last year. Sales by the Central Selling Organisation, De Beers' marketing arm, which is responsible for about 80% of the world's rough diamond market, rose to R1 360m last year from R1 250m in 1981. This, though, was accompanied by a drop in De Beers' own diamond account profit to R288m from R360m and a R429m rise in the group's diamond stockpile to R1,83 billion. Furthermore, cash resources were further reduced and debt increased as the group used whatever it could to finance stocks.

Grounds for optimism were difficult to see. Nevertheless, the directors indicated several aspects of the diamond market which point to improvement. Stocks of rough stones in the hands of cutters in the main cutting centres are now back to "realistic" levels. This removes a major overhang which, it was feared, could have been dumped on an already depressed market. Cutters should now increase their purchases from the CSO instead of further drawing down their own stocks. As it was, the CSO experienced improved demand during the first couple of months of this year. And it was a demand which has extended beyond the small commercial stones into higher grades. There was, though, no sign of a revival in demand for the important and profitable large, investment-quality stones which generally provide De Beers with the largest part of its diamond account profits.

The recovery is only in its early stages. By 1985 the Ashton mine will be on stream in Western Australia, adding substantially to the annual supply of stones. The CSO has to handle this output and will need to develop further markets or demand at a time when the world's economic recovery is still in its early stages. The fact is that the CSO is firmly in control of the world's diamond market. Zaire has returned to the fold after

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a year of increasing difficulties as it tried to follow an independent marketing line. And the experience of Zaire will not have escaped the attention of other countries which market their stones through the CSO.

As De Beers builds on its marketing arm's lead position, its first objective will be to eliminate debt in its balance sheet and re-establish strong cash reserves. This will almost certainly take precedence over raising the dividend.

Major platinum producer **Rustenburg** has been involved in re-appraisals of its entire marketing strategy. The producer price quote for platinum group metals (pgm) is to become a more flexible marketing tool. No market sector, physical or paper, will be ignored and a generally more aggressive approach to the market will be adopted. For a company which has often given the impression of ostrich-like attention to shifting market trends, these developments are profound. **Impala** says it will stick to the producer pricing system.

But for Rustenburg it was obvious that something had to give. The company had paid lip service to maintaining its producer quotes even though free-market pgm prices fell well below those fixed levels last year. Rustenburg and Impala pinned their hopes on the support of customers who had earlier enjoyed the benefit of a low producer quote while free-market prices were at much higher levels. This idealised existence did not last. Major customers who had eagerly bought full contractual volumes of pgm while producer quotes were below free-market prices quickly switched their buying patterns when the price differential moved the other way.

When the free-market price was below the producer price, major contractual customers opted, sensibly enough from their points of view, for minimum contractual deliveries. The result over time was that with free-market prices weak, Rustenburg found itself with excess stocks which, when sold, would depress free-market prices even further. The alternative was to cut production, which both did, by approximately one third. Rustenburg's annual platinum output came down from 1,2m oz to 800 000 oz while Impala's was cut to about 600 000 oz. The usual production disruptions took place.

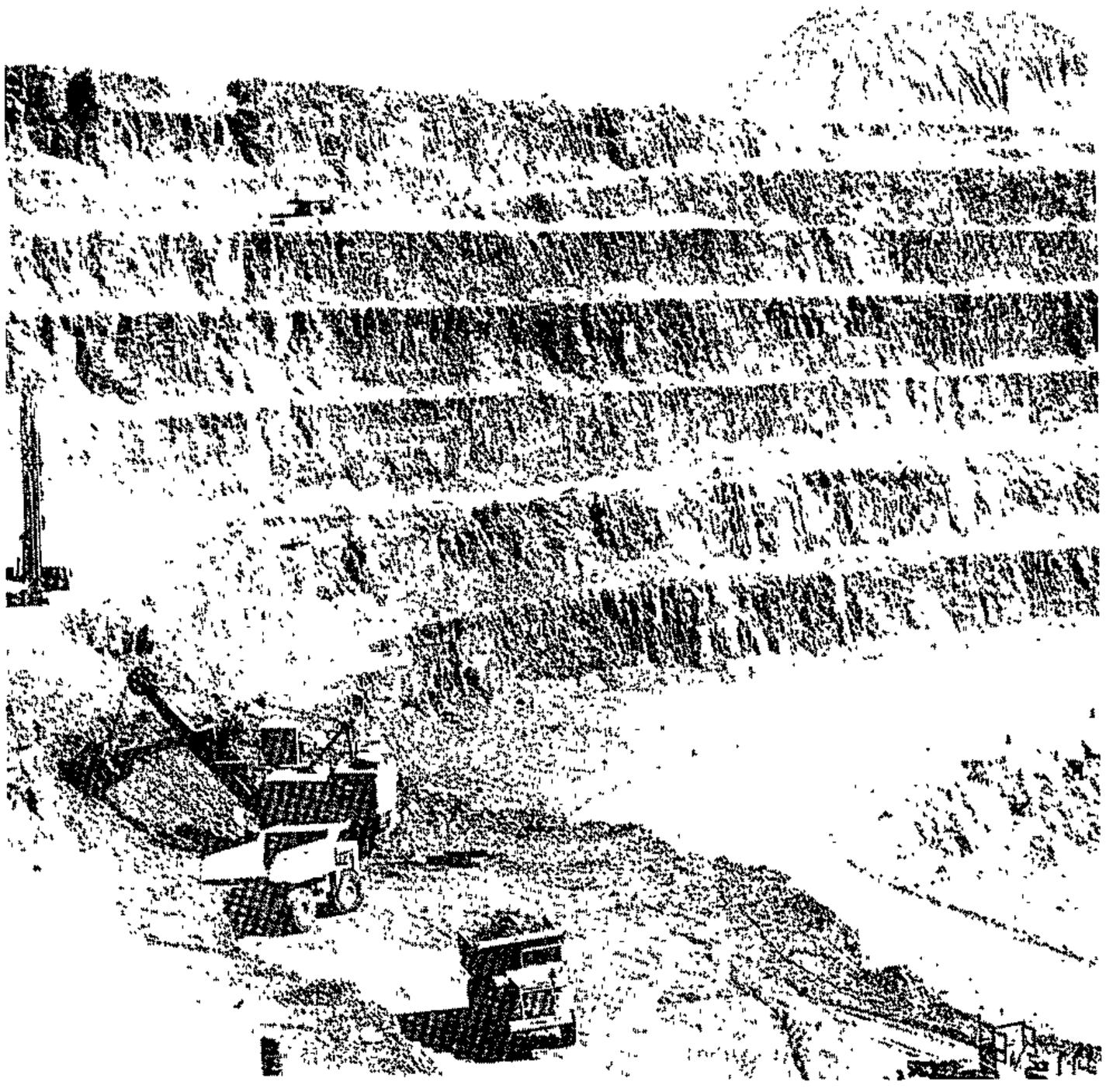
Since the start of this year, however, Rustenburg has decided to adjust producer quotes more frequently, to reflect market forces more closely. If anything, this should result in greater price stability than was possible under the earlier, less-flexible pricing strategy. In addition, it should allow both producers to operate at steadier production levels. As Rustenburg's chairman Gordon Waddell admitted to shareholders, the previous pricing system removed control of sales strategies from Rustenburg's hands.

By the start of this year, in any event, things were looking up for the platinum producers. Platinum prices on the free market had strengthened in line with gold, investment demand was picking up, and major customers, perhaps in anticipation of higher free-market prices, were indicating that they were looking for increases in contractual deliveries.

These developments, however, were not seen as making a major change in the platinum market's underlying state by Waddell. Generally demand remained weak and he believed a recovery to full capacity operations by the mines would have to await a complete recovery in the world's economy.

OTHER MINES

RANKED BY: Net profit		Net profit	Mkt cap at 31/12	Year-end
		Rm		
1	**De Beers**	**427,6**	**3 004,2**	**Dec**
1		628,3	3 094,2	'82
2	**Impala**	**89,5**	**599,6**	**June**
3		126,7	472,7	'82
3	**Rustenburg**	**41,0**	**927,4**	**Aug**
2		120,0	664,2	'82
4	**Samanco**	**38,2**	**538,7**	**Feb**
6		24,9	449,3	'82
5	**Ass Mang**	**24,3**	**372,6**	**Dec**
7		16,2	319,3	'81
6	**Palamin**	**27,9**	**474,3**	**Dec**
4		19,8	356,8	'82
7	**Rooiberg**	**9,4**	**35,8**	**Dec**
8		7,1	37,9	'82
8	**Gefco**	**6,0**	**93,4**	**Dec**
10		2,9	31,1	'81
9	**Con Murch**	**1,2**	**28,1**	**Dec**
12		4,6	25,4	'82
10	**Msauli**	**2,3**	**7,1**	**Dec**
9		3,2	13,2	'81
11	**Trnshex**	**1,6**	**13,5**	**March**
18		0,0	11,6	'82
12	**Uni Tin**	**0,1**	**2,9**	**Dec**
11		1,0	4,3	'82



. . . but some holes are better than others

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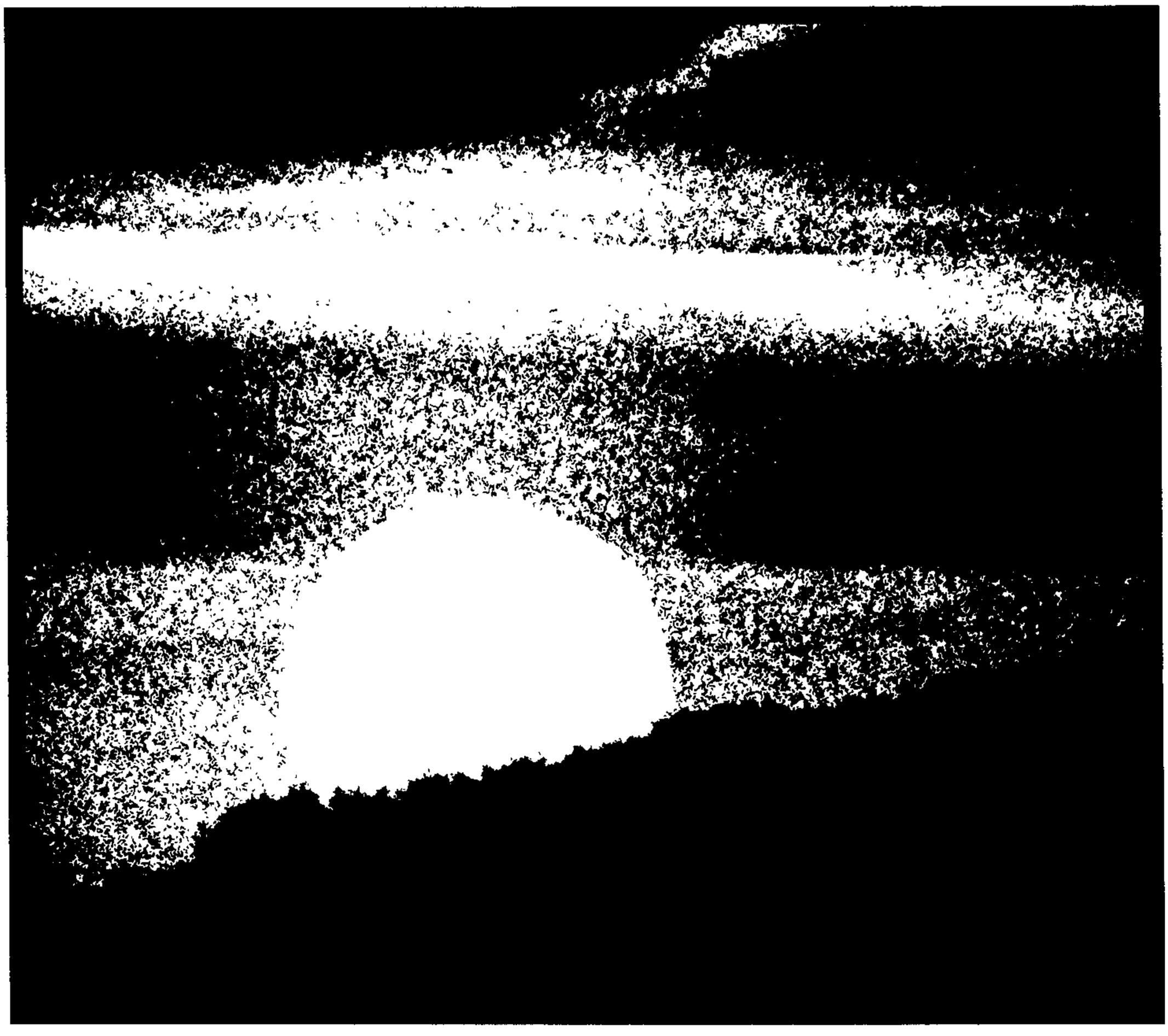

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Platinum, it should be remembered, is an industrial metal first and foremost. Its precious metal attributes are much less important, and the speculative/investment sector of the platinum market is much smaller than the industrial/jewellery sector. Nevertheless, encouragement of the speculative market appears to be a strategy to which Rustenburg is not averse. It is prepared to trade actively in the New York Mercantile Exchange (Nymex), the major speculative market for platinum.

SA investors have only one choice when it comes to copper shares: **Palabora**. The other JSE-quoted issues with copper interests simply do not bear consideration by anyone looking for a play in the metal. Messina's mine in SA is staggering along with the crutch of State aid. MTD Mangula is not only making losses but has to contend with the logistical difficulties of operating in Zimbabwe. And ZCI is unlikely to see anything from its Zambian copper interest for years.

To come back to Palabora, however. The open-cast mine in the northern Transvaal is among the world's most efficient. Despite its relatively low grade, it has remained profitable while other larger and richer mines have slipped into losses with copper's price weakness. It has, of course, been protected by the decline of the rand against other currencies, but this is hardly a major consideration in Palabora's case.

The project to extend the life of the open pit is well in hand and tonnages hauled from the pit are being maintained at the higher levels needed. The one outstanding fact about Palabora is its consistency. The mine can sustain copper recovery grades indefinitely and its sales are secure. Of lesser importance are the mine's by-products vermiculite, magnetite and uranium. The first suffered last year as a result of declining construction and house-building activity, the second continues to be affected by the world steel industry's slackness.

The three quoted tin producers have, as usual, been at the mercy of international tin prices and the efforts of the major producing nations to squeeze high prices out of industrial nations in the grip of recession. On the whole, though, economic forces proved decisive and over the past year tin prices declined. Not that this affected **Rooiberg, Union Tin** and **Zaaiplaats** particularly badly. They were sheltered, at least until the third quarter of 1982, by a declining rand: dollar exchange rate. This changed in the final quarter and Union slid into a loss. The small mine, which has been threatened by closure for some years, again lacks adequate tonnages of payable ore and will find survival until the next tin price boom something of a problem.

Rooiberg, on the other hand, is in the midst of a major programme to increase output and extend the scope of its mining operations. Its relatively heavy capital commitments can be covered with internally-generated funds. Similar considerations apply to Zaaiplaats. It has had to replace a large part of its plant during the past two years as the older equipment (and some of it was practically antique) had simply reached the end of its life. Once the mine and plant has been refurbished and production rates increased, Zaaiplaats should again be a sound dividend generator. Performance this year for all three tin mines will depend heavily on what happens in international tin markets. Tin stockpiles are large and to move them to consumers who are in no mood to add to their own stocks will prove difficult.

Last year's antimony market difficulties resulted in an undisguised desire for secrecy by **Consolidated Murchison's** directors. At mid-year the mine stopped telling shareholders details of its interim production, grades, sales and so on, leaving them completely in the dark and with no realistic means of valuing the company's shares. Management's reasons have been heard before, from the directors of other companies which have opted to cover up their operations — disclosing operating details, it was claimed, would give competitors an unfair advantage.

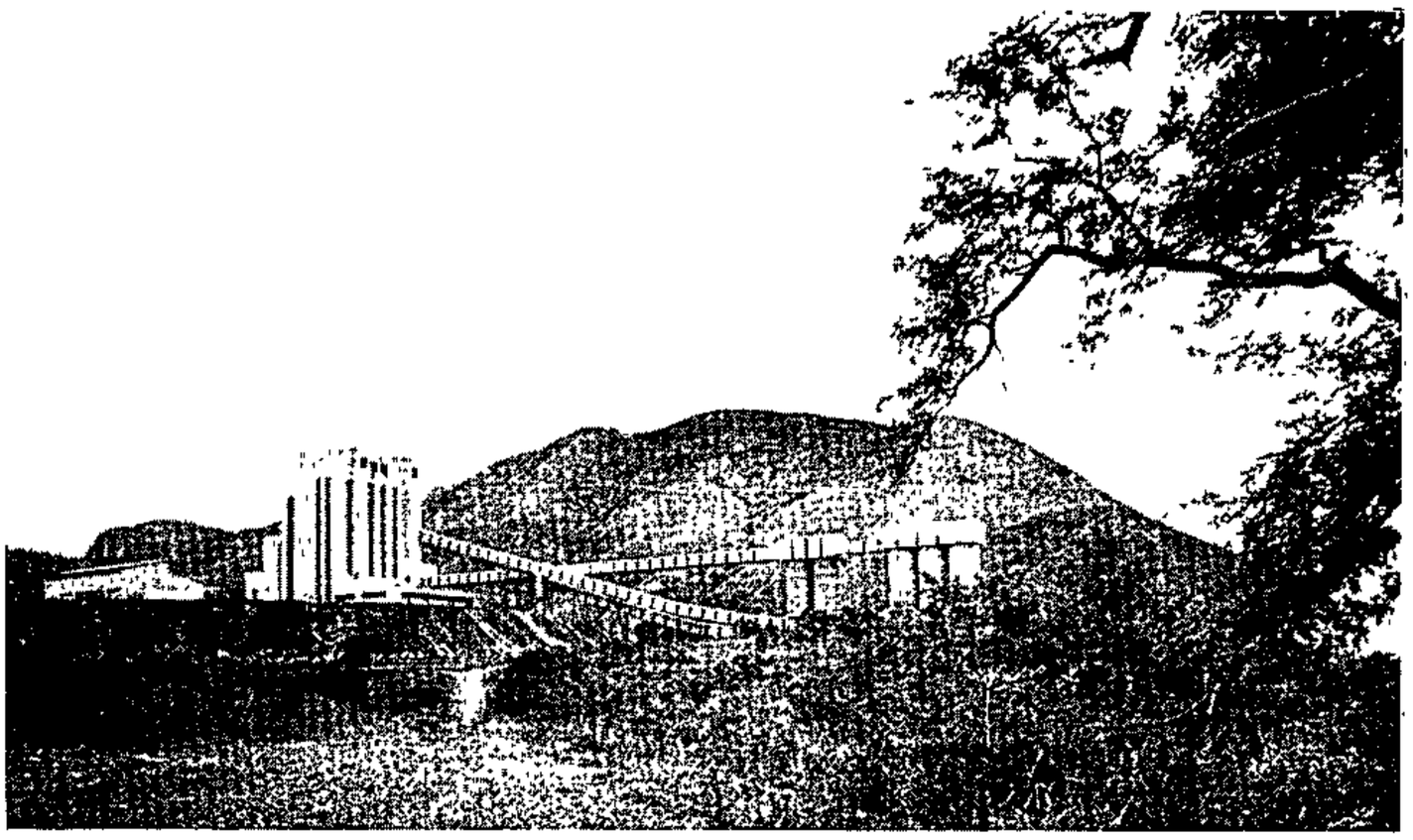
As it was, Consolidated Murchison's MD said that almost wherever one looked in the antimony world the Bolivians, who are Cons Murch's biggest competitor — were actively selling at what appeared to be distress prices. About the time the mine was deciding to tell shareholders less, it parted company with its marketing director, a development which did little to improve the marketing position during the remainder of the year. Taken as a whole, 1982 would have resulted in a major operating loss for the mine had it relied solely on antimony for its income. Fortunately, there were gold sales to save the day and they will almost certainly do the same trick this year, particularly as the antimony market was showing no early signs of revival.

Little progress has been made in locating major new orebodies which are needed if the mine is to have a life of much more than seven or eight years. This, though, is a minor consideration when put against the antimony market's continuing slackness. Detroit's reduced production levels have resulted in lower demand for antimony oxide as a flame retardent in auto trim plastics. And matters are not helped by the steady demise of the lead-acid battery, which uses antimony to harden plates, in favour of the low-maintenance type.

Valuing Cons Murch's share would be straighforward if one had to consider simply its annual profits. However, the mine is holding a stockpile of antimony cobs and concentrates totalling some 18 000 t. Though this is worth well over R15m at current market prices, it is carried at zero in the mine's accounts — its cost of production has already been absorbed, so when it is sold it will result in almost pure profit for the mine.

The past year has been one of mixed fortunes for SA's two quoted asbestos companies, **Msauli** and **Gefco**. The former, which produces chrysotile asbestos, suffered from production bottlenecks and ground movements. Costs are increased as mining reaches greater depths and there were difficulties over the sinking of a new and necessary shaft because of geological problems. The mine's cash requirements to provide additional facilities are large. Something of a mixed blessing have been the growing fears that asbestos is a health hazard. This has caused the Canadian majors to curtail production, leaving the field more open to the likes of Msauli. On the other hand, the world market for asbestos has been in something of a decline in response to the general recession.

Gefco, which produces the more controversial crocidolite or blue asbestos, has been even more plagued by health scares. Last year it had the full benefit of the acquisition of TC Land's asbestos interests, which left it virtually as the world's blue asbestos monopolist. To some extent this is allowing the mining company to optimise



Msauli ... asbestos suffered with other minerals

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its operations in response to marketing problems, but it has not yet resulted in a major profit surge. The fact is that the asbestos producers have been through this sort of situation before. They tend to make hay while the sun shines and pull in their horns when markets turn against them. This latest market phase has not differed materially from other set-backs.

The most attractive feature of 1982 as far as **Samancor** and **Associated Manganese** were concerned was the early deterioration of the rand against the dollar. During the first six months at least this meant that both of the quoted manganese ore and ferro-alloy producers were able to increase profits despite steadily poorer market conditions. The world's steel industries are in recession, and instead of buying new ore and ferro-alloy, they have tended, where possible, to reduce inventories. Faced with eager sellers, they have frequently managed to force alloy prices down. Just how long this will continue is anyone's guess. Recovery will have to await a general world economic advance — something which appears to be pushed further out each time an estimate is made.

Recession worldwide has led to yet another factor making life difficult for SA's highly efficient alloy producers. As a means of preserving jobs, economically-troubled advanced countries have tended to keep their own inefficient alloy production facilities in operation, rather than bowing to economic inevitabilities and allowing inefficient plants to go to the wall and their markets to be filled with imports from more efficient foreign plants. An extension of this is that once the world's economic situation improves, imports of ferro-alloys will be less restricted on nationalistic as well as economic grounds.

In the meantime, however, the mines and alloy production facilities of Assomang and Samancor are faced with the prospect that under-capacity operations will not terminate at an early date. There is also the problem of the rand's recovery against the dollar in the wake of the gold's price recovery. This could well pare the profits of the manganese and alloy companies.

The small Namaqualand-based diamond **producer Trans Hex** has adopted a slightly different strategy to that of the much larger De Beers in response to the diamond market's flatness. The dividend is being maintained, although at the expense of lower cover. The stated plan is to allow stocks to rise while sufficient sales are made simply to cover operating costs and the maintained dividend. Of course, the company has had little alternative in the recent diamond market.

Trans Hex is itself playing a more active role in diamond production. Its agreement covering offshore mining with Dawn Diamonds has been terminated, and exploration and development of the concessions will now be done by the company. Dawn was aquired by Trans Hex for R1,8m last November.

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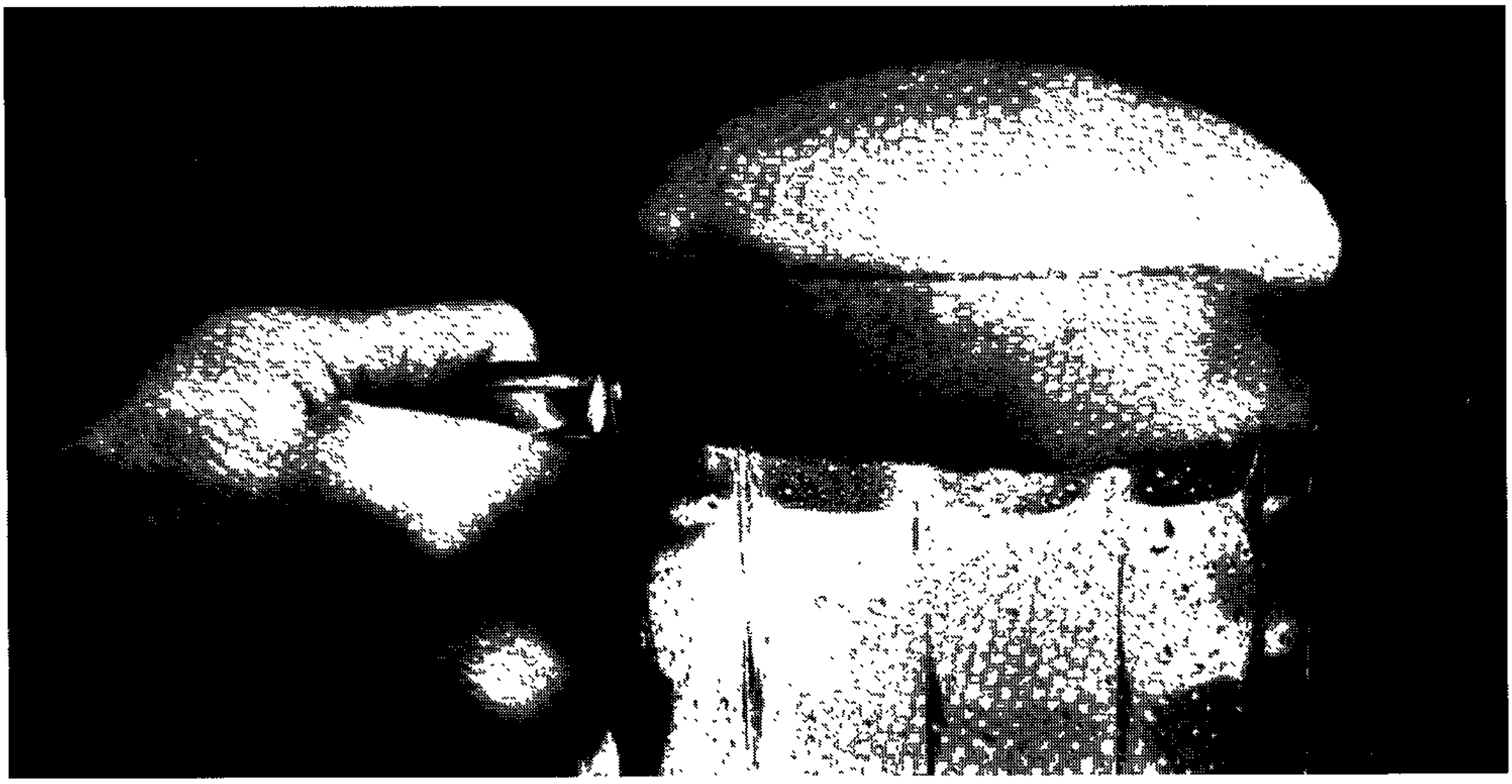

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Steady growth expected

Property held firm during 1982. Rentals peaked in the last quarter. This means growth will be down from the high base of the last three years

Between 1980 and 1981 property investors saw rentals double and in some cases even treble. For the first time since the 1976-1979 recession, property was showing realistic returns. However rentals, which peaked during the last quarter of 1982, will actually decrease in real terms during 1983, with inflation at its current 14% level. But in the main, the 1982 peak levels are being maintained in nominal terms and the market remains steady.

The time lag in property has meant that, while other sectors of the economy cooled down during 1982, industrial and commercial rentals continued to rise, reaching the plateau in the last quarter of last year. There were signs of a small surplus of space on the market, but not enough to cause concern in the industry.

With the disastrous miscalculations of the Seventies not far off, property investors are now planning ahead and establishing viability and demand before committing themselves to projects As a result, few large spec projects are likely to come on stream that are not either pre-let or at least have major tenants. Leases, too, reveal more caution. Landlords are writing in rent reviews that allow rentals to revert to market levels at three or five yearly intervals and as a result are seeing acceptable levels of growth. Escalation clauses have moved from historic 5%-6% and are now closer to 10%.

At the same time participation mortgage bond rates peaked at 20%. Although there is little prospect of rental increases over the next year, investors who moved into negative gearing during the rates rise and who had no way of boosting income through lease renewals or reversions, will now probably begin to see positive returns. Rates are expected to fall to below 15% before the end of the year. Institutions and property trusts, which may not borrow, will not have been affected by oscillating interest rates.

Trusts, of course, should have the edge on the quoted property companies. They were not geared to rising interest rates in the last two years and have seen consistent growth. Property trust profits are not taxed as is company income, although distributions are taxable in the hands of the unit holder. As a result, the trusts have had a ready market in the life companies and pension funds, which also have tax advantages.

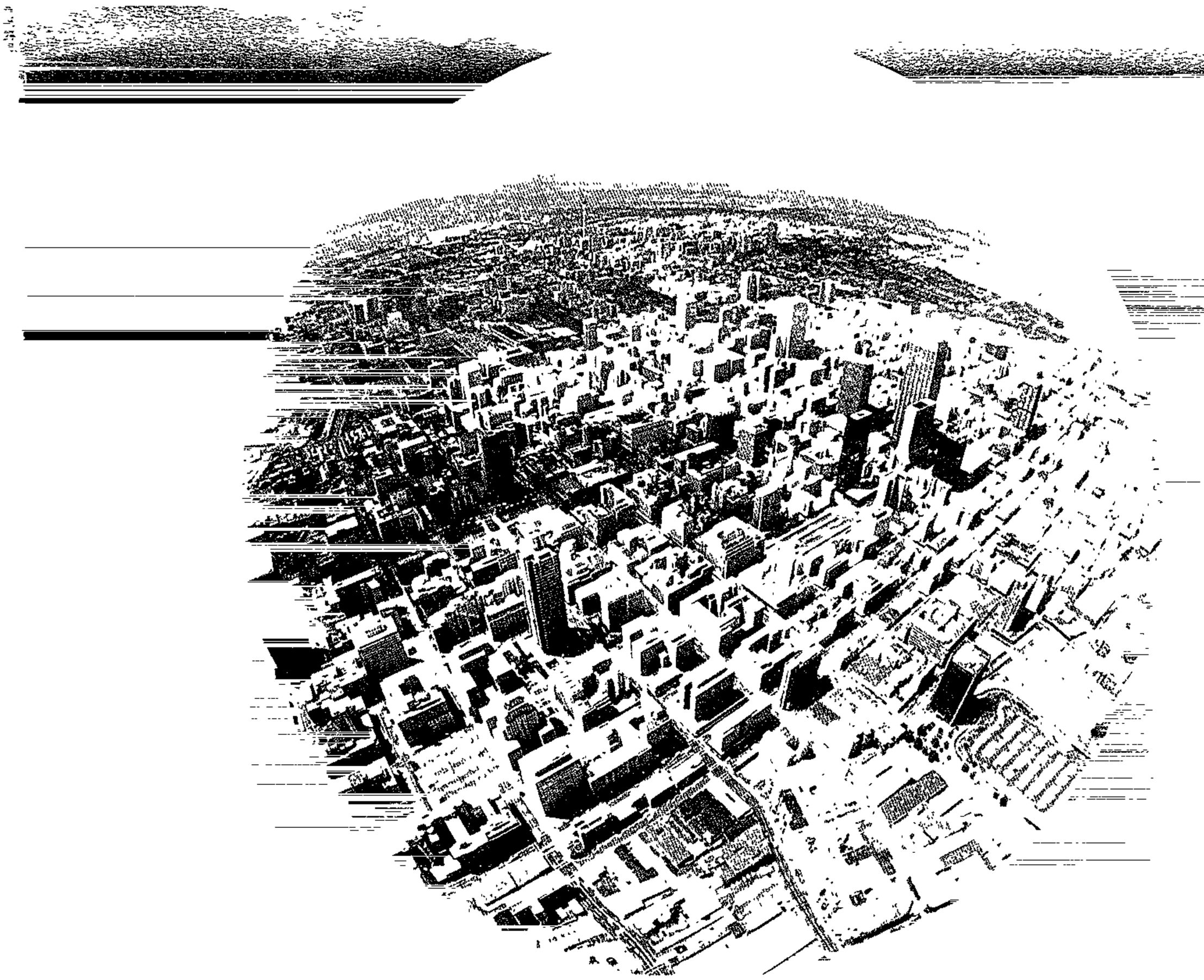
During the Sixties and Seventies, the property market was dominated by the institutions. Unlike private investors, which had to contend with interest rates that were no longer fixed over the life of a loan, institutions did not have to gear their investments. Now the Eighties, it seems, could be turning into the decade of the trusts. Many of the trusts have made an appearance in the last four years and, similarly unconstrained by gearing problems, they are becoming increasingly popular.

However, Amaprop, which has had the bulk of its borrowings at a 10% fixed rate of interest, has been less affected by high interest on its debt. It boosted profit attributable to shareholders by 18%, from R4,5m to R5,3m in the six-month period to September 1982. It expects results of the second half of the year to be improved. Although it did not declare a dividend, earnings per share were up from 10,76c to 12,7c.

Amaprop has several major developments on the go, including the R70m 11 Diagonal Street, Anglo American Life Towers, a major Durban CBD office block and the Pine Parkade linking-up with 320 West Street. Most of the projects have both tax and gearing advantages and future pro-

PROPERTY COMPANIES

Ranked by: Market value	Ranked by: Equity funds		Market capitalisation	Equity funds	Long-term liabilities	Taxed profit	Year end
			Rm				
1	**6**	**Unidev**	**158,8**	**43,4**	**8,7**	**6,6**	Dec 81
3	6		83,9	41,9	6,6	4,8	
2	**1**	**Amaprop**	**140,3**	**206,9**	**22,5**	**9,8**	Mar 82
1	1		163,7	138,1	11,0	3,5	
3	**3**	**Fedfund**	**134,5**	**71,4**	**5,9**	**10,5**	Dec 81
2	3		121,4	71,4	4,6	7,8	
4	**7**	**Pioneer**	**107,4**	**40,5**	**2,9**	**5,4**	Dec 81
5	7		72,3	40,5	2,5	5,0	
5	**2**	**Cenprop**	**105,1**	**77,0**	**4,4**	**7,7**	Dec 81
4	2		76,3	76,7	n/a	n/a	
6	**4**	**CBD Fund**	**101,5**	**59,9**	**n/a**	**0,0**	Oct 81
6	5		71,3	0,0	n/a	n/a	
7	**5**	**Sanland**	**61,4**	**51,1**	**2,9**	**2,9**	June 82
8	9		19,2	14,9	0,4	1,8	
8	**8**	**Bester**	**22,8**	**25,2**	**62,2**	**6,8**	Feb 82
7	8		19,8	19,8	59,0	6,1	
9	**10**	**Retco**	**21,5**	**11,8**	**6,9**	**1,2**	June 82
9	4		14,3	69,2	5,8	3,3	
10	**9**	**Sable**	**17,9**	**14,2**	**2,7**	**1,4**	Aug 82
11	10		12,8	11,6	1,7	1,0	
11	**12**	**Tomkor**	**17,6**	**7,9**	**2,3**	**1,3**	Feb 82
10	12		12,8	6,9	2,3	1,0	
12	**11**	**Vetrust**	**12,2**	**8,5**	**0,7**	**1,1**	Mar 82
12	11		8,4	8,4	0,4	0,8	
13	**17**	**N Kleins**	**5,7**	**1,2**	**0,3**	**0,6**	Dec 81
16	17		3,4	0,7	0,8	0,0	
14	**14**	**Picprop**	**4,0**	**5,5**	**2,4**	**0,6**	June 82
13	14		5,1	5,0	2,0	0,4	
15	**15**	**K & L Tim**	**3,8**	**4,1**	**4,2**	**0,3**	June 82
14	15		4,3	4,2	0,7	0,9	
16	**16**	**Confed**	**3,5**	**3,0**	**0,2**	**0,4**	Dec 81
17	16		2,7	2,6	0,3	0,3	
17	**13**	**Brist In**	**3,0**	**5,7**	**1,6**	**0,3**	Feb 82
15	13		4,3	5,1	0,6	0,3	



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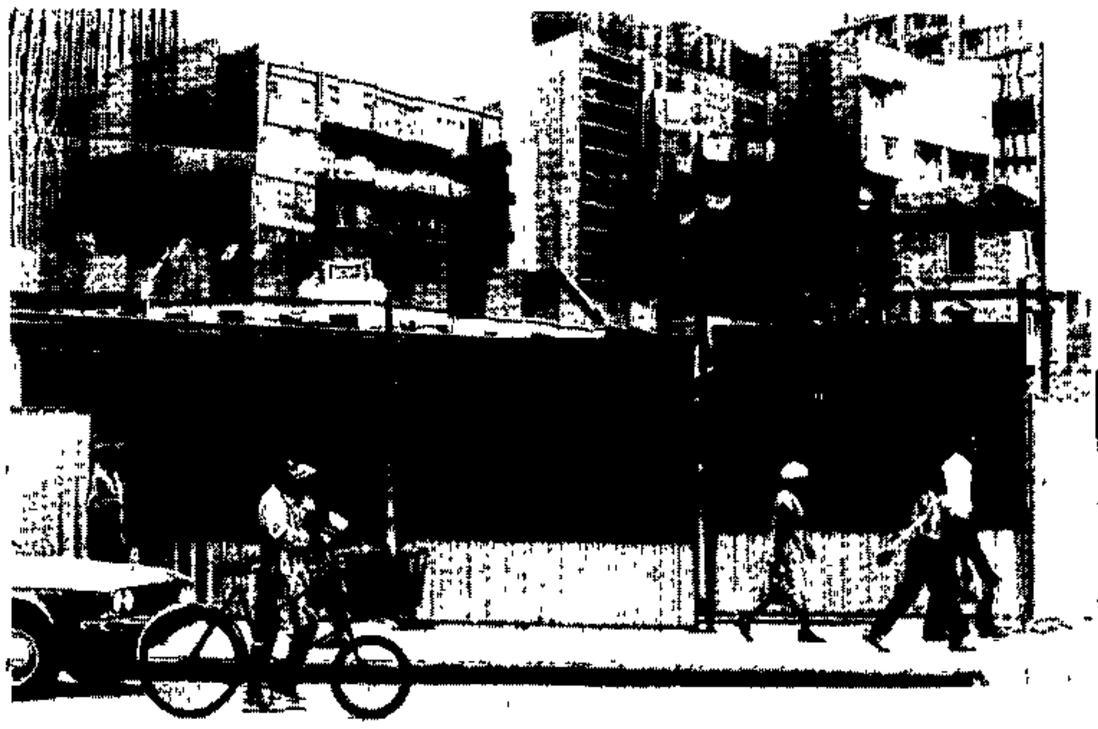
jects are likely to be similarly structured to earn required yields.

Unidev, now in the Standard Bank stable, which moved into top place in terms of market capitalisation ranking (see table), raised rental income from R19m to R23,2m, an increase of 22% in 1982. Attributable profit was up 35,3% from R6,62m to R9m. Correspondingly, earnings of 40,05c were sharply up on the 29,6c in 1981.

Standard, however, has plans to convert Unidev into a trust. But before it can form a trust, it will have to clear liabilities because trusts' assets must be unencumbered. The new trust will include 90% of the Unidev portfolio, comprising a good range of properties built since the Sixties with replacement value placed at R250m at December 1981. Unidev will maintain its listing and be poised to undertake new development — as a company it will not have borrowing constraints. The new trust will be advantaged by non-taxable profits. Shareholders are to be made a swap offer in the first half of 1983.

Pretoria-based Tomkor should be in a good position to take advantage of the space shortage in the city and last year announced plans worth R10m in new commercial and industrial property investments.

Sage-managed Fedfund, which has a nucleus of retail properties (retail 55%, offices 17%, residential/hotel 11%, commercial/industrial 9% and parking 8%), does not expect the 1982 results, on a high base, to be maintained in 1983. Cash reserves are earning lower interest rates and declining consumer spending will take the cream off last year's returns. The 16 retail properties, let to OK, are not likely to maintain last year's high contribution of growth to revenue through turnover related leases. However, the office component in its portfolio is fully



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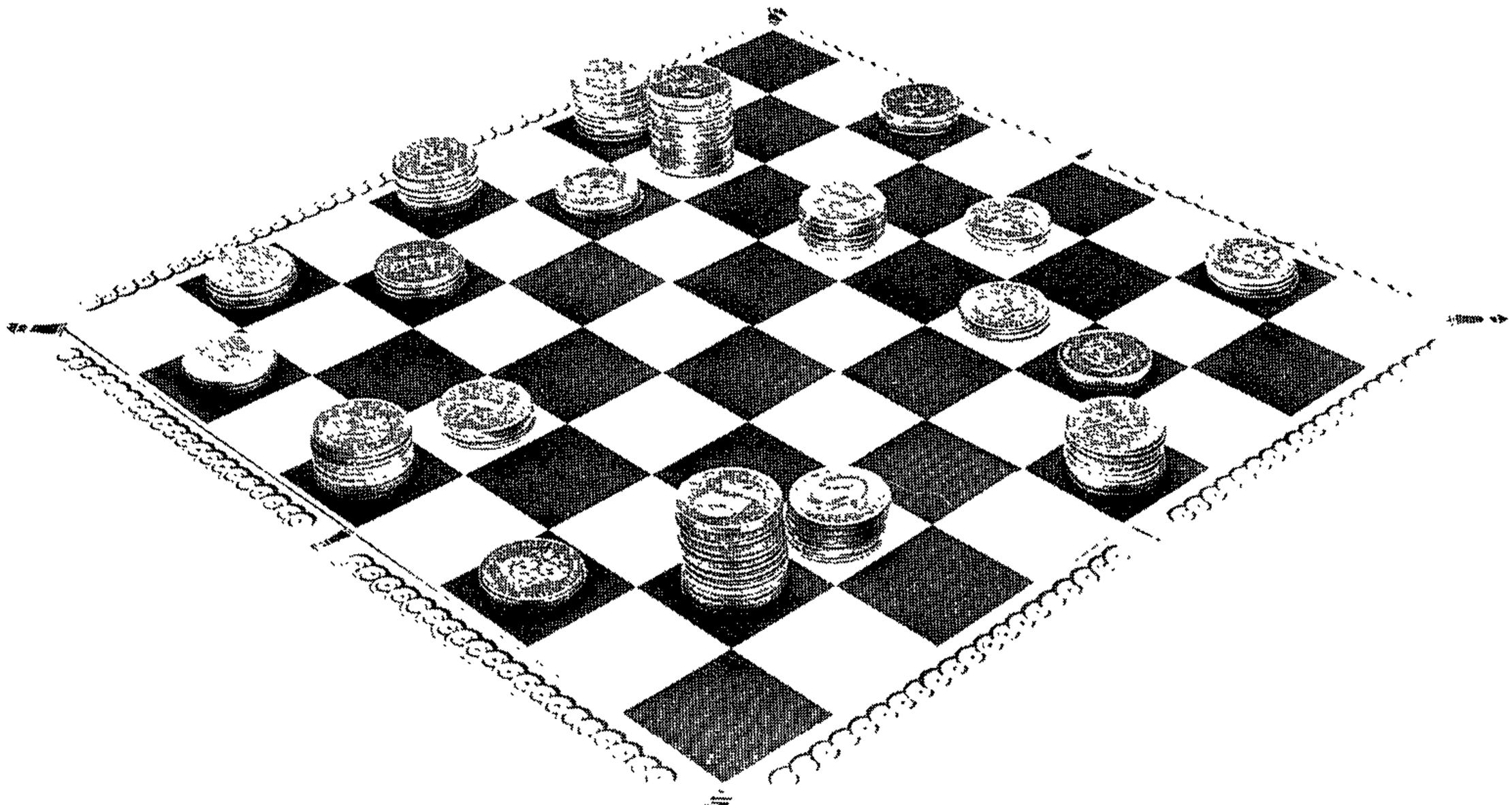

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RANKED BY:

Market value	Asset value		Market Capitalisation	Equity funds	Taxed profit	Year end
			Rm			
1	**1**	**RM Prop**	**113,5**	**69,6**	**13,9**	**Sep**
1	1		93,0	59,2	19,8	82
2	**3**	**GF Prop**	**23,5**	**24,9**	**5,0**	**June**
2	3		14,6	24,6	2,4	82
3	**2**	**Tuckers**	**14,5**	**15,4**	**1,4**	**Dec**
3	2		7,3	15,9	5,5	81

let and expected to continue to show steady growth. Sage hopes to broaden Fedfund's property base to lessen cyclical effects in any one sector, on the portfolio. In 1982 net distributable income per unit rose 26,3% to a record 20,27c (16,05c in 1981).

The results of the other Sage-managed funds, Pioneer and newcomer CBD Fund, were also ahead of forecasts.

Pioneer, comprising almost purely commercial and industrial property, is well placed for growth. It raised R26m through a rights issue early this year to take advantage of investment opportunites and to develop industrial land in its portfolio. A portion will also go towards upgrading and renovating existing properties. Sage promised 15,81% growth during 1982. Net distributable income increased 17,2%, ahead of expectation, to 15,2c (12,97c in 1981). Sage expects dividends to be no less than 17,8c/unit for 1983.

The expectation is not without basis. Industrial property is traditionally the strongest sector. Industrial yields have grown ahead of inflation since 1970. But yields in the office sector, despite large incremental rental increases between 1980 and 1982, have not done so over the same period.

CBD Fund, comprising the core of the old style Retco, forecast a 10,8c earnings per unit at formation in November 1981 for its maiden year. But rental growth was ahead of expectation and the higher rates of interest on cash reserves pushed up income and it declared a dividend of 6,56c on earnings per unit of 12,66c.

Retco, moved into the flat conversion market, despite a rather shaky start. The dispute over the Waldorf parking site was resolved when Sage's application for a Supreme Court interdict preventing Retco from developing the site was dismissed. Doubt over the real value of several blocks of flats exchanged for R32,6m Retco shares also appears to have been dispelled. At December 1982, Retco had R5m of sectional title and shareblock sales behind it. The share price has doubled from 10c in July 1982 to the recent 20c. The company declared a taxed loss of R3m in the 26 months to June 1982, but in the first quarter of 1983 declared an interim dividend of 1c.

Sanland, Bankorp-controlled, decided to offload 14 of its less profitable properties during 1982 in an attempt to streamline its portfolio. Earlier in the year, it bought 12 prime properties in the Trust Bank portfolio. The trust expects to boost income by disposing of the properties which feature long leases and fixed low rentals.

The industry is now looking ahead and taking advantage of the economic lull by building now while interest rates are moving downwards. Building cost escalations are now the lowest they have been for six years. As in the past, timing is the critical element. By building on the downside, the intention is to time projects to come to market when demand is again strong and

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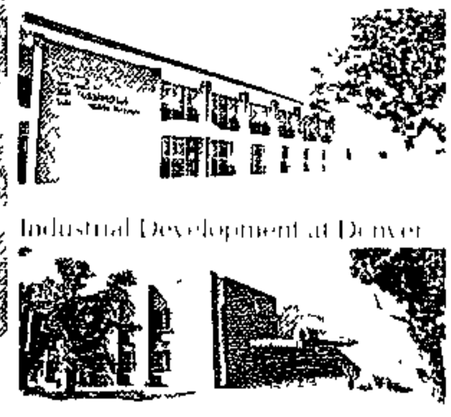

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Metropolitan Rand ... prices reflect the growing shortage

when rentals start moving upwards, thus making the most of both worlds.

While commercial and industrial property is in a lull, the residential sector continues to grow. There was more residential building activity during 1982 than the previous year, despite the bond drought, and home prices continue to rise. Township developers, although hamstrung by legislation which will keep only those with strong financial backing in the market, should make a killing in the next decade. An increasing scarcity of residential land near metropolitan areas and growing suburban nodes is inevitable.

Industrial land continues to command good prices. The government's decentralisation programme has set a premium on well-located and serviced industrial land which is reflected in both prices and rentals. Rand Mines Properties, which has successfully reclaimed large areas of old mining land, should arguably continue to lead the market in its commercial and industrial township development.

The average yield on property shares earlier this year was 3,9%, a particularly slim return. The market had clearly foreseen the boom in rentals and in property prices, but with market conditions now softening, it is possible that returns could rise.

Property trusts yield a more favourable 7,6%, with Fedfund and CBD even more attractive at around 8,2%. Though there are tax differences, the trusts seem to offer good value as well as steady income.

BUILDING SOCIETIES

Back in the political arena

The mortgage rate has begun to decline, but house price rises are continuing

This year the building societies face the heat of political controversy once more, just as the mortgage rate is about to begin an inevitable decline. The irony, of course, is that last year the societies were able to distance themselves from the political implications of a mortgage rate rise just as, in fact, this rate was increasing.

There are two things about which the societies ought to be thinking hard at present. The most immediate is the situation in the market place and the impact it is likely to have on those seeking for the first time to buy their own homes.

A very similar situation to that at the time of the 1979-1980 upswing in business activity is facing the societies now. Their response then was to take on deposits — with some paying over the odds to do so — as liquidity built up in the financial system. In their enthusiasm to lend what were ultimately to prove feckless deposits, the societies were a catalyst, along with the rises in materials and construction costs, of significant house price increases. As confidence in property investments returned, the societies lengthened commitments that proved hard to meet and a two-year housing drought followed.

Towards the end of last year, as liquidity surged into the economy through the balance of payments, the net new inflows of deposits to the societies raced ahead (see graph) once more.

This created a growing capacity in the building society movement to lend. Normally, with the economy in deep recession, a diminishing inclination to borrow from them could be expected, with declines in the mortgage rate the inevitable consequence. Trouble is that demand for mortgages is not showing any material tendency to diminish. House prices and sales volume are still on a rising trend.

There are a number of reasons for this continued high demand for housing. One is that there has been heavy immigration in recent years, whereas before the previous business upturn there was net emigration following the Soweto disturbances. Another is that with a 14% inflation rate and potential savers unable to deposit savings at real returns, there is a growing propensity to invest a relatively high proportion of income and savings in housing.

Buoyant housing demand and building societies' increasing ability to lend, especially at lower mortgage rates, must inevitably mean that house prices continue to rise. Rent control has restricted the development of rented accommodation. And rising house prices are steadily increasing minimum deposits stipulated in the Building Society Act. So the number of first-time house buyers is likely to decline in the year ahead, especially as real personal incomes are falling.

Of course, as the *FM* has argued frequently before, if the societies were financing their mortgages from longer-term contractual savings, their deposit base would be much more stable and the temptation to reduce the mortgage rate in relation to short-term money market trends would be much less. In that event, the rise in house prices would probably be less steep than is likely now.

There was a tendency early last year among societies to attempt to finance themselves longer term at a market rate of interest. Unfortunately, their efforts were overtaken by the flood of liquidity that hit the economy in the last quarter of 1982. This, in turn, was caused by a rising gold price and a declining level of imports. A high liquidity preference among depositors and their own portfolio needs complicated this issue further.

The authorities sold large amounts of government stock and relaxed exchange controls, but were unable to stem the rising tide of this liquidity. Fortunately, in March the gold price declined and seasonal tax payments to the Exchequer removed temporarily some of this liquidity from the financial system. But by that time much of it was already in society coffers.

As the main providers of finance for white housing, the crisp political issue the building societies are likely to face is the cost of houses outstripping the ability of young couples to pay, even if more bonds are available. Housing being an emotive subject in every political constituency, this is hardly a

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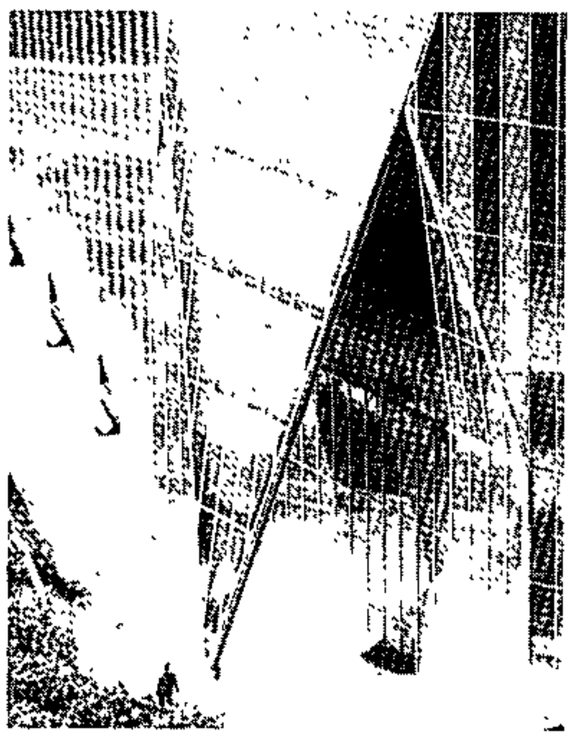

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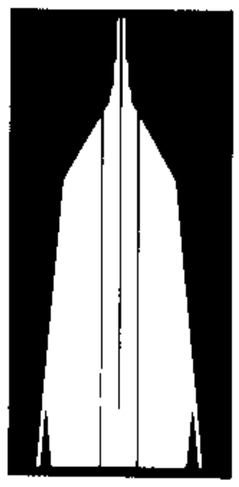

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GREY SANDTON 53290

Reserve Bank's De Kock ... sees broader implications

fact that opposition parties are likely to ignore. Especially not with two reports before Parliament dealing with the future development of the societies.

Indeed, these two reports are in themselves the second political bridge the societies will have to cross in the year ahead. One of the reports, by the Du Plessis Commission, reasons, in essence, that as a substantial amount of the societies resources carry tax concessions, the authorities should have a greater say in the determination of the mortgage rate. In the *FM*'s view, the commission came within a whisker of, in effect, arguing for the nationalisation of these institutions.

The other report was an interim one from the De Kock Commission into the Monetary System and Monetary Policy. As could be expected, it viewed the problem from a broader perspective than the unpleasant upward trend in mortgage rates over the past two years.

It argued that the societies are relatively large financial institutions with a significant amount of their deposits commonly regarded as being virtually money. If their key lending rate were determined by government fiat and they were thus isolated

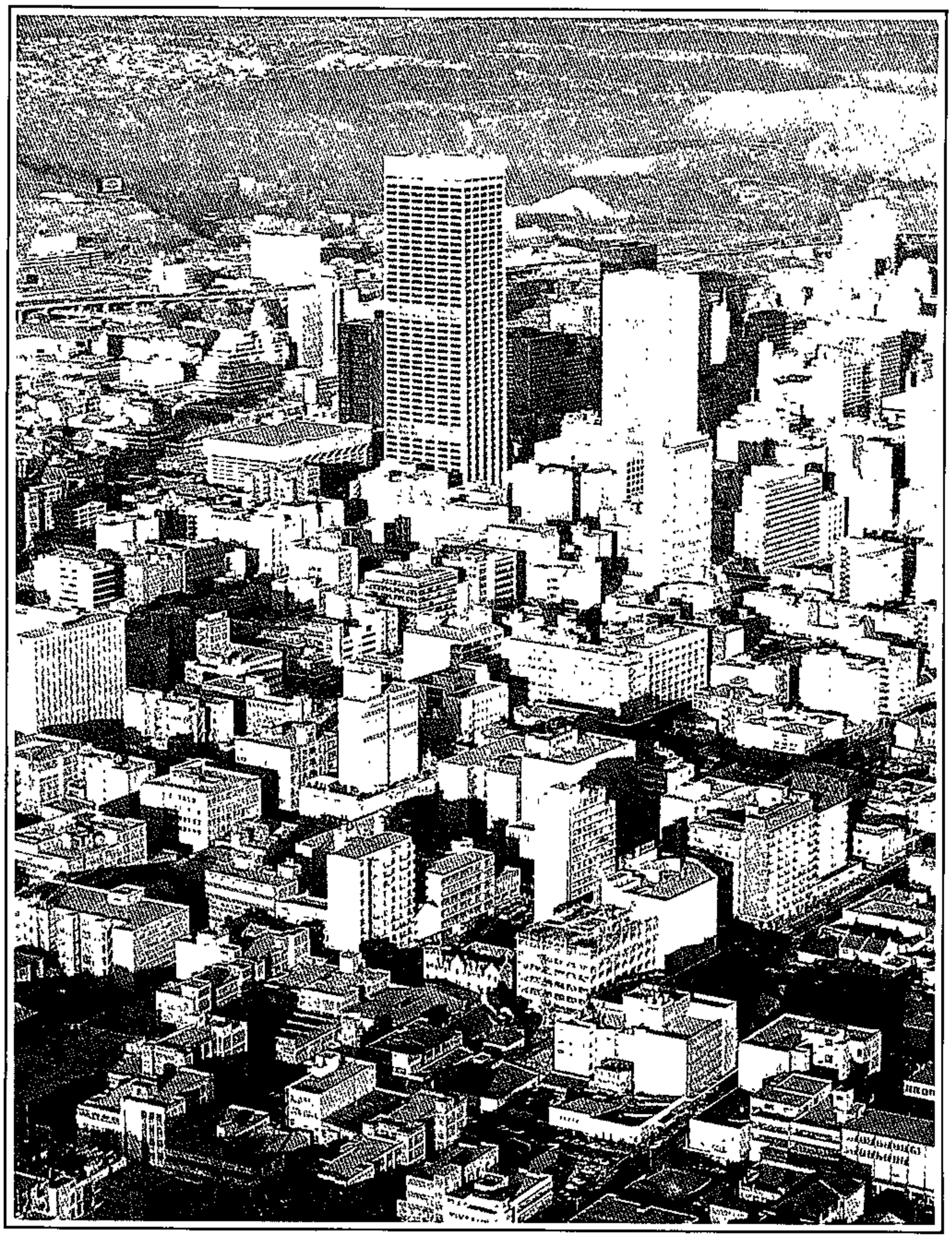
Fuelling the house building boom

INVESTMENT EFFICIENCY

	Grahams-town	Trust	Natal	Provin-cial	United	Allied	Saambou	Perm	Eastern Province	Standard
					R000					
Retained profit March 1982	917	167	1 033	245	5 554	3 395	3 545	4 988	74	165
Add — Transfer to reserves	420	1 950	4 500	500	11 748	3 027	2 250	1 000	200	—
— Provisions	—	—	835	25	—	2 110	—	700	340	—
— Taxation	515	1 644	3 190	381	8 143	2 661	620	2 800	—	—
	1 852	3 761	9 558	1 151	25 445	11 193	6 415	9 488	614	165
Less — Retained Profit March 1981	703	91	911	249	4 830	2 752	3 173	3 145	194	132
Trading Profit (1)	1 149	3 670	8 647	902	20 615	8 441	3 242	6 343	420	33
	(377)	(1 923)	(4 740)	(651)	(13 862)	(4 349)	(2 480)	(6 069)	(789)	(859)
Unrealised capital profit or loss on investments at March 1982	−547	−1 472	−593	−673	−36 496	−38 230	−17 883	−45 929	−3 937	−9 330
Trading Profit and capital appreciation or capital loss (2)	602	2 198	8 054	229	−15 881	−29 789	−14 641	−39 586	−3 517	−9 297
	(−45)	(956)	(2 003)	(168)	(−15 777)	(−20 550)	(−11 391)	(−15 721)	(−1 523)	(−4 913)
Interest received on mortgages (3)	6 121	25 577	132 704	6 503	421 924	228 569	98 602	309 468	23 145	51 336
	(4 394)	(17 220)	(89 013)	(5 122)	(262 381)	(159 316)	(66 283)	(206 283)	(16 138)	(28 617)
Trading Profit as % of interest on mortgages (1) to (3)	18,8	14,3	6,5	13,9	4,9	3,7	3,3	2,1	1,8	0,06
	(8,6)	(11,2)	(5,3)	(12,7)	(5,8)	(2,7)	(3,7)	(2,9)	(4,9)	(3,0)
Trading profit and capital appreciation as % of interest on mortgages (2) to (3)	9,8	8,6	6,1	3,5	—	—	—	—	—	—
	—	(5,6)	(2,3)	(3,3)	—	—	—	—	—	—

Source: Annual financial statements of societies for year to March 1982.
Figures in brackets are those for the year to March 1981.

A civilised approach in the concrete jungle.



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MEASURING GROWTH

RANKED BY:

Total assets	% asset growth	% deposit growth	% mortgage growth		Total assets Rm	% Increase	Shares Rm	% Increase	Deposits Rm	% Increase	Capital and deposits Rm	% Increase	Mortgages Rm	% Increase
1	**2**	**2**	**2**	**United**	**4 978,2**	**21,5**	**1 725,7**	**6,9**	**3 049,3**	**31,6**	**4 775,0**	**21,5**	**3 971,3**	**20,2**
1	3	3	7		4 098,5	14,18	1 613,3	−3,1	2 317,6	30,6	3 930,9	14,3	3 302,7	15,9
2	**3**	**3**	**5**	**SA Perm**	**3 775,6**	**19,7**	**1 406,6**	**−0,2**	**2 280,9**	**36,3**	**3 687,5**	**19,6**	**2 820,3**	**10,64**
2	9	9	8		3 153,7	9,9	1 409,6	−2,2	1 672,9	23,4	3 082,5	10,2	2 548,9	12,6
3	**4**	**4**	**4**	**Allied**	**2 826,0**	**18,0**	**1 112,4**	**5,1**	**1 638,2**	**30,1**	**2 750,6**	**18,7**	**2 116,8**	**11,7**
3	8	7	9		2 394,2	12,1	1 058,3	3,3	1 259,4	20,0	2 317,8	11,8	1 895,9	10,8
4	**6**	**7**	**7**	**Natal**	**1 528,0**	**13,7**	**618,4**	**0,4**	**844,6**	**26,0**	**1 463,0**	**13,7**	**1 194,5**	**10,3**
4	4	4	6		1 343,3	14,17	615,8	4,1	670,5	24,6	1 286,3	13,9	1 082,5	16,5
5	**5**	**6**	**3**	**Saambou**	**1 217,0**	**13,8**	**609,0**	**7,4**	**588,0**	**24,6**	**1 197,0**	**15,2**	**962,0**	**14,1**
5	5	5	4		1 069,0	13,5	567,0	5,3	472,0	26,7	1 039,0	13,8	843,0	18,2
6	**9**	**5**	**—**	**Standard**	**510,9**	**11,2**	**238,5**	**−0,7**	**211,5**	**4,4**	**450,0**	**16,0**	**410,6**	**−0,3**
6	6	6	2		459,4	13,3	240,3	9,3	202,6	17,0	442,5	12,8	411,8	28,4
7	**1**	**1**	**1**	**Trust**	**315,3**	**25,0**	**228,5**	**11,4**	**68,5**	**119,0**	**297,0**	**25,6**	**260,6**	**23,0**
7	2	2	3		252,4	18,4	205,2	22,2	31,3	−6,6	236,5	17,4	212,0	19,3
8	**8**	**9**	**8**	**E Province**	**255,6**	**12,2**	**124,8**	**8,0**	**123,8**	**8,6**	**248,6**	**8,3**	**198,0**	**6,0**
8	7	3	5		227,9	13,2	115,6	6,8	114,0	23,1	229,6	14,3	186,8	17,5
9	**10**	**10**	**9**	**Provincial**	**73,9**	**7,6**	**24,4**	**2,1**	**44,6**	**12,3**	**65,0**	**2,0**	**53,6**	**2,5**
9	11	10	11		68,7	1,3	23,9	−9,1	39,7	7,9	63,7	0,8	52,3	0,3
10	**7**	**8**	**6**	**Grahamstown**	**68,3**	**12,5**	**24,9**	**−9,8**	**38,1**	**27,0**	**63,0**	**9,3**	**54,4**	**10,56**
10	10	8	10		60,7	9,8	27,6	8,7	30,0	11,9	57,6	10,3	49,2	10,3

The ranking this year is on unaudited figures supplied by the societies themselves for the year to December 1982. Comparable figures for December 1981 are shown in light type.

from the rest of the financial system, a portion of the money supply would be outside the control of the monetary authorities.

This commission argues that whatever means government may choose to use to encourage price stabilisation, unless the money supply is first under control they will not be successful. So the commission proposed that the societies be allowed to keep their tax concessions, but that gradually they become banks, maintaining progressively similar capital and liquidity reserves appropriate to the nature of their liabilities.

These reports were both made public in early December and response to them was invited. By late February, the building societies had, through their association, reported to the appropriate authorities. Unlike other interested bodies, such as the Association of Chambers of Commerce, which rejected the Du Plessis Commission's approach, the societies have not made their response public.

The *FM* understands, however, that they have favoured the De Kock Commission's approach and, indeed, indicated a willingness to forego substantial tax concessions if they were allowed to remain securely within the private sector and were able to determine their own lending rates.

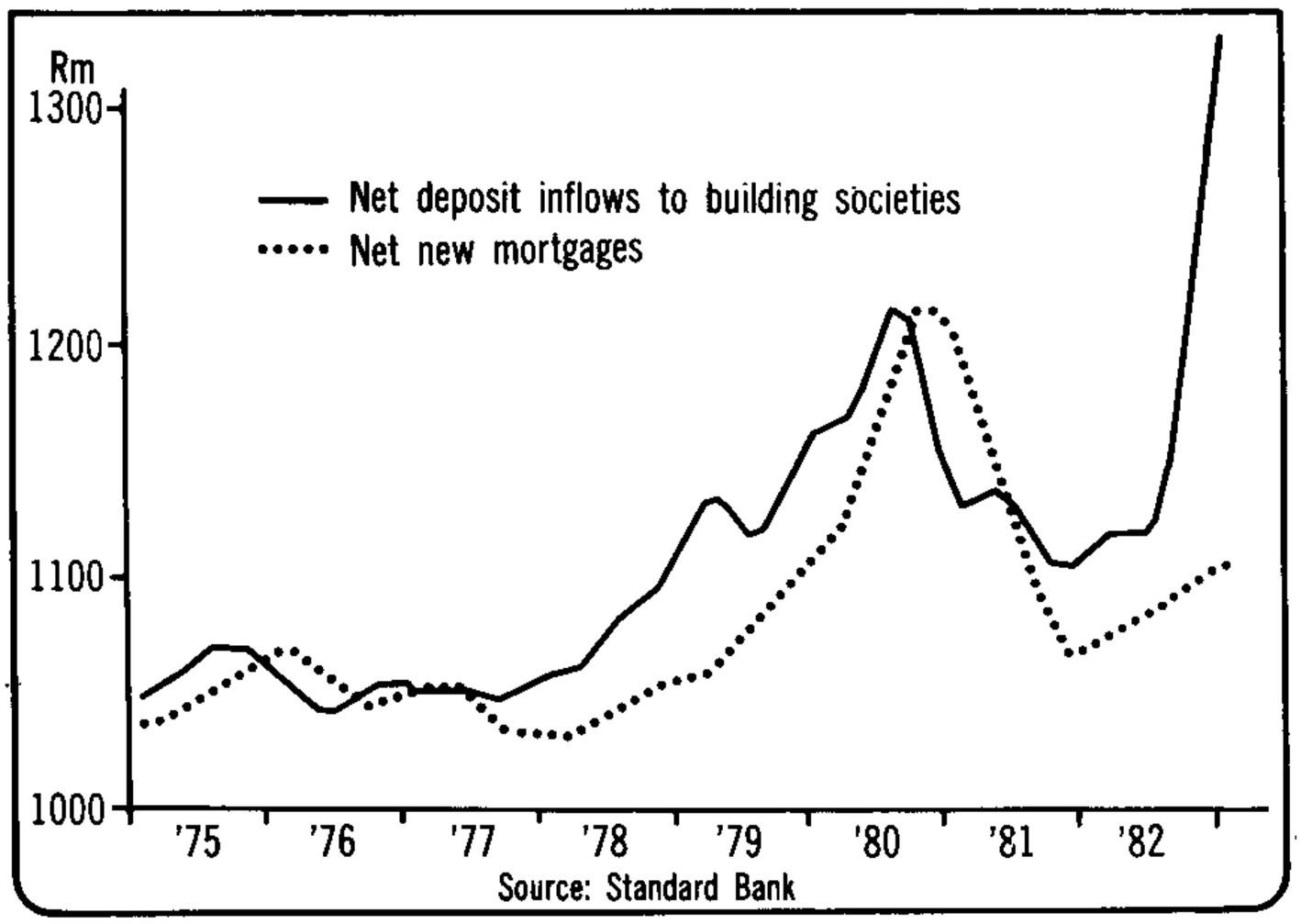
It is, perhaps, unfortunate that they have chosen not to fight for this position in a public arena. For those who generally do not appreciate the workings of a market economy, and are angry about rising housing prices in particular, could easily be seduced into Du Plessis' line of thought. That can only be detrimental. In the longer term, it would destabilise housing prices further and in the more immediate future delay progress being made towards general price stability.

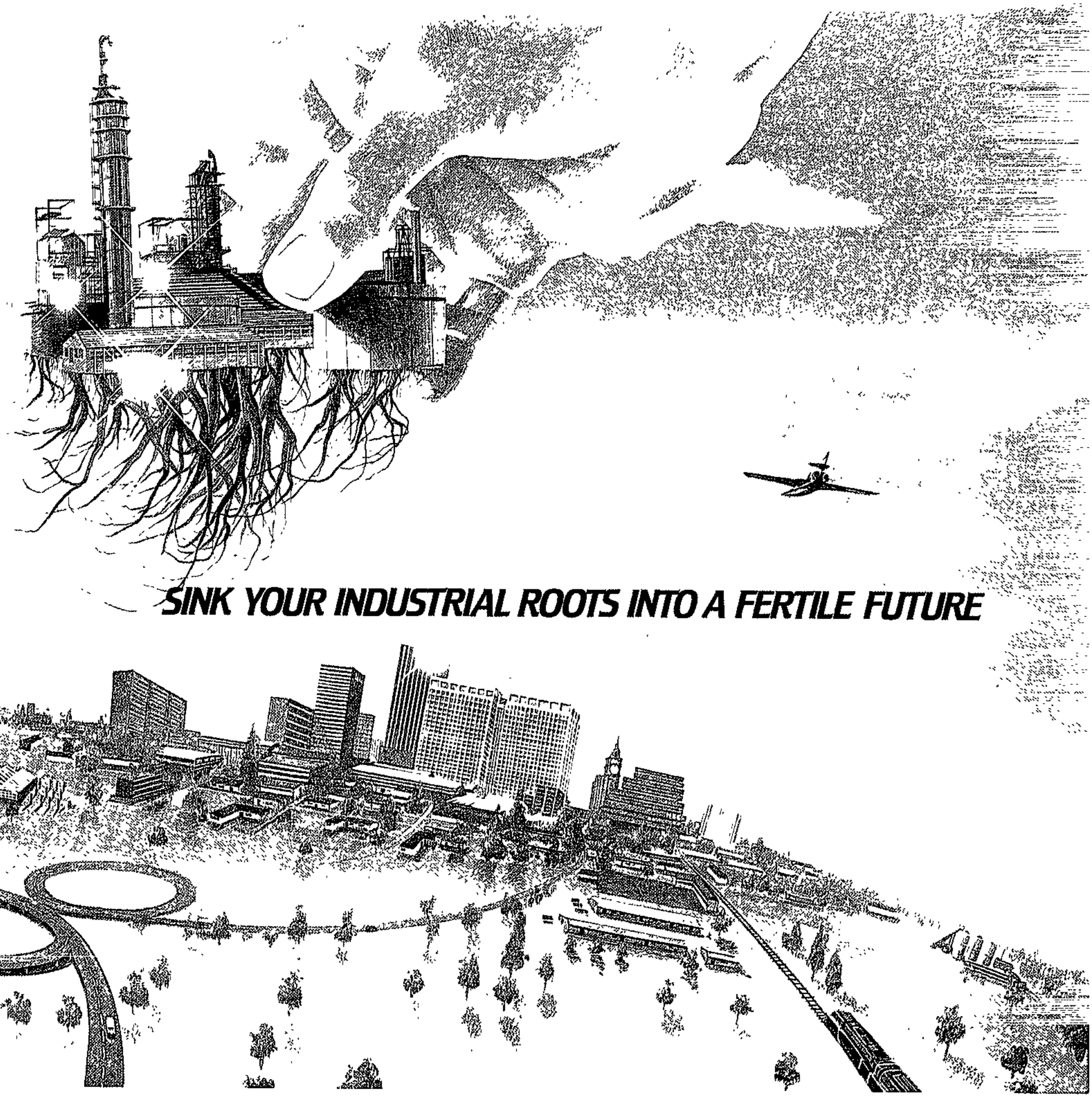
As one economist has remarked to the *FM*: "If the building societies devoted only a portion of their substantial newspaper advertising to putting forward their case for remaining in the private sector, the chances of convincing the public and politicians alike would be much greater.

Over the past 10 years, the number of building societies has diminished from 14 to 10 and during the course of this year the Standard is quite likely to be absorbed by one of the others. Its figures on the "Investment Efficiency" table suggest over-trading last year. There is an element of this, too, in those of the Eastern Province and even the Perm.

For those societies in particular the year ahead could be traumatic. Indeed, for the movement as a whole there will be an enormous temptation to repeat past mistakes and ignore the political environment. To avoid doing so will require some courageous and far-sighted management.

SOARING LENDING POTENTIAL





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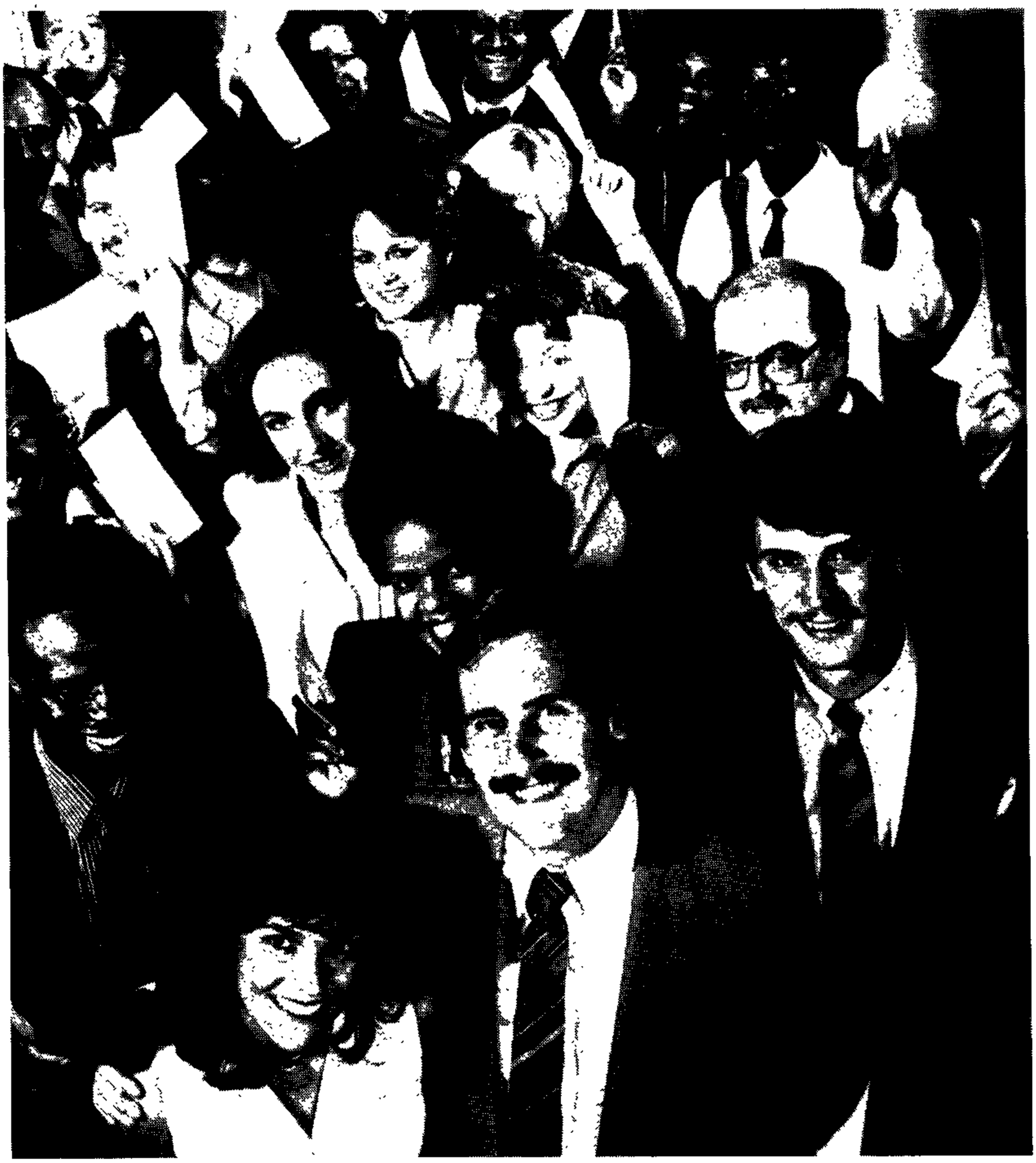

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Taking up slack

The increasing volatility of interest rates and market liquidity squeezes lending turns and sharpens competition

The banking experience in 1982 was characterised by two outstanding themes — shrinking margins and competitive diversification.

It was set against a background of falling economic activity as the recession, which economists had been predicting for some time, became a reality. In a sense, it was a slowdown wrung by severe means out of an over-ebullient economy. By the end of 1981, for example, total domestic spending had risen 26% over the year, against a real growth rate of under 5%. Consumer credit had showed little signs of slowing and imports had continued to soar.

One consequence was a high rate of inflation. Another was a deficit on the current account of the balance of payments that widened from an annualised R3,6 billion in the last quarter of 1981 to almost R7 billion in the opening three months of 1982. The domestic adjustment processes that this entailed became Pretoria's primary policy priority. One important leg of its approach was to eradicate the differentials between local and foreign interest rates. As Reserve Bank governor Gerhard de Kock remarked at the time: "SA is offering the cheapest credit in the world."

Vanishing margins

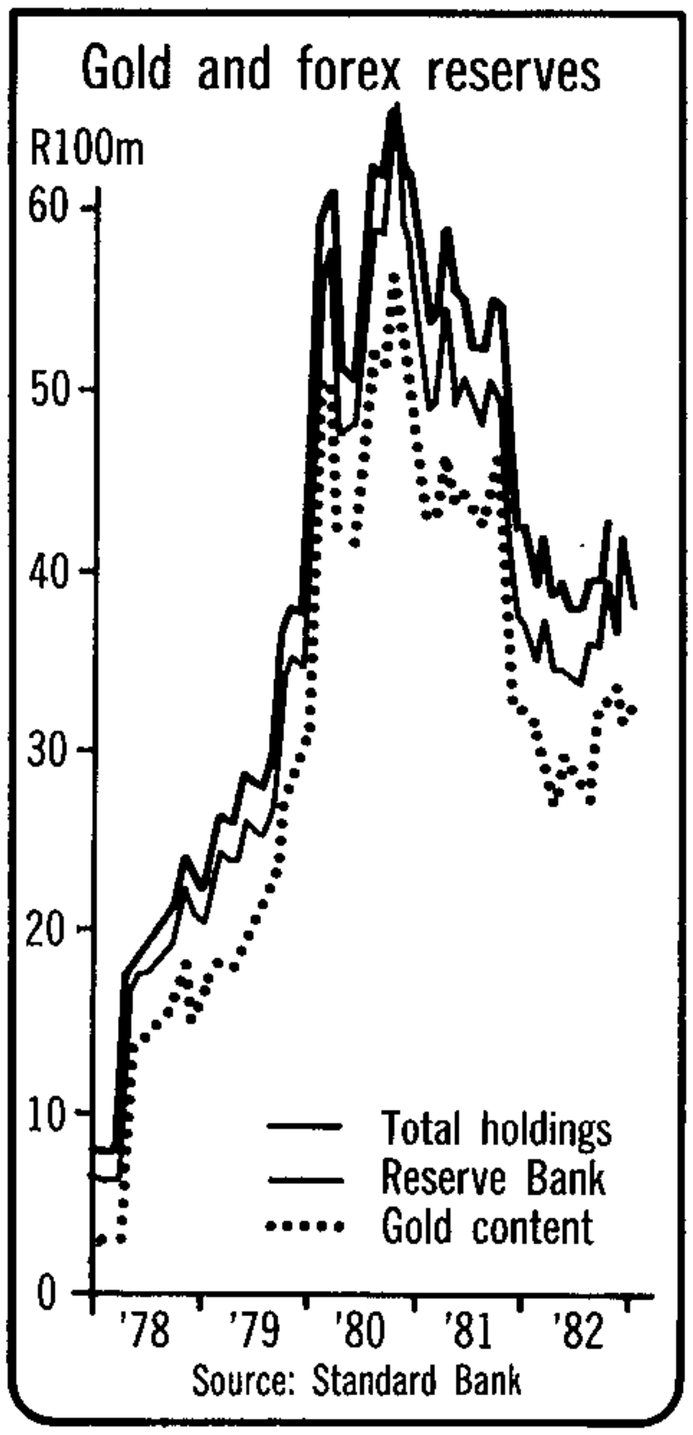
By the end of 1981, this had been accomplished and the pendulum was swinging in the opposite way — with a vengeance. At the beginning of 1981, for instance, prime overdraft rate stood at 9,5%. It had not moved for the previous two years. By the end of 1981 it was 17% and by March last year it had hit 20%.

The cost squeeze of the banks came to a head at this point. The mandatory rate ceilings set by the Limitation and Disclosure of Finance Charges Act (Ladofca) were raised in February — but only to a point where banks could charge a maximum 20% for the bulk of borrowings below R100 000. This was anomalous, since it was the same rate that was charged to prime borrowers. It was also not enough to absorb the rising cost of money.

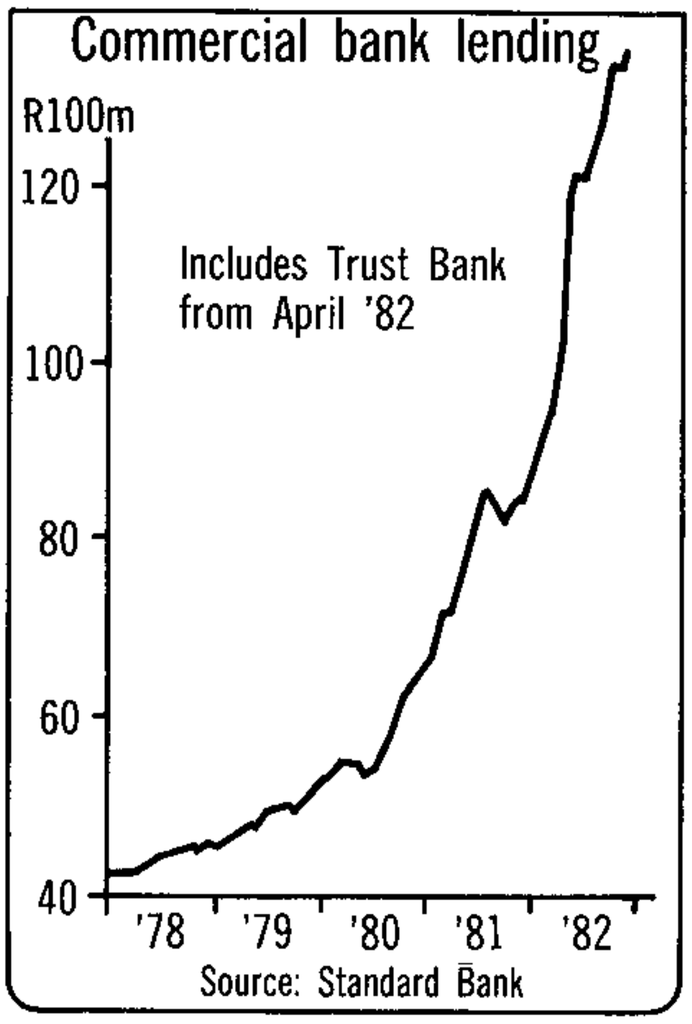
At the end of the seasonally illiquid month of February, for example, the Reserve Bank accommodated the banking sector at punitive rates to the tune of almost R1,2 billion. The Bank's pricing set an unofficial ceiling on the marginal cost of overnight money, which in March was as high as 24%. It made it profitable for the banks to borrow abroad to balance their books, and about R500m was brought into the country at this time. One-year fixed deposits were paying 16%, and the discount rate on bankers' acceptances touched 19%, taking the all-in price of this type of credit well above the cost of prime overdrafts.

The pressure to raise prime rate yet

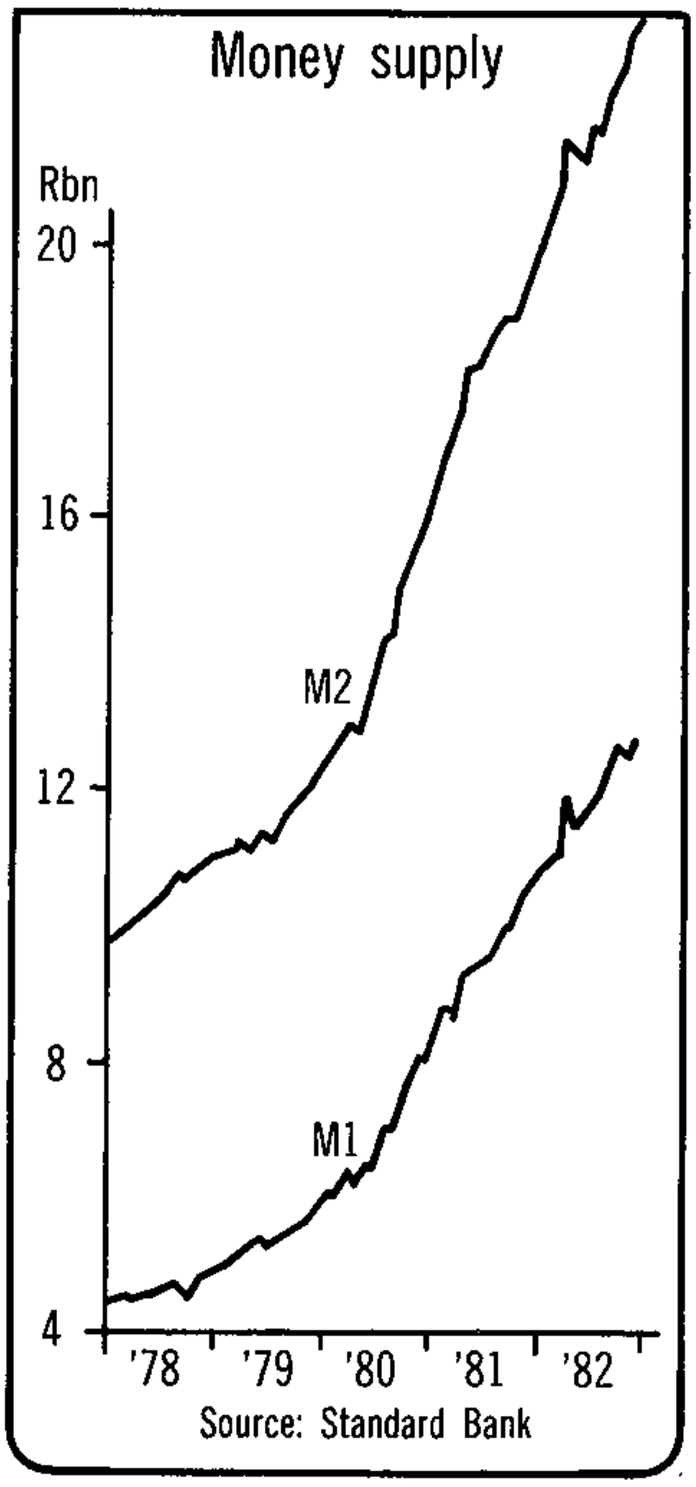
TIGHT SQUEEZE

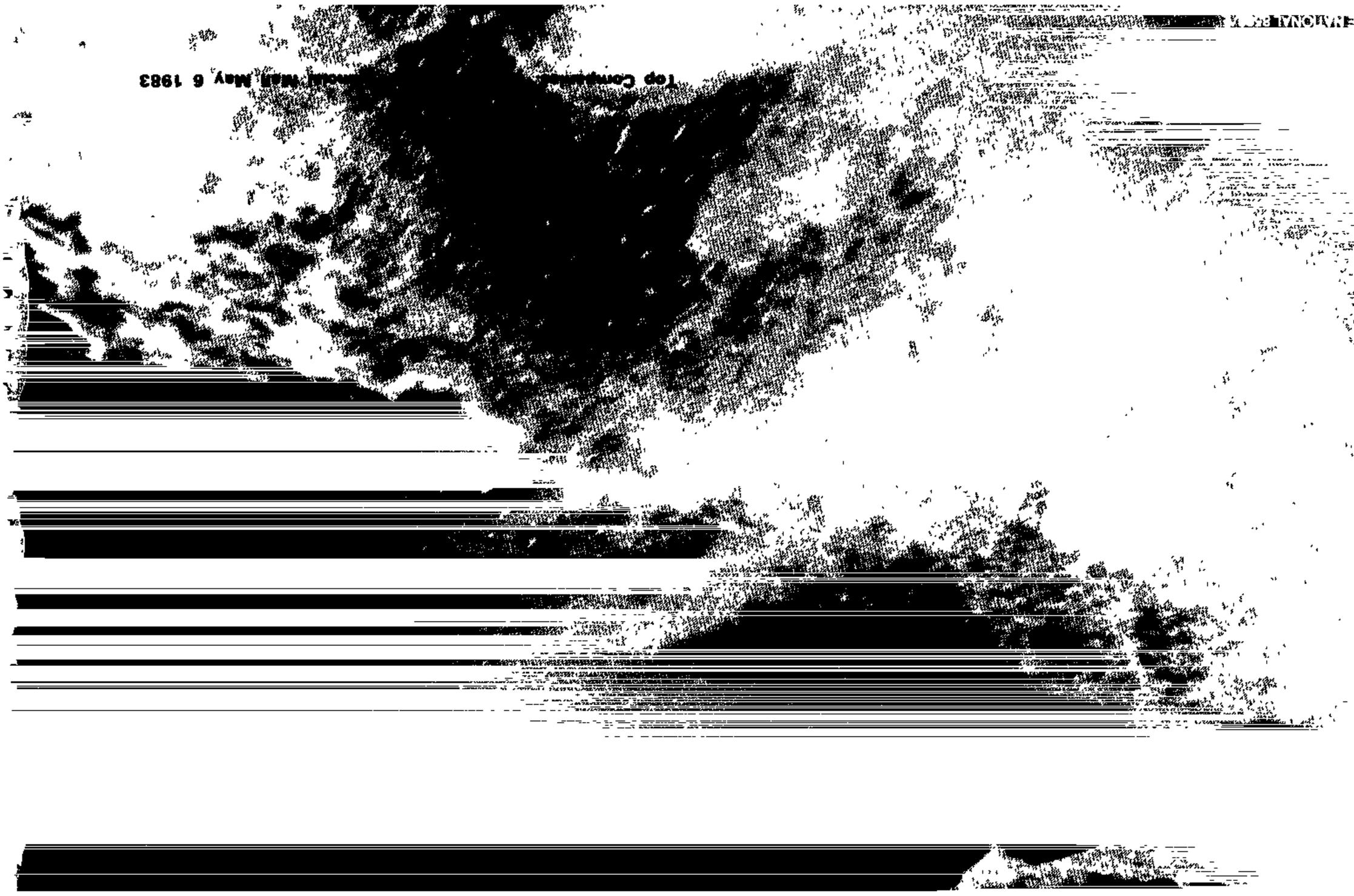


TOPPING OUT



ZIGS AND ZAGS





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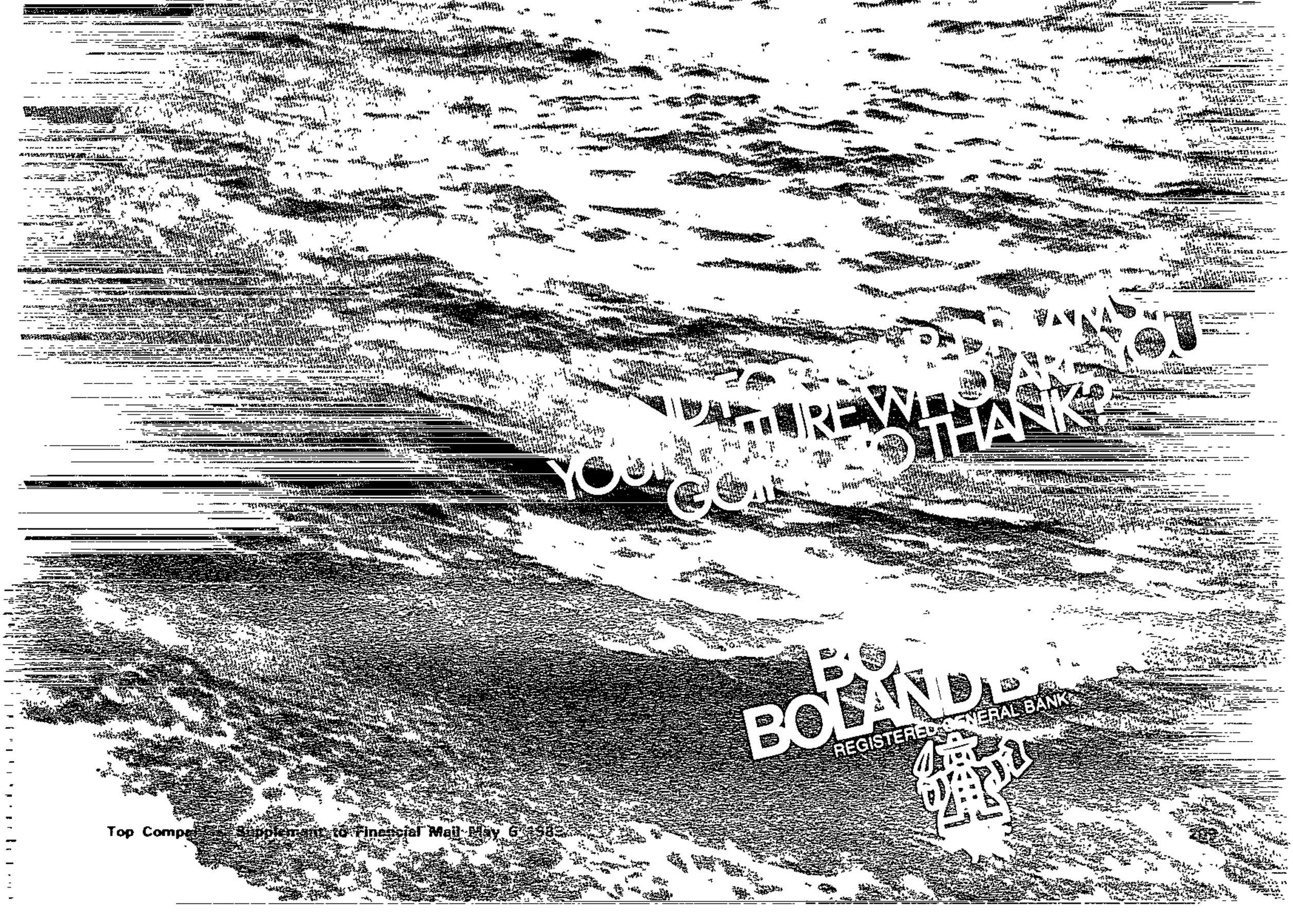

again, this time to 22%, was abated only by an extraordinary monetary policy measure. De Kock urged the banks to take no action until the Budget had been read on the last Wednesday of March, whereupon he officially sanctioned the policy of borrowing abroad by reducing the premiums on forward cover. He also released about R400m to the banks by reducing the level of supplementary interest-free cash reserves that they had to hold against short-term liabilities.

The sharpest edge of the cost squeeze was over, but interest rates remained at high levels for most of the year. The Ladofca ceilings were raised another two percentage points in June, a somewhat belated action but one which at least allowed banks to partially restore credit-risk differentials.

Tightrope walking

The high rate pattern received concerted support from the monetary authorities. They tended to walk a tightrope between maintaining domestic control on the one hand, with costly credit and high interest rates, and on the other, encouraging the use of foreign credit to take the pressure off the country's reserves.

In the first half of 1982, for example, short-term foreign borrowings rose by almost R2,5 billion. By the middle of the year, the banking sector was carrying about R9 billion in short-term foreign liabilities, three times the 1980 level. The commercial banks alone at one stage had about R2 billion on their books.

At the same time, the Reserve Bank sold about R2,8 billion in gilt-edged stock, main-

THE TOP TWENTY

Ranked by:

Return on Capital	Return on Assets	BANK	Average Assets Rm	Annual Change %	Net Profit Rm	Average Capital Rm	Annual Change %	Balance Sheet Ratio %	Average Deposits Rm	Average Advances Rm	Return On Capital %	Return On Assets %	Year End
6	**12**	Barnat (C)	11 749,8	32	77,2	338,6	8	39	5 369,3	4 026,4	22,8	0,66	**Dec**
11	**14**		8 922,6		57,2	312,8		33	5 004,9	3 122,0	18,3	0,64	
3	**9**	Standard (C)	9 477,2	22	77,6	245,9	11	34	5 214,1	3 290,4	31,6	0,82	**Dec**
7	**16**		7 773,3		45,8	220,7		32	4 547,8	2 895,1	20,8	0,59	
5	**4**	Nedbank (C).....	5 017,8	37	58,2	234,1	35	11	2 983,1	2 220,3	24,9	1,16	**Sept**
2	**4**		3 650,5		51,5	173,1		20	2 172,6	1 547,2	29,8	1,41	
17	**17**	Volkskas (C)	4 658,2	7	22,8	198,4	14	17	3 267,1	2 152,4	11,5	0,49	**March**
17	**18**		4 340,1		18,5	174,0		20	2 917,9	1 778,4	10,6	0,43	
9	**8**	Trust (C)	3 567,1	33	30,1	144,0	23	8	2 486,6	2 159,4	20,9	0,84	**June**
6	**9**		2 672,1		25,2	117,0		5	2 047,4	1 721,1	21,5	0,94	
15	**15**	Wesbank (G)	2 345,5	48	13,6	104,2	28	1	1 634,0	1 974,2	13,1	0,58	**Dec**
8	**6**		1 586,1		16,6	81,1		3	1 105,8	1 250,9	20,5	1,05	
20	**20**	Stannic (G).....	2 292,3	7	(7,0)	97,2	2	0,5	1 770,2	1 909,2	—	—	**Dec**
18	**17**		2 151,1		9,2	95,0		1	1 692,4	1 701,8	9,7	0,43	
11	**13**	Santam (G).....	2 076,4	31	12,5	74,6	22	22	1 216,3	1 053,6	16,8	0,60	**June**
12	**13**		1 580,8		10,2	61,2		24	889,3	731,6	16,7	0,65	
4	**6**	Nedfin (G)	1 140,0	38	12,0	38,2	22	4	835,2	851,0	31,4	1,05	**Sept**
4	**7**		824,3		8,5	31,4		11	556,3	574,9	27,0	1,03	
8	**5**	Senbank (M).....	806,6	44	8,6	38,1	4	18	205,1	117,2	22,6	1,07	**June**
10	**5**		559,7		6,9	36,8		19	196,9	94,5	18,8	1,23	
14	**10**	Boland (G).....	660,6	12	5,1	37,0	15	3	511,6	450,8	13,8	0,77	**March**
15	**11**		587,9		4,6	32,1		4	434,9	415,6	14,3	0,78	
7	**3**	UAL (M)	655,5	35	8,3	36,7	2	30	170,8	63,3	22,6	1,27	**Sept**
9	**3**		485,3		7,2	36,0		24	167,9	61,1	20,0	1,48	
2	**2**	SMB (M)	637,0	21	9,8	30,4	3	17	319,9	205,8	32,2	1,54	**March**
3	**2**		526,3		8,6	29,5		15	218,3	140,3	29,2	1,63	
1	**1**	Barnib (G)	528,5	96	10,5	31,0	150	0	423,9	440,6	33,9	1,99	**Dec**
1	**1**		270,0		6,2	12,4		0	210,5	214,3	50,0	2,30	
10	**14**	VMB (M)	564,4	72	3,3	19,0	12	36	46,1	23,9	17,4	0,59	**March**
14	**12**		329,1		2,5	17,0		25	87,4	42,1	14,7	0,76	
12	**16**	French (C).....	*452,5	30	2,6	16,0	19	24	116,8	107,2	16,3	0,57	**Dec**
13	**15**		348,5		2,2	13,5		21	125,0	98,9	16,3	0,63	
19	**19**	Bankovs	445,3	0	0,3	24,8	32	1	389,8	280,2	1,2	0,07	**March**
20	**20**		444,9		1,2	18,8		4	363,5	299,5	6,4	0,27	
16	**11**	Nefic (G)	435,7	5	3,0	23,0	24	12	337,5	167,8	13,0	0,69	**Sept**
5	**8**		415,6		4,2	18,6		11	325,3	124,5	22,6	1,01	
18	**18**	VIB (G)	391,7	23	1,6	17,3	30	10	267,1	262,5	9,2	0,41	**March**
19	**19**		317,2		1,2	13,3		10	222,2	216,7	9,0	0,38	
13	**7**	Hill Samuel (M).....	334,1	3	3,3	21,4	5	31	79,3	68,7	15,4	0,99	**March**
16	**10**		324,9		2,9	20,4		26	89,2	74,7	14,2	0,89	

■ All figures except profits and ratios are four-quarter averages from 1982 and 1981 December quarterly returns, unless otherwise stated. Assets include contingent liabilities. Capital consists of gross total paid-up shares and unimpaired reserves. Advances are loans to banks (excluding discount houses but including Land Bank), bills discounted, deeds of sale, hire purchase, leasing and other loans and advances. Profits, after extraordinary items, tax and transfers to contingency reserves, are from 1982 annual reports. Balance sheet ratio is contingent liabilities relative to total assets. Stannic includes Stancor Wesbank incudes Wescredit. Banks are positioned by size of assets, and lower-line figures refer to previous year.

(C) Commercial bank
(G) General bank
(M) Merchant bank

* Average of opening and closing assets from latest published accounts.

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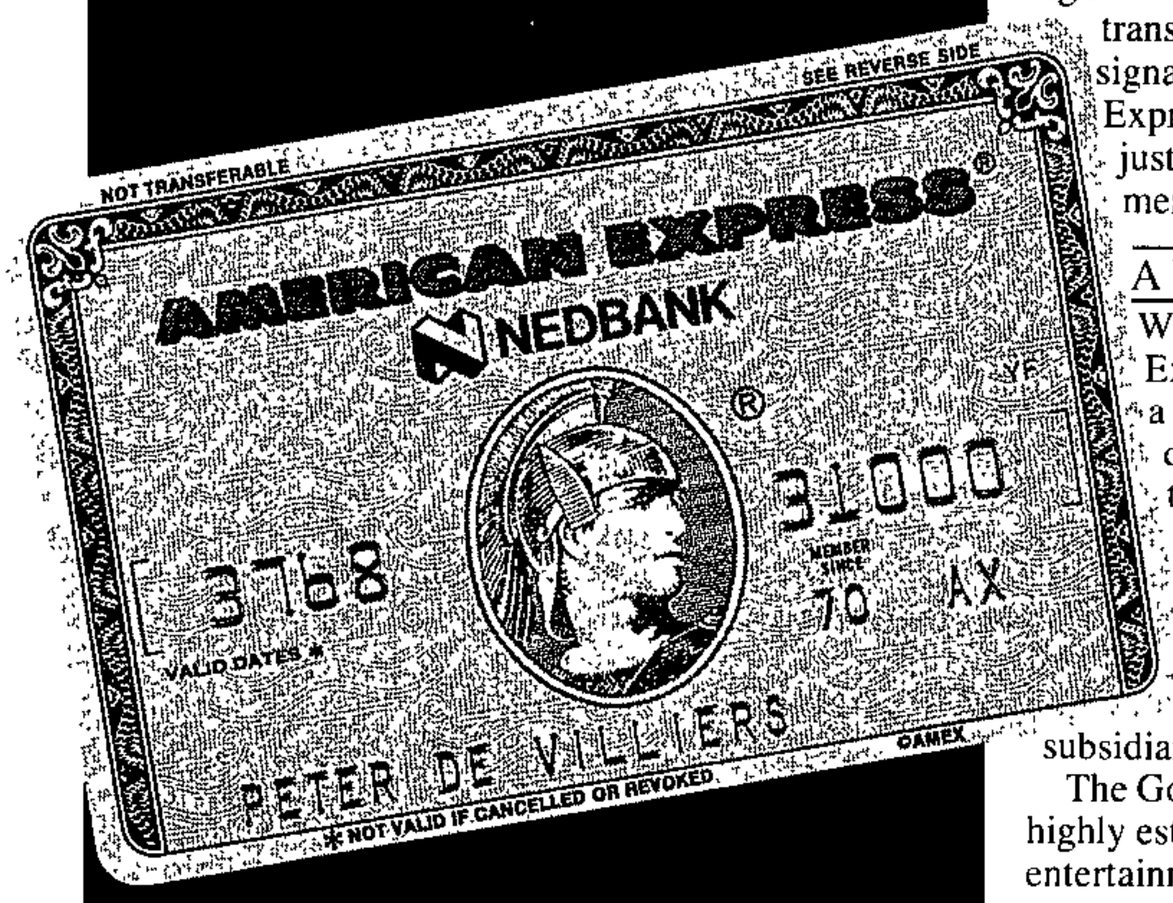

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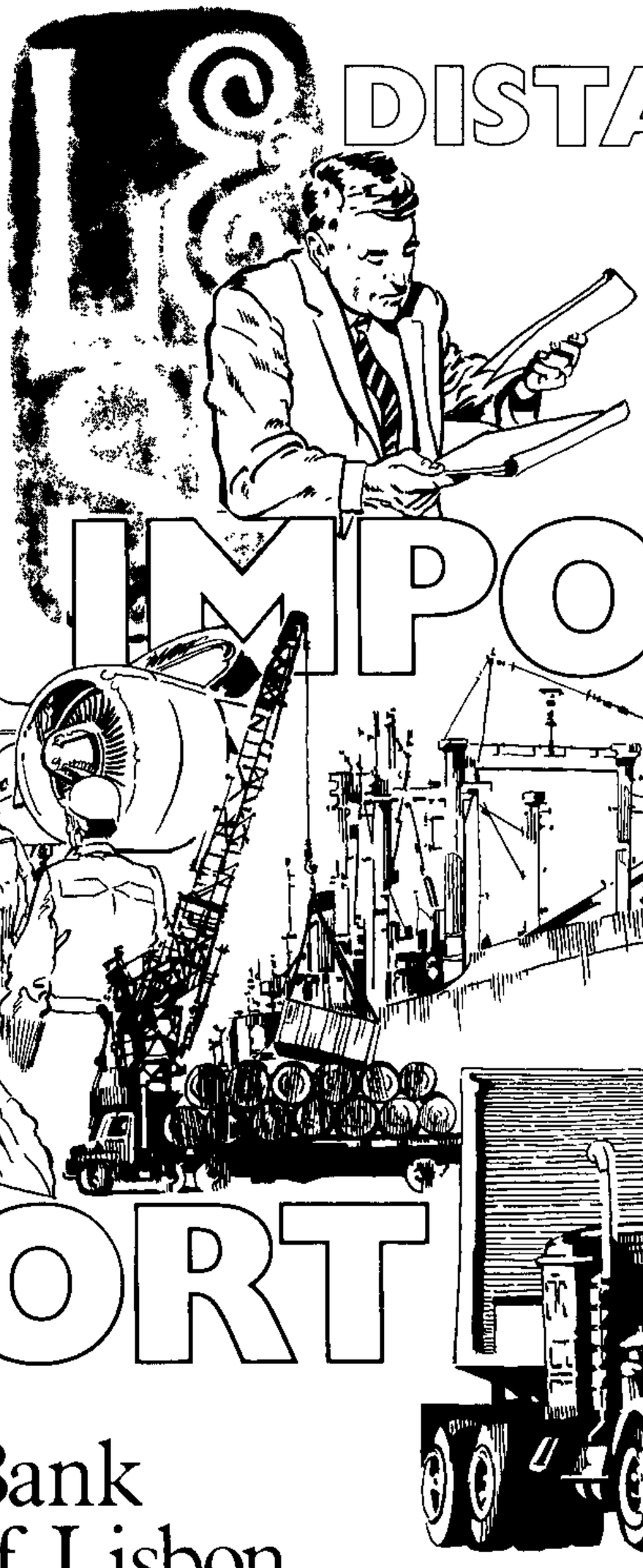

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ly medium- and long-term, to the private sector. The figure was substantially in excess of the Exchequer's borrowings needs for the year.

During this period, the fundamentals were changing. Real gross domestic product fell, yielding a negative growth rate of about 1% over the year. Domestic spending fell even faster and the rate of imports slowed. In the second quarter of the 1982, the country's import bill showed its first seasonally-adjusted quarterly decline in more than three years. By the middle of the year, import volumes were almost 10% lower than they had been 12 months previously. The pressure on the balance of payments was beginning to lift.

The process received an unexpected push from gold. The gold price bottomed in the middle of 1982 at under $300, and then began to rise. By the end of the year, gold earnings combined with other factors were telling on the foreign trading account. In the last quarter, the balance of payments switched into an annualised surplus of about R1 billion and interest rates, which had shown softer undertones for some time, began to slide — aided by another R400m reduction in the cash reserve requirements of the banking system. As the year drew to a close, prime was at 18% and bankers' acceptances were trading at a little over 14%, below the level at which they began the year.

Spirit of change

The volatility of the interest rate pattern, and the unprecedented heights that it reached in 1982, were in no small way due to a continuing process of deregulation in the financial sector.

One important step was taken in February, when De Kock cut the link between the prime overdraft rate and Bank rate, thereby ending a 20-year association and giving the banks greater market flexibility. "The new arrangement," says Nedbank MD Rob Abrahamsen, "to some extent depoliticised an important aspect of monetary policy, and was a welcome step in the transition to more market-related methods of conducting monetary policy."

This move towards the market was backed up by others, like the greater flexibility shown with the Ladofca ceilings, extensive open-market operations and reductions in bank reserve requirements. Then in June another decisive step was taken to both rationalise the methods of providing short-term agricultural credit and further erode the hidden subsidies for farmers.

Finance Minister Owen Horwood had already laid the ground by warning farmers that they would have to pay more. This was a point of contention for the commercial banks, the providers of credit to the Land Bank. Agricultural borrowing rates had been raised the year before, but had been overtaken by others. It had led to a spate of round-tripping by farming co-operatives, who were raising credit indirectly through the commercial banks at about 14%, and redepositing it with them at about 16%.

By June, however, the cost of production credit to farmers had risen to over 19%, eradicating the exploitable gap. At the same time, the commercial banks were asked to extend another round of credit facilities to the Land Bank, the previous year's not having yet been repaid. This lending burden, which subsequently rose to over R3 billion, was made more palatable by a gradual transformation into negotiable paper of what was, in effect, a huge frozen overdraft.

Diversification

Apart from measures aimed at improving monetary control through market forces, an important contribution to inter-bank competition was made. In August, the Registrar of Financial Institutions, Naas van Staden, declared the commercial banks' pricing cartel to be "an undesirable practice," an effective prohibition, and gave them six months to dismantle it.

It formally marked the end of about six decades of "gentlemanly agreement" on the pricing of bank services. But it was largely a symbolic event — the process of competitive diversification was well under way already. As Colin Waterson, Barclays MD,

ABBREVIATIONS

Bankorp — Bank Holding Corporation of South Africa Ltd.
Bankovs — Bank of the Orange Free State Ltd.
Barclays — Barclays National Bank Ltd (group).
Barname — Barclays National Merchant Bank Ltd.
Barnat — Barclays National Bank Ltd (commercial bank).
Barnib — Barclays National Industrial Bank Ltd.
Boland — Boland Bank Ltd.
Hill Samuel — Hill Samuel Merchant Bank (SA) Ltd.
Mercabank — Mercabank Ltd.
Nedbank — Nedbank Group Ltd and Nedbank Ltd (commercial bank).
Nedfin — Nedfin Bank.
Nefic — Nefic Ltd.
Santam — Santambank Ltd.
Senbank — Central Merchant Bank Ltd.
Stanbic — Standard Bank Investment Corporation Ltd.
Stancor — Standard Bank Corporate Finance Ltd.
Standard — The Standard Bank of South Africa Ltd.
Stannic — Standard Credit Corporation Ltd Group.
Trust — The Trust Bank of Africa Ltd.
UAL — Union Acceptances Ltd.
VIB — Volkskas Industrial Bank Ltd.
Volkskas — Volkskas Group Ltd and Volkskas Ltd (commercial bank).
VMB — Volkskas Merchant Bank Ltd.
Wesbank — Barclays Western Bank Ltd.
Wescredit — Barclays Western Credit Ltd.

MEASURING THE MAJORS

Ranked by:

Return on capital	Return on assets	Bank group	Average assets Rm	Annual change %	Net profit Rm	Average capital Rm	Annual change %	Balance sheet ratio %	Return on capital %	Return on assets %	Earnings per share (cents)	Year end
3	**5**	**Barclays ...**	**14 889,4**	**35**	**101,5**	**492,2**	**16**	**31**	**20,6**	**0,68**	**190,6**	**Dec**
3	3		11 019,3		80,6	424,6		28	19,0	0,73	151,4	
2	**4**	**Stanbic ....**	**12 562,9**	**18**	**85,6**	**379,7**	**8**	**27**	**22,5**	**0,68**	**135,0**	**Dec**
2	5		10 547,0		66,7	350,7		25	19,0	0,63	110,0	
1	**1**	**Nedbank ..**	**7 249,0**	**36**	**88,6**	**331,0**	**28**	**12**	**22,8**	**1,10**	**100,2**	**Sept**
1	1		5 323,0		76,4	259,0		17	22,5	1,42	86,4	
4	**2**	**Volkskas ..**	**6 893,1**	**33**	**54,4**	**337,0**	**28**	**15**	**16,1**	**0,79**	**182,9**	**Mar**
4	2		5 166,2		43,5	263,8		19	16,5	0,84	167,1	
5	**3**	**Bankorp ...**	**6 148,0**	**21**	**42,2**	**275,4**	**21**	**15**	**15,3**	**0,69**	**122,4**	**June**
5	4		5 064,6		36,7	227,3		13	16,1	0,72	105,2	

☐ All figures except profits are four-quarter averages from December 1982 and 1981 quarterly returns. Assets include contingent liabilities Profits, before extraordinary items and after tax and transfer to contingency reserves, are from 1982 annual reports. Capital is gross total of paid-up shares and unimpaired reserves. Balance sheet ratio is contingent liabilities relative to assets. Groups are positioned in terms of asset size.

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An important Volkskas service is the financing of businesses, both large and small, and state corporations. The financing may be required for the lease of equipment and vehicles, instalment sales, floor plan and stock financing, or it may take the form of production loans, merchant banking facilities or company cheque accounts. Investment needs vary from company to company and corporation to corporation. Volkskas' expertise and efficient personal service can be of great value in this respect. Through the bank's close ties with Volkskas Merchant Bank and Volkskas Industrial Bank – two of the bank's stable companions in the Volkskas group – we offer clients in this sector highly specialised investment and financing services.

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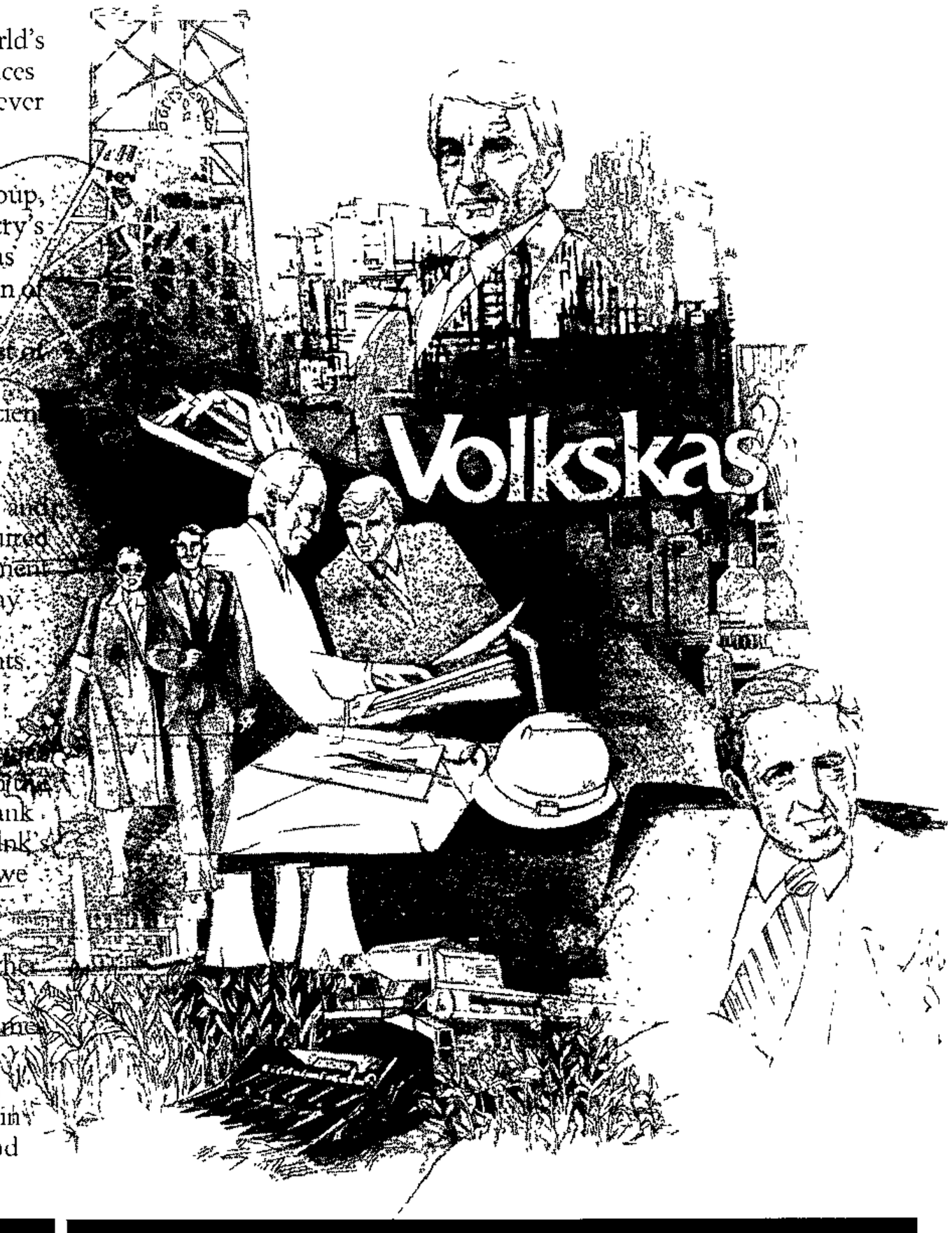

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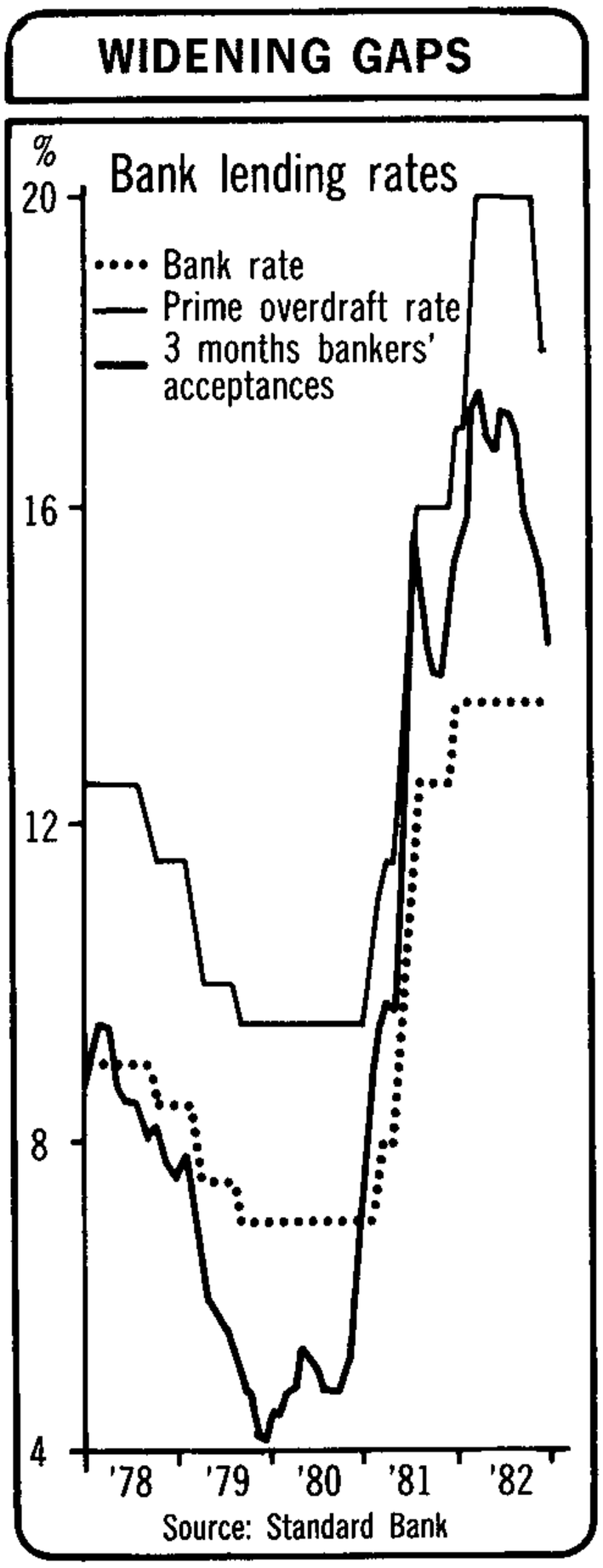
Barclays' Waterson ... are SA banks still banks?



Nedbank's Abrahamsen ... depoliticising monetary policy

remarks: "It is surprising in some ways that SA banks still call themselves banks. Several of them have spread their wings so far beyond traditional banking services in the past decade that they have become widely diversified financial institutions."

This diversification has taken place in terms of hedge and venture investment into non-banking areas like industry and property. According to Waterson, many bankers predict that "just as instalment credit was in the forefront of diversification during the Seventies, the main thrust of expansion over the next few years will be in the property field."

It has also been a diversification of financial services, with banks entering the fields of insurance broking, vehicle fleet management and factoring. In 1982, this was given an added impetus directly related to automatisation, and retail customers were prime beneficiaries. Says Conrad Strauss, MD of Standard Bank, "automated banking for the personal market came to maturity in 1982." Standard took a lead with its **automatic teller system**, installing 200 of them by the end of the year, and other banks rapidly followed.

The computer back-up systems that made this development possible had other impacts. One innovation in 1982 was the introduction of **cash management** services for larger, mainly corporate, clients whereby net surplus balances could be calculated and transferred to interest-bearing accounts. Another was the linking of the domestic banking system with the global computer network of **SWIFT**, the Society for Worldwide Interbank Financial Communications.

The banks added to their customer services in 1982 in other ways. Several augmented **international operations** : Volkskas consolidated its London subsidiary into Volkskas International; Nedbank opened a branch in New York and Trust Bank a representative office in Hong Kong; and UAL teamed up informally with the local office of Kleinwort Benson, the largest English merchant bank. **Retail deposits** attracted greater attention and higher rates, one of the most innovative being Nedbank's "Nedplan 2000" which paid escalating rates on minimum balances of R2 000 in notice accounts.

In April, the gap left by the withdrawal of

WHERE CASH WAS KEPT

Deposit Type	Bankorp		Barclays		Nedbank		Stanbic		Volkskas	
	Amount	Mix	Amount	Mix	Amount	Mix	Amount	Mix	Amount	Mix
Call (Rm)	729	18	1 806	24	1 388	32	1 742	24	431	10
change %	72	38	192	140	54	14	44	26	11	−9
Cheque (Rm).....	295	7	1 666	22	461	11	1 535	21	808	20
change %	21	—	−2	−15	7	−15	6	−5	−3	−20
Savings (Rm).....	387	9	1 296	17	609	14	1 326	18	598	15
change %	6	−18	−1	−15	−16	−36	4	−10	1	−12
NCD (Rm)	294	7	734	10	310	7	568	8	256	6
change %	18	−13	56	43	62	17	79	60	4	−14
Fixed (Rm)	2 398	59	2 040	27	1 604	37	2 175	29	2 038	49
change %	21	−2	−10	−23	65	23	−1	−15	24	26
Total (Rm)	4 103	100	7 542	100	4 372	100	7 346	100	4 131	100
change %	24	—	17	—	36	—	13	—	11	—

☐ Figures (rounded) are four-quarter averages from December 1982 quarterly returns. Changes calculated over 12 months Mix is percentage share in total deposits. Volkskas's previous year's figures include Bankovs' for comparison.

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...form a pool of expertise created by our unique ...your challenges into profitable opportuni...
...philosophy of specialized service, training ...Make us your financial think-tank...
...and experience. ...and we'll make the financial...
...It's this source of imaginative ...world revolve around y...

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Volkskas' Morkel . . . upswings and downturns in demand

Standard's Strauss . . . automation comes to maturity

credit cards as a payment means for petrol was filled by guaranteeing for limited amounts cheques made out to garages. Barclays took the lead on this with its **Petrocheque.** Barclays also took the lead, in December, by paying interest on surplus balances held in **credit card accounts,** a move soon matched by the other banks.

Lower lending turns also encouraged the judicious use of fee income, and some of the smaller banks became more heavily involved in **money broking.** And in November, merchant bank Hill Samuel launched a local version of a **money fund** to allow retail investors access to money market returns, and established a link between SA clients and the **financial futures** market in London.

Lower lending levels

Perhaps the most spectacular event in retail banking in 1982 was the entry by Barclays into the residential **mortgage bond** market in August. It came at a time when the supply of building society bonds had slowed to a trickle and Barclays, though charging almost three percentage points above the societies, lent over R100m in this form within the first 40 working days of its inception.

The economic downturn in 1982 took some time to effect the demand for bank credit. The total lending of all the banks rose about 50% in 1982, somewhat higher than the previous year. The process was not a smooth one, however. According to Pieter Morkel, MD of the Volkskas group, "commercial banks had to contend not only with large fluctuations in their liquidity positions and more rapid and substantial changes in interest rate levels, but also with upswings and downturns in the demand for bank credit."

Private sector borrowing, for instance, rose at an annualised rate of 41% in the first quarter of the year, slowed to 7% in the second and then accelerated in the third to 21%. This was largely due to hire purchase and leasing — by then the downturn in commercial bank lending was gathering momentum. Unadjusted Reserve Bank figures show, for instance, an annualised rate of growth in total commercial bank advances and discounts of only 36% in the second half, compared with an overall 12-month rate of over 50%. In the final quarter, despite the easing in liquidity conditions and falling rates, this pace of growth slowed to a negative 6% or so, and lending fell in absolute terms.

Nonetheless, it was only towards the end of the year that bank credit to the private sector lost its dominance as the chief cause of upward pressure on the money supply. It was replaced by cash inflows through the balance of payments. Credit to the government exerted a strong negative effect on money supply, assisted in the last quarter by a clear shift in liquidity preference towards long-term deposits.

These trends brought about an overall decline in the growth rate of money supply during 1982. The broad measure, M2, increased by an unadjusted 17% or so, compared to 25% the previous year. The total deposits of the banking sector, understandably, showed more modest rates of growth, increasing by about 20% against about 30% the previous year. Most of this growth was again in short-term deposits, which rose by over 35%. And most of it again was contributed by the general banks, well above the sectoral average at close to 30%. This was, however, well down on the previous year.

The banking majors

Given a cost pattern that was at its tightest at the beginning of the year, it would be no surprise to find that the banks which reported latest performed the best. This was largely the case, although bank results were surprisingly buoyant overall. Investor confidence in them was illustrated by the trend in quoted bank shares, which vigorously outperformed the industrial index of the Johannesburg Stock Exchange, rising about 50% over the year.

Immediate difficulties were perhaps discounted by a view that took into consideration the ultimately favourable effect on bank margins of more market-orientated policies, and the cost-benefits of lower reserve requirements for banks with broad current account funding bases. The fall in interest rates at the end of the year also played a part, favouring banks with large volumes of instalment lending at fixed rates and those that depended more heavily on wholesale funding.

Of the major groups, **Volkskas** reported first in March. Its 25% increase in taxed profit to R54,4m was its lowest disclosed

HOW CASH WAS USED

	Share price (cents) Dec 31 1982	Share price (cents) Dec 31 1981	Annual Change %	Market Capitalisation Rm Dec 31 1982	Market Capitalisation Rm Dec 31 1981	Earned c/share	Paid c/share	Dividend yield Dec 31 1982	Year End
Bankorp	385	265	45	118,2	81,3	122,4	21,0	5,5	June
Barclays	1 550	865	79	824,6	460,4	190,6	75,0	4,8	Dec
Boland	430	370	16	28,4	24,5	79,3	28,0	6,5	March
French	130	110	18	13,5	11,4	24,6	13,0	10,0	Dec
Hill Samuel	295	240	23	19,8	16,1	43,9	29,0	9,8	March
Nedbank	1 020	660	55	901,7	583,2	100,2	50,0	4,9	Sept
Stanbic	800	580	38	489,5	354,9	135,0	44,0	5,5	Dec
Trust	130	92	41	67,2	47,5	48,0	—	—	June
Volkskas	860	660	30	255,4	196,3	182,9	43,0	5,0	March

☐ Figures from The Johannesburg Stock Exchange bulletin and 1982 annual reports.

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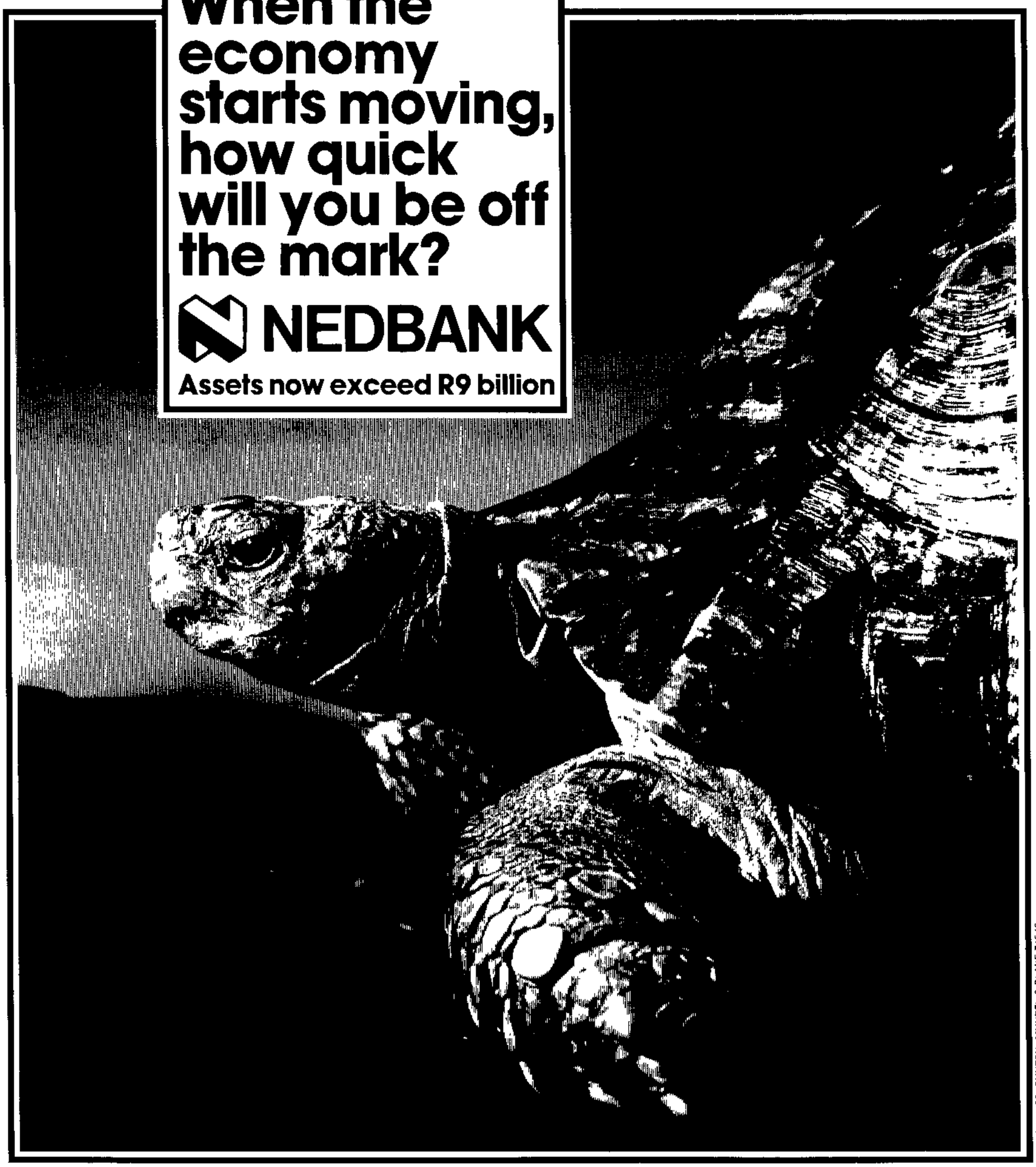

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HOW THE SHARES SHAPED

Lending Type	Bankorp		Barclays		Nedbank		Stanbic		Volkskas	
	Amount	Mix	Amount	Mix	Amount	Mix	Amount	Mix	Amount	Mix
Hire purchase (Rm)	1 356	40	2 089	32	399	12	1 104	20	537	19
change %	31	3	81	28	51	1	18	5	21	2
Leasing (Rm)	550	16	908	14	447	14	1 018	19	258	9
change %	31	—	36	—	42	0	20	6	0	13
Other advances (Rm)	1 522	44	3 502	54	2 459	74	3 362	61	2 038	72
change %	26	−2	24	−11	51	—	12	−3	24	−8
Total (Rm)	3 428	100	6 499	100	3 305	100	5 484	100	2 833	100
change %	29	—	40	—	50	—	14	—	21	6

● Figures (rounded) are four-quarter averages from December 1982 quarterly returns. Changes calculated over 12 months. Mix in percentage share in total advances. Volkskas's 1981 figures include Bankovs' for comparison.

profit growth in four years, and returns on both assets and capital declined. Earnings per share, diluted by the 1,7m shares the group issued to Bankovs shareholders in the 1981 takeover, did not match profit growth.

Its banking income, nonetheless, rose 30%. Performance overall, in contrast to the previous year, was hit by a decline in the fortunes of its industrial subsidiary, Bonuskor, whose profits dropped 30% over the year. This contributed to a much smaller rise, 11%, in the income of the group's non-banking interests. Income contribution from this source was largely due to the group's sugar interests, which performed well.

The trend was emphasised in September, when Volkskas reported an interim taxed profit increase of only 3%. This time Bonuskor's contribution was a loss of R1,6m, without which the group would have shown a substantial rise in six-monthly profit. The interim dividend was, however, raised by 15%. The group's funding showed a substantial shift towards fixed deposits.

Volkskas's commercial bank performed broadly in line with the group in terms of profit growth, although it improved its average returns and maintained its position in the ranking of the top 20 banks. The industrial banking arm, VIB, and the merchant banking arm, VMB, registered taxed profit growth higher than the group average, over 30% in both cases. The merchant bank achieved this against substantial absolute declines both in assets and deposits, the earnings emphasis shifting towards fee income.

Bankovs, the newest member of the group, turned in a fall in both disclosed profits and assets, in line with group policy to augment reserves and improve the quality of its lending book.

During 1982, Volkskas sold its Namibian operation to a consortium of Windhoek businessmen who changed its name to Bank Windhoek.

The next group to report, **Bankorp**, showed the lowest taxed profit increase of all the banking groups — about 13%, compared to 60% the previous year. It also registered declines in returns on capital and assets, and in average asset growth, which increased well below the sectoral average. Earnings per share, however, rose by 16%. The group extended its exposure to instalment lending, and moved its deposit book shorter.

Over 65% of group profit was contributed by Trust Bank, which raised its disclosed profit by 19% in June, and a similar (orchestrated) amount at the December half-year. Trust's performance was assisted by its commitment to floating rate lending, and the presence on its book of longer-term funding arranged earlier at low rates. Most of its profit was once again transferred to reserves in preparation for the 1984 repayment of the Reserve Bank life-line loan, which is estimated to be over R60m.

The bank's property exposure, though still exercising a drag on its profitability, was reduced by sales to Sanland. This property trust, managed by Bankorp, in turn funded the purchases with a R37m rights issue.

The only bank in the group to pay a dividend was merchant bank Senbank, which showed a 25% increase in taxed profit to R8,6m and an improvement in its return on average capital, as well as a steady rise in lendings. The other merchant bank in the stable, Mercabank, registered a decline in profits. General bank Santam increased its lending substantially, but its profit growth of 22% was below that of the previous year.

Reporting in June **Nedbank**'s 17% growth in taxed profit was somewhat above the previous year's increase. Earnings per share increased by a similar amount and, although returns on capital and assets declined, they remained the highest among the majors.

The rise in the group's average assets was

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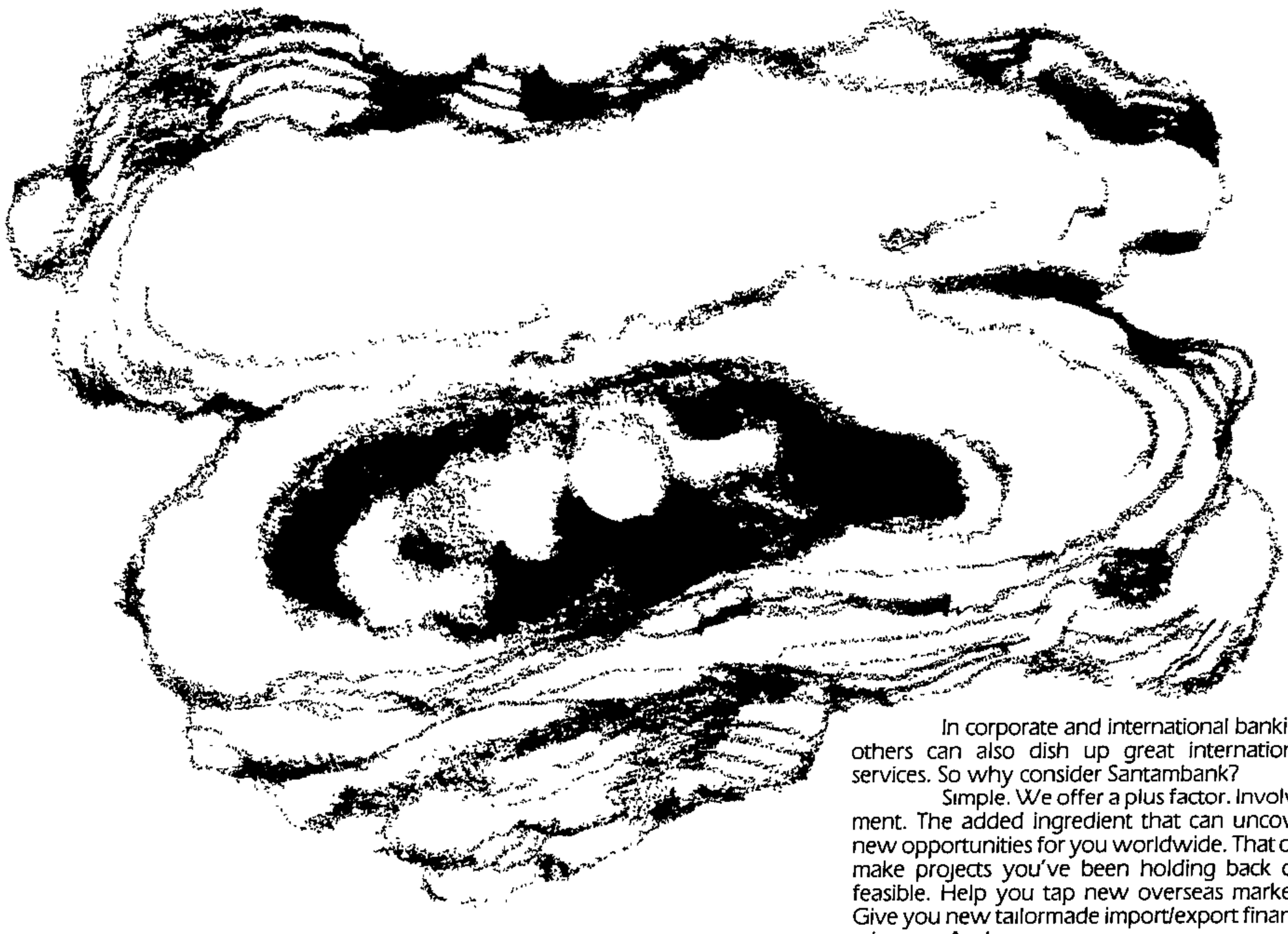

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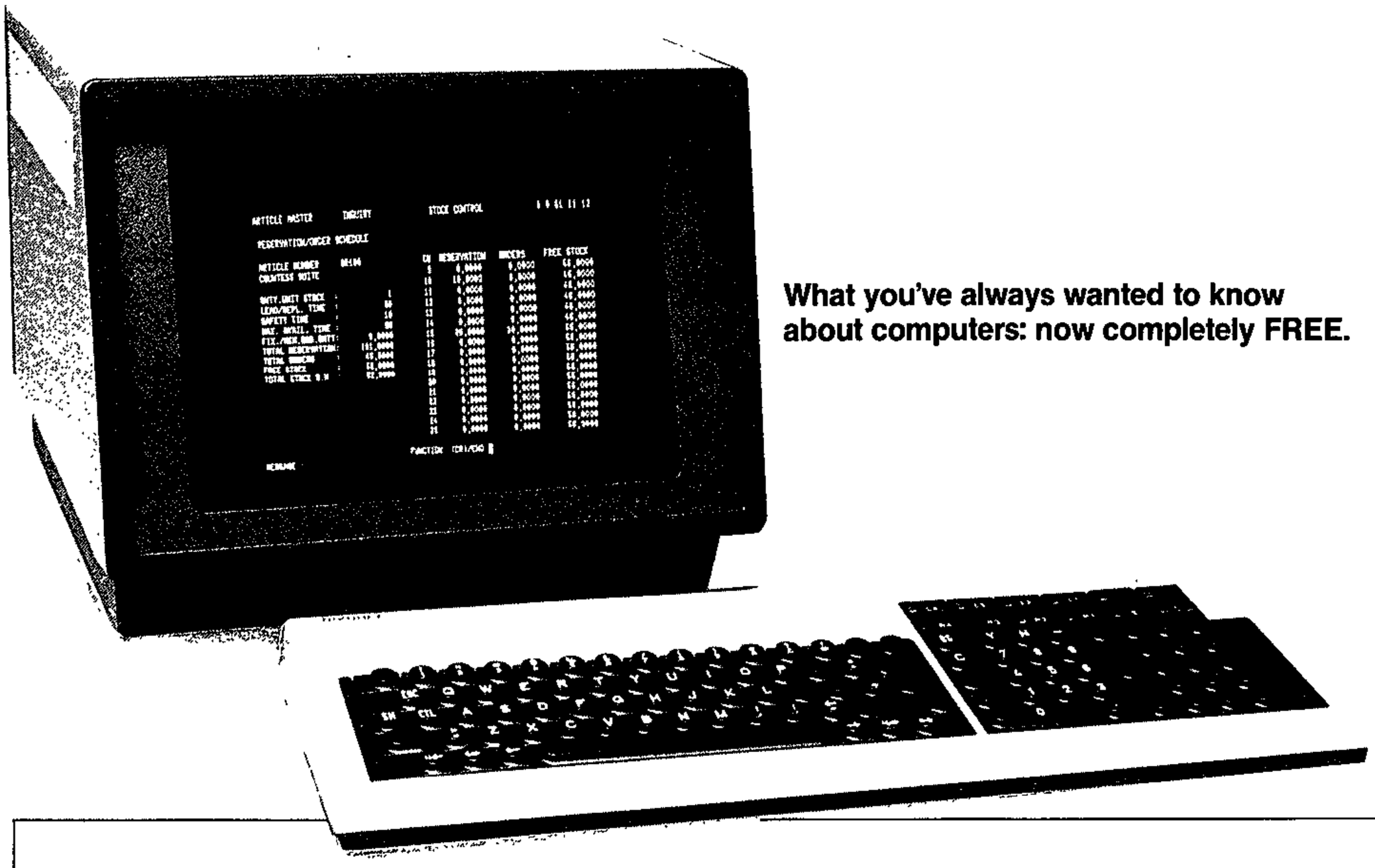

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the largest, and it predictably strengthened its capital base considerably. It continues to have the smallest relative exposure to instalment lending, and the largest relative short-term funding book.

Banking income again accounted for almost 90% of Nedbank group's profits in 1982. Margins declined to the lowest level in four years, but earnings were supported by a lower tax rate and a deliberate build-up in business volumes, assisted by the utilisation of pre-arranged corporate facilities on an ample capital base.

The group's commercial banking arm, Nedbank, and its merchant bank, UAL, both registered taxed profit increases below the average. Nefic, the investment bank, was hit by high rates and profits fell once again, this time by almost 30%. During the year, it diversified further into cosmetics and educational systems. The star performer in the group was general bank Nedfin, which achieved a 41% increase in taxed profit and a solid rise in its (largely) instalment lending book.

The group showed substantial innovation in 1982 in the development of cash management systems and retail products. It also attracted publicity in July, when it raised a $200 multi-currency loan facility for the Exchequer, the first such move by an SA bank.

After a sluggish mid-year performance hit by high tax provisions and administrative costs, **Stanbic** recovered momentum and announced a 28% increase in taxed profit in December to R85,6m. It improved its yields on both capital and assets, unusual among the majors, but showed the lowest growth in both average capital and assets. The largest relative increases in lending were in leasing, while funding moved shorter in line with the trend.

The group's income rise was supported by a strong performance by commercial bank, Standard, which increased taxed profit by almost 70%, and rose several places in the top 20 rankings. This showing compensated for that of general bank Stannic, whose short-term funding and fixed-rate lending policies caught up with it and presented it with a net loss of R7m. The merchant bank, SMB, weighed in with a 14% rise in taxed profit and a strong increase in advances, well above the sectoral average.

The group sustained large non-recurring expenses during 1982 on its computerisation programme and the centralisation of ad-

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ministrative staff in a new building, the R70m "Superblock." It developed its automatic teller network to the point where in December it reported for the first time that in the Transvaal, more transactions were taking place outside conventional banking hours than within them.

The **Barclays** group, also reporting in December, became the first SA banking group to announce a taxed profit of over R100m. Its profit increase, 26% to R101,5m, was the second highest among the majors, as was its 35% rise in average assets. Most of its earnings growth was contributed in the second half of the year, assisted by falling money costs and notably by lower reserve requirements on a large bulk of its funding. In the end, its earning margin at 2,9% was higher than it had been the previous year.

Bad debt provisions in 1982 were high — about R55m — against an actual experience of less than half that amount, and deferred tax was close to R47m, necessitating a R7m provision on an expected higher rate. The group also put aside almost R5m against the prospect of being taxed on preference share income.

The commercial banking arm, Barnat, performed solidly with a 35% increase in taxed profit and an improvement in returns on capital and assets. Notable was a shift off the balance sheet of its total average assets.

Stronger still was merchant bank Barname, which turned in a 67% increase in earnings and contributed about 6% to group profits. The general bank, Wesbank, on the other hand, juxtaposed a 48% increase in average assets with an 18% decline in taxed profit. Deliberately building up volumes to compensate for lower margins on fixed rate lending, it was considered fortunate to have held its profit fall to that magnitude.

The industrial bank, Barnib, continued on a fast growth track from a small base. It augmented average assets by almost 100% and capital by even more, reducing its yields from the rather artificial levels of the previous year. Taxed profit rose by 70% to contribute 10% to group profits.

The group attracted controversy at the end of the year over a newly formed subsidiary in corporate consultancy. It eventually led to the resignation of its MD, Bob Aldworth.

Other banks

The general bank **Boland,** based in Paarl, showed sluggish results in March, increasing taxed profit by 11% against the previous year's 21% rise. Yields declined, although the bank marginally improved its ranking among the top 20. Its lending book, mainly in instalment credit and mortgage-backed loans, increased well below the sectoral average, as did deposits. Towards the end of the year, it reported a strong expansion in its insurance activities.

French Bank, on the top 20 table for the first time, registered an 18% rise in taxed profit at its December 1982 year end. Earnings per share fell, however, diluted by a rights issue at the end of 1981. Earnings were stronger in the second half of the year, 30% against the 19% increase to June. About 40% of the bank's assets are Eurofinance facilities arranged through its London branch.

A new broom swept through French Bank in 1982 in the shape of former diplomat Michel Carricuburu, who was appointed MD. Within six months he had closed two branches, laid off half the staff of French Merchant Bank, and retired two general managers. He achieved some notoriety during the year by insisting on calling a R0,75m loan to ailing diamond company Octha, which other (more exposed) banking creditors were attempting to nurse back to profitability.

The merchant bank **Hill Samuel** sustained a drop in pre-tax income at its March year end. Dividend income, however, reduced its tax bill and left it with a modest 14% increase in taxed profits Its margins were aided by a penetration of the retail funding sector, and its earnings by fee income. Both average lendings and deposits fell.

During the year, Hill Samuel announced that it had called off a proposed merger with the Cape-based group Board of Executors & Fidelity Bank. Depending on its desired balance of fee and margin income, this may necessitate an increase in capital.

TIME PREFERENCE

BANK TYPE	DEPOSIT TERMS							
	Short Rm	Annual change %	Medium Rm	Annual change %	Long Rm	Annual change %	Total Rm	Annual change %
Commercial ..	10 579	28	6 838	10	2 371	−1	19 788	18
General	1 861	101	2 716	21	3 229	10	7 806	28
Merchant	558	52	441	−8	321	−6	1 320	11
All Banks	12 998	36	9 995	12	5 921	5	28 914	20

Figures (rounded) are from December 1982 quarterly returns, and represents four-quarter averages

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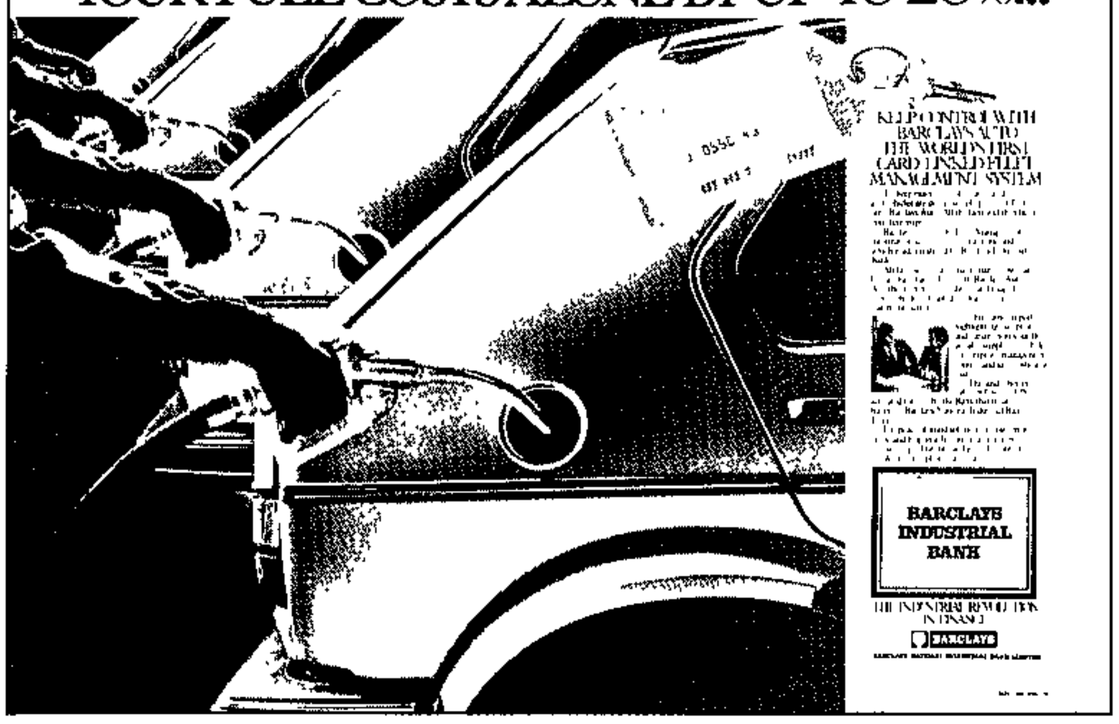

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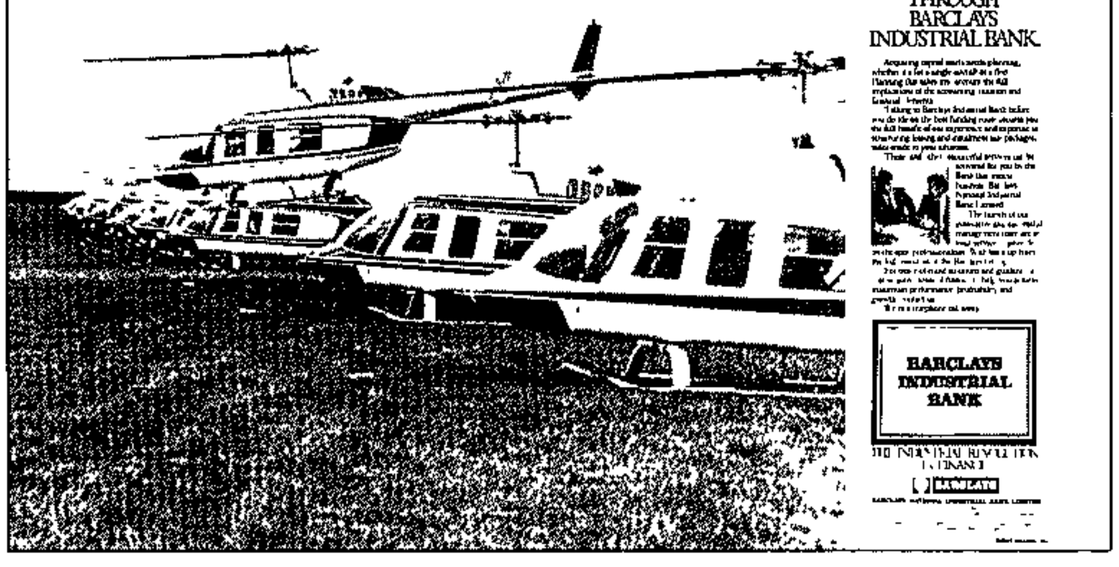

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Passing the peak

Consumer demand ignored economic trends for much of the year as narrowing bank margins became a clear cost crunch

Hire purchase and leasing, the primary activities of the general banks in SA, continued to surge for most of 1982 — although at a lower level than the year before. In October, one commentator estimated that total instalment lending had grown by an annual compound 32% over the previous eight years. Much of that growth took place in the last four years, aided by the consumer boom of 1980. In 1982, real disposable income shrank but consumer demand continued, translating into a substantial decline in the country's aggregate savings. In the last quarter of the year, however, the fact of economic recession appeared to have suddenly sunk in, and the credit bubble collapsed.

Stretching demand

The decline, in the end, was a substantial one. In 1981, the total instalment debt of the general banks rose by over 50%. In 1982, the 12-month growth rate was about 22% — leaving the sector with R6,7 billion in instalment lending on their books and R8,3 billion in total advances.

The trend was more marked in leasing, where lower company profits and squeezed cash flow subdued demand for capital equipment. Leasing written by the general banks rose by only 14% in 1982, against a 50% increase the previous year. The total leasing contracts of the sector were R2,3 billion at the end of December.

Consumer demand, which fell dramatically only towards the end of the year, placed something of a floor beneath hire purchase business on the general bank books. This rose by 26% in 1982, compared to an increase of about 53% the previous year, taking the sector to a collective hire purchase lending figure of slightly more than R4,3 billion. The growth in the last three months, however, was under 1%, the worst quarterly performance in four years.

The growth in deposits, predictably, also fell. This had been almost 50% in 1980, and about 41% in 1981. In 1982, the sector's total deposits rose by only 21% to slightly under R8 billion. Once again, the sharpest increase was in short-term deposits, which doubled, although this rate of growth was lower than the 148% of the previous year. And once again, long-term deposits (by definition, those over six months) provided the bulk of the general banks' funding base.

A high interest rate pattern prevailed over the year, reaching its peak in the first few months. Prime overdraft rate rose to 20%, the cost of month-end call money even higher and one-year fixed deposits to 16%, where they stayed for several months. This pattern was reflected in a shift towards the short end of the general banks' collective deposit book. Call deposits rose as a percentage of the total, while savings dropped. Again, with rates high, the banks had little incentive to lock into rigid funding, and the ratio of fixed deposits to the total fell.

High interest rates, conversely, appeared not to deter customer demand. On the other hand, demand was artificially buoyed by retailer expectations of falling consumer interest. This was most notable in the sale of new motor cars, which after reaching record highs in 1981, appeared to have developed an unstoppable momentum. As the economic downturn became both official and evident towards the middle of the year, vehicle manufacturers began offering substantial discounts, some of which reached 20%. Bargain-seekers helped to maintain demand for some time, but by the last quarter of the year, despite a rush of Christmas buying, the string of record car sales had definitely been cut.

This price inelasticity was not as pronounced in the corporate sector's demand for leasing facilities. "Many companies had taken advantage of boom conditions during the previous two years to replace equipment and vehicles," says James Devereux, assistant GM of Nedfin Bank. "There was little need to involve themselves in further contracts, particularly since little or no expansion was anticipated, and utilisation in industry had dropped to about 86% by the end of the year. From the banks' point of view, the unattractive prospect emerged that only replacement business could be anticipated."

Consequently, the big-ticket leases that had been a feature of the previous two years failed to materialise. One exception was a R100m package arranged for Middelburg Steel in January by Barnib, which claimed it to be the largest single-investor lease yet written.

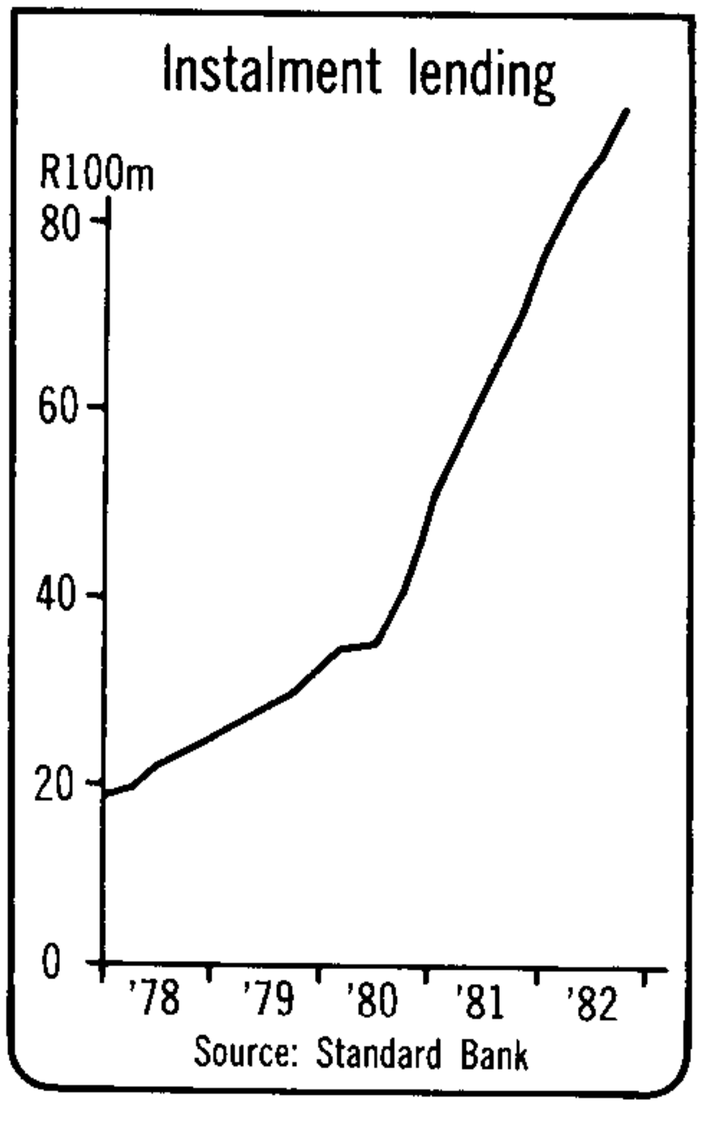
Cost squeeze

High interest rates, of course, forced a cost squeeze onto the general banks, especially those who had written large volumes of business at fixed rates and those who had to rollover funding at increasingly higher levels. Rising costs were pushed under the mandatory rate ceilings imposed by the Limitation and Disclosure of Finance Charges Act (Ladofca), which had been formally introduced the previous year.

The resulting narrowing of margins was intensified by increased competition for market share as demand dropped and the need arose to increase volumes to compensate for low marginal returns. To some, this was a danger signal, not only because of the implied lowering of credit standards and rising exposure to bad debt. Says Mike Thompson, MD of Stannic, which was caught short in 1980 by a concerted drive for market share on fixed-rate lending: "It could be that despite the rapidly changing scenario now becoming evident, others will succumb to the same temptation which led to our fading performance over the last two years. Admittedly, though, they are operating against a background of rising rates and principally in the consumer field, where premium rates are available."

Whether through greater familiarity or increased exposure to more market- related policies, the authorities were more flexible

STILL STRONG



with Ladfoca in 1982 than they had been in its first year of inception. Then they had merely altered the Act's lending categories to push a larger bulk of business from a 21% maximum to a 24% maximum. In 1982, by contrast, the ceilings were adjusted twice. It was only in June, however, that the effective ceiling for most hire purchase business was raised to 26%. Many banks lost little time in increasing the cost of floating rate contracts.

Interest rates started to fall in the last quarter. For those holding fixed-rate business written before they began falling, it meant relief from the squeeze. For those who had written at fixed-rates during 1982, it meant the beginning of an indefinite period of widening margins and higher profitability. Nonetheless, the cost effects of 1982 will in many cases become visible in bottom-line figures only during the course of 1983.

Overall, given the trading background, the general banks regarded bad debt experience in 1982 as relatively favourable. The consensus, though traditional, was that worse would follow as recessionary conditions caught up with the spending sprees of the last two years.

Bank performance

The general banking arm of the Stanbic group, **Stannic**, for the first time showed the full effects of its "fading performance." It sustained a gross loss in its December year-end of over R15m. This was softened by a substantial tax rebate to a net loss of R7m, compared to a taxed profit in 1981 of R9,2m.

Understandably, its average instalment lending book, though still the largest among the general banks, grew by only 12%. This was the lowest sectoral performance (apart from Bankovs, which is a special case) and resulted in a substantial decrease in market share. It sharply increased its short-term funding, with average short-term deposits rising 85% to represent almost a third of total deposits. According to Thompson, it was "a stern year of consolidation" that left yields "at an acceptable level which augurs well for profitability in the future."

ABREVIATIONS

Bankovs — Bank of the Orange Free State Ltd
Barnat — Barclays National Bank Ltd
Barnib — Barclays National Industrial Bank Ltd
Boland — Boland Bank Ltd
Nedfin — Nedfin Bank
Santam — Santambank Ltd
Stannic — Standard Credit Corporation Ltd Group plus Standard Bank Corporation Finance Ltd
Trust — The Trust Bank of Africa Ltd
VIB — Volkskas Industrial Bank Ltd
Volkskas — Volkskas Ltd
Wesbank — Barclays Western Bank Ltd plus Barclays Western Credit Ltd

The Barclays-owned **Wesbank**, acknowledged as the leader in motor car finance, showed the strongest growth in balance sheet (Barnib not being strictly comparable). Although overall it lost market share, its average lending book rose 53%, most of it in hire purchase. This was the result of a deliberate policy of turning over large volumes at lower margins. In May alone, for instance, it set a new record by writing R100m in new business.

With most of its business in the smaller consumer field, Wesbank had to contend with fixed rate restrictions. A higher tax rate took its 14% rise in pre-tax earnings to a 22% drop in taxed profits of R13,6m at the December year-end. At the same time, however, it claimed to have about 33% of the vehicle financing market, an impressive market penetration aided by its wide network on dealer floors.

Wesbank moved its funding very short in 1982. Its short-term deposits increased 14-fold to occupy almost 30% of the total book, against last year's 3%. Consequently, longer-term deposits fell substantially as a percentage of the whole book, which in turn showed an increase broadly in line with the sectoral average.

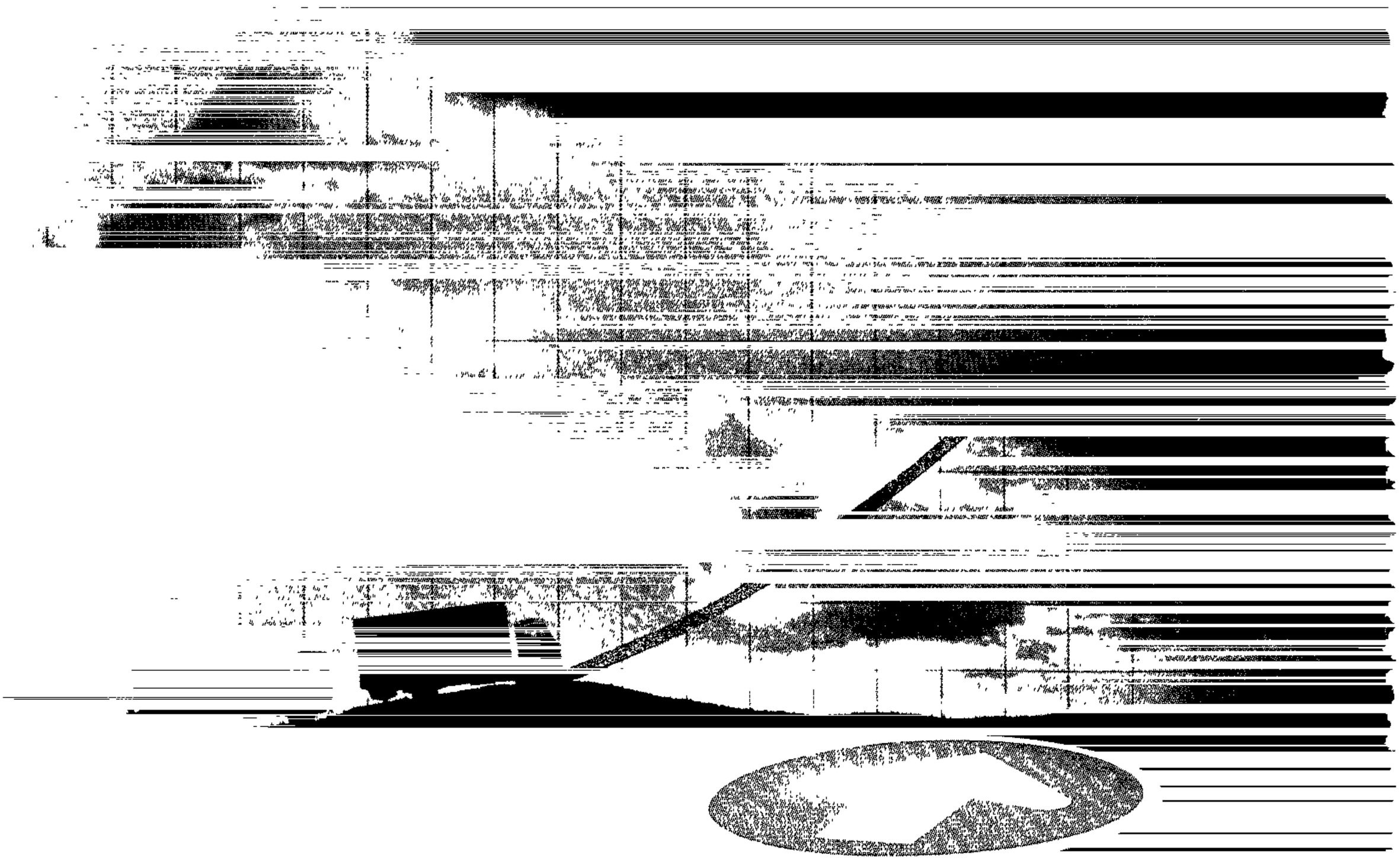
The best performance overall was again shown by **Nedfin**, the instalment lending arm of the Nedbank group. Its taxed profit rose 41% to R12m and its average lending book by almost 50%, on a judicious mixture of floating rate funding and intra-group participation in funding packages that shifted its lending emphasis towards leasing. The profit increase, though lower than the previous year, was substantial against the adverse trading conditions of the year and in fact made Nedfin the star performer within the group.

Following the trend, Nedfin shortened its funding, more than doubling its short-term deposits. The bulk of its funding, however, remains medium-term.

Santam, majority-owned by the Bankorp group, showed solid gains in 1982. Its total average instalment lending rose 47% and it increased market penetration. Taxed profit rose 22% to R12,5m, a smaller increase than the previous year. This was a reflection of rising costs and relative difficulty in increasing rates on existing hire purchase

Nedfin's Devereux ... expecting only replacement business

Stannic's Thompson ... will others succumb to temptation?



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INSTALMENT LENDING

BANK	Total Rm	Annual change %	Hire purchase Rm	Leasing Rm	Mix %	Market share %	Annual change %
Stannic	1 826,0	12	1 033,8	792,2	96	19,9	−18
Wesbank	1 812,6	53	1 314,2	498,4	92	19,8	−12
Trust	1 184,4	23	781,4	403,0	55	12,9	−10
Barnat	817,3	90	593,2	223,1	20	8,9	39
Nedfin	799,1	45	397,6	401,5	94	8,7	6
Santam	702,8	47	565,7	137,1	70	7,7	8
Barnib	367,2	80	181,5	185,7	83	4,0	33
Volkskas	360,9	29	226,4	134,5	17	3,9	−7
Standard	255,4	101	43,5	211,9	8	2,8	47
Bankovs	252,3	−9	178,0	74,3	90	2,7	−36
Boland	235,7	32	165,0	70,7	52	2,6	−4
VIB	174,7	—	128,1	46,6	67	1,9	−27

☐ Figures are four-quarter moving averages from December 1982 quarterly returns. Stannic includes Stancor. Wesbank includes Wescredit. Mix is percentage share in total advances

FUNDING THE GENERAL BANKS

DEPOSIT TERM	Stannic		Wesbank		Santam		Nedfin		Bankovs		Barnib		VIB	
	Amount	Mix	Amount	Mix	Amount	Mix	Amount	Mix	Amount	Mix	Amount	Mix	Amount	Mix
Short (Rm)	513	29	435	27	192	16	301	36	—	—	33	8	15	6
Change %	85	81	x14	x9	81	23	135	57	—	—	−23	−38	114	100
Medium (Rm)	561	32	405	25	535	43	366	44	188	44	203	52	101	38
Change %	−10	−14	12	−24	58	16	19	−20	x6	x3	20	8	−9	−24
Long (Rm)	696	39	794	48	488	41	168	19	236	56	154	40	151	56
Change %	−12	−17	11	−25	9	−20	39	−14	31	−34	22	3	45	19
Total (Rm)	1 770	100	1 634	100	1 215	100	835	100	424	100	390	100	267	100
Change %	5	—	23	—	37	—	50	—	101	—	7	—	20	—

☐ Figures (rounded) are four-quarter moving averages from December 1982 quarterly returns. Table features only general banks with assets over R350m. Mix is percentage share in total deposits. Changes calculated over 12 months. Large percentage changes expressed as multiples of original number. Stannic includes Stancor. Wesbank includes Wescredit

business, towards which its lending book is heavily weighted. Its funding book also shifted shorter, although short-term deposits continue to occupy a comparably small proportion of the total.

At the end of the year, Santam followed its earlier innovation in launching chequing facilities by offering residential mortgage bonds — though at high rates.

The industrial bank in the Barclays group, **Barnib**, formally established in 1981, showed steady (if not strictly comparable) growth with an 80% increase in its average instalment lending from a low base. Its 70% rise in taxed profit to R10,5m contributed 10% to group profits in 1982.

Bankovs, the Bloemfontein-based general bank, celebrated its first year in the Volkskas group. The result was a strict curtailment in its average lending growth, which dropped by 7%, and an extremely conservative taxed profit disclosure of R0,3m (against R1,2m in 1981). The policy of the group, according to MD Pieter Morkel, is to augment the bank's capital base and raise the quality of its assets, so growth and profit disclosure will probably be limited for some time.

Also in the Volkskas group, **VIB** pulled in its horns in 1982. It registered virtually no growth in its average instalment lendings, after two years of rapidly acquiring assets. Its taxed profit increase, however, was a respectable 33%. A substantial shift towards short-term funding was balanced by a rise in long-term deposits.

Offical action

Apart from two changes to the Ladofca rate ceilings, official involvement in general banking affairs was not as extensive as it had been in 1981. The spate of leasing and credit legislation of the previous year was not repeated. On the contrary, the overlapping (and sometimes conflicting) aspects of this legislation led bankers to press for an investigation into the possibility of reforming it.

Two areas of confusion, for instance, revolved around determining exactly what types of lease agreement were subject to tighter general sales tax provisions and under what conditions the cession of lease rights qualified for the recoupment of tax allowances. Eventually, a committee was formed in September to look into the legislation governing "non-cash" transactions. Its unenviable task is to rationalise the effects of four pieces of legislation — the Income Tax Act, the General Sales Tax Act, Ladofca and the Credit Agreements Act.

The Registrar of Financial Institutions, Naas van Staden, did, however, put his foot down in April by declaring dealer "kickbacks" to be an undesirable practice. This ruling, directed against car retailers profitably discounting hire purchase agreements with banks, had the force of law. However, it was pointed out at the time that tighter margins had largely eradicated the rate gaps that made abuses possible. And Van Staden did hedge his directive by allowing remuneration to dealers for recognisable administrative services to funding institutions.

From the other side, the Association of General Banks lobbied for a partial relaxation of banking reserve requirements that would facilitate cash movements within banking groups. These are hampered by a system that forces the duplication of capital and liquid asset reserves on inter-bank deposits.

Other events during 1982 included the Reserve Bank allowing foreign container leasing operatives to canvas SA investors for the first time. And in October, the country's first "executive clothing" lease scheme was launched by two entrepreneurs to peddle tax-deductible threads!

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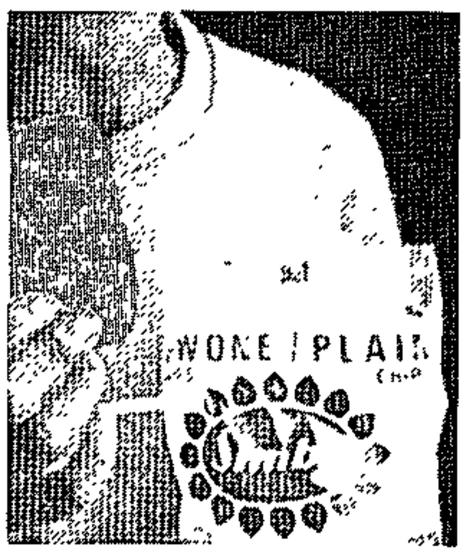
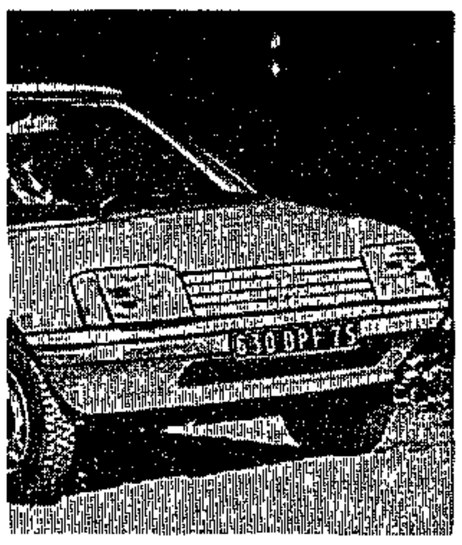
Celebrate with scotch at **R85...**

or bubbly at **R35** a bottle to...

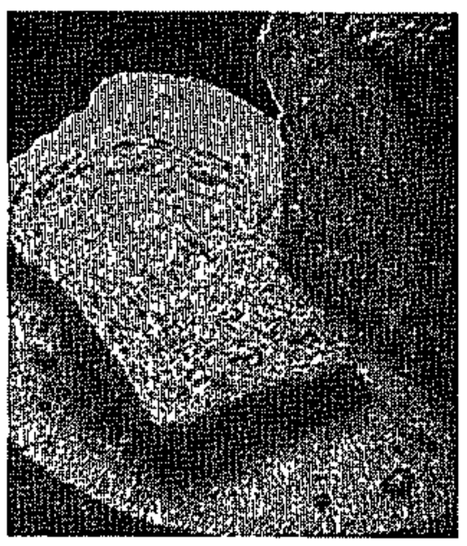


wash down your chips or peanuts which will cost **R4** per packet.

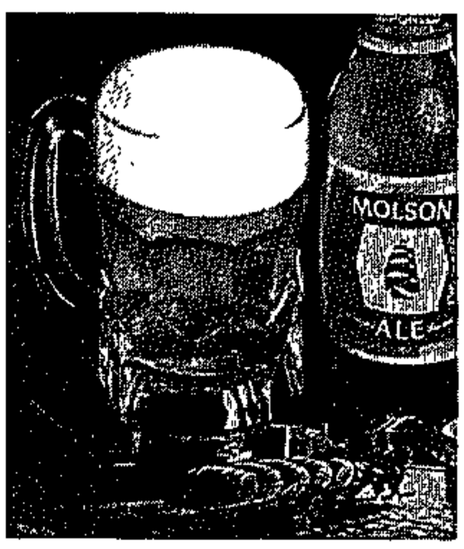
In the year 2000 you will drive from your middle class home worth **R1 000 000...**



in a small car which cost a mere **R100 000.** By then we'll all be millionaires...



but the holes in our pockets will be bigger than ever. A loaf of bread will cost **R5...**



a beer **R10...**

and the daily paper about **R3.**

The problem will be that some of us may be enjoying a pension of only **R500** a month!

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Rising costs force a battle for available business and encourage penetration of new markets

With restricted access to retail funding, the merchant bank sector in 1982 was especially exposed to the high cost of money and the volatility that prevailed in the financial markets.

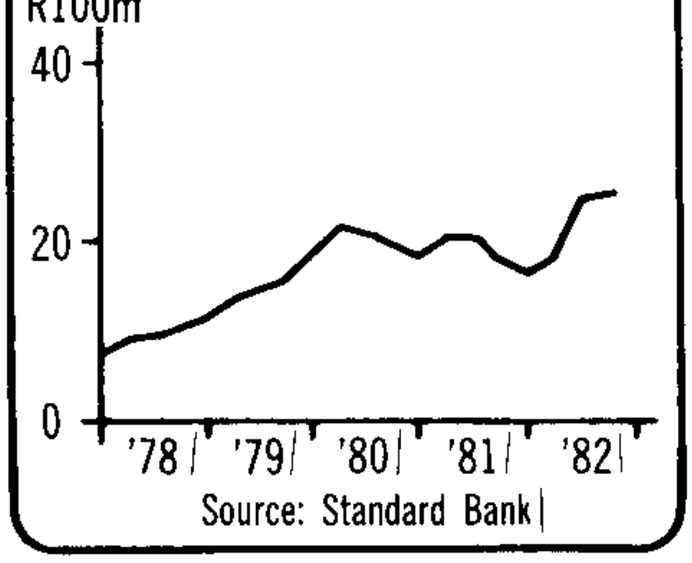
This was most evident in the first quarter of the year, when the official controls that still existed on the prime overdraft rate prevented it from fully reflecting interest rate patterns in the money market. Even after the link between the prime and bank rate was cut in February, further increases in the rate were avoided by relaxations of the banks' reserve requirements. It meant that prime reached a ceiling of 20% in March, where it remained for most of the year.

Other rates were less stable. The costs of wholesale money to the banks reflected market volatility and lending margins came under pressure. The discount rate on 90-day banker's acceptances moved more freely and in March rose above 19% for a brief period. It meant that for much of the first half of the year, the all-in cost to clients of acceptance finance was higher than that of prime overdraft borrowings, which put a damper on this form of lending. Richard Crick, MD of Hill Samuel, comments: "1982 was a year of considerable fluctuation in almost all the indices which are important to our business. Furthermore, at least during the early part of the year, almost all these indices moved in directions which were unfavourable to the generation of merchant banking profits. Liquid assets costs were high throughout the year, the market for the issue of new long-term corporate debt remained asleep, the inclination of corporate clients to invest in capital assets was severely curtailed and competition for good quality corporate debt was fierce with margins tightened."

On the other hand, when interest rates subsided from these peaks, and a clear downward pattern emerged in the last quarter of the year, retail deposit rates lagged and marginal wholesale funding became relatively cheaper. So did the cost of acceptance finance.

This "over the hump" pattern was mirrored by the performance of the economy. As Johan Nel, chief executive of UAL, notes in his annual review: "As the year progressed and the effects of the downswing began to be felt throughout the economy, the process of inventory accumulation and the strong upward trend in private sector fixed investment were reversed. This resulted in a weakening demand for finance from commerce and industry in the second half of the financial year, a gradual levelling off in interest rates and improving rate margins for the banking industry."

TAKING UP SLACK



Shifting assets

These conditions did not prevent the merchant banks accumulating assets at a faster rate than the previous year. But there was a marked shift in the mix, away from advances and towards investments and bill finance, both local and foreign.

"Last year was a difficult one for merchant banking," says Div Geeringh, MD of SMB. "It was tough from the point of view of loan demand and margins. But acceptance finance increased, as well as other types, like off-shore lines. And lower margins could be made up on dealing profits and commissions."

The sector's total assets rose by almost 40% in 1982, ahead of other banking sectors and well in excess of the 6% rise in the previous year. Total advances, by contrast, increased by under 30%, and total deposits by only 11%, much of them concentrated in the shorter end. Short-term deposits actually rose by over 50%, while both medium and long-term funding declined in absolute terms.

On the other hand, the relative cost advantages of acceptance finance that became increasingly evident in the second half of the year resulted in a 60% rise in this type of facility across the sector. Some banks, by December, had doubled their holdings. One merchant bank remarks that this was in no small way due to the gathering acceptability of non-liquid, non-trade related bills.

Overall economic conditions assisted the development of other types of business. For most of the year, the country sustained a balance of payments deficit, which placed substantial pressure on reserves. This was most severe in the first quarter, when it rose to an annualised R7 billion, before switching to a surplus in the final quarter. The need to protect reserves, as well as the fact that domestic interest rates were higher than those ruling abroad, encouraged the use of foreign trade finance by local commerce and industry. Many merchant banks reported substantial increases in this type of business — VMB being one that saw its foreign financing for clients rise to R153m in March from R17m the year before.

Volatility in the financial markets, ranging from the money market to foreign exchange, also presented opportunities for dealing profits of one kind or another. Sharp falls in capital market rates towards the end of the year, for instance, were a potential source of quick capital gains and jobbing profits could also be made in the money market and in foreign exchange dealings.

Service industry

These conditions, allied to the increasing deregulation of the financial markets and growing competitiveness among banks, gave impetus to the movement away from reliance on traditional banking income.

Some banks, like Finansbank, moved in the direction of venture investment Says MD Piet Liebenberg: "In their search for new business, banks could well be willing to undertake more development banking, involving equity participation in smaller ventures, so that profits may be obtained to sweeten yields."

More entrenched appears to be the trend

ABREVIATIONS

Barname — Barclays National Merchant Bank Ltd.
Finansbank — Finansbank Ltd.
Hill Samuel — Hill Samuel Merchant Bank (SA) Ltd.
Mercabank — Mercabank Ltd.
RMB — Rand Merchant Bank Ltd.
Senbank — Central Merchant Bank Ltd.
SMB — Standard Merchant Bank Ltd.
UAL — Union Acceptances Ltd.
VMB — Volkskas Merchant Bank Ltd.

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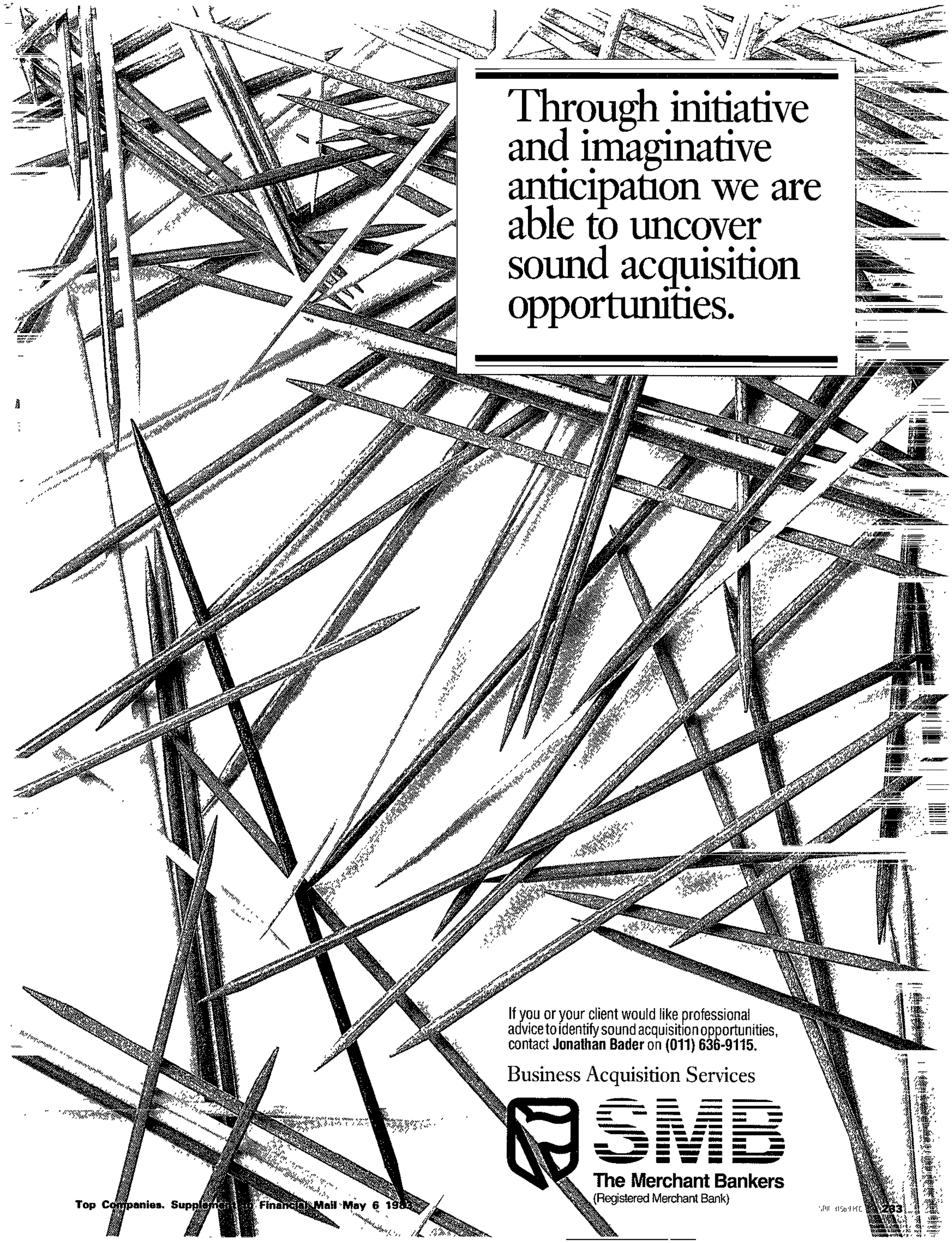
CORPORATE FINANCE

Date (1981)	Company	Transaction	Size	Bank
January	**Powertech/Altech/Lascon**	Acquisition of control of Lascon by Powertech and Altech	L	Barname/Finansbank
January	**Union Wine/Picotel**	Offer for Picotel shares by Union Wine	L	VMB/UAL
February	**Kanhym/Karoo**	Acquisition of Karoo minorities by Kanhym	L	Senbank/Barname/VMB
February	**Nelsa/Struthers Consortium**	Acquisition of Nelsa (renamed Magnum Life) by Struthers consortium	S	UAL
February	**Rennies/Mine Pension Funds**	Acquisition of 50% of Renhill properties by funds	L	Finansbank
February	**Amrel/Scotts Stores**	Acquisition of Scotts by Amrel	L	Hill Samuel
February	**B & S/Lenning Holdings**	Acquisition of Westvaal Ind and Creaprop	M	VMB
March	**Lamberts Bay/Leisurcor**	Acquisition of 50% of Leisurcor by Lamberts	S	UAL
March	**Murray & Roberts/Trumcor**	Acquisition of Trumcor operating subsidiaries by M & R	L	Mercabank
March	**Pepkor/Magnum**	Acquisition of control of I L Back by Magnum	M	RMB/Senbank
March	**Solarsh/Fasco Tvl**	Acquisition of Fasco by Solarsh	S	Mercabank
March	**Union & London/Calan**	Acquisition of 45% of SA Kultuurbeleggings by U & L	S	UAL
March	**Nampak/C G Smith**	Acquisition of certain C G Smith paper subsidiaries by Nampak	M	SMB
April	**African Gate/Metkor**	Acquisition of control of Afgate by Metkor	L	VMB
April	**De Bond Corp/De Bond Diamonds**	Acquisition of DBD by DBC	M	Mercabank
April	**Hanhill/Swazi Chem Ind**	Acquisition of SCI by Hanhill	S	VMB
April	**HLH/WF Johnstone**	Acquisition of Johnstone by HLH	L	UAL
April	**Plus Insurance Brokers/Bankorp**	Acquisition of PIB by Bankorp	S	VMB
April	**Sentrust**	Elimination of odd-lot share holdings	S	Senbank
April	**Retco/Cinnabar Properties**	Acquisition of Cinnabar Properties by Retco	M	Barname
April	**Stanbic/Hesperus**	Acquisition of minority stake in Hesperus by Stanbic	L	SMB
April	**W & A/Enyati**	Acquisition of minority stake in Enyati by W & A	M	SMB
April	**Kohler/Wiggins Teape**	Acquisition of WT Flexipack by Kohler	M	Affincor
May	**Abercom**	Early redemption of subsidiaries' debentures	S	UAL
May	**Boumat/City Metal Products**	Acquisition of 80% of CMP by Boumat	S	SMB
May	**John Orr Holdings**	Group restructuring	L	VMB
May	**Murray & Roberts/Anchusa**	Restructuring of certain interests of both	L	Barname/BoE
June	**Tongaat/Huletts**	Merger of Tongaat and Huletts	L	UAL
June	**SA Breweries/Edcon**	Acquisition of Edcon by SAB	L	UAL
June	**Waltons/Enslin & Francis**	Acquisition of stationery division of E & F by Waltons	S	UAL
July	**Stanbic/Tolux**	Acquisition of majority stake in Tolux by Stanbic	L	SMB
July	**Magnum/Javcor**	Acquisition of control of Javcor by Magnum	S	—
July	**Shulton Inc/Shulton Africa**	Acquisition of SA minorities by SI	S	Hill Samuel
July	**Industrial Investment Company/ Forbo-Krommenie**	Acquisition of Forbo-Krommenie by IICO	L	SMB
August	**Afex Corporation Soc. Anon.**	Reorganisation and new holding company	M	Barname
August	**Consortium/Klippoortje Estates**	Change in control of Klippoortje	S	UAL
August	**Sumcor**	Early redemption of debentures	L	UAL
August	**Metkor**	Share conversion	S	VMB
August	**Barlow Rand/Imperial Cold Storage**	Offer by Barlow Rand to ICS Shareholders	L	SMB(leader)/UAL
August	**C G Smith/Tiger Oats**	Merger of Tiger and C G Smith's sugar interests to form Tiger-Sugar	L	SMB(leader)/UAL
September	**Martin Jonker/Alderson & Flitton**	Acquisition of control of A & F by Jonker	M	VMB
September	**NFS Motors/Consortium**	Offer to NFS minorities by Consortium	S	UAL
September	**Safmarine/Freight Services**	Acquisition of SA Containers by FS	L	Finansbank
September	**Tiger Oats/Monis & Fattis**	Aquisition of M & F by Tiger	L	UAL
October	**Putco**	Capitalisation issue	S	VMB
November	**Blaikie-Johnstone/HLH Building Products**	Merger of B-J with HLH Building Products operations	L	UAL
November	**Diroyal/Lovell & Proctor**	Acquisition of L & P by Diroyal	M	Senbank
November	**Eureka Rubber/R S Price**	Acquisition of control of Eureka by Price	S	Senbank
November	**Panafic Holdings/Consortium**	Acquisition of control of Panafic by Consortium	S	Barname
November	**Plate Glass**	Divisionalisation of PGSI and launch of Solaglas and PG Industries	L	UAL
December	**Aberdare Cables/Bonuskor**	Acquisition of Contronics by Aberdare	M	Senbank
December	**DRG/Kohler**	Acquisition of control of DRG by Kohler	L	Barname
December	**Hepworths/Harrowes**	Acquisition of control of Harrowes by Hepworths	S	Hill Samuel
December	**Katz & Lourie/Rhodes**	Acquisition of contol of K & L by Rhodes	S	Senbank
December	**Natal Chemical Syndicate/ Sabie River Bag**	Acquisition of SBR by NCS	S	SMB

☐ This list is by no means exhaustive.
S = Below R4m
M = R4m to R8m
L = Above R8m



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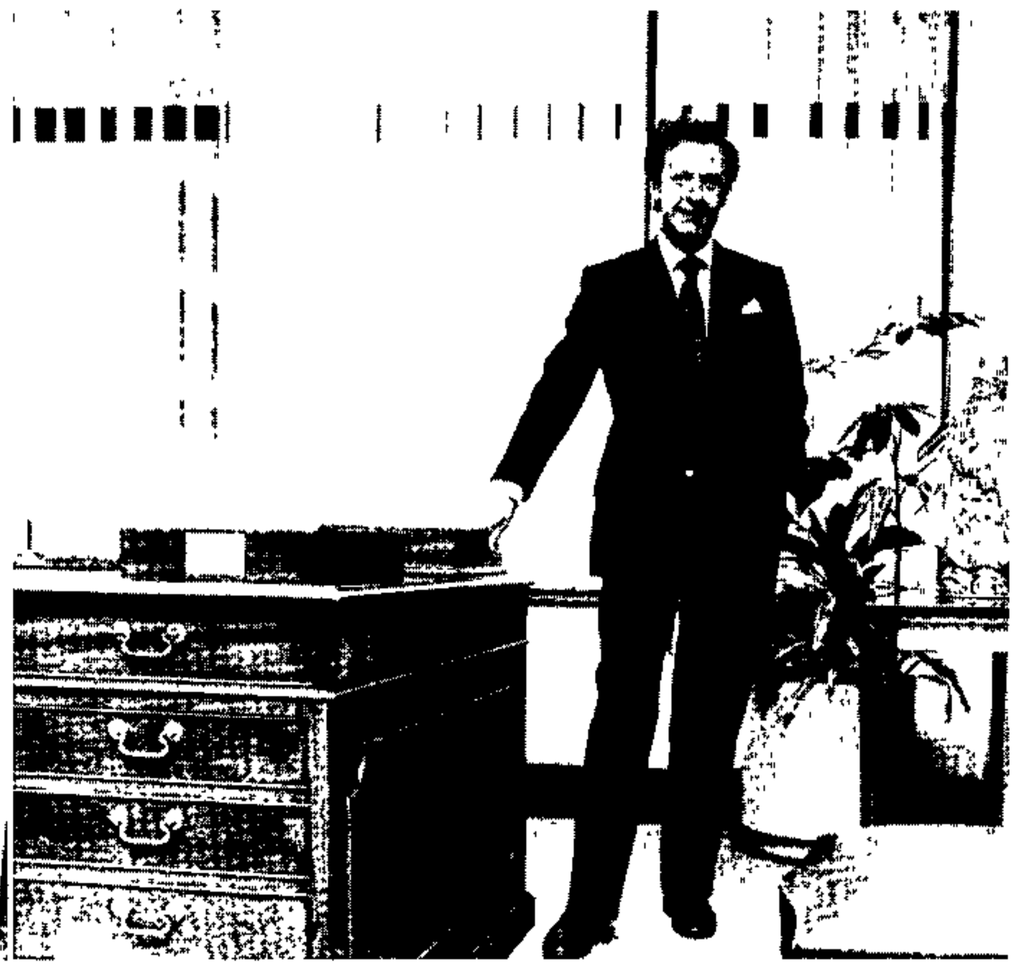
UAL's Nel ... weaker demand, stronger margins



Hill Samuel's Crick ... innovation speed and professionalism

towards a payment-for-service concept. Fee income figured larger in bank earnings in 1982, anticipating, many merchant bankers believe, the shape of things to come. This was not only restricted to traditional involvement in corporate finance, although here, too, bankers note changes. Says one: "A more sophisticated approach appears to be developing. Banks are less concerned about attaching their logos to as many public documents as possible. There's more emphasis on initiating deals — spotting opportunities, selling them to clients and seeing them through to the end. Despite or because of this, there's also more secrecy."

Other innovative undercurrents strengthened in 1982. Some merchant banks sought ways of profiting from commercial credit markets that completely bypass the banking system, and became involved in money broking. Others developed products that could be marketed on a wider scale. "Overall," says Crick, "the year was a hard one because it required merchant banks, if they were successful, to behave as merchant banks should — with innovation, speed and professionalism. But that, on the whole, is a good thing because I expect to see the market continue to develop in a way which is going to make these attributes increasingly important."

Corporate finance

"The year," says one banker, "was notable for the increase in merger and acquisition activity." One bank, UAL, estimates that the value of transactions involving listed companies and which were handled by merchant banks increased to over R1 billion in 1982, compared with about R400m the previous year.

This figure is partly a reflection of the

COMPARING PERFORMANCE

RANKED BY:

Return on capital	Return on assets	BANK	Average assets Rm	Annual change %	Net profit Rm	Average capital Rm	Annual change %	Balance sheet ratio %	Return on capital %	Return on assets %	Year end
4	**4**	**Senbank**	**806,6**	**44**	**8,6**	**38,1**	**4**	**18**	**22,6**	**1,07**	**June**
4	4		559,7		6,9	36,8		19	18,8	1,23	
3	**3**	**UAL**	**655,5**	**35**	**8,3**	**36,7**	**2**	**30**	**22,6**	**1,27**	**Sept**
3	3		485,3		7,2	36,0		24	20,0	1,48	
2	**2**	**SMB**	**637,0**	**21**	**9,8**	**30,4**	**3**	**17**	**32,2**	**1,54**	**Dec**
1	2		526,3		8,6	29,5		15	29,2	1,63	
6	**8**	**VMB**	**564,4**	**72**	**3,3**	**19,0**	**12**	**36**	**17,4**	**0,59**	**March**
6	7		329,1		2,5	17,0		25	14,7	0,76	
8	**5**	**Hill Samuel**	**334,1**	**3**	**3,3**	**21,4**	**5**	**35**	**15,4**	**0,99**	**March**
8	5		324,9		2,9	20,4		26	14,2	0,89	
9	**9**	**Mercabank**	**289,3**	**17**	**1,3**	**13,6**	**13**	**17**	**9,6**	**0,45**	**June**
9	9		247,3		1,5	12,0		16	12,5	0,61	
5	**6**	**Finansbank**	**273,5**	**16**	**2,5**	**13,7**	**7**	**17**	**18,4**	**0,91**	**March**
7	6		236,2		1,8	12,6	,	29	14,3	0,76	
1	**1**	**Barname**	**265,6**	**10**	**7,0**	**18,4**	**1**	**10**	**38,0**	**2,64**	**Dec**
2	1		240,8		4,1	18,3		5	22,4	1,70	
7	**7**	**RMB**	**158,6**	**70**	**1,0**	**5,9**	**26**	**32**	**16,9**	**0,63**	**Sept**
5	8		93,9		0,7	4,7		29	14,9	0,75	

☐ Banks are positioned by size of assets. All figures except profits are four-quarter averages from December 1982 and 1981 quarterly returns. Lower-line figures refer to previous year. Assets include contingent liabilities, and balance sheet ratio is contingent liabilities relative to assets Profits, after extraordinary items, tax and transfers to contingency reserves, are from 1982 annual reports

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SMB's Geeringh ... making up margins on profits and commissions

PUBLIC SECTOR LOAN ISSUES

	Amount raised Rm	Annual change %	Market share %	Annual change %
VMB	430,6	196	32,2	199
UAL	320,8	22	24,0	−19
Senbank	293,8	56	24,0	11
SMB	155,1	31	11,6	−15
Finansbank	45,6	—	3,4	−36
FMB	32,5	−6	2,5	−40
Independent	57,5	−4	4,3	−38
Total	1 335,9	54	100	—

☐ Joint issues divided by number of participating banks. Issues under three years, and interbank issues, not recorded.

RIGHTS ISSUES

Company	Date (1982)*	Shares offered	Amount raised Rm	Bank
Gefco	Jan	Ordinary	17,9	Senbank/VMB
Barbican	Feb	Ordinary	2,0	Metboard
Malbak	Feb	Debentures	13,0	SMB
Powertech	Feb	Preference	12,3	Barname
Sanland	Feb	Units	36,6	Senbank
Triton/Enyati	Feb	Ordinary	7,8	SMB
IGI	Feb	Ordinary	1,0	Investec
Fedfood	March	Units	30,0	Senbank
Dunlop SA	April	Ordinary	15,0	SMB
De Bond Corp	May	Ordinary	4,3	Mercabank
South Roodepoort	May	Preference	3	Mercabank
Omnia Fertiliser	June	Ord & Units	15,0	Barname
Afex Corp Soc. Anon.	Oct	Ordinary	$3,5	Barname
East Daggafontein	Oct	Ordinary	3,2	Hill Samuel
Pioneer	Dec	Units	21,1	UAL
Sappi	Dec	Preference	150,0	UAL
Solarsh	Dec	Ordinary	0,7	Mercabank

* Based on last day to register.

interaction between market and economic conditions in 1982. Falling demand and capacity utilisation, as well as high interest costs, tended to squeeze company profitability. The all-share index of the Johannesburg Stock Exchange declined quite sharply during the first half of the year, although it recovered strongly thereafter. But conditions were generally favourable for company takeovers and consolidations of one kind or another. As far as can be estimated from publicly-announced deals, the number of transactions handled by merchant banks increased in 1982.

The figure also reflects the size of transactions. As Tim Sewell, corporate finance GM at UAL, points out. "The dominant feature of 1982 was the number of large mergers and takeovers which took place." The structuring of Tiger-Sugar, for instance, which had several legs and which was finalised in June, had a combined value of over R140m.

The now-liquidated Magnum Group was an active operator during the year. It acquired National Employers' Life (SA), renaming it Magnum Life, and listed one of its companies through cash-shell I L Back. It also gained control of Northern Free State Motors and fought a protracted battle for construction company Group Five. Other large deals among industrial companies included the Altech/Powertech takeover of Lascon; Mercabank's sale to Murray & Roberts of Trumcor's operating subsidiaries; Metkor's acquisition of African Gate; and the takeover of W F Johnstone by HLH.

The financial sector was less active than it had been the year before, although a notable achievement in 1982 was Stanbic eventually gaining effective control of Unisec through Hesperus and Tolux.

The most acquisitive companies in 1982 were almost certainly the retailers, especially the food sector. SA Breweries took control of Scotts Stores through Amrel, and later snatched Edcon from its former owner. The fate of ailing John Orr's was finally decided by a fundamental rationalisation; Tiger Oats acquired Monis & Fattis in a dramatic bid that pre-empted a takeover attempt by the Premier Group; sugar giants Tongaat and Huletts merged; and, of course, the Barlow Group reshuffled its food and sugar interests in the mammoth Tiger-Sugar transaction.

Both the number and value of rights issues declined in 1982, though not substantially. About R330m was raised, against about R350m the previous year. The number of listings declined to about half as many as in 1981, with no public capitalisation issues being made at all. Most of the listings were "rule based," the accession of a company to the JSE board by virtue of its having satisfied the necessary criteria. Debentures, on the other hand, due partly to high interest rate patterns, have not been a viable means of raising corporate loan finance for some years, and again no public issues were made in 1982.

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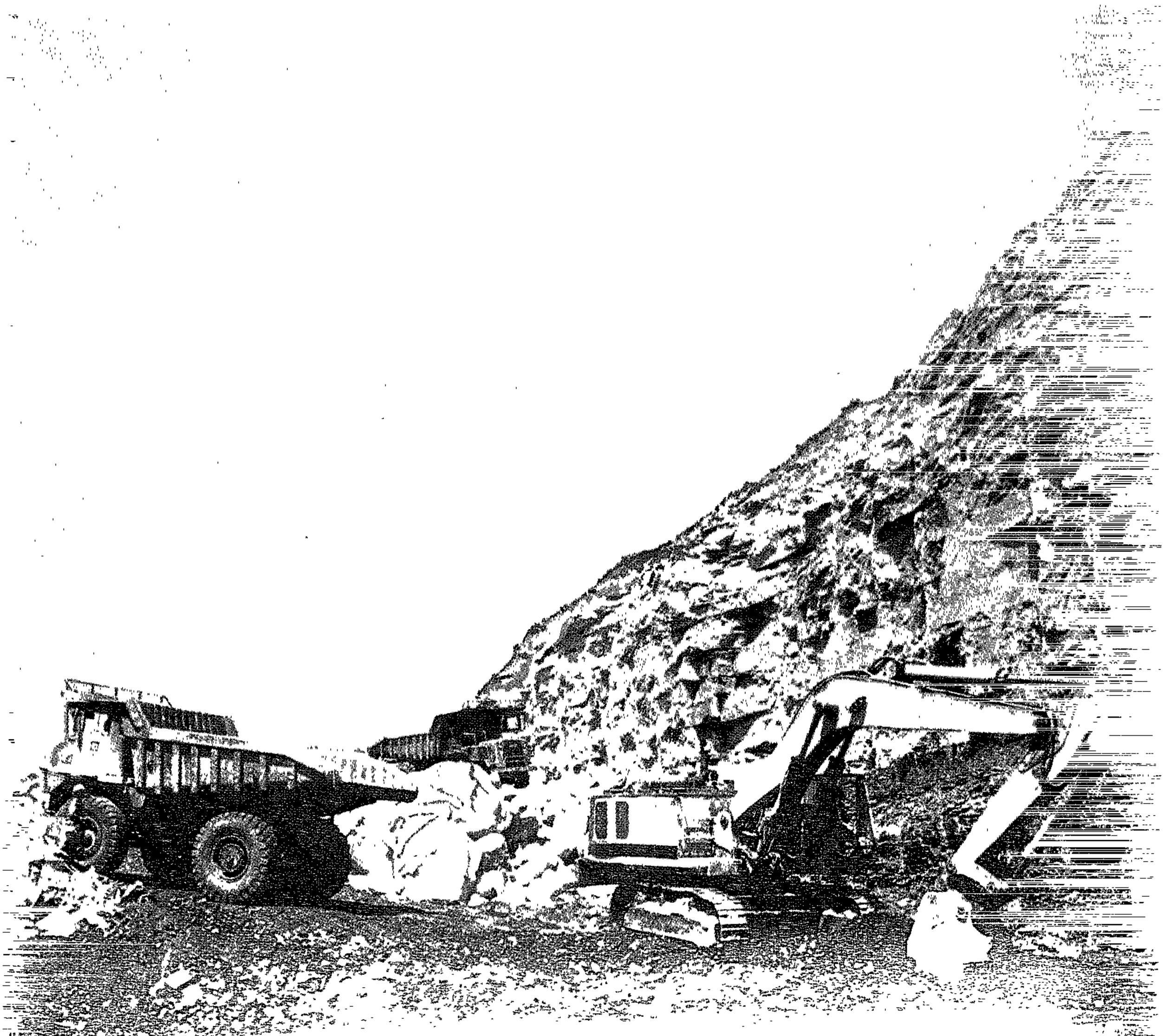
Top Companies. Supplement to Financial Mail May 6 1983



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ACCEPTING CREDIT

Bank	Bankers Acceptances Rm	Annual change %	Ratio to assets %
Senbank	360,0	92	45
	187,2		34
VMB	204,1	59	36
	128,5		39
UAL	199,4	50	30
	132,8		27
SMB	155,7	−12	24
	177,5		34
Hill Samuel	104,5	4	31
	100,7		31
Barname	103,8	33	39
	77,9		32
RMB	77,2	71	49
	45,2		48
Finansbank	29,6	41	11
	21,0		9
Mercabank	27,9	14	10
	24,5		10

☐ Figures are four-quarter averages from December 1982 and 1981 quarterly returns

Public sector loan issues increased sharply during the year by 54% to over R1,3 billion. VMB headed the list, partly as a result of taking the brunt of Escom's policy of circulating its issues between this bank, Senbank and UAL.

A notable feature of the capital market was that, despite high rates, many borrowers took advantage of investor interest and raked in as much cash as they were offered. The public corporations, like Escom and Iscor, eventually borrowed about R800m, against the R580m scheduled in the Treasury's official borrowing calendar.

Finansbank's Liebenberg ... development profits sweeten yields

UAL's Sewell ... the dominance of large mergers

However, much of this was due to the sale of stock on the secondary market. Primary market borrowings eventually turned out to have been R300m or so higher than the listed amount, a modest amount which, at low commissions, did not add overwhelmingly to bank income. Public sector loans, nonetheless, remain high-profile business for the banks.

Bank performance

Almost all the merchant banks added substantially to assets in 1982, often more off the balance sheet than on it. Profit growth in general did not match that of the previous year, tending to depress returns on assets. By contrast, in line with shifts in the income mix, capital growth was less than profit growth and returns on capital generally improved.

Senbank, the largest merchant bank in terms of average assets, is an example. It registered a 25% increase in taxed profit in June, broadly in line with the previous year. This substantially improved the yield on capital, the size of which on average rose only 4%. But a 44% average asset growth, the largest apart from small-base RMB, lowered its return on assets.

Largely responsible for asset growth was a hefty rise in acceptances and in holdings of fixed-interest securities. Advances rose at lower rate.

The 15% rise in taxed profit for **UAL,** merchant bank of the Nedbank group, was below the previous year's 22%. Again, return on capital rose and return on assets fell. The bank's growth in average assets was, at 35%, above the sectoral average, while the balance sheet showed a shift towards contingent liabilities. Deposits and advances increased only slightly. UAL was especially active in large corporate finance deals in 1982.

The asset structure shows a fall in cash holdings and an increase in fixed-interest investments. Bills discounted rose sharply, as did acceptance and guarantee business.

The Stanbic group's merchant banking arm, **SMB**, recorded a 14% rise in taxed profit. In line with the sector, return on capital improved, while the yield on assets dropped. At 21%, SMB's asset growth was relatively modest, and much of it on the balance sheet. By contrast with the rest of the merchant banks, however, SMB showed substantial growth in average deposits and advances, almost 50% in both cases.

The merchant banking arm of the Volkskas group, **VMB**, recorded a 30% increase in taxed profit, well above the sectoral average but sharply lower than its 67% increase the previous year. The movement of its return on capital and assets was in line with the sector.

The bank's asset growth was, at 72%, the largest among the merchant banks. Much of this was off the balance sheet — average deposits and advances actually fell in each case to about half the previous year's levels and the balance sheet ratio

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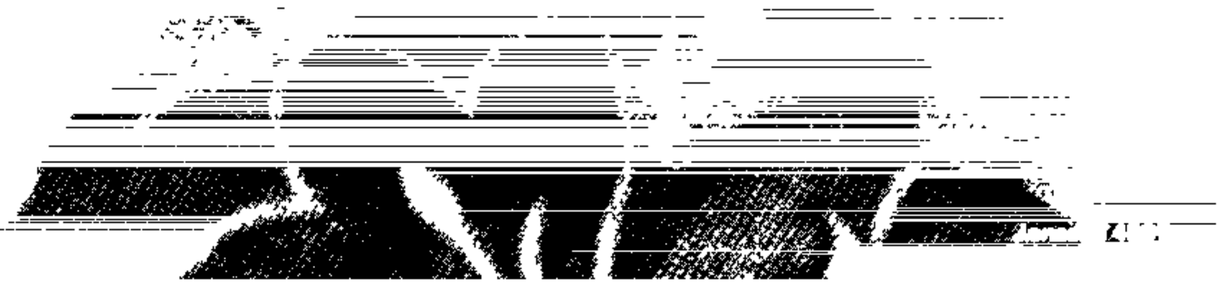

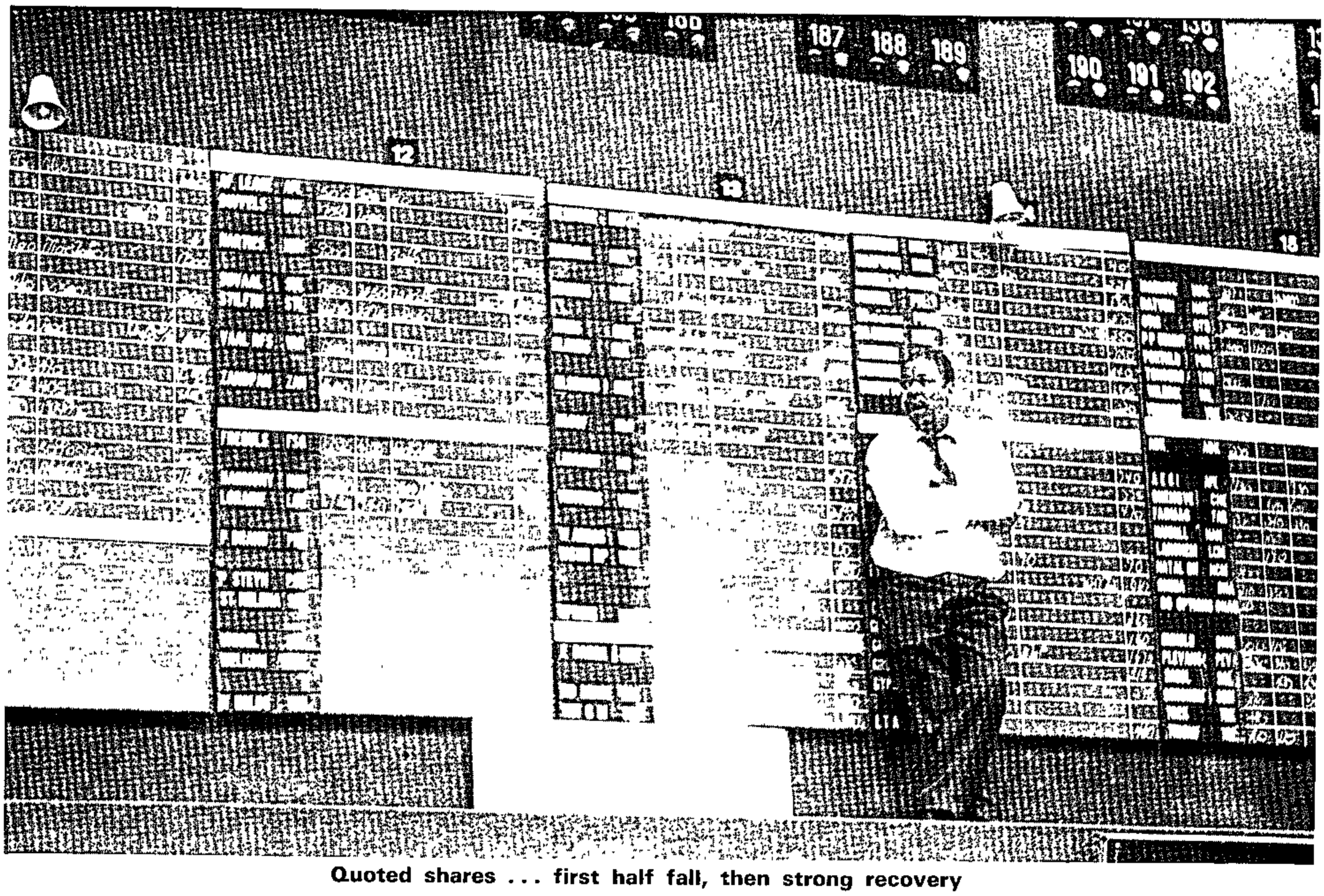

Quoted shares ... first half fall, then strong recovery

rose to 36% from 25%. Asset growth was almost entirely due to acceptances, (which more than doubled), endorsed bills and foreign finance. Most other categories declined.

The taxed profit of UK-owned **Hill Samuel** rose by 14% in 1982, against 21% the previous year. In its case, marginal increases in both average capital and assets improved returns on both categories. Its balance sheet unsurprisingly showed a substantial shift towards contingent liabilities, with deposits and advances declining by about 10%. It added little acceptance business to its books during the year, but showed large increases in other types of business that could be mainly due to foreign finance.

Mercabank, in the Bankorp group, had a difficult year, with taxed profit falling 13%, and returns on capital and assets accordingly declining. It recorded a small increase in acceptance business and maintained a low balance sheet ratio. Earnings were ploughed into reserves and capital accordingly rose above the sectoral average. During the year it sold its 41% stake in Trumcor.

By contrast, **Finansbank** raised taxed profit by an above-average 39%. Assets increased modestly, and the 9% rise in capital was insufficient to lower its return on equity. It also showed a respectable rise in acceptance business, but a noticeable decline in the balance sheet ratio.

In asset structure, it raised its cash holdings and investment in unlisted shares. This is in line with its attitude towards "development banking." During 1982, its venture capital arm, Finansgroei, made its first investments.

The Barclays group merchant bank, **Barname**, performed well by raising taxed profit 70% and improving returns on capital and assets. Assets grew a modest 10%, while contingent liabilities as a proportion of total average assets doubled, although the absolute figure remains small.

The bank increased its acceptance business to the point where, at the end of the year, it represents almost 40% of total assets. Cash holdings also rose strongly, as did guarantees for clients.

RMB continued to grow strongly from a small base in 1982, increasing assets by 70% and augmenting capital by 26%, the highest growth in the sector on both counts. The growth in taxed profit, although well above average at 43%, was below the previous year's 75%. Return on capital improved.

The bank added strongly to its acceptance business during the year, increasing it by over 70%, and marginally raised its balance sheet ratio. Investments increased sharply.

LISTINGS

RULE BASED

Company	Month (1982)	Bank
Advance Industries.....	June	Mercabank
New Bernica	June	SMB
Omnia Fertiliser	June	Barname
Tiger-Sugar	Sept	SMB
Afex Corp Soc. Anon...	Oct	Barname
Garlick Cons	Dec	SMB

CASH SHELL

Company	Shell	Month (1982)	Bank
Bromain Hldgs	Industrial Diamonds SA	July	Senbank
Global Props	Diamond Mining & Utilities	July	Senbank
Magnum Fin & Inv .	IL Back	August	—

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Amdahl must, however, modestly admit to coming in at Number Two in some respects.

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Waiting for the report

The financial markets have been alive with activity in the last few months. But perhaps their greatest challenge is about to arrive

The country's financial markets are about to encounter one of their stiffest challenges. The publication of the full report of the De Kock commission of inquiry into the monetary system should lead to a fundamental change in the way the institutions work in the markets at present.

It is widely expected that the report will propose the introduction of a new system of monetary control, known as the monetary base system. Under this, the banks would have to hold certain predetermined balances at the Reserve Bank. This could mean that the relatively high liquid asset requirements — banks are compelled to hold a proportion of their liabilities in short-term government stock and other paper with less than three years to maturity — might be relaxed.

In recent months, and particularly last year, the Reserve Bank has introduced a fair number of changes in the domestic money and foreign exchange markets. For the first half of last year the institutions in the markets found conditions quite hard going, these being characterised by a falling gold price, large shortages in the money markets, rising domestic interest rates and a weakening rand. The pendulum swung the other way in the second half almost in tandem with a recovery in the gold price. The shortages became easier to handle, long-term rates started to fall sharply, followed towards the end of the year by short-term rates, and the rand seemed to find a plateau in the foreign exchange markets before appreciating again.

One of the most successful innovations of last year was the introduction of the tender system for RSA bonds. The Treasury conducted three tenders, two for R400m and one for R200m.

As a rule the tenders were done at some speed. Bids for the paper had to be in a few days after the announcement of the tender. Prior to its introduction, details of RSA issues were generally announced some 10 days ahead of the actual sale. Market-testing began even earlier. In the intervening period interest rates often moved sharply enough to leave the issue price out of line.

The introduction of the tender was part of the overall drive by the financial authorities to move towards a much more market-orientated system. This has in fact been a recurring theme propounded by the Finance Ministry and the Reserve Bank over the past three years or so. Looking back at the origins of the changes instituted by the Bank, Governor Gerhard de Kock said late last year: "The Reserve Bank's recent series of attempts to achieve better control over monetary demand by means of more market-orientated policies go back as far as

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	Net profit Rm	Total assets Rm	Annual change %	Equity Rm	Annual change %	Return on assets %	Return on equity %	Year end	RANKED BY Total assets	Return on assets	Return on equity
Discount House of SA	2,9	573,1	1,7	12,5	11,6	0,5	23,2	Dec	**2**	**1**	**1**
	1,6	563,5	1,5	11,2	-	0,3	14,3		**1**	**2**	**1**
National Discount House...	2,5	628,6	16,6	14,1	12,8	0,4	17,7	Sept	**1**	**2**	**2**
	1,7	539,3	0,3	12,5	1	0,3	13,6		**2**	**1**	**2**
Interbank Discount House.	-2,0	134,6	-36,4	4,3	-	-1,5	-46,5	June	**3**	**3**	**3**
	0	211,5	2,7	4,3	-	-	-		**3**	**3**	**3**

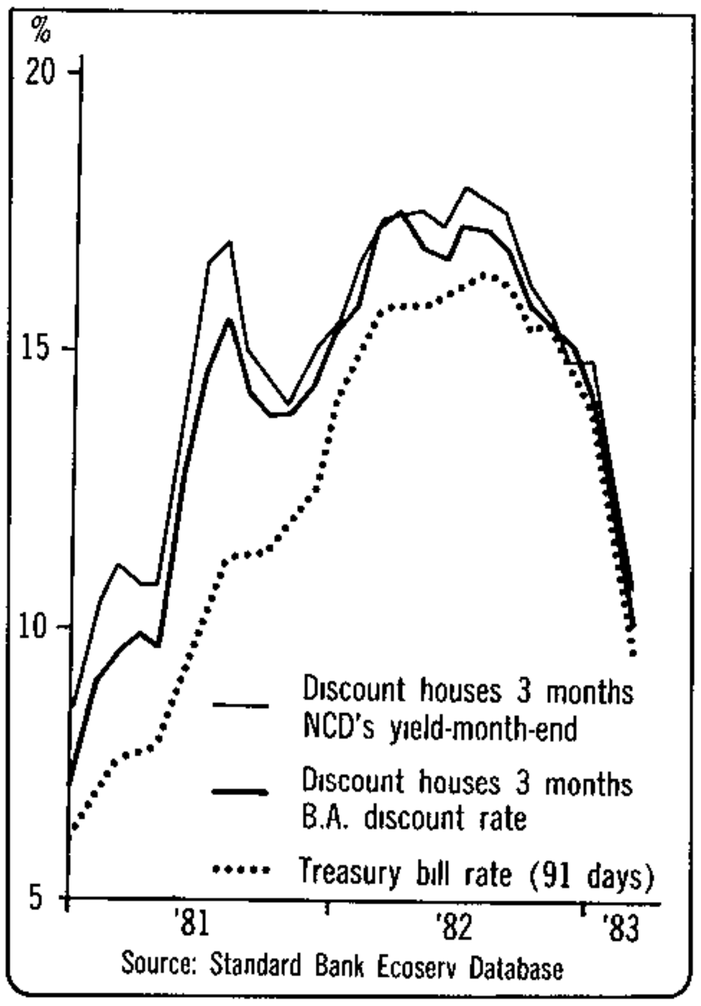
October 1980, when it began to follow a conscious policy of permitting the changed balance of payments situation and other natural economic forces to bring about a tightening of financial markets and a rise in interest rates."

Another technique used successfully by the authorities last year was the injection of funds into the banking system by reducing the banks' cash reserve requirements. At the end of March the Bank returned about R400m in reserves to the banks and in late September a further tranche was returned. In both cases the moves headed off rises in short-term interest rates.

The weekly Treasury bill tender was supplemented by the appearance of some special bills known as tax anticipation bills. There were two tenders in June and others in August and October. They were also used over the New Year as the markets headed towards the end of the tax year on February 28.

The objective of issuing weekly bills was to mop up liquidity and help the markets over the difficult August and February month-ends when tax payments fell due.

MONEY MARKETS



Source: Standard Bank Ecoserv Database

At the end of October the Reserve Bank entered into fairly novel repurchase agreements with the banks. Under these deals the Bank bought assets such as Treasury bills, bankers' acceptances (BAs) and short-dated government stock for cash and sold them back again to the banks a few days later. The key advantage of the arrangements was that it enabled the Bank to conduct a smoothing-out operation over a difficult month-end.

The repurchase agreements are fairly convenient for the Bank. Outright purchases of assets means money flows into the market unrestrained. Repurchases allow the Bank a greater degree of control.

Early in 1982 the Bank cut the link between Bank Rate and the commercial banks' own overdraft rate. This then allowed the overdraft rate to be raised by the banks to a record 20%. It was a sign of the authorities allowing the banks to respond to market forces.

Another significant change, that in the relationship between the Land Bank and the commercial banks, occurred in June last year. A large proportion of the Land Bank's overdrafts with the banks was turned into bills which were intended to be marketable stocks. The Land Bank continued to maintain overdrafts at the banks and towards the end of the year it became noticeable that the authorities were encouraging the Land Bank to repay its loans and take finance from the Reserve Bank. This had the effect of easing the pressures on the banking system at the time. Clearly the authorities could do the reverse if they thought too much liquidity was moving around the system.

Interest rates in 1982 continued to rise in the early part of the year as the balance of payments position worsened and the money supply seemed at one point almost out of control. The overdraft rate rose to its peak of 20% and then late in the year started to fall, reaching 18% by December. In the first three months of 1983 it came back a further four percentage points to 14%.

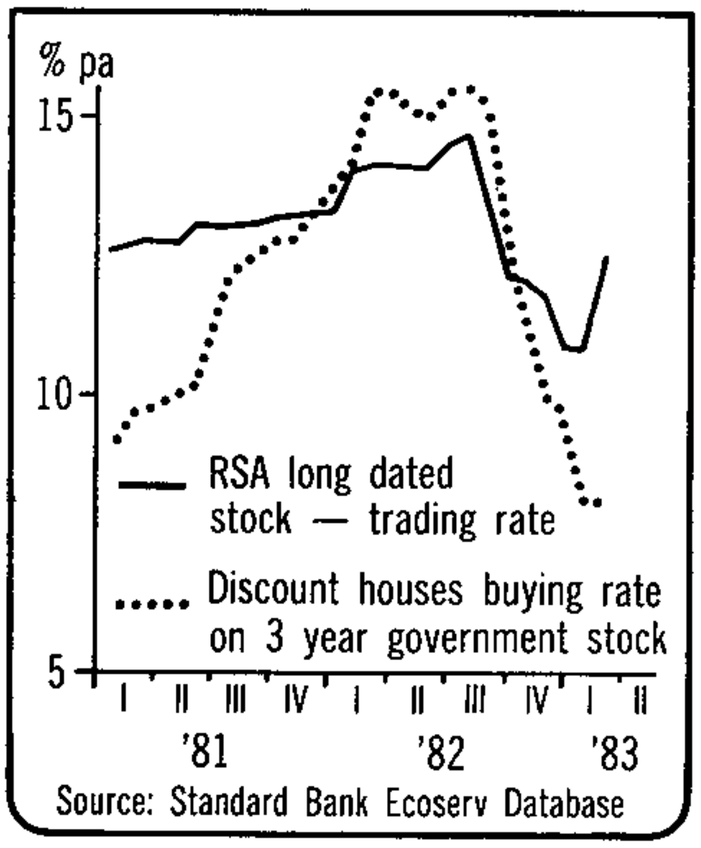
The movement of the three-month BA described a similar pattern. It rose four points to a peak of 19% in 1982, dropped back to 17% and then eased swiftly to 14,25% at the end of December. In the following three months it dropped down to around 10%. The fall in both the overdraft and the BA rates in part reflected a decline in demand for credit as the recession started to bite hard. In the case of the BAs, however, the rate was to some extent influenced by the demand for paper from investors as the investment climate changed in the second half of the year with the upswing in the gold price from its June low of $297.

One of the most spectacular movements occurred in long-dated gilts where yields for much of last year were on a rising trend. The 20-year RSA eventually hit a peak yield of 14,75% in July. It then proceeded to decline in leaps and bounds, being 10,90% at year's end.

A further flurry of buying occurred over the New Year and the yield went to around 10%, which was discounting quite a lot given the fact that the inflation rate remained stubbornly around 14%. The inevitable reaction set in and by early March the bond was yielding about 12%.

At the start of February 1983 exchange control on non-residents was abolished, a move widely welcomed and seen as the authorities' continued commitment to a monetary-based policy. Barely a month later the Reserve Bank announced further fundamental moves designed to encourage the

BOND MARKETS



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	RESTAURANTS	14	340.30
	AIRLINES	1	123.30
	CAR RENTALS	1	80.00
	SERVICE STATIONS	1	65.98
	SHOPS	21	373.44
	FOREIGN	1	900.25
	OTHER	2	50.00
	TOTAL CHARGES	42	2535.67
4995.57	HOTELS	1	220.00
	RESTAURANTS	17	448.00
	AIRLINES	2	213.00
	CAR RENTALS	0	0.00
	SERVICE STATIONS	1	45.98
	SHOPS	19	396.28
	FOREIGN	11	1998.70
	OTHER	3	281.00
	TOTAL CHARGES	56	3630.96
0.00	HOTELS	0	0.00
	RESTAURANTS	0	0.00
	AIRLINES	0	0.00
	SERVICE STATIONS	0	0.00
	SHOPS	0	0.00

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banks to hold more funds offshore and to enter into swap arrangements in dollars with the Bank.

As these moves were being made The Discount House of South Africa published its annual report and the chairman, Colin Dunn, made some remarks in his review which were widely discussed. He wrote: "Developments in the markets during 1982 again indicate the growing need for the establishment of a more formal security dealing market structure. Turnover has increased sharply. The money and capital markets have merged and more dealing elements in the market, including banks, stockbrokers and discount houses, are moving towards the concept of offering a total money management service. In addition, there are active in the markets a growing number of companies not subject to the same degree of statutory regulations as the institutions. The establishment of some basic requirements applicable to all security dealers would appear to be essential. Enforced by either self-regulation or official sanction, these would include capital relative to portfolio risk exposure, trading capacity, price and turnover reporting, and security handling."

The Discount House itself did very well in the year to December 1982. Published profit came to R2,6m, a useful recovery over the R1,6m of 1981. During the year inner reserves were increased substantially.

Dunn added in his review: "A transfer of R1,25m has been made to general reserve to increase capital and published reserves to R12,49m which permit borrowings in terms of the Banks Act of some R624m. This is considered adequate for us to continue to service our call money clients."

The rival National Discount House also had a good year in the 12 months to September 1982. Published profits rose from R1,7m to R2,5m. Disclosed capital and reserves were increased from internal resources and the asset level jumped to its highest level yet of R629m.

In addition, the dividend was raised, undisclosed internal reserves were increased and dealing turnover proved to be the highest ever for the company.

The chairman, Derek Keys, writing in the annual report published in October, made an astute observation which proved right in the event. "Looking ahead," he wrote, "we are able to anticipate some downward movement of rates, although the chances of a hiccough or two along the way can never be underestimated. Our emphasis will continue to be on the day-by-day activity but we will not be avoiding positions in longer assets as assiduously as has been necessary during most of the past two years."

The smallest of the three houses, Interbank, continued to have a difficult time. For the year to June 1982 it sustained a net loss of R2m against a nil profit shown the previous year.

A note in the accounts made it clear that the house was operating profitably in the second half of the year but was not making enough to wipe out the first half losses. It was found necessary to make an issue of preference shares to strengthen the capital base which had been impaired by the losses.

In his annual report the chairman, Carel van Aswegen, was the first to point out publicly how the new Land Bank financing arrangements had had a deleterious effect on the houses. They meant that the banks had plenty of liquid assets and did not need to turn to the houses as much as previously by putting funds on deposit with them.

All three houses enjoyed a particularly good six months in the second half of 1982. They always do well when interest rates fall. This continued into early 1983. The next challenges they will probably have to face are those associated with the publication of the report of the De Kock commission.

Discount House's Dunn ... seeking changes

Foreign exchanges ... hives of activity

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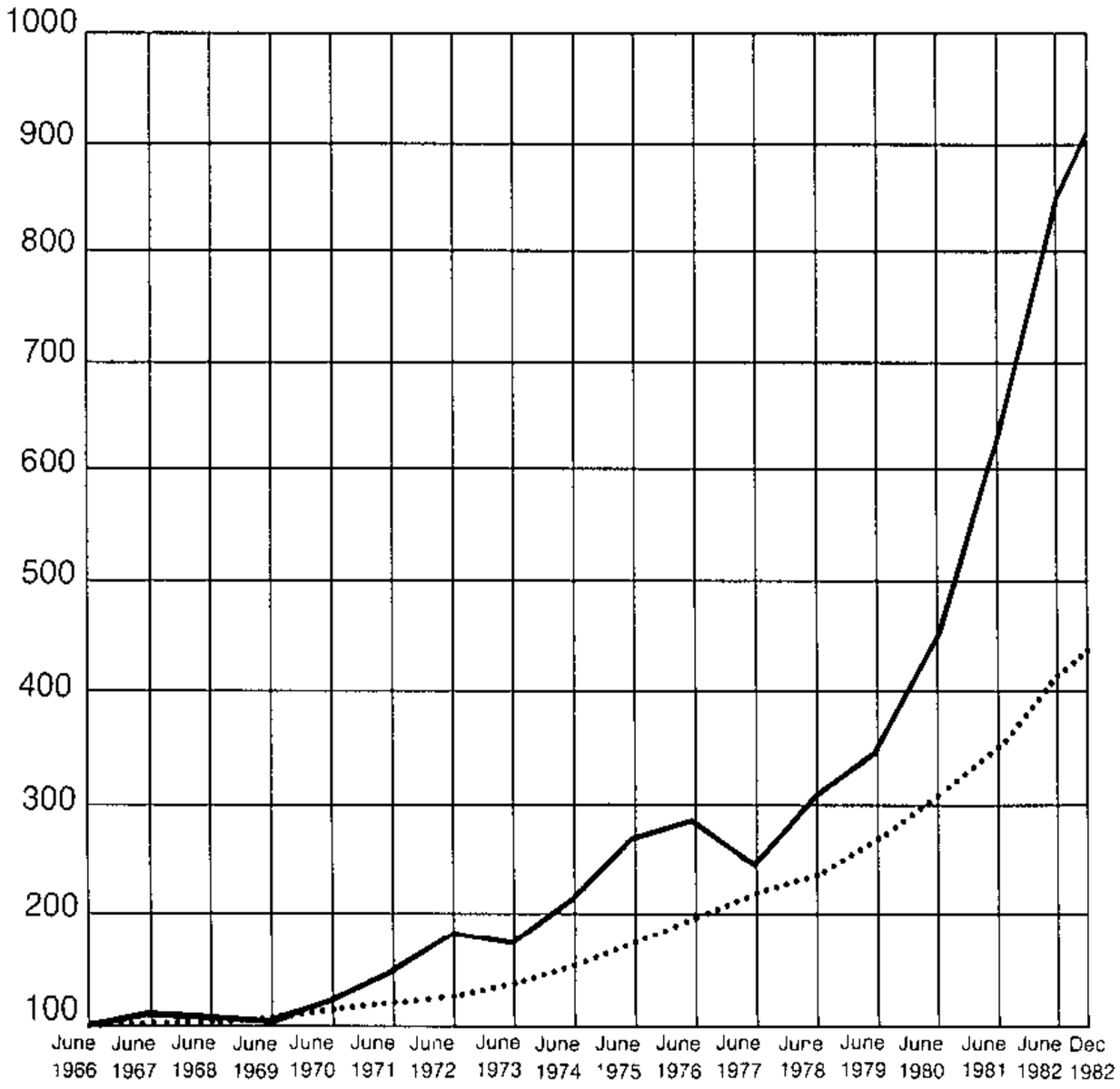

South Africa's unit trusts, with total assets exceeding R850 million, offer equity investors a diversified and balanced participation in the growth of leading companies and a convenient, flexible and professionally managed means of sharing in the long-term growth of the economy.

Over the years, investors have achieved highly attractive returns through the medium of unit trusts, in terms of both capital appreciation and income growth.

The graph on the left shows the growth of unit trust income distributions, and illustrates the extent to which they have continued to outstrip the rise in the consumer price index.

Growth of South Africa unit trust income distributions (_____) measured against cost-of-living index (.....)
June 1966 = 100

THE ASSOCIATION OF UNIT TRUSTS

Guardbank, NGF, Old Mutual Unit Trust, Sage Fund, Sanlamtrust, Santamgro, SATS, Standard Bank Extra Income Fund, Standard Bank Gold Fund, Standard Bank Mutual Fund, Trust Bank Growth Fund, UAL Unit Trust, UAL Inter Growth Fund.
In the case of all unit trusts, the value of units fluctuates relative to the market value of the underlying securities comprising the individual portfolios.

A great year

Unit trusts appear to have regained considerable consumer confidence. Nevertheless, 1983 is going to prove very much quieter

Outgoing Association chairman Nackan . . . beating the market

It has been a bumper year for the unit trust movement. The market value of the trusts rose from R718,9m to R875,4m on the back of a buoyant stock market. More to the point, the mutual funds achieved a net inflow of R47,8m over the year, the highest net receipts in more than a decade.

The all-important inflow figure was biased to the last quarter of the year when it reached R30,7m. This was boosted by the start-up of the Standard Bank Gold Fund which began in October. By the end of the year, the new fund alone had attracted more than R17,3m — which, admittedly, does reduce the effective increase in the trusts' market value.

Nevertheless, with the JSE Actuaries overall stock market index last year rising 20,1% — after having been down in the dumps half-way through in line with the soft gold price — the unit trusts' 21,8% advance in market value can certainly be viewed as a better than average achievement.

More to the point, the unit trust movements' various indices ended the year considerably higher than at December 31 1981. The income index rose nearly 24%, following gains of 42% and 35% in the previous two years. The unit trust index itself, which measures average unit price performance, was up 12,4% at year's end. The index has trebled in the past five years and is now double the level it had reached at the end of 1969 bull market.

Overall, investors' return in capital and income terms was some 20% — comfortably ahead of the inflation rate and matching the stock market's performance without exposure to risk.

The strong inflow of funds in the later part of the year was a clear reflection of investor optimism. The stock market took off in late June, catching most punters by surprise. Then, presumably, mutual funds began to be seen as a respectable alternative investment when scrip was unavailable on the JSE or for those who were hesitant about the strength of the advance.

Certainly, a stake in gold shares acquired at their low point would have more than doubled in value on average by the end of the year, while the repurchase price of, say, Standard's ordinary fund improved by only around 30% over the same period. But for a longer-term holding at the beginning of what is likely to be a good solid bull trend on the market over the next couple of years, the unit trusts obviously have their attractions.

Yields, too, have dropped in line with the market. At end-June, the return on most of the funds was around 8%-9% with Standard Income returning a very attractive 13,75%. By end-December, however, returns were down to around 7,25%, though the Income fund still offered an attractive 11,3% and represented a good buy.

The feature of the year, however, was undoubtedly the advent of Standard's Gold Fund. Its establishment has given Standard's fund managers an innovative image, as they have been the only institution willing to move decisively away from broad-based funds.

Standard already has its Income fund, based on interest-bearing investments, which was particularly well-placed last year to take advantage of interest rate patterns. During the first part of the year prime rate was at record levels and the Income fund would have been able to take advantage of high fixed-interest bearing paper on offer. Towards the end of the year stock

LIQUID ASSETS

	Dec 31 1981 Rm	% of fund	Dec 31 1982 Rm	% of fund	Change in Rm %
Guardbank	8,8	12,9	19,4	24	120,5
NGF	25,5	25	20,5	18	−19,6
Old Mutual	30,2	17,3	47,3	21,9	56,6
Sage	29,8	28,5	27,8	21,9	−6,7
Sanlam	14,2	23	16,1	23	13,4
Santam	2,4	40.	2,8	49	16,7
Sats	5,7	16	7,2	18	26,3
Standard	6,0	29,4	2,5	8,6	−58,3
Std Income	5,2	31,7	2,7	11,4	−48,1
Std Gold	—	—	1,4	8,2	—
Trust	6,1	18	5,1	14	−16,4
UAL	11,8	16,1	11,3	13,4	−4,2
Intergro	6,3	30,3	7,5	26,5	19,0

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MUTUALS' PROGRESS

	Started	Dec 1970	Dec 1971	Dec 1972	Dec 1973	Dec 1974	Dec 1975	Dec 1976	Dec 1977	Dec 1978	Dec 1979	Dec 1980	Dec 1981	Dec 1982
		Assets Rm*												
Sage	June 1965	59,4	59,5	84,0	64,5	53,7	49,4	44,5	46,5	53,0	78,4	96,8	104,6	126,9
NGF	Oct 1965	133,2	127,3	159,0	111,5	76,5	74,5	62,3	68,4	74,9	103,4	104,2	103,1	116,3
SATS	Aug 1966	29,5	29,2	38,5	27,7	19,4	19,1	16,4	18,1	22,3	32,1	35,0	36,5	39,8
Old Mutual ...	Oct 1966	45,5	53,3	69,4	59,4	50,4	57,2	56,5	69,4	83,4	126,1	155,9	174,0	216,5
UAL	Apr 1967	23,5	25,1	33,8	26,8	22,4	25,0	24,3	28,4	36,1	53,6	69,2	73,2	84,9
Sanlamtrust .	June 1967	15,0	18,1	25,9	20,3	17,9	20,5	19,3	23,6	29,9	45,2	54,1	60,6	70,5
Trust	Mar 1969	36,7	36,0	45,4	34,2	28,7	25,8	22,1	22,5	25,7	37,5	36,9	34,9	36,7
Santamgro ...	July 1969	6,6	6,9	8,8	6,6	5,7	4,9	4,3	4,6	4,9	6,6	5,5	5,9	5,7
Intergro	Oct 1969	1,5	1,5	4,9	6,3	6,0	8,2	7,2	8,3	11,5	16,5	21,8	20,9	28,2
Guardbank ...	Jan 1970	3,7	12,3	23,1	21,6	16,8	19,9	19,4	23,3	29,6	49,9	64,4	68,4	80,5
Standard	May 1973	—	—	—	1,7	2,7	4,1	5,2	6,8	9,8	16,9	22,4	20,4	28,5
Std Income....	Nov 1978	—	—	—	—	—	—	—	—	1,7	10,4	16,7	16,4	23,6
Std Gold.....	Oct 1982		—	—	—	—	—	—	—	—	—	—	—	17,3
TOTAL		**354,6**	**369,2**	**492,8**	**380,6**	**300,2**	**308,6**	**281,5**	**319,9**	**382,8**	**576,7**	**682,8**	**718,9**	**875,4**

* Total assets excluding compulsory charges

would have been sold off and capital profits taken as rates fell back. This process should still continue but the high points of the fund's performance are now probably over.

The new gold fund has had something of a baptism of fire. When it was launched gold and gold shares were already well into their upswing though, fortunately, they were still a comfortable distance from the top. Just after the new year, however, gold came off the rails a bit and presented a much more volatile face which must have had the fund managers looking a little nervous.

Of course, this highlights one of the arguments against these narrow-based funds — the aim of the trusts is specifically laid down as investing all monies received in gold shares, with very little margin for liquidity should gold shares take a dip.

From the point of view of some of the other fund managers this is unnecessarily restrictive. A fund such as UAL Intergrowth, which UAL uses as its more aggressive investment fund for gold and metals, can be fully invested in gold shares as the market moves up but is not prevented in any way from selling out when the going gets rough and other sectors, or just plain cash, look better.

Nevertheless, the gold channel is certain to attract a good deal of interest in the near- to medium-term. Gold is high profile right at the moment and there is no lack of fore-

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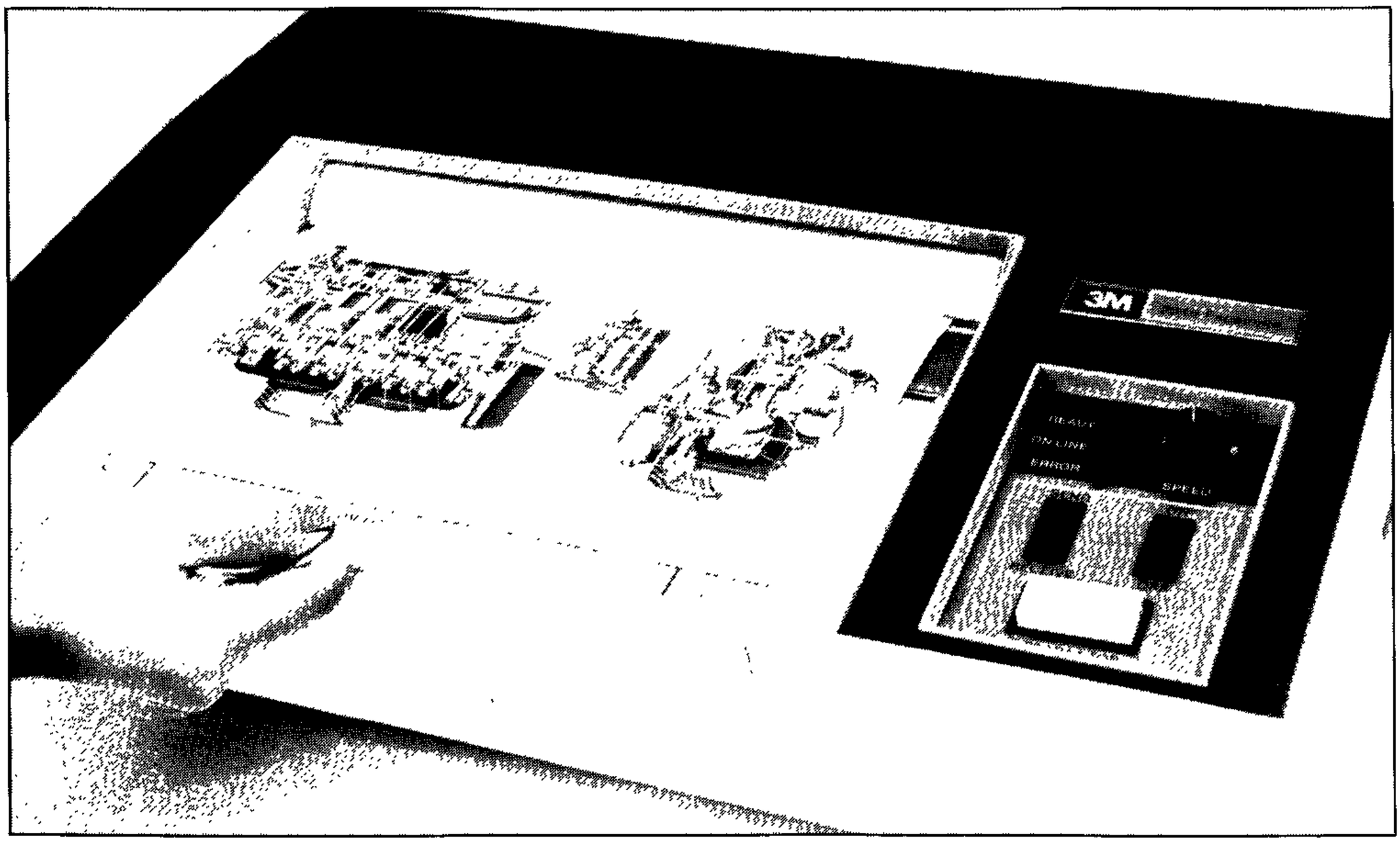

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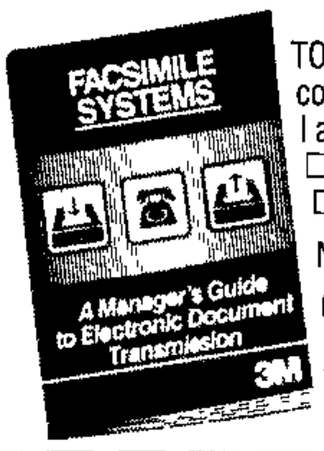

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UNIT PRICE* PERFORMANCE

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Sage	195,8	181,3	117,7	119,7	169,9	146,6	141,0	135,8	131,0	150,1	188,0	295,6	384,5	412,0	486,1
NGF	116,6	113,1	71,8	76,8	107,3	89,4	71,8	77,7	70,1	86,5	10 ,0	176,0	214,7	221,5	255,2
SATS	97,1	94,9	54,8	60,2	84,0	69,9	54,8	59,0	52,4	60,6	77,7	125,4	162,9	177,2	197,5
Old Mutual ...	176,5	172,3	113,8	120,9	157,2	126,7	101,8	113,4	109,8	131,4	169,3	271,0	352,3	388,9	447,4
UAL	188,8	185,0	113,8	125,3	170,0	141,5	123,6	134,1	126,8	145,4	184,2	290,0	379,9	416,8	448,2
Sanlamtrust .	177,1	183,9	116,4	128,4	171,0	138,9	121,7	132,0	120,5	140,1	174,9	274,6	337,1	369,5	405,6
Trust Bank ...	—	77,4	47,7	49,3	64,7	53,5	49,4	45,5	38,4	43,1	53,5	86,9	110,0	110,4	119,2
Santamgro ...	—	99,5	70,0	73,4	93,1	80,0	76,5	68,1	58,7	63,1	77,4	122,2	147,6	166,0	154,8
Guardbank ...	—	103,9	88,5	97,5	97,2	111,8	94,8	103,2	99,8	122,6	156,7	250,4	354,8	373,1	427,9
Standard	—	—	—	—	—	89,9	81,1	91,5	84,0	93,4	114,8	186,3	237,0	237,0	263,9
Intergro	—	—	—	—	—	—	40,5	44,4	37,3	42,7	54,7	87,0	111,5	107,7	124,8
Std Income ..	—	—	—	—	—	—	—	—	—	—	99,0	98,3	90,0	84,1	90,1
Std Gold	—	—	—	—	—	—	—	—	—	—	—	—	—	—	125,7

*Repurchase price ex dividend

casters who will punt a $1 000-plus level within a few years. If one's retirement plans can afford to face what is always a volatile growth curve — and one which could become even more erratic with the removal of non-resident exchange control — the gold fund does have its attractions.

The fund's manager, Standard's Peter Polson, says that the dip in the gold price since the beginning of the year has not put off investors. Inflows have continued to be strong and outflows minimal. South Africans generally are gold bulls, Polson believes, and this softness in the gold price is being seen as a fine opportunity to get into golds through the more secure medium of the Gold fund. And Polson sees no problem with the lack of alternative investment channels — it actually makes it easier for the fund to know where it is going, he says.

So far, none of the other institutions has indicated that they will enter into competition with Standard by setting up their own specialised trusts, largely for the reason of flexibility. But specialist trusts have been popular abroad for some time and the trend locally probably still points that way.

One change that could be on the cards in the near future would be a rationalisation of some of the local trusts. The Sanlam stable, in particular, could do with some thinning out, some believe. Nevertheless, there are two sides to this argument. The five trusts do hold fairly varied portfolios, with Trust considerably more exposed to gold than, say, Sanlamtrust. Santamgro, likewise, has a high percentage of liquid assets in its holdings, a fair amount of gold shares and no mining financials.

The reaction of the whole movement to the gold price rise is another point of interest. By the end of 1981, when gold was looking decidedly weak, the trusts' exposure to gold shares was down to a particularly slim 2,4%, valued at R17m. Holdings in mining financials remained at 11,6% of the total portfolio, however, and there was a strong 12% holding in other mines.

By the end of the September quarter the trusts had only just begun to move in order to take advantage of the higher prices. At September 30, gold formed 4,4% of the combined value of the portfolio — probably representing a very small change in the actual holdings as prices had already risen well by then. Holdings of mining financials had actually dropped to 10,6% by that time and shares in other mines accounted for only 8,7% of the trusts' market value.

The last three months of the year saw a more marked shift, however, and by the end of 1982, gold shares comprised more than 10,6% of the combined portfolio and were worth some R90m. Mining financials regained popularity with fund managers and, at R108m, constituted 12,7% of the value of the movement. Other mining shares stayed fairly steady at 8,8% of the joint shareholdings.

Perhaps surprising, bearing in mind the normal counterbalance between interest-bearing investments and the stock market, is the virtual no-change position in liquid assets over the year.

In the early part of the year, with interest rates high, it was very profitable for the funds to hold cash instead of shares and to invest short-term in the money market. By the end of the year, however, rates had dropped sharply and the market was advancing steadily. It would have been predictable had the trusts moved funds away from cash and toward the stock market — indeed, one would have imagined that any fund manager who was not fairly fully invested in equities by the end of the year would have had a tough time explaining his lack of action to the unit holders.

However, at December 31, cash still constituted 21,7% of the trusts' holdings, and was only fractionally lower in percentage terms than it had been at the end of 1981 — though at its peak on June 30, cash had made up 35% of the trusts' portfolios.

The contradiction gets worse; in the last quarter of 1982, when the stock market was clearly established in a bull run of some dimensions, one or two of the trusts actually increased their cash holdings. Guardbank's cash holdings at December 31 were 17,6% up on September 30 at R19,4m, while Old Mutual's cash on hand increased from R40m to R47m. Admittedly in both cases cash as a proportion of the total portfolio remained unchanged, but an active reduction in the amount would have been more logical.

This year, things are going to be tougher overall. Outgoing chairman of the Association of Unit Trusts, Bernard Nackan, says unitholders will have to accept that reduced economic activity will mean a low rate of growth in distributions this year. The trusts have reduced their liquidity to re-enter the market and it will obviously take some time before dividends and capital growth start to come in from these investments. Entry prices to the market were hardly cheap, either.

This attractive alternative investment channel appears to have regained a considerable amount of investor confidence over the past couple of years. The risks of direct investment in the stock market have been brought home to the man in the street by the bloodbath following the removal of exchange control restrictions on non-residents. The decline in interest rates from the financial institutions has removed a further easily attainable investment opportunity. A more secure and still rewarding home for his hard-earned cash can be found with the mutual fund movement.

CAPITAL PLUS INCOME GROWTH*

	% gain 1981	1982
Sage	15,1	27,6
Intergro	4,7	24,8
NGF	10,7	24,6
Guardbank	12,2	23,5
Old Mutual	16,9	23,4
Standard Income	5,9	21,9
SATS	16,5	20,6
Standard	7,4	20,5
Sanlam	16,4	18,8
Trust	7,7	17,2
UAL	16,8	14,5
Santam	21,7	4,7

* Percentage increases computed by taking year-end ex-div price plus annual div over previous year-end ex-div price

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Tough competition ahead

Fight over agents' earnings looms

Each year with almost ceremonial ritual the large life assurance companies announce substantial increases in their net premium incomes. The last 12 months were no exception. From that it is patently evident that the industry has tuned its marketing skills to a fine pitch.

It would be wrong, though, to conclude that the industry has somehow escaped the recession and the tumble in personal savings that it has brought about. "Competition among the life assurers is extremely keen — it's never been so keen in the life market," says Frans Davin, chairman of the Life Offices Association and MD of Old Mutual.

"I would be surprised," he says, "if 1983 growth is going to come anywhere near 1982 or 1981." This is a view echoed by Liberty Life's MD Monty Hilkowitz: "In the last few years growth in new business was about 40%. This year I expect it to be about 25%. In fact, depending on how severe the drought is, it could be lower than 20%."

Arnold Basserabie, MD of Federated Life, believes slower growth is only to be expected as the "downturn in the economy started taking effect only in 1982 and because the life assurance industry grew at a very rapid rate in 1981."

Another reason is that the assurers' investment performance this year is unlikely to be as sparkling. And interest in some policies, especially single premium ones, is tied closely to it. Davin says that with the recession and high interest rates obtainable elsewhere, large single premium business has virtually disappeared.

"The substantial rise in short-term interest rates early in 1982, the substantial drop in long-term rates late in 1982 and the fall and then rise in equity prices during 1982, presented astute investment managers with wonderful opportunities," says Basserabie.

"The yield on most companies' managed investment portfolios was very high last year. They are showing returns well in excess of inflation over periods extending back as long as 10 years," he says.

Farmers, who usually buy a lot of insurance, are facing very difficult times. On the non-farming side, some major construction projects are coming to an end. "When that happens some policyholders just disappear as they seek work elsewhere," Davin explains. For the assurers, the consequent lapses can be very costly.

Hilkowitz describes the growth in surrenders and lapses as "phenomenal." This is largely because of the recession. It caused a sharp increase in lapse ratios in the fourth quarter of last year.

The extent of this problem can be gauged from the following figures, says Hilkowitz. "Total premium income in 1980 was about R1 100m and last year new premium business was about R424m, yet premium income in 1981 was R1 401m, the difference of R123m having been lost through policy lapses."

The dominant marketing trend over the past year was the introduction of inflation-linked policies, which provide for the premium and life cover to be increased automatically each year according to some inflation index. This is not a South African developed concept, as was the equity link, Hilkowitz explains. Indeed, there are assurers outside SA who have been offering it in some form for some time, while SA companies have only recently entered the market.

Comments Davin: "I'm against indexing prices generally in the economy. But I believe indexing is appropriate for specific people and institutions: where you want to ensure people get the pension they have planned for. Something like the Granny bonds in England might be a solution."

There are two contentious domestic issues with which the life industry will have to grapple this year. We guess that finality is probably still some way off in each case.

One is the question of the equivalence of reward Life assurers are required by the Registrar of Financial Institutions to ensure that they do not pay their own agents more than they do brokers. The agents' renumeration has to take into account whatever fringe benefits they may receive

As Hilkowitz says, this is a "hot topic" under investigation by the Life Offices Association. Fear is that unless poaching of agents is controlled, the Registrar may legislate maximum commissions for company agents as he has done for brokers.

Davin explains: "It is essential that this principle is made to stick, difficult as it may be to implement. But the industry is determined to make it work.

"The flow of salesmen from insurance houses to brokers and *vice versa* is one way of monitoring it. As long as a particular pattern is not emerging, nobody is buying agents, therefore there is some equivalance of reward. That flow has been reasonably stable. In fact, rather more people went from assurers to brokers than the other way around.

"But there has been some poaching between assurers, over and above the natural desire to change jobs. There has been quite a substantial flow from some houses to others. A committee of the LOA is looking into the matter," he says.

"If we get into a leap-frogging situation on commissions we'll be in trouble and the Registrar won't buy that," says Basserabie, who is heading the

Federated Life's Basserabie . . . heading equivalence of reward probe

Life Offices Association chairman Davin . . . says competition never keener

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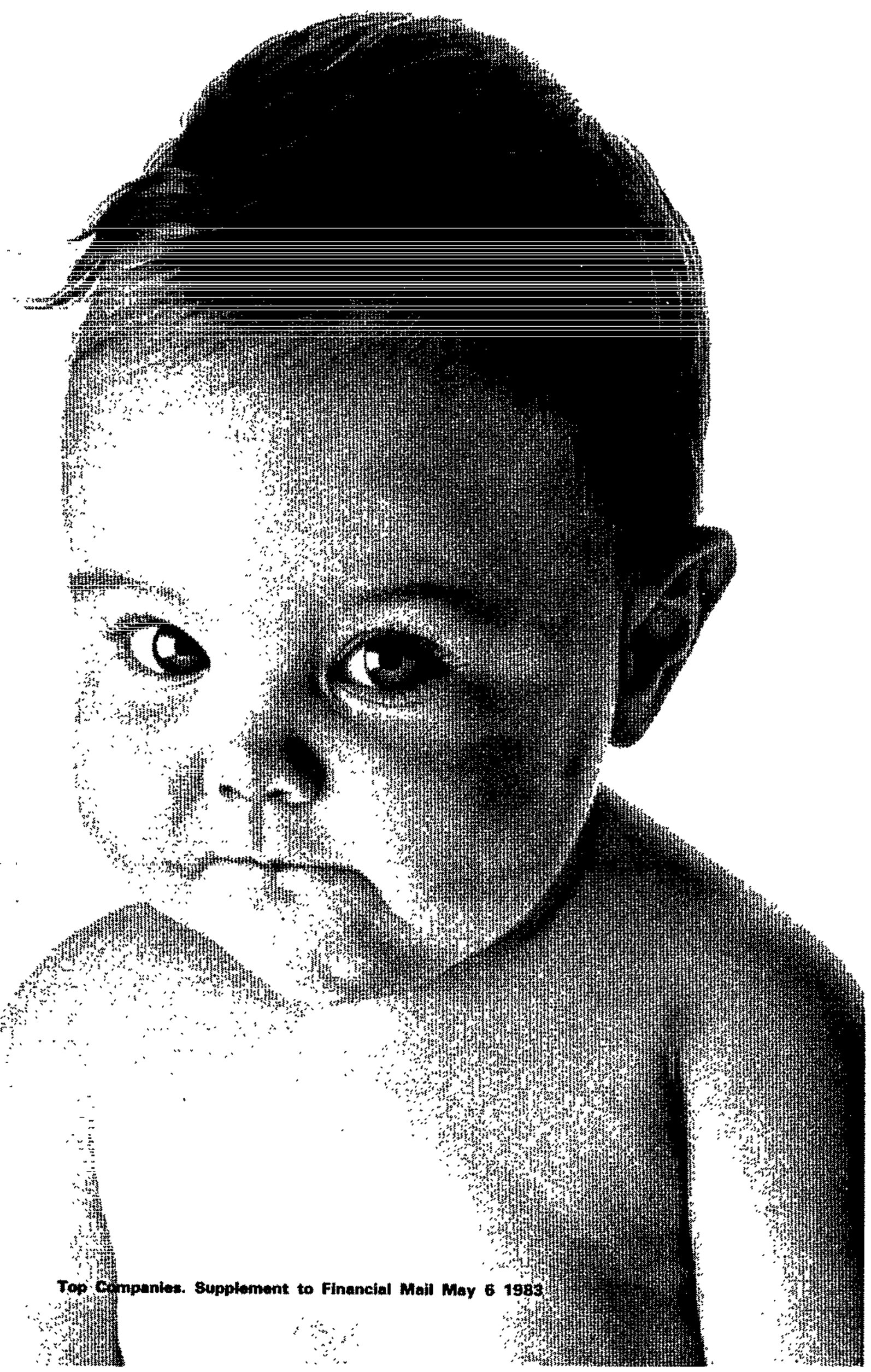

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investigation.

According to other industry sources, the main offender is a Cape-based office, but not one of the two large mutuals.

"The insurance industry is a very competitive one and in SA we are still orderly," says Davin. "If you look at the US and some other Western countries there is chaos in this respect. We have a minimum of interference from the authorities here. Only when it is necessary does the Registrar interfere: only when there is a trend towards destabilisation."

The *FM* has always opposed official interference in any way in agents' or brokers' remuneration. In fact, Liberty Life was the office most vociferously against an LOA agreement on this matter. Its intransigence is said to have caused the Registrar to legislate. So there is some irony in Hilkowitz's involvement in the present LOA investigation.

Says Hilkowitz: "Basically I agree that the regulation of commissions should go. But the consequences of doing that would be difficult to measure. In the UK a similar agreement among life offices has broken down and no company has yet moved out of line. I'm sure we'd have some similar discipline." Davin is not so sure the British have remained disciplined.

The other controversial topic this year is the taxation of life assurers. In the 1982 national Budget the tax on life companies

Liberty Life's Hilkowitz ... ironic involvement in probe

was increased from 12,6% of investment income to 18,5% — an effective 50% rise — to raise extra revenue for the Exchequer. Part of this increase arose from the raising of the rate of corporate tax paid by life assurers from 30% to 40% and part as a result of the raising of corporate tax itself.

A special committee has been reviewing this matter, but at the time of going to press, it had not yet reported. The matter is a complex one. The assurers argue that as they are restricted from offsetting costs against income, their tax rate should revert to 30% of the corporate tax rate. Inland revenue officials see complicaitons in the definition and size of costs. For instance, there are enormous differences in the cost structure of large companies and small ones.

Two other thorny topics were settled this year. One was the method of the taxation of company-owned policies. The authorities were guilty of leaving the matter unresolved for far too long. In terms of its resolution, there is now an element of choice of when the benefits are taxed. Hilkowitz says that while greater clarity has led to the potential for increased sales of these policies and opened up new opportunities, they haven't yet regained their popularity of the past. Possibly this is because of a lag in awareness of the new opportunities.

A controversial matter that was settled during the year was agreement on benefit

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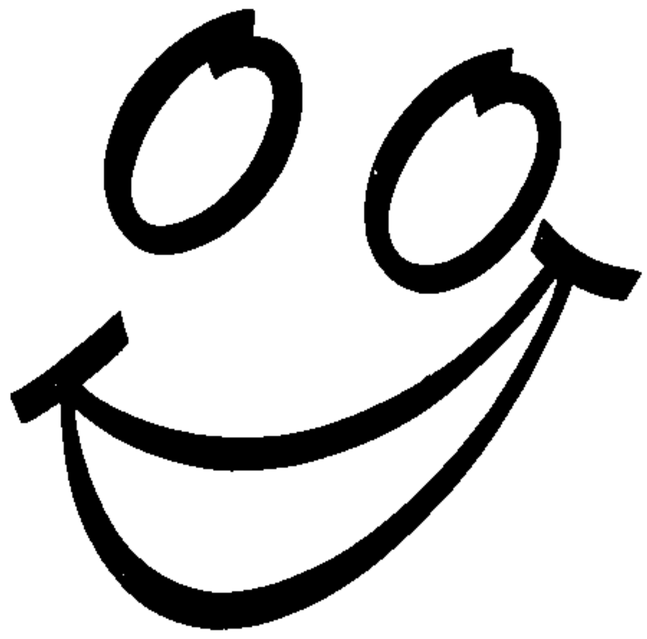

OLD MUTUAL

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illustrations. This arose because some insurance salesmen were projecting investment benefits at greatly inflated values when selling policies. The Registrar had rejected earlier proposals on this matter from the LOA.

The new agreement, which has Pretoria's approval, enables assurers' actual investment performance to be taken into account when preparing quotations. But when past performance has been particularly high, a dampening formula is applied to scale down projections. In addition, this information has to be sent by the assurer directly to the purchasers and not communicated in the last instance by an intermediary.

One problem is that it is very costly to implement the agreement and may require new rate books each year. It is a cost that will ultimately be borne by the policyholder. So too will the cost of the recent increase in demand for updated information on group pensions policies add to the costs of running pension funds.

An increasing number of employers and members of pension funds are asking about their rights and benefits. The industry, say Basserabie, is responding by improving its communications.

Hilkowitz puts this trend down to a growing awareness of the importance of investment performance during a time of high inflation. The better the investment performance, the less the fund will have to be strengthened to enable benefits to be kept in kilter with the inflationary rise in salaries and wages.

Davin warns that it is often difficult to compare differing investment perform-

RANKING THE LIFE ASSURERS

RANKED BY:

Total assets	NPI	Increase in NPI	% increae in NPI		Total assets*	Net premium income†	Increase in NPI over previous year	% Increase in NPI	Year end
						Rm			
1	**2**	**2**	**15**	**Old Mutual**	**4 578,6**	**832,7**	**124,2**	**17,5**	**June**
1	1	1	7		3 846,7	708,5	174,8	32,8	
2	**1**	**1**	**3**	**Sanlam**	**3 889,8**	**844,5**	**210,4**	**33,2**	**Sept**
2	2	2	15		3 039,7	634,1	104,8	19,8	
3	**3**	**3**	**5**	**Liberty Life**	**m2 369,0**	**333,0**	**73,1**	**28,1**	**Dec**
3	3	3	13		m1 803,0	259,9	47,0	22,1	
4	**4**	**5**	**2**	**Anglo American°** ..	**m1 354,5**	**223,7**	**59,1**	**35,9**	**March**
—	—	—	—		m998,3	164,7	30,3	22,6	
5	**5**	**7**	**7**	**Southern Life**	**m1 012,5**	**137,5**	**18,8**	**15,8**	**April**
4	5	5	5		m929,0	119,0	30,4	34,3	
6	**9**	**9**	**12**	**Prudential**	**m1 106,3**	**96,4**	**15,8**	**19,6**	**Dec**
5	9	8	14		m855,8	80,6	14,4	21,6	
7	**8**	**4**	**1**	**Leg & Gen Volkskas**	**m1 001,2**	**177,5**	**60,1**	**51,2**	**Dec**
7	6	4	2		m775,1	117,4	31,4	36,5	
8	**6**	**6**	**4**	**Federated Life**	**588,5**	**119,8**	**28,3**	**30,9**	**Dec**
8	8	6	1		454,7	91,5	29,9	48,5	
9	**7**	**8**	**16**	**Metropolitan**	**m517,7**	**119,6**	**16,5**	**16,0**	**Sept**
9	7	7	11		m423,8	103,1	21,0	26,0	
10	**11**	**11**	**8**	**Commercial Union** .	**m348,2**	**49,8**	**10,1**	**25,4**	**Dec**
10	11	11	6		m272,8	39,7	10,0	33,7	
11	**13**	**13**	**11**	**Colonial Mutual**	**m301,1**	**35,1**	**6,3**	**21,9**	**Dec**
11	13	14	12		m240,0	28,8	5,3	22,5	
12	**10**	**10**	**9**	**Norwich Union**	**222,3**	**56,5**	**10,5**	**22,8**	**Dec**
12	10	10	4		180,9	46,0	12,0	35,5	
13	**12**	**12**	**13**	**Ned Equity**	**171,6**	**41,1**	**6,7**	**19,5**	**Dec**
13	12	12	10		130,3	34,4	7,2	26,5	
14	**14**	**14**	**6**	**National Mutual**	**161,0**	**23,3**	**5,1**	**28,0**	**Sept**
14	15	16	16		129,0	18,2	2,5	16,0	
15	**20**	**20**	**20**	**Shield Life**	**67,1**	**5,3**	**0,5**	**10,4**	**Dec**
17	19	19	17		55,4	4,8	0,6	14,3	
16	**15**	**17**	**19**	**Standard General** ..	**64,7**	**12,5**	**1,3**	**11,6**	**Dec**
18	16	17	9		57,6	11,2	3,0	36,1	
17	**19**	**19**	**18**	**Momentum Life☆** .	**63,4**	**7,6**	**1,0**	**15,1**	**June**
16	17	15	3		57,0	6,6	1,1	20,2	
18	**17**	**18**	**17**	**Traduna**	**52,6**	**9,0**	**1,2**	**15,4**	**July**
19	18	18	18		47,5	7,8	0,8	11,4	
19	**16**	**15**	**14**	**AA Mutual□◇**	**50,7**	**9,8**	**1,6**	**19,2**	**April**
—	—	—	—		41,8	8,2	—	—	
20	**17**	**15**	**10**	**Guardian National**	**m46,9**	**9,0**	**1,6**	**22,0**	**Dec**
—	—	—	—		m37,5	7,4	1,3	21,7	

□ Estimates for December 1982.
° Including Guarantee Life.
◇ Including New Zealand.
* Total assets pertaining to long-term business only, at balance sheet values unless marked with an "m" which denotes market values
† Premium income for life business only, net of reinsurance, including single premium and pensions, annuity business and premium income from industrial and funeral business.
All figures in respect of SA business only. Last year's figures are shown in light type.
☆ Momentum Life's figures do not include single permium business, as they did last year

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ances. "There is no true yardstick against which competitive performance can be measured. For instance, the method used for valuing property can vary significantly between companies and property is becoming a major portfolio item," he says.

The danger, of course, is that those making the comparison may have different reasons for taking views on time span. An assurer that was liquid when short-term interest rates were high may show a sparkling performance short-term but miss out on longer-term returns. Those close to retirement could prefer the former view, while newcomers to the fund the latter.

The year ahead is clearly going to be more difficult for assurers. Whether the matter of equivalence of reward will be satisfactorily settled is a moot point. Nor is there likely to be much innovative policy thinking as the industry is still digesting the enormous volume of business written during the recent boom.

In the accompanying table, two points need to be stressed. The figures of Anglo American Insurance now include those of Guarantee Life, and those of AA Mutual the figures of New Zealand. Secondly, the *FM* has allowed assurers to choose whether to present their figures at market value or balance sheet value. We acknowledge that this is not altogether a happy state of affairs. It could be reviewed.

SHORT-TERM INSURERS

Back into profitability

Insurers have husbanded resources well over a period of stiff competition. But the spectre of official interference remains

Given time, a relatively free market will always ultimately bring about a balance in supply and demand. If you believe that — as the *FM* does — the past year in the domestic short-term insurance market was enormously encouraging.

The general incidence of claims in SA was among the poorest in the Western world. Yet those few insurers who did not actually show a modest underwriting profit this year were at least able to contain losses.

After the substantial underwriting losses of the previous year, the market in 1982 brought about significant adjustments of its own accord. It indicated a preponderance in the SA insurance market of managers able to husband resources under a most testing period of competitive pressure.

Simply put, the events of the past year have shown that Pretoria's attempts at interference were based largely on premature, if not groundless, misgivings and were rightly resisted.

Unfortunately, there are clearly those in that section of the office of the Registrar of

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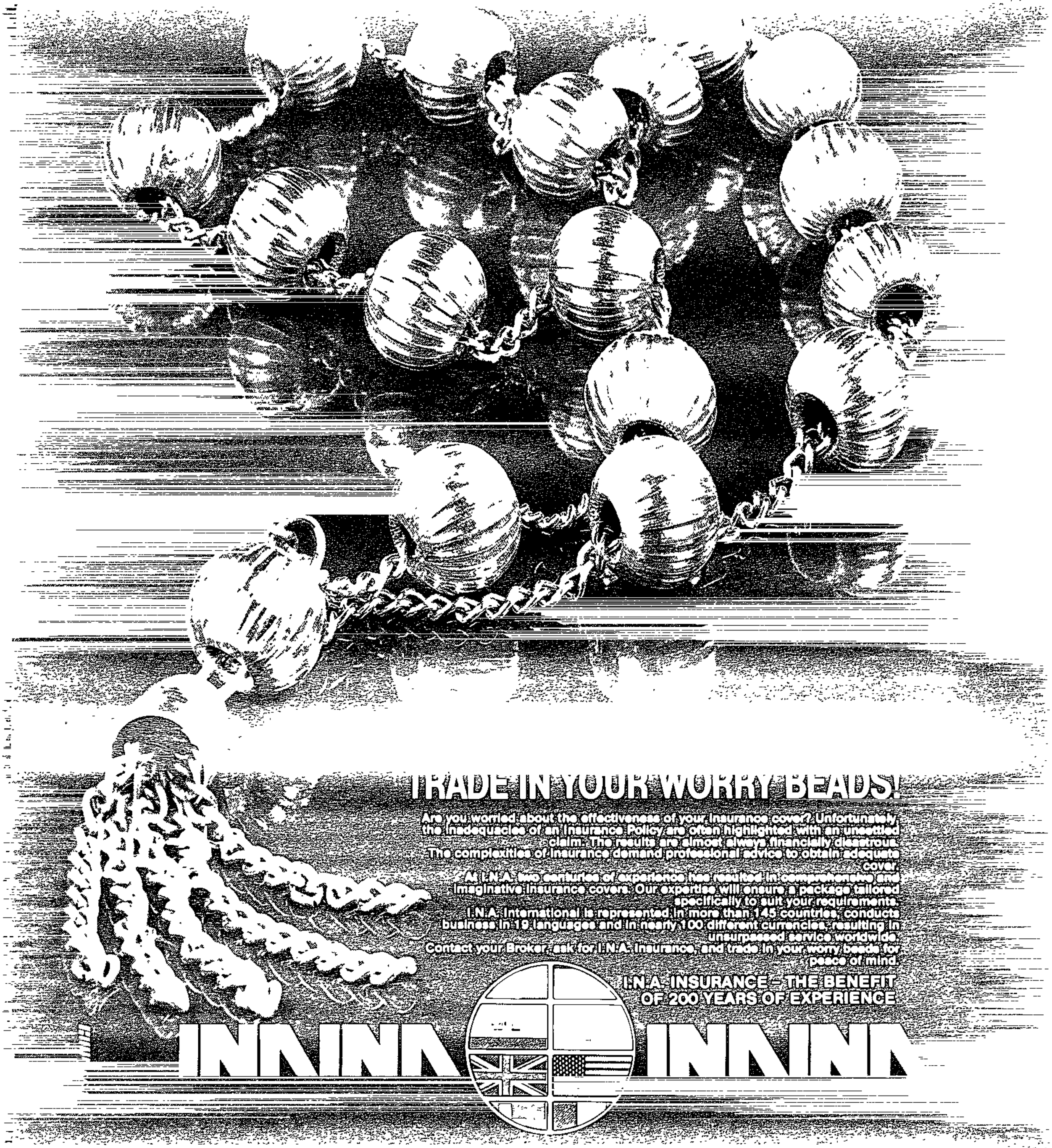

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Financial Institutions which handles short-term insurance who do not share the belief of the Department of Finance and Reserve Bank in the market place.

Unfortunately, too, there are those in influential positions in a handful of large companies who are trying to capitalise on the attitude of the Registrar's men. Mostly they have substantial market shares to defend and know themselves to be vulnerable to competition.

The result was that, although the Registrar could not possibly have allowed an official cartel as blatant as the one requested in the previous year by these non-believers, an attempt to obtain the same thing through the back door was launched. This was to be done through the creation of a trading floor.

The *FM* has not been able to establish whether the idea came from the SA Insurance Association (SAIA) or the Registrar's office. In any event, it envisaged the exact opposite of the free market of Lloyds or the New York Insurance Exchange, which is what a trading floor is normally expected to be.

According to Warren Plummer, MD of AA Mutual, which has traditionally stood aloof from market agreements, the trading floor envisaged would have exercised "control over rates, acceptances, retentions, reinsurance and the like, all of which would normally be regarded as management matters."

For instance, it appeared that to operate effectively, membership of the trading floor would have had to be made compulsory.

AA Mutual's Plummer . . . aloof from market agreements

And that, broadly speaking, each member would have had partially to underwrite all local risks before using reinsurance treaties. These treaties are reciprocal arrangements between insurers here and abroad to swap a package of reinsurance risks. This means that premiums flowing out of the country are to some extent matched by others flowing in.

The proposed arrangement was shot through, too, with complications. It may have meant that more insurance was written within SA, but the cost in terms of stifled innovation and flexibility would have been high. Indeed, whether it would have been in the interests of buyers of insurance is doubtful.

In any event, a local attorney was briefed to investigate the idea. Ironically, he has on at least one occasion represented Lloyds. Not surprisingly, he recommended against it, but suggested instead that the SAIA be turned into a statutory body with regulatory powers. His precise arguments have not been made public, but, from what the *FM* is told, his recommendation seems little more than another way of skinning the same cat. It could provide the authorities with a convenient front behind which to interfere in the market process. To the outsider, the industry would appear to be regulating itself.

Having said that, it is also true to say that experienced insurance executives are con-

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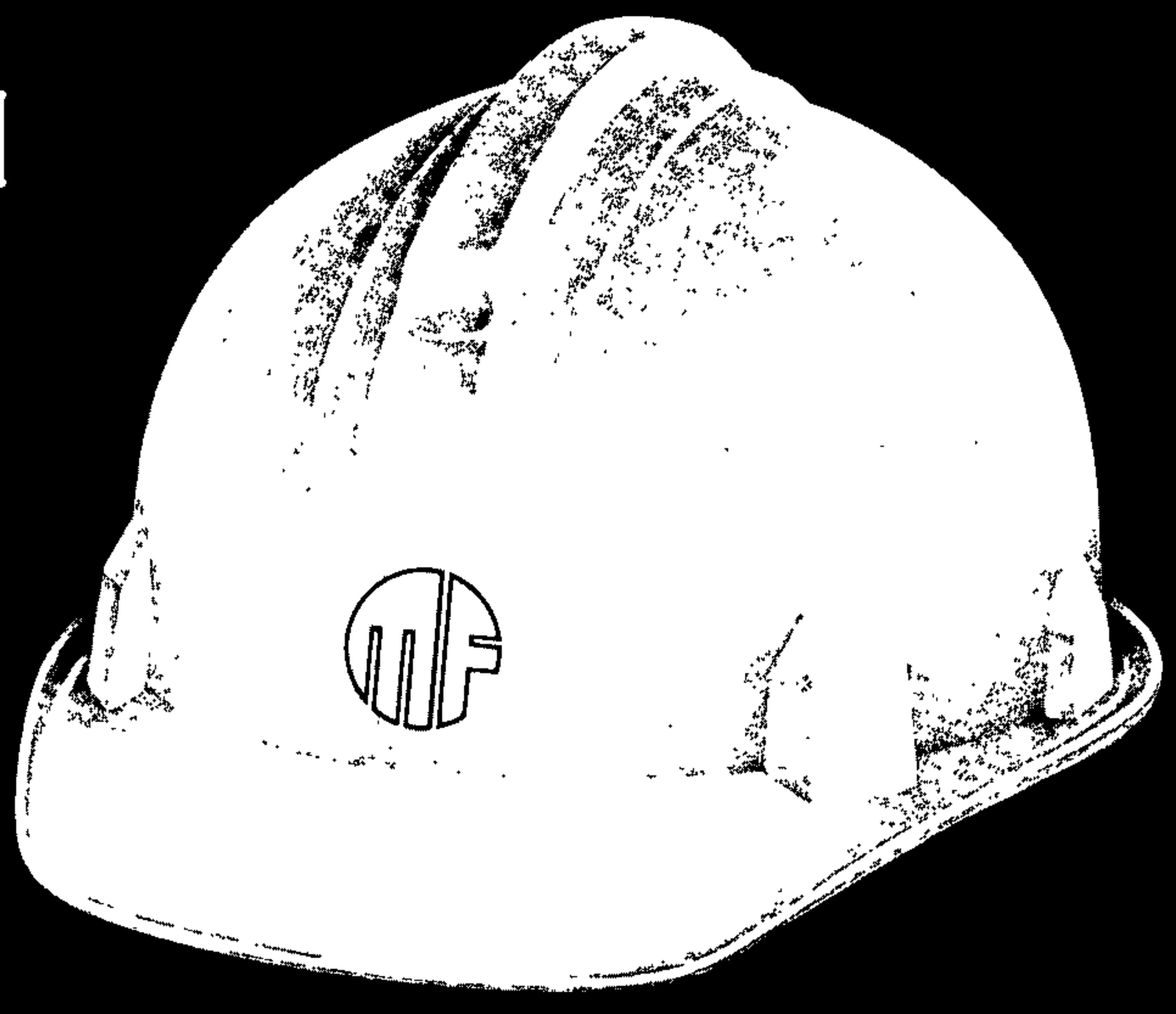

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Top Companies Supplement to Financial Mail May 6 1983

cerned about the extent to which reinsurance premiums are leaving the country and about the diminishing amount of risk written locally. Plummer is among them.

Fred Haslett, MD of SA Eagle, believes that the gross worldwide reinsurance overcapacity has caused the erosion of rating in all countries and that this is bound to lead to problems over larger industrial risks.

He points out that international reinsurers bore the brunt of SA's deteriorating claims experience last year. For large risks (those over R250 000) these reinsurers met SA claims of between R150m and R160m last year. In the first two months of this year, SA claims against them had already amounted to R20m.

Of course, in the short-term this means that money from outside is flowing into the domestic economy. But, he says, "the reinsurance market will not allow this to continue. An over-correction could mean difficulties in the future placing of SA business abroad."

Haslett points out that unless SA's reputation is improved, there could be a deterioration in both the quality of treaties available to domestic underwriters and also in the general terms on offer to SA companies seeking cover.

"The housekeeping of risk in SA leaves a lot to be desired," he says. Security is lax and fire prevention slipshod. This is indicated in the recent trend in SA claims: they have not been as a result of catastrophe.

Haslett, too, would like to see more reinsurance retained in this country. But, at the same time, he believes that increasing restrictions on insurance companies are bad. "We must be part of the international scene," he says. Instead of direct intervention, such as one suggestion of a tax on reinsurance premiums going abroad, he would prefer to see an agreed ratio encouraged between net account (retained risk) and the gross amount written by individual insurers.

SA Eagle's Haslett ... large risks still under-rated

However, he does see merit in insurers having some basic rate to "prevent the rating structure getting into an unhealthy state." Competition on service and expertise would remain and, in any event, Lloyds and other mavericks would always be around, he believes, to keep competition alive. He points to the exemption US insurers have from anti-trust laws.

The local market, he believes, is correcting its rating structure, bringing it more into line with risks. But this is not happening in the market for large risks. "In the area where we are able to control our destiny, such as private motor insurance, we're getting our house in order. But large mining and industrial risks are still being grossly under-rated."

He believes there are no signs yet of a contraction in international underwriting capacity and that there remains a danger that some large reinsurance companies will face insolvency. After the losses of the last few years, the margin for error is now significantly lower. Consequently, he be-

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lieves concern over large claims not being met because of insolvency is entirely justified.

Plummer points out that the sensitivity of international reinsurers to SA's deteriorating large claims experience may have its roots in the nature of reinsurance treaties being written. If SA insurers are using "proportional treaties," the underwriter abroad is locked into terms written in this country. In the event of a deterioration in claims, all he can do is argue about the administration allowance.

On the other hand, if local insurers used treaties on an excess basis, not only is a higher proportion of premium retained in this country, but the reinsurer can rate the risk he assumes according to his own lights.

There is unlimited reinsurance available to SA companies in international markets, he says, but not necessarily for those local assurers seeking to write proportional treaties. Where there is a call on reinsurers abroad only for large claims — and then only after the excess has been met locally — the premium is, moreover, usually much lower.

Plummer believes that on balance the excessive competition among insurers has resulted in better value and a better deal for the public. "It surely cannot be against the public interest if insurance is sold below cost. How far insurers should go in doing so must be a question for them in relation to their business, its profitability and so on. If this is correct, then the only requirement for the public interest is that insurers should be solvent — that is, able to pay their claims and this is already provided for by the solvency margin," he says.

Fire prevention is slipshod

There is certainly widespread feeling among the larger insurance companies here that the Registrar pays too little attention to the solvency margins of some locally-owned companies. Instead, he has concerned himself unnecessarily about the identification of specific risks under parasol policies (those under which a single premium covers a number of risks) and the amount of credit given to brokers by underwriters before clients' premiums are paid over.

After the losses of recent years, of prime concern to the Registrar should be adequate solvency ratios. Effectively, they were raised for some companies in December 1981 when approved reinsurance could no longer include reinsurance placed outside the country. But there is a compelling argument for further rises.

If minimum solvency margins were raised substantially, those companies deficient in this respect would have to write business at a profit, raise more capital or retain a larger amount of reinsurance in this country. Perhaps, therefore, the real problem is in the Registrar's office, where the principles of free markets adumbrated in the Union Buildings have been insufficiently understood.

In our table this year, we have again

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REALST

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JOHANNESBURG 7, 8, 9th JUNE

DURBAN 4, 5, 6th OCTOBER

JOHANNESBURG 9, 10, 11th AUGUST

CAPE TOWN 6, 7, 8th MARCH 1984

JOHANNESBURG 11, 12, 13th OCTOBER

JOHANNESBURG 13, 14, 15th MARCH 1984

WHAT IS REALST

* REALST is an acronym for REsource ALlocation STrategist and is a registered trade mark of the NPI
* REALST is a productivity measurement technique that allows you to COMPARE the financial performance of the company — with itself over time, with a budget or plan or other companies. It expresses the EFFECT of PRICE AND PRODUCTIVITY CHANGES on the overall profit ability of the firm in monetary terms.
* The REALST performance measurement technique is DESIGNED to give executives and managers clear signals for action to IMPROVE PROFIT through the best ALLOCATION AND USE OF ALL RESOURCES at their disposal and at the same time IMPROVE the long-term COMPETITIVE POSITION of their firm.

OBJECTIVES OF WORKSHOP

This three day workshop is designed to enable you

* To IMPLEMENT productivity measurement and improvement in your company
* To LEARN the principles of TOTAL productivity analysis ie materials, manpower, capital and energy
* To UNDERSTAND and APPLY the REALST productivity measurement technique
* To FAMILIARISE yourself with productivity measurement approaches

WHO SHOULD ATTEND

Executives, managers and senior personnel interested in productivity improvement. A working knowledge of financial systems, economics, industrial engineering or management sciences is recommended

THE NPI

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FEES

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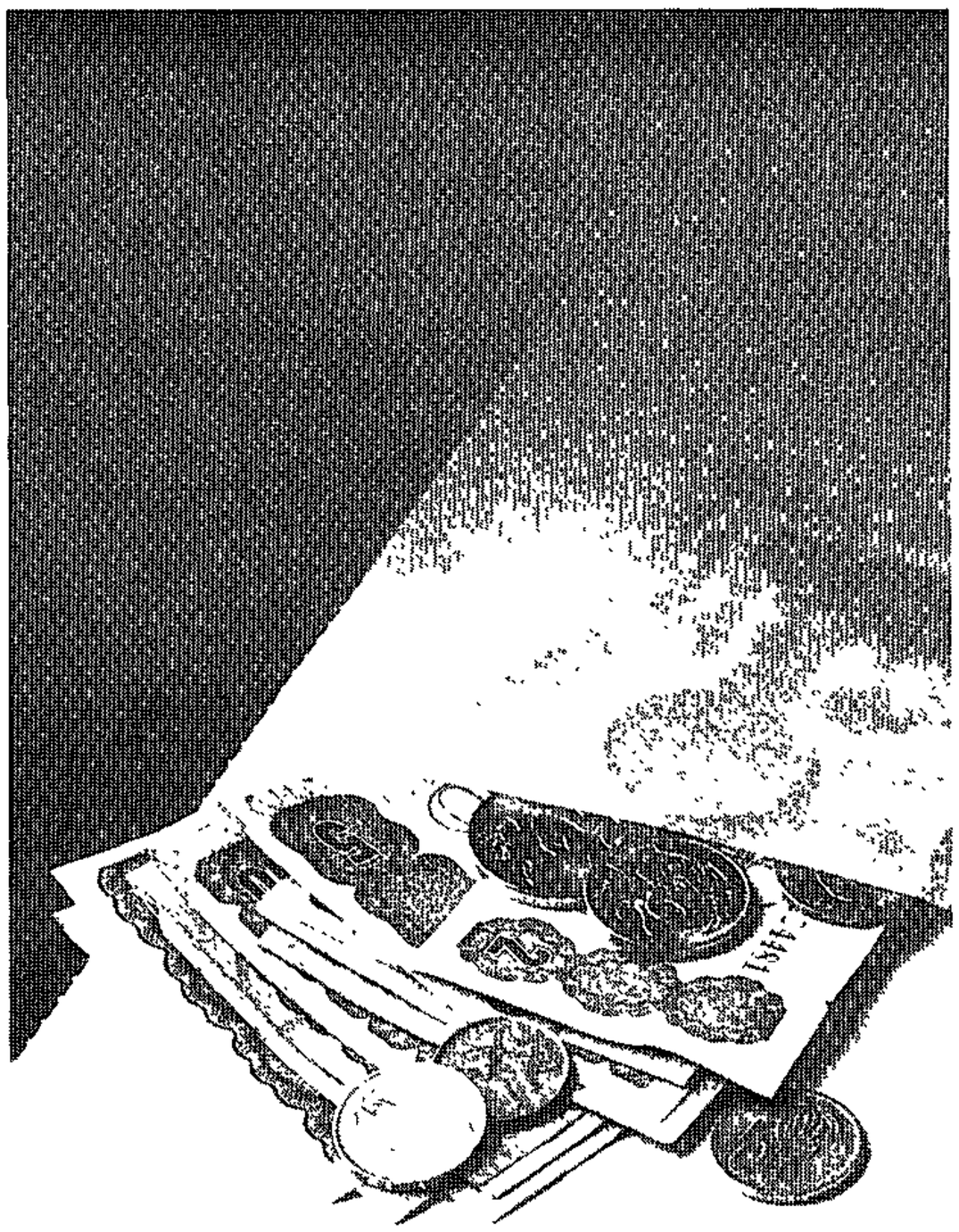

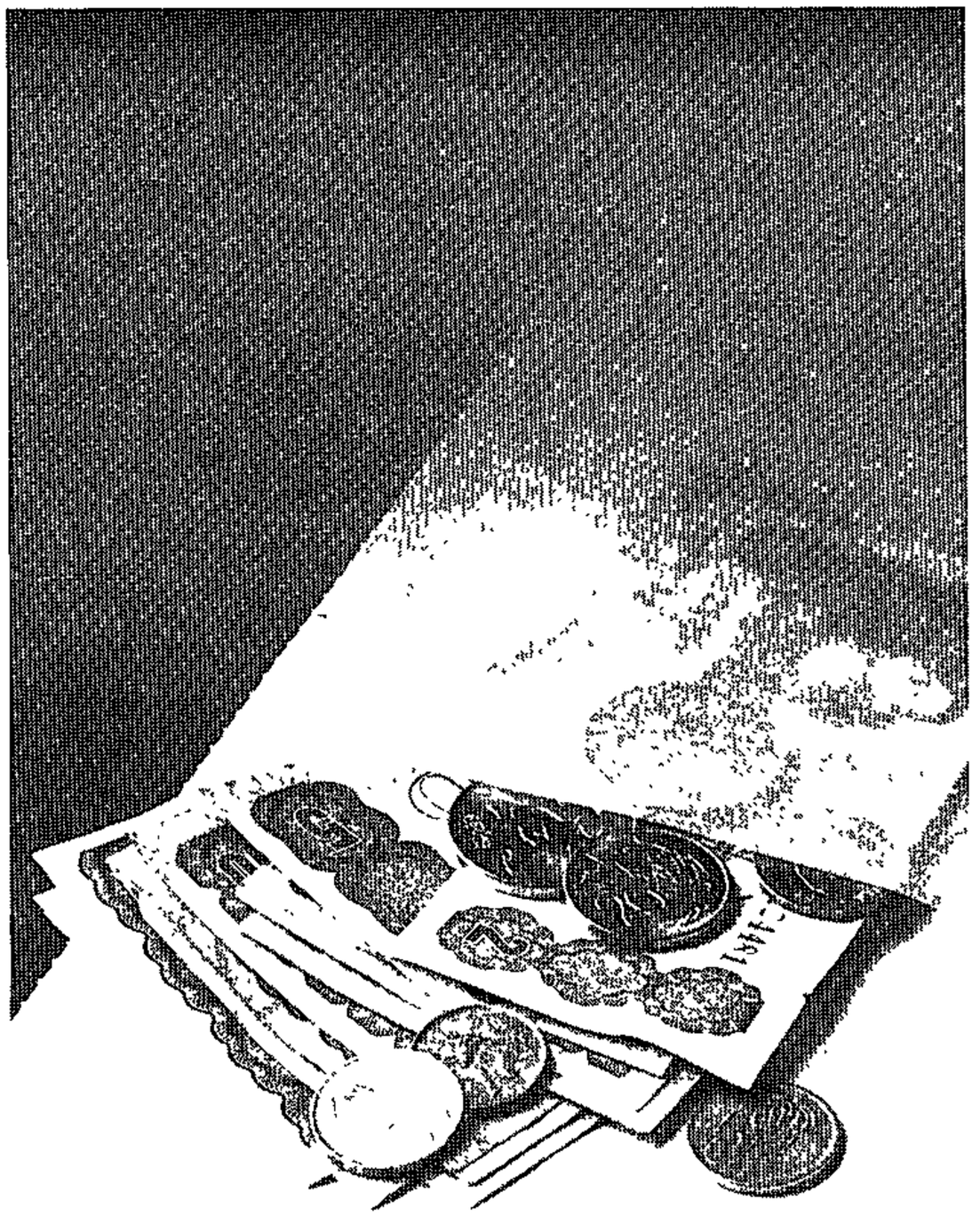

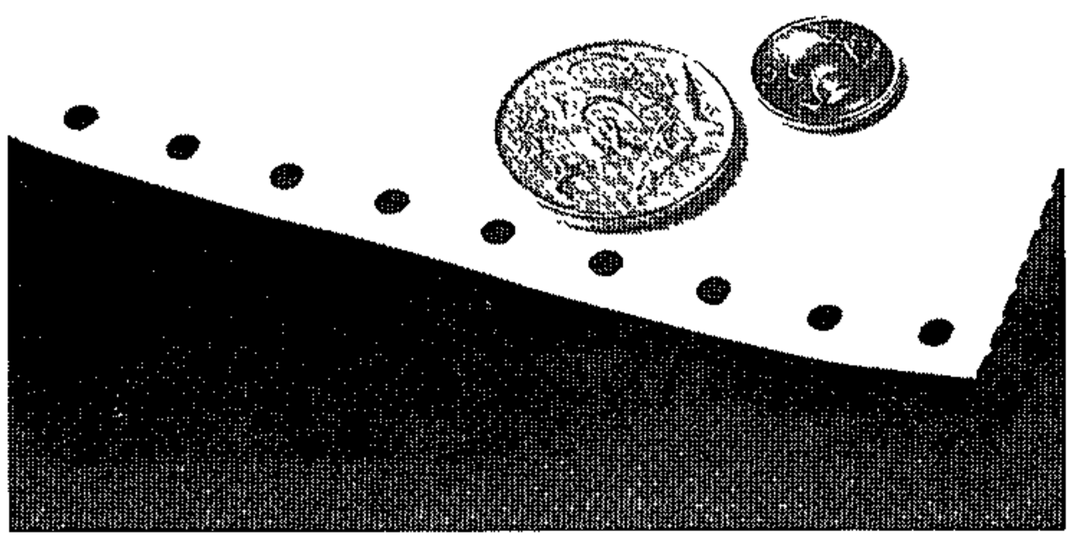

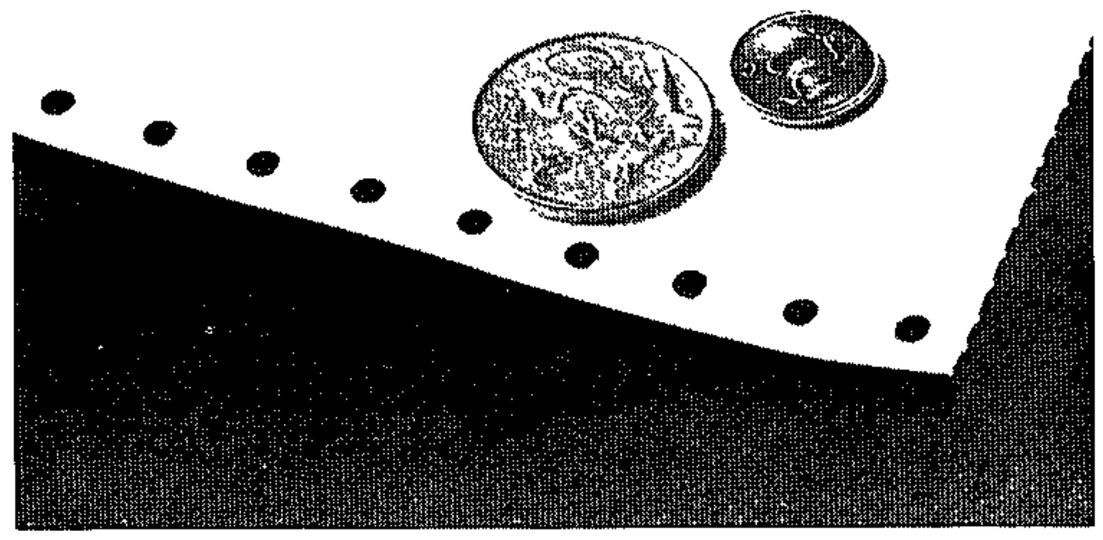

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SHORT-TERM INSURER'S LEAGUE

RANKING BY:

Total assets	GPI	% Increase in GPI	% Pre-tax profits to GPI		Total assets * Rm	GPI exc MVA Rm	Increase in GPI exc MVA	% Increase in GPI exc MVA	MVA Rm	Pre-Tax profits R000	% Pre-tax profits to GPI§	Year end
1	**1**	**9**	**12**	**Santam**	**m196,8**	**267,1**	**67,7**	**34,0**	**18,8**	**6 305**	**2,2**	**Sept**
2	1	6	11		m152,8	199,4	54,5	37,7	19,9	4 973	2,3	
2	**5**	**12**	**2**	**SA Eagle**	**m195,6**	**126,4**	**23,0**	**22,2**	**5,4**	**13 570**	**10,7**	**Dec**
1	4	10	2		m162,8	103,4	21,9	16,9	4,4	7 306	7,1	
3	**3**	**4**	**6**	**Mutual & Federal**.....	**m167,2**	**173,7**	**58,1**	**50,2**	**5,6**	**9 913**	**5,7**	**June**
3	3	17	1		m146,8	115,6	18,4	18,9	5,1	8 304	7,2	
4	**6**	**18**	**5**	**Guardian National**	**142,0**	**121,2**	**4,6**	**3,9**	**4,0**	**7 923**	**6,6**	**Dec**
4	2	15	8		134,3	116,6	21,0	22,0	3,3	2 894	2,5	
5	**2**	**1**	**10**	**AA Mutual+**	**118,0**	**192,0**	**102,0**	**88,2**	**10,0**	**6 300**	**3,3**	**April**
6	5	8	6		73,2	89,8	24,3	37,1	9,3	3 044	3,4	Dec
6	**7**	**11**	**4**	**Commercial Union**.....	**m102,9**	**107,1**	**20,8**	**24,1**	**3,4**	**7 193**	**6,7**	**Dec**
5	6	19	7		m82,7	86,4	10,1	13,1	3,1	2 505	2,9	
7	**4**	**3**	**7**	**IGI+**	**80,0**	**135,0**	**46,2**	**52,0**	**—**	**7 400**	**5,5**	**March**
9	7	3	4		59,6	88,8	33,1	59,4	—	3 765	4,2	
8	**13**	**13**	**—**	**Federated**.....	**64,1**	**46,7**	**8,0**	**20,7**	**1,5**	**(266)**	**—**	**Dec**
7	12	7	—		54,7	38,7	10,5	37,2	1,3	(599)	—	
9	**8**	**8**	**11**	**Aegis+**	**53,0**	**74,5**	**20,1**	**37,8**	**—**	**2 200**	**3,0**	**Dec**
8	8	16	12		46,7	54,1	12,9	31,5	—	1 056	2,0	
10	**11**	**14**	**9**	**Protea**	**44,4**	**53,1**	**8,0**	**17,7**	**5,2**	**1 840**	**3,5**	**Dec**
11	10	14	5		40,5	45,0	8,3	22,6	4,1	1 610	3,6	
11	**12**	**19**	**8**	**General Accident**.....	**39,8**	**47,0**	**1,21**	**2,6**	**3,3**	**1 784**	**3,8**	**Dec**
9	9	2	15		42,6	45,8	15,2	49,6	2,7	394,4	0,8	
12	**19**	**5**	**1**	**UBS Insurance**.....	**m38,6**	**18,5**	**5,8**	**45,7**	**—**	**9 719**	**52,5**	**Dec**
—	—	—	—		m29,0	12,7	3,0	30,9	—	5 657	44,5	
13	**14**	**7**	**3**	**National Employers**....	**35,0**	**42,8**	**12,5**	**41,3**	**4,4**	**3 100**	**7,2**	**Dec**
12	14	18	2		26,0	30,3	4,5	17,5	3,5	2 100	7,1	
14	**9**	**16**	**—**	**Sentraoes**.....	**32,0**	**65,0**	**4,0**	**7,0**	**—**	**(500)**	**—**	**June**
—	—	—	—		28,0	61,0	(2,0)	3,0	—	15 203	24,9	
15	**10**	**6**	**—**	**Sentraboer**.....	**30,6**	**56,5**	**17,0**	**43,0**	**2,4**	**(2 710)**	**—**	**June**
13	11	13	—		24,1	39,4	7,9	25,2	2,0	(1 491)	—	
16	**15**	**15**	**15**	**Phoenix Pru**.....	**27,0**	**36,0**	**4,9**	**15,7**	**—**	**623**	**1,7**	**June**
14	13	5	—		24,0	31,1	8,6	38,3	—	(1 021)	(3,3)	
17	**16**	**10**	**13**	**American International**	**19,6**	**34,1**	**7,9**	**30,2**	**—**	**(666)**	**1,9**	**Nov**
19	16	9	8		13,7	26,2	5,4	26,0	—	666	2,5	
17	**17**	**17**	**14**	**Standard General**.....	**19,6**	**23,5**	**1,4**	**6,3**	**1,1**	**400**	**1,7**	**Dec**
16	17	12	13		15,1	22,1	4,6	26,3	1,1	179	0,8	
19	**18**	**2**	**16**	**Shield**	**19,4**	**21,6**	**8**	**58,8**	**3,4**	**250**	**1,2**	**Dec**
18	19	11	10		14,1	13,6	1,7	14,29	2,7	376	2,8	
20	**20**	**—**	**—**	**President**.....	**13,0**	**14,0**	**(4,0)**	**(22,2)**	**5,0**	**1 037**	**(7,1)**	**June**
17	18	20	16		17,3	18,4	(1,5)	(7,8)	5,1	7	0,4	

+ Estimates.

* Total assets pertaining to short-term business only at balance sheet values unless marked 'm' which denotes market values. All figures in respect of South African business only.

§ As an indicator of performance this ratio has obvious limitations: (1) It compares net profit before tax to gross premium income (2) Comparisons with June year-end are likely to have a different underwriting experience from those with December year-ends (3) Individual years' performance are obviously subject to wide variations. Figures in brackets indicate a decline or loss. The second line of figures indicate last year's position

allowed those companies that choose to do so to value their assets at market values. Broadly speaking, the trend most discernible is that those companies that did not aggressively seek market share turned in higher profits: the higher the percentage increase in premium income, the lower the percentage of pre-tax profit to premium income.

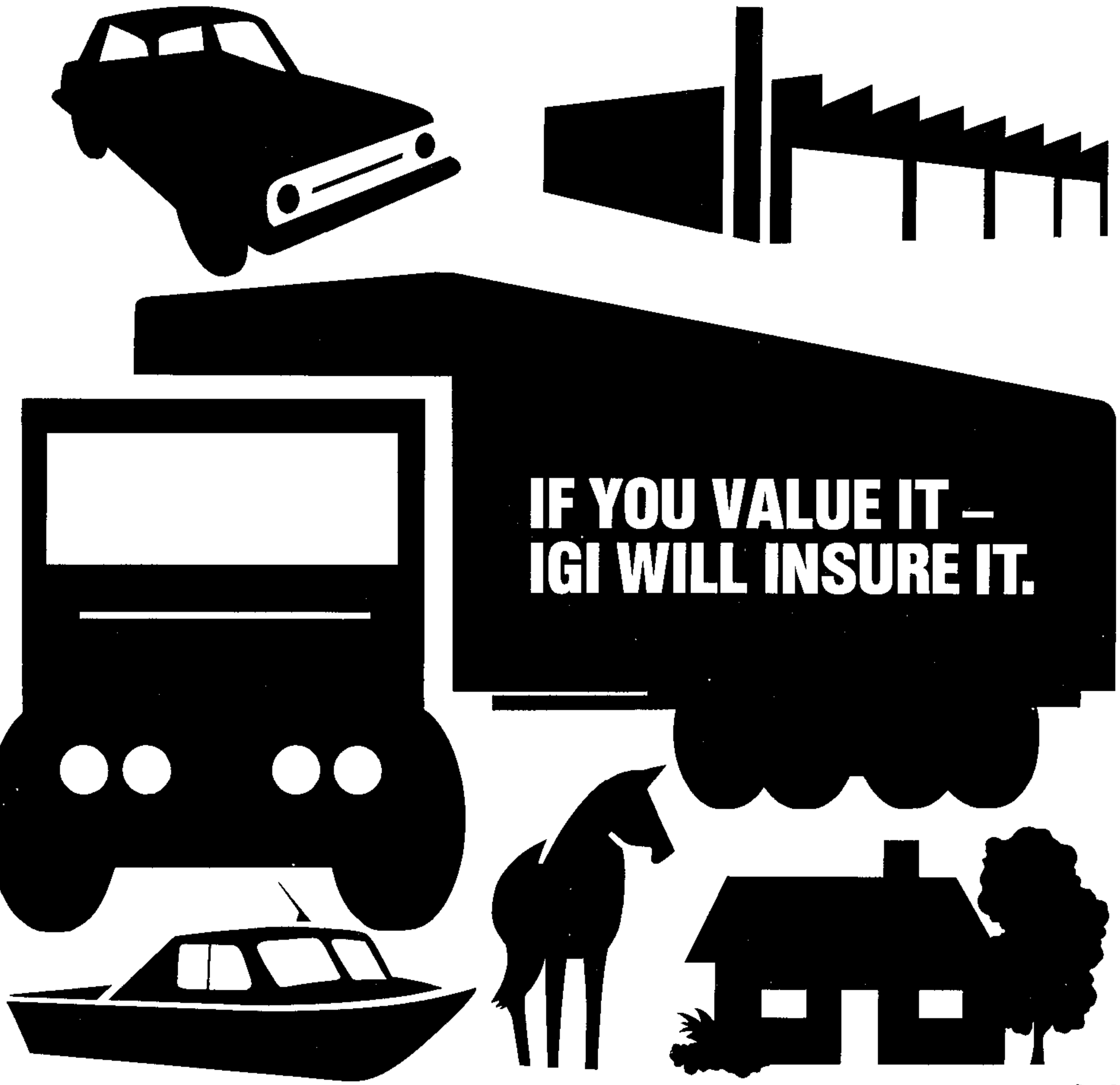
Some companies have been included for the first time, such as the UBS Insurance, now the 12th largest. Perhaps Rand Mutual, the Chamber of Mines insurer, should have been included, but it did not respond to our request for figures. On the basis of past returns to the Registrar, it would most likely rank on assets within the top 10. It is active mainly in personal risks.

Both Credit Guarantee and SA Special Risks (Sasria) felt that because of the special nature of their business they should not be included. The former increased assets from R14m to R19m, and gross premium income from R17m to R22m. But its ratio of profits to premiums deteriorated slightly. Sasria increased its premium income by about 15%, and is finding that its inability to provide political riot cover for consequential loss has meant increasing amounts of this business going to underwriters abroad.

On the basis of an emerging statistical experience, Sasria is no longer loading premiums for those near to what were believed to be politically sensitive areas. It now has only two rates: one for industry and one for private home owners.

AA Mutual's significant increase in assets and premium income was partly attributable to its absorption of New Zealand and Constantia. Other insurers, such as Santam, that are heavily into personal risk have annualised monthly premiums.

Generally, the market has shown over the past year that it is capable of adjustment without further official intervention. In fact, as experience with the limitation on brokers' commissions has shown, more controls don't bring about profits: only pressures for yet further intervention by Pretoria.



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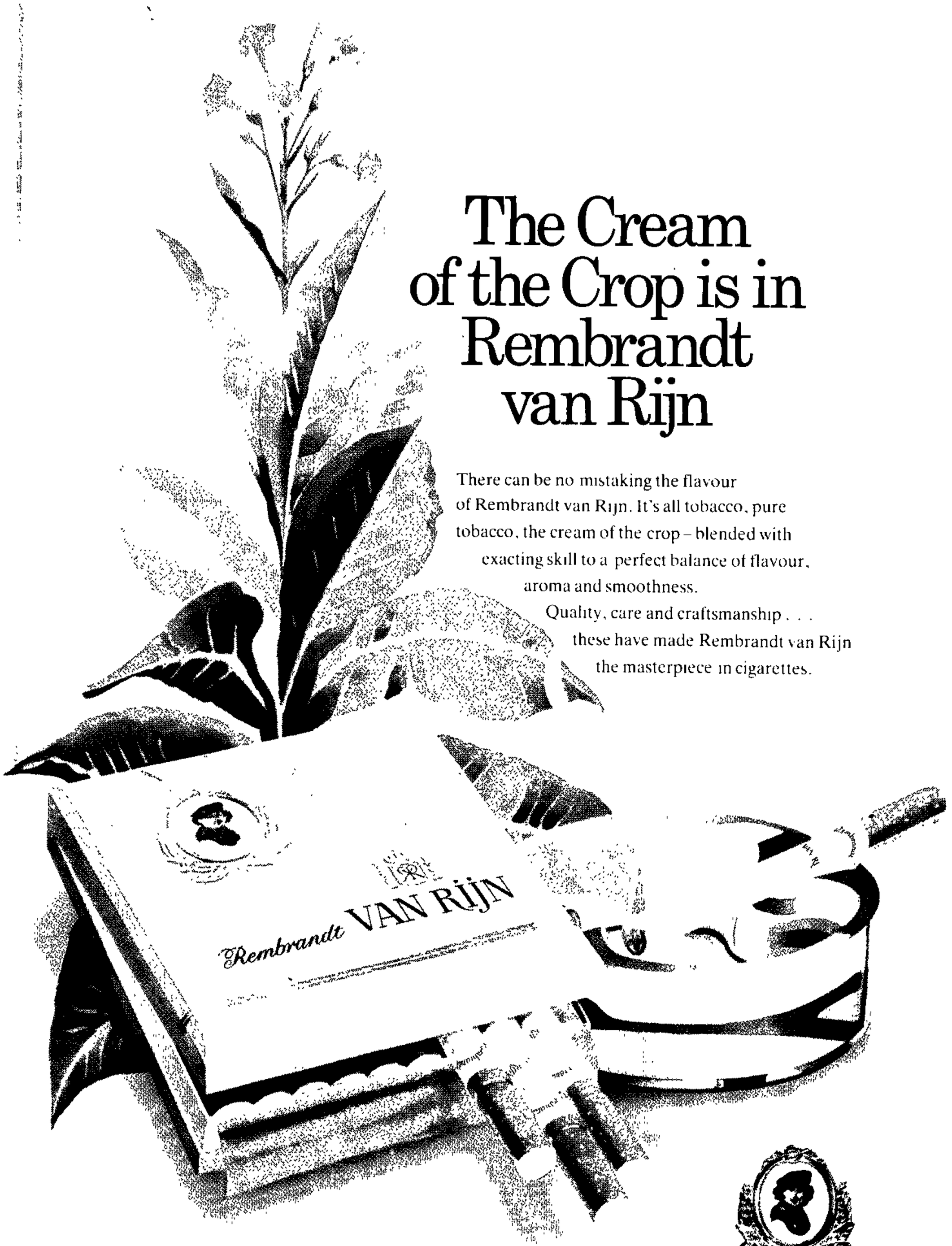

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VRF 285/27E

Call for insurance rights arbiter

CAPE TIMES 5/5/83 5.8

By BOB MOLLOY

THE chairman of the Old Mutual, Dr J G van der Horst, yesterday called for the establishment of an insurance ombudsman to uphold the rights of the policy-holder.

"I believe there is a very real need for it," he said in an outspoken interview marking the 138th anniversary of the founding of the Old Mutual.

Dr Van der Horst said he regretted that the post had not already been established by the industry.

"That is the one ideal that I did not see realized in my work with the Life Offices' Association," he said. He had made a similar plea during his term of office as LOA chairman.

'Promises'

"A special challenge faced by the insurance industry is that we sell promises. The ordinary commercial world deals in tangible goods, where the benefit of the articles is immediately apparent.

"There is a large element of trust in a life assurance contract. So often those who make the contract have to leave it to subsequent generations to fulfill."

With the growth of consumerism there was an increased awareness by the consumer of the value of any product bought and a greater readiness to complain. Yet, from the point of view of the policy-holder, protest and complaint could often be in vain.

Dr J G van der Horst at celebrations last night for the 138th anniversary of the Old Mutual at the newly-completed head offices in Pinelands.

"The complaint usually goes to, and is handled by, the lower levels of management. In the case of real or imagined injustice, redress in law is expensive, risky and cumbersome," Dr Van der Horst said.

The complexity of insurance institutions had developed beyond recognition in the past few years but in cases of dispute the public's access to just treatment still relied on legal processes designed many decades ago.

"I believe that modern insurance is incomplete without an industry arbiter who can ensure not only that right is done but that the policy-holder can see that it is done."

'Immunity'

The Dutch had set an example in their version of an industry ombudsman who was guaranteed immunity from action by the industry and had the power of publication.

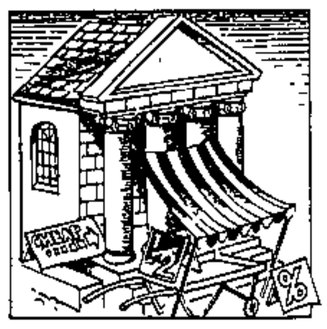
"At all times our industry is based not only on the good faith of those who serve it but also the good faith of the public. I believe that the system of ombudsmen is a powerful tool to achieve this. I hope it will still come about through consensus in the industry," Dr Van der Horst said.

● Dr Van der Horst's call came within days of publication of a WATCHDOG column which challenged the legal validity of South African insurance contracts.

Based on an article in the latest edition of the SA Law Insurance Journal, it pointed out that such contracts could lead to serious legal irregularities in terms of judgments already handed down in insurance cases.

NEW STYLE BANKING (58) FM 6/5/83

This way gentlemen, please



Bank managers have descended into the market place to hawk their services as unashamedly as the most crass cut-price king. But under the sales talk is a new determination to change the face of banking.

Older bank employees can remember the days when they were not permitted to tout for new customers from other banks. This "ungentlemanly" behaviour invariably provoked complaints from the competition and the manager responsible would get a stiff reprimand from head office for his pains.

In that ordered world there was little need for aggressive marketing and competitive pricing as banks sat down together to decide on the rules of the game under the Register of Cooperation (Roco). Under the umbrella of this cartel, they seldom thought in terms of market share. And bank managers, schooled in the belief that there will always be borrowers, were not burdened with turnover targets or the need to treat customers with deference.

A bank account was regarded as a privilege granted only to individuals who could prove themselves responsible. And an overdraft was something mainly for businesses and the very rich. The view was that a salaried man should live within his income and that once he started borrowing, he was heading for ruin. When your bank manager telephoned, you went around hat in hand to explain yourself. And if you wanted to see him, well, that was at his discretion.

How things have changed. But it has been a long process, with roots going back to the Trust Bank phenomenom of the Sixties. Hesitatingly at that stage, banks began to wake up and compete with one another. The stumbling block was Roco. Now competition has reached new heights with the formal dissolution of the Roco earlier this year.

Advancing technology and changes in the business environment made this inevitable. Computerisation has brought more refined techniques of control including the statistical assessment of credit risks. It has consigned to oblivion old rules of thumb which once limited company overdrafts to one tenth of annual turnover.

Chronic inflation has undermined the notion of the prudence of thrift leading to a massive extension of credit to the man in the street.

The authorities have also given a greater scope for competition by freeing deposit rates and abolishing credit ceilings, and in the moves towards lifting control on the foreign exchange market.

This has bred what the old guard in banking consider to be a new attitude of crass, free-for-all commercialism; banks have thrown their dignity to the winds and some now even have business practices described by one leading banker as being "close to the wind."

Bank employees can win prizes ranging from portable radios to overseas trips, depending on the new business they bring in.

Poaching for customers

Some banks now poach new customers from the competition by offering better rates than they give to their own customers of long-standing.

New business is sometimes swung with promises of reduced service charges to the customer which are not kept for more than a few months.

Banks are now among the most strident of advertisers to the consumer market, and their marketing expenditure has risen to a peak.

For the 12 months ending in March banks spent a total of R11,5m on media advertising, an average of R950 000/month. However, in March alone they spent R1,66m.

The content of some of this publicity has clearly been controversial because complaints have recently been made to the Newspaper Press Union (NPU) on the propriety of the advertising for three of the biggest: Barclays, Nedbank and Volkskas. Whether these complaints are a measure of the quality of the advertising or the desire of the competition to suppress it, remains to be seen.

Nedbank brought the battle of the banks to a head with massive advertising to announce interest payments on personal cheque accounts and overdraft facilities of three times its customers' monthly salaries.

Other banks, apart from Trust, which had planned to launch a similar scheme, had dreaded this day, but were more or less prepared for it. They were thus able to respond rapidly with counter offers either to pay interest or to rebate service charges.

The total cost to all banks of these new services has been estimated at more than R100m/year; and it should hit Barclays the hardest as it holds the biggest current account deposits on which to pay interest.

Nedbank and Trust are in the best position to pay interest on current account balances as they hold far smaller current account deposits than the larger banks; their holdings of these deposits also account for a far smaller proportion of their total deposits than is the case with Barclays, Standard and Volkskas.

In an obvious reference to Barclays, which uses the term "Free Banking" in its advertising, a Nedbank ad reads, "If you're serious about money shouldn't you know how much 'Free Banking' is costing you?" It then says that "other schemes" pay no interest or service charge rebates on balances below a certain figure, which is the not the case with Nedbank.

Barclays deputy MD Chris Ball has responded in a press release that running a Barclays account costs less and gives more after-tax benefits than Nedbank in certain circumstances.

A Nedbank official has since stated that the alleged tax disadvantages of his scheme are "arguable and a matter between the depositor and the Receiver of Revenue."

"There will be turmoil in the market for

Nedbank's Dagut . . . stroking customers' egos

about six months and then the parties concerned will come to their senses again," says Volkskas' Koot van Vuuren. "Customers have always been confused as to what their service charges should be so how can they be expected to know their entitlements under incremental interest rates and service charge rebates?"

For all the ballyhoo about the new services, their benefits for smaller customers are limited. According to one bank the typical cheque account customer with a R40 000/year income is unlikely to be more than R2/month better off than he was under the old dispensation. If he keeps a minimum credit balance of R5 000 in his account he will be no more than R14/month to the good.

But Nedbank at least believes that, on the available evidence, the publicity has attracted new business. GM Merton Dagut says openings of new cheque accounts during April, the first month of the scheme, were more than three times what is normally expected.

He adds that the much-advertised offer to grant overdrafts of up to three times a customer's monthly salary is "not so much an inducement to increase indebtedness but a reassurance that the bank trusts its customers, which is important for their self-esteem."

Understandably perhaps, other banks report no significant defections from their own ranks and there is some scepticism about Nedbank's claims.

"You cannot get rich quickly in banking," says Ball, "newer banks can only grow on second rate business as their competitors will fight to keep the good clients."

The immediate benefits to customers of the new concessions on current accounts could well be reduced in time. Banks will almost certainly raise service charges and may even attempt to maintain higher lending rates to cover their increased costs. Much will depend, however, on their ability to maintain market share in the face of increased competition.

The larger banks could also raise their agency fees, the charges they levy for clearing cheques of other banks in areas where they are not represented This would hit Trust and Nedbank hardest because they have the fewest branches among the big five. But they, in turn, are likely to retaliate if the increase is too steep by pleading for official anti-monopoly action

The raising of service charges would be what most bankers consider as a welcome move towards supplying banking services on a more cost-related basis, with fewer loss leaders. And it would break the logjam which has for years forced banks to charge for some services at well below cost.

Different charges for different areas could also be introduced because, as Van Vuuren says, "It is cheaper to buy a can of beans in a city supermarket than in the platteland. So why should city banking services not be cheaper?"

More realistic charges would no doubt keep many smaller customers out of cheque accounts, which would suit some of the banks well.

Well-heeled wanted

Trust and Nedbank apparently have no need for this kind of business as their current account interest schemes clearly favour well-heeled customers whose balances move in and out of overdraft. They also do not have many automatic teller machines because, as a spokesman for Trust puts it, "The upper end of the market is not impressed with having to deal with a machine."

On the other hand, Standard has 230 machines in operation with a total of 300 planned for the end of the year.

"The latest developments will price cheques out of the market for some customers," says Standard's business development GM John Holloway. "Fortunately we have another facility, our Autobank cash management system, to make the mass market pay.

"Unlike Nedbank we are catering for the growing black market and have outlets in all the homelands as well as many urban black areas We do not wish to repeat the mistakes of the Thirties when Barclays and Standard neglected the Afrikaans market which was consequently exploited by Volkskas."

Essentially, the marketing battle between banks now is the logical culmination of a number of changes in official controls and attitudes and of viciously rising costs.

Until the bank lending ceiling was abolished in the late Seventies, the large banks derived power from their rationing of credit. They decided who was to get how large a slice of the cake.

In addition, despite the limitation on lending imposed by these ceilings, they had the bank cartel to ensure relatively stable minimum margins between the cost of deposits and earnings on loans. If you didn't like the deposit rates they imposed, you could go to the building societies for all they cared.

Now all that has changed. Their lending is dependent upon their finding as many depositors as possible and not on government fiat. They can no longer count on relatively stable minimum costs protected by a cartel. If, then, profit trends of the past are to be maintained, they have now to go out and find as many customers as possible. This can only be to the ultimate benefit of you and me.

So next time your bank manager telephones, suggest to him that he calls on you and not the other way around. Maybe his hasty knock on your office door will surprise you, pleasantly.

Barclays' Ball . . . no free lunch in banking

Financial Mail
Special Survey

TOP COMPANIES

THIS BUMPER *FM*

With this week's *FM* comes our annual Top Companies special survey. This year, Top Companies is specially bound and is printed on special paper — and is the biggest single revenue producer the *FM* has ever published.

FINANCIAL INSTITUTIONS (58) FM 6/5/83

Forging fresh alliances

The tie-up between Standard Bank and the United Building Society, bankers believe, could lay the foundation of a new South African financial force, with insurance company Liberty Life as its third leg.

Certain protagonists and antagonists in the deal suggest, in fact, that the arrangement has given clear shape to the developing ambitions of Donald Gordon, chairman of Liberty Life. "His close connections with the Standard/United network," says a Johannesburg banker, "give him potential access to about 1m people."

Gordon denies this with disarming affability, pointing out that he has many eggs in several baskets and is cracking none of them yet. But there is a body of circumstantial evidence that gives the claim a good deal of sense.

One piece of evidence is the cross-holdings that Stanbic, Standard's holding company, and Liberty Life have in each other. Another is interlocking board members. Stanbic MD Henri de Villiers is on the Liberty board and vice-chairman of Liberty Holdings, and Gordon is on the Stanbic and United boards. Gordon is said to have been mainly responsible for the United ending its 50-year association with Barclays Bank and instating Standard as United's banker recently. Standard Bank pension fund is also a major partner in Liberty Life's property development at Sandton City.

Evidence against, as Gordon points out, is that Liberty's main banker is Barclays Bank. Stanbic also has established links with other institutions, and Old Mutual has a large slice of it. Again, the fact that Gordon is a large investor with United does not in itself mean very much. And United's in-house insurance brokers do not channel tied business towards any particular underwriter.

Gordon's public scepticism, however, does not appear to extend to the other alleged apexes of the triangle. Off-record comment suggests, in almost as many words, that the Standard/United link was a defensive response — in general, to other informal associations, and in particular, to a competitive axis of financial power between Nedbank, Old Mutual and the SA Permanent building society. One protagonist says: "Other banking groups all have powerful affiliations. Barclays has Anglo American, Trust has Sanlam, Nedbank has Old Mutual and SA Breweries. Standard was left out in the cold — it needed muscle. Stanbic, the United and Liberty constitute an appropriate relationship."

Liberty's Gordon .. many eggs, several baskets

Circumstantial evidence for these claims is illustrated by the accompanying diagram. The Old Mutual/SA Permanent relationship, building society executives say, is solidified by the fact that Old Mutual maintains agents at the Perm's outlets.

A fundamental aspect of all these affiliations is, of course, their respective data bases, the pooling of which can lead to massive networks of information and client access. The Perm and Nedbank are both on Burrough's computer systems, with Nedbank's reckoned by bankers to be the tightest and most sophisticated banking system, although it is said to have "capacity problems." Barclays is on ITL, and both Volkskas Bank and the Allied building society on IBM.

The United and Standard have compatible IBM systems, and are acknowledged to be in the forefront of their respective sectors in at least the size of their computer systems. It was, in fact, their assertions of independence in this area that led to many other banks and building societies, in conjuction with the Post Office, laying the basis for a separate system of shared automatic teller outlets last year. The United/Standard tie-up involves, among

MINIMISING THE MONOPOLY

The proposed takeover of the Standard Building Society (SBS) by the United Building Society was turned down by Pretoria on the grounds that it tended to strengthen the United's existing "monopolistic" position in the sector.

It was a blow to both, since the proposed move fitted in neatly with a closer relationship in other spheres. Says a source: "Top management at Standard saw the takeover as the vehicle. Why have a society at all, they argued, if we're going to be affiliated?"

As a matter of little coincidence, figures show that both the United and SBS slowed down their rates of growth prior to the proposed move to underplay the size aspect. Their total capital and deposits grew at a rate of 9,5% and 4,9% respectively in the 10 months to January this year. The movement's average was about 13%. Only the Eastern Province society grew less, and rivals like the SA Permanent and Allied forged ahead at 20% and 18% respectively.

The operative date was to have been March 31. As a matter of little apparent coincidence again, the United raised its fixed deposit rate in April, presumably to regain market share.

The fate of SBS, it is suggested, is not yet finalised and Pretoria may reconsider its decision. Failing that, the implication is that the SBS will wind down its business in favour of the United, and eventually be phased out altogether.

CROSS CUTTINGS

Ownership and boards of major banking groups

Bank	Barclays	Nedbank	Stanbic	Bankorp	Volkskas
Ownership	BBI (UK) 56% Anglo 18%	Old Mutual 27% Anglo 12% Liblife 2%	Stancha (UK) 58% Old Mutual 20% Liblife 3%	Sanlam 51% (Trust Bank 55% Bankorp-owned)	Rembrandt 21% Old Mutual 4% Sanlam 4%
Boards	Guy Nicholson (Anglo) Nicky Oppenheimer (Anglo) Julian Ogilvie Thompson (Anglo) Gordon Waddell (Anglo)	Len Abrahamse (Old Mutual) Frans Cronje (Old Mutual, SA Perm) Gerry Muller (Old Mutual) Jan Pijper (Old Mutual) Jan van der Horst (Old Mutual, SA Perm, Anglo)	Henri de Villiers (Liberty) Donald Gordon (Liberty United) Adrian Louw (Old Mutual) Gavin Relly (Anglo) Clive Saunders (Anglo)	Fred du Plessis (Sanlam)	

* Gerald Browne is on the boards of SA Perm and Old Mutual

☐ Ownership percentages are rounded and refer, through nominees and subsidiaries, to ultimate owners. They are obviously not exhaustive. Board lists do not show full boards, and list only relevant board memberships.

Source: Annual reports and "Who owns whom" by Robin McGregor.

other things, the probability of sharing on-line outlets. They have about 750 between them, an enormous reach by any standard.

Perhaps the most persuasive argument for a clarification of power alliances between financial institutions is how seriously bankers and building society executives are taking it. Says an executive of one of the largest building societies: "An extensive client base is one of the single most important factors in strength." Another comments: "With the de-regulation promised by Reserve Bank governor, Gerhard de Kock, and increasing competition, the whole line-up must change. There will be an extensive restructuring of the financial sector."

A senior banker, a competitor of Standard's, adds: "The building societies envisaged by De Kock will be somewhat like savings banks. They cannot really become commercial banks, but they can — in fact, will have to — tie up with them. The United/Standard link could be the first sign. As for the third leg of this, Gordon hasn't shown his hand yet. But he will when he's ready. And then, who knows? Perhaps Standard's shares *are* somewhat underpriced!"

Stanbic, Liberty Life and the United toether control total assets of about R15 billion. The combined assets of Old Mutual, Nedbank and the Perm are close to R17 billion.

Barclays to stay

S. Times 8/5/83

58

By Elizabeth Rouse

BARCLAYS National Bank (Barnat) this week scotched overseas speculation that the British parent's involvement in South Africa was ". a critical stage".

The Economist intimated that there had been new developments in parent Barclays Bank's stance about the required legal reduction in its holding in Barnat to not more than 50% by 1986

"There is no change in a situation which has already existed for some time," says Barnat's deputy managing director, Chris Ball

However, a UK Barclays spokesman tells Neil Behrmann in London that the position will be looked at carefully if the South African Government decides to reduce the parent holding to below the control point of 50%.

The main effect, say both Mr Ball and the British parent's spokesman, will be that the name Barclays would disappear from South Africa

Barclay's share in Barnat has already been reduced to below 55%. Non-Barclays shares in Barclays are widely held, the biggest single shareholders being Anglo American with just over 13% and De Beers with 5,3%.

The British bank has been willing all along to meet the law's requirements to reduce its holding to 50% by 1986

There are no indications that the South African authorities intend to institute changes that would require reduction in foreign holdings in South African banks to below the control level

■■■

The Government indicated recently that it was planning to amend the law to allow foreigners to hold 50% plus one share

But, even if there is a change in the South African monetary authorities' attitude towards foreign holdings in banks to below 50%, the major change would be that the name Barclays would not be used in the company's or bank's name, says Chris Ball

Neil Behrmann reports that a Barclays London spokesman says that, in the event of a shareholding reduction to below 50%, it "is unlikely that the South African bank will be able to keep the name Barclays"

"We will have to look at our position very carefully," he adds indicating that it is possible that the UK bank's investment in South Africa could be reduced further

The Barclays UK spokesman is sceptical about the plan to amend the law and allow foreigners to hold 50% plus one share "That is a matter of conjecture," he adds

"But a lot of water must flow under the bridge before 1986," he says.

Barclays' name appears on associate companies only if the bank's interest is 50% or more.

For example, in Israel, Egypt and Australia, where the interest is 50%, the Israeli bank is called Barclays Discount Bank, the Egyptian entity Cairo Barclays International Bank and the Australian house Barclays Credit Corporation

South Africa is a growing source of the British parent's group profits.

In 1982 it contributed 13,9% of total Barclays group profit, more than it earned from the whole of the rest of the world outside Britain

"We are proud of our performance," comments Chris Ball

■■■

Pressure on the British bank has come from the "shadow board", which includes actress Julie Christie, South African former editor Donald Woods, Labour MP Neil Kinnock and Bristol University's Professor Peter Townsend.

Barclays National Bank's new chairman, Basil Hersov, does not seem to set much store on the shadow board's campaign to force withdrawal of the British bank from South Africa

Address: 217 York House
57 Rissik Street

Telephone: (011) 836 9842

Year	Membership			
	African	Asian and Coloured	White	Total
1970		..	..	600 Ø
1971		..	..	600 Ø
1972		..	..	600 Ø
1973		380	160	540 +
1974		..	..	530 Ø
1975		377	208	585 ¤
1976		321	215	536 ¤
1977		251	290	541 ¤
1978		312	288	600 $
1979		296	372	668 $
1980		296	372	668 $

Congress to study vital role of SA minerals to US

10 MAY 1983

By Neil Lurssen,
The Star Bureau

WASHINGTON — Pretoria's financial links with the United States are under pressure in Congress — but later this month a congressional committee will examine how important South Africa is to the US as a supplier of strategic minerals

The hearings have been called by the energy and natural resources committee chairman, Senator James McClure, a conservative Republican from Idaho

While the scope of the hearings will be worldwide, the evidence will be focused on Southern Africa — from where the US gets much of its most essential minerals

Senator McClure told Congress: "The price and availability of vital minerals such as cobalt, chromium and manganese are almost completely dependent on geopolitical events in Southern Africa"

He said the region had 95 percent of the world's chrome, 86 percent of its platinum, 64 percent of the vanadium, 53 percent of the manganese and 52 percent of the cobalt.

An adequate and secure supply of strategic and critical minerals was important to America's survival as an industrialised, democratic society, he said

The US was now 50 percent or more dependent on foreign sources for more than half of the 40 minerals considered essential for its economy.

"Global competition for strategic and critical minerals clearly has importance for our balance of payments, inflation and a host of other implications regarding national defence, foreign policy, and our domestic industrial base," he said.

Housing-aid move a 'relief'

Cape Times 12/5/83

Staff Reporter

THE announcement that the maximum-income limit for people seeking assistance from the National Housing Fund would be raised from R650 a month to R800, has been welcomed by a former general manager of a consortium responsible for the sale of Mitchells Plain houses.

The announcement was made in Parliament last week by the Minister of Community Development, Mr Pen Kotze, and will be effective from July.

This concession would bring relief to thousands of people, especially artisans in the building industry, whose income in many cases was slightly over the old limit, said Mr S Parker.

He said those people had been placed in a "unique situation where they earned too much to qualify for state-subsidized housing but earned too little to qualify for a building society bond".

Mr Parker called on prospective home-seekers to take advantage of the announcement and secure a house while prices were still "reasonable". He also urged employers to assist their staff wherever possible.

Most property transactions in Mitchells Plain are undertaken by the City Council on a "sale by substitution" basis and there are numerous advantages for the purchaser:

- The purchaser takes over only the balance of the bond from the original purchaser, provided he has met all the requirements of the City Council and the National Housing Commission;
- The bonds are heavily subsidized by the state and the average repayment is about R85 a month;
- House prices range between R16 000 and R24 000, depending on the suburbs;

UK links to speed up money deals

18/5/83 RDM 58

By HAROLD FRIDJHON

TWO discount houses, the Discount House of South Africa and the National Discount House, have formed international money broking companies with London partners, which should lead to speedier, and perhaps keener, foreign exchange transactions.

The Discount House has linked up with Harlow Meyer Savage to form Cheetah International Money Brokers, and the NDH Group, parent of National Discount, has formed Interforex with M W Marshall & Co

But the Discount House has stolen a march on its rival

Cheetah has been operative since last Monday week, transacting business which has already amounted to many hundreds of millions of rands while Interforex will only be on line to London by the end of June

National is awaiting the installation of its direct open line to London while the Discount House is already talking to the world through London from as early as 7.30am right through the day until the evening

Cheetah is in communication with all the world's major financial centres acting as intermediary in transactions in dollar/rands as well as the dollar against the mark, the yen, sterling and Swiss francs

As money brokers, dealing only with banks and authorised foreign exchange dealers, Cheetah preserves the anonymity of buyer and seller of foriegn exchange. No-one knows who is making a bid or offer, the principals' names are only revealed when a deal is consummated This means that they are in a position to initiate deals between South African banks without disclosing each bank's position as to whom might be long or short of any particular currency

Mr Colin Dunn, chairman of the Discount House, said last night that Cheetah had been established with the support of the Reserve Bank and that the company operated under conditions laid down in terms of the exchange control regulations

The main conditions are.

- Authorised dealers may not acquire interests in foreign exchange broking companies,
- Foreign Exchange brokers may not buy or sell foreign exchange for their own account;
- At least one party to every foreign exchange transaction must be an authorised dealer in foreign exchange in South Africa,
- Foreign exchange brokers will hold regular consultation with the Reserve Bank

Mr Dunn said the banks had indicated that they appreciated the facilities which Cheetah was providing Speed of communications was the heart of money broking and the open direct London made all the difference It was a costly investment - R80 000 a year -- and the banks were enjoying a facility which cost them nothing

Forex broking would also help to create a dollar/rand market abroad and there were banks overseas which were prepared to deal on this basis.

Because brokers were not allowed to take positions in foreign exchange, the capitalisation of Cheetah was only R100 000 which had been provided by the Discount House

At present the operation was being manned by staff from London but South Africans would be trained to take over from the expatriates.

Mr Graham Lund of the National Discount House said last night that foreign exchange broking added a new dimension to the increasingly sophisticated financial markets in this country

Life insurers (58)

Life insurers would face problems to invest abroad

Sjaal 19/5/83

By Duncan Collings

The trend towards less stringent foreign exchange regulations has raised expectations that South African institutions will soon be allowed to invest more funds overseas.

Reserve Bank officials themselves have recently hinted at this course following the highly-acclaimed relaxation of foreign exchange controls on non-residents earlier this year.

Embarrassing riches

The life insurance industry is one likely to benefit from any such relaxation.

The industry attracted funds for investment of nearly R13 million every working day in 1982 and is finding it increasingly hard to find suitable homes for this embarrassment of riches.

It recognises its obligation to invest within the South African infrastructure where possible, but also has a commitment to provide the best return for policyholders.

Investment in South Africa does not always offer this.

But any freeing of restrictions on offshore investments is not likely to see a flood of funds moving out of the country unless the rules and regulations governing the industry are changed at the same time.

Small proportion

Mr John van der Linde, general manager of Commercial Union Assurance, says that in terms of the Insurance Act local companies must hold assets in South Africa sufficient to cover their rand liabilities and "all our policies are written in rands".

Because of this, only a relatively small proportion of total assets would be available for investment overseas.

Industry sources estimate that five to 10 percent of total assets could be freed for investment offshore. The industry's total book value assets at end-1982 were about R18 000 million, which means that R900 tod R1 800 million could find a home overseas.

But investing overseas would require levels of expertise not generally found locally and some feel the industry should "look carefully before it leaps" into international investment.

Life insurers, apart from the stock market and prescribed government stocks, have generally favoured commercial property for investment.

Such investment overseas would offer no benefit over what is available in South Africa, they say.

Speculation in currencies is equally unlikely because of the high expertise required. And the need to act swiftly — sometimes on an hour-by-hour basis — goes against the grain for an industry that has always looked for long-term growth investments.

This leaves among traditional investment mediums the commodity markets and overseas stock exchanges or government bonds.

Expertise needed

To invest in any of these, says Mr van der Linde, the industry would need the services of local experts.

If this were to happen the insurance companies with strong overseas connections or parentage would be in a better position than the purely South African companies.

As the South African companies - Old Mutual and Liberty for instance — control by far the biggest slice of the market and have the greatest sums available for investment, Mr van der Linde does not foresee a scramble to take advantage of any relaxation.

Rather it is expected that any trend towards overseas investment would be a slow but steady one as expertise builds up.

This applies particularly while the world recession continues.

Worldwide spread

But if, as expected, the major industrialised countries start to recover this year, overseas investments could become more attractive and offshore investment more tempting to life insurers.

Mr van der Linde says that, all other factors being equal, insurers could look for a geographic spread of investments worldwide and does not see any single market being favoured.

But traditional "home" markets such as Britain and the US would be natural first options.

Greater Soweto community councils: loan

*16 Mr G B D McINTOSH asked the Minister of Co-operation and Development:

(1) Whether an overseas loan was negotiated by the Greater Soweto community councils in 1982; if so, for what (a) amount and (b) purposes;

(2) whether the funds so obtained are held in a special account; if so, (a) what is the nature of, and (b) who authorizes withdrawals from, such account;

(3) whether any payments have been made from this account to the consultants conducting the aerial survey of Soweto; if so, (a) how many, (b) on what dates and (c) for what amounts in each case?

†The MINISTER OF TRANSPORT AFFAIRS (for the Minister of Co-operation and Development):

(1) Yes

(a) 150 million dollars

(b) For the upgrading of civil services in Greater Soweto.

(2) Yes

(a) The nature of the account is a trust account managed and controlled by the project agent (Volkskas Merchant Bank) on behalf of the overseas banks.

(b) The process of authorizing withdrawals commences with the project engineer followed by the resident engineer (both from Van Wyk and Louw) and finally by the Chief Engineer of the Roads Department of the Transvaal Provincial Administration.

(3) No, (a) (b) and (c) Fall away.

FTM 27/5/83

DATA PROCESSING

Banking interest

Standard and Barclays banks are eyeing a challenging but lucrative R20m/year market for computer processed weekly payrolls. They have not yet declared any intention to enter it, but their moves are being closely watched by the R100m computer bureau industry, which fears a threat to its livelihood

Both banks already process about 500 000 monthly salaries on behalf of corporate clients. But the service they perform could be extended from a pure banking service into data processing of salaries and wages

Potential gains for the banks are more accounts, both corporate and personal — particularly from black clients

Where companies employ enough people to justify the cost, automatic teller machines (ATMs) could be installed on company premises, enabling employees to withdraw their earnings at their workplaces

It would further stimulate use and acceptance of ATMs, which banks consider far more cost effective than human tellers It could also encourage many employees who use shopfloor machines to open accounts in the bank concerned

Standard Bank GM Bill Jones says he can justify an ATM on a transaction rate of 4 500-5 000/month If everyone drew all their money every week, a company with a workforce of 1 000 would be the minimum to justify an ATM

Use of automatic tellers would greatly ease the banks' entry into the market Without ATMs, the economic viability could be less favourable. As one banking source notes, most weekly-paid workers like cash, and handling of cash is a costly, security-intensive business

If the banks could persuade weekly-paid workers that a banking account (which can be credited weekly through the Association of Clearing Banks) is as good as cash, then they could succeed

Bureaus contend that if banks carry out such plans in addition to Standard's and Trust's offerings of microcomputers linked to the banks' data bases they will be impinging on ground traditionally held by bureaus. And they fear that, to win market share, the banks will undercut already competitive prices and use the weekly service as a loss leader for other financial services

The industry body the Computer Services Association (CSA) intends taking up the matter with the banks to determine their intentions

Its main worry — and Jones concedes it — is that Standard "is not going into the bureau business to make money out of being a bureau."

Indeed, new accounts may not be the primary object All the banks have a lot of computer capacity which they have installed to power on-line inquiry systems and ATM networks. Much of that equipment is idle at night and its cost effectiveness could be improved if it was used to process weekly payrolls and do other batch jobs

Banking sources maintain that payroll processing is merely another service they can offer. Barclays has a committee investigating the issue John Pickering, assistant GM of Barclays' Customer Computer Services division, says "If we can provide a service equal to or better than (computer bureaus), we don't see why we can't get into it." Pickering and Jones admit that their present payroll operations are not profitable, but Pickering points out that Barclays almost broke even this year

One company that could get hurt is Fidelity Guards (FG), which makes up many of SA's pay packets Colin Fourie, FG's financial manager says "The banks could end up changing the nature of the cash-carrying business Instead of filling and delivering pay packets, FG will have to fill up the ATMs"

However, Fourie believes the banks may struggle to get the scheme off the ground He points to UK figures, which show that 40% of workers there are still paid weekly in cash. There is similar resistance to change among black workers in SA, he believes

Nedbank and Volkskas say they are not yet considering offering a weekly payroll service in addition to their existing monthly service, but both add that their systems could be expanded if the need arises

Clearly for the banks the idea represents a desirable step towards the cashless society they've been seeking for years

Shifting funds electronically from a corporate account into the company's employees' accounts will be technically easier when the ATM switch (which will link most banks and building societies) is installed later this year (*Business*, March 4) Then it will be a relatively simple task to let retail outlets, such as supermarkets and department stores use the network for direct debiting of sales transactions — if the Post Office allows it

Terror insurance cost shock

w/c ARGUS 28/5/83 SB

By HUGH ROBERTON
Political Staff

UNLESS they pay massive premiums, there is little South Africans can do to insure themselves and their property against urban terrorism.

In cases such as the Pretoria and Bloemfontein bomb blasts, insurance brokers say, the average policy would not provide cover against injury or damage and victims would probably have to bear the full costs themselves. Even the most expensive routine motor insurance policy would not cover the costs of, say, a car destroyed or damaged in a bomb attack.

Life insurance appears to be one of the few areas where insurance against urban terrorism might be feasible for the average citizen. According to insurance brokers, if a person is killed by an act of terrorism many — but not necessarily all — life policies would pay out. But brokers caution that the fine print of life policies should be checked meticulously.

Excluded

Most households and many businesses are covered against "riot" damage, but not against "rebellion", "mutiny", "revolution", "war", "invasion", or "military or usurped power", all of which are usually specifically excluded from policies.

What constitutes a "riot" for the purposes of insurance? According to Appeal Court judgments, there are five essential elements: more than two people must be involved, they must have a common purpose, there must be a start to the implementing of that purpose, the participants must have the intention to help one another by violence if necessary and there must be actual or threatened violence of such an order as to alarm at least one person of reasonable firmness.

In the opinion of insurance brokers, the bomb attacks in Pretoria and Bloemfontein would not constitute a "riot" in the legal sense.

Commotion

A close relative of "riot" insurance is insurance against "civil commotion". The difference, though, is that civil commotion is regarded as being a state or condition of things and it must be on an extensive scale. Again, brokers doubt whether it would apply to bomb attacks.

Motor vehicle, fire and all-risk policies do not usually cover damage caused by riots or bomb attacks. Although it is possible to get such coverage, premiums are high and, depending on who you are and what you do for a living, even prohibitive.

Personal accident policies often exclude liability for damage or injury incurred as a result of acts associated with civil disturbances or political confrontation. So, brokers urge, check the fine print in your policy and consult an insurance lawyer if there is the slightest hint of doubt.

Rare

Insurance against damage or injury specifically caused by bomb attacks is "extremely rare" according to one broker, who remarked: "I doubt whether there would be more than one or two of my clients who would be in the market for this. The premiums probably would be astronomical and they would have to be underwritten in London or New York. It is possible that such policies may have been issued, but in my 30 years in this business I have never heard of such a case."

Many brokers believe the Government should pick up the tab for damage to homes and businesses caused by terrorist acts.

"In Israel, where they have had a terrorism problem for generations, the government pays out in cases such as bomb attacks," one said.

Rough

"And in Britain during the war, the government paid compensation for damage caused by bombing." She suggested an additional tax levy and a special fund to cover South Africans "in what might be a rough period ahead".

In 1977 a Randburg firm of insurance brokers introduced a comprehensive policy against disability caused by urban terrorism. But the policy excludes liability in cases of "war, invasion, acts of a foreign enemy, hostilities whether war be declared or not, civil war, rebellion, revolution, insurrection or military or usurped power".

As such, brokers argue, it would have been of little use to victims of the Pretoria and Bloemfontein bomb attacks, since these could be regarded — depending on who was interpreting the fine print — as acts in a civil war, a rebellion, insurrection, or the acts of a foreign enemy.

GOT IT!

FOUR ACES, ONE DEAL ..

How Big 4 pulled off

By FLEUR DE VILLIERS and DAVID ROSS

FOUR of South Africa's top business heavyweights this week created a mammoth, multi-million rand empire which will provide South Africans with much of what they eat, drink and wear.

The package is believed to represent the biggest cash-for-shares deal ever on the Johannesburg Stock Exchange.

The deal involved two nail-biting weeks in London in which the South Africans faced one of the world's most powerful businessmen, whose international sales top $15-billion a year.

The four South Africans were Tony Bloom, chairman of the Premier Group, Donny Gordon and Michael Rapp of Liberty Life, and Gordon Waddell of JCI.

Across the table was Gary Weston, chairman of Associated British Foods, whose company has for the past 20 years held a controlling 52 percent stake in South Africa's giant Premier Group.

It is believed that the Liberty Life-JCI-Anglo American consortium will eventually — once the minorities decide whether to accept or reject a R25-a-share offer — control up to 70 percent of Premier.

External

MUST enter in each question which it has (1) and

disqualification and to poss
Varsity

The Premier food empire has grown in four generations from a milling company founded in Johannesburg's Newtown and built up by Mr Bloom's late father, Joe, to a giant corporation which controls everything in the food chain from animal feeds to poultry, margarine and baking.

It also controls, through Gallo, a large slice of South Africa's entertainment and publishing industry. Gallo recently merged with the Argus-controlled CNA in a new company in which Premier acquired a 50 percent stake.

In the first wide-ranging interview he has given since news of the Premier takeover astonished South Africa's financial world on Friday, a "delighted" Mr Bloom said that he had been thinking about the move for about a year.

"Premier is a strategic company," he said.

□ To Page 2

Blue chip

It is regarded as one of the deepest blue chips on the JSE lists. That view, in part at least, results from SAB's strategic ability to benefit further from the growth in disposable incomes of blacks.

While the deal has sparked speculation about how Premier will exercise its new power in the brewing colossus, Mr Bloom said yesterday: "We have neither the ability nor the desire to exercise management control of SAB."

Control of the Premier Group, which with a turnover last year of R1 750-million, is the biggest single consumer of South African agricultural products, will cost the Liberty Life-JCI-Anglo American consortium a cool R337-million in cash.

And with that deal — which was dramatically unveiled on Friday — in their pocket, the four Johannesburg men promptly turned Premier into a 34 percent holder in the even bigger South African Breweries.

● SAB, through its approximately 300 subsidiaries and associates, has a beer monopoly in the Republic, and other interests which range from Southern Sun Hotels to retail chains, from furniture to footwear.

● SAB, which ranks third on the list of the Financial Mail's top 100 companies, had a turnover last year of R4 350-million.

It owns:

● The beer production and distribution monopoly in SA.

● Control of such consumer-oriented companies as OK Bazaars, Afcol (furniture manufacture), Amrel (furniture retailing), Edgars (clothing retailing), and Southern Sun (hotels and gaming).

Big four take over control of Premier

□ From Page 1

"As the largest consumer of South African agricultural produce it is a national asset and it should be in South African hands."

Mr Bloom's own "buy South African" campaign took off in the greatest secrecy a month ago when he went to Premier's two most important minor shareholders, Liberty and JCI, for help in bringing Premier home.

His choice of friends is significant — JCI and Liberty Life were respectively also the largest and third largest holders of SAB shares.

In approaching the two companies he was also following a recent South African pattern in which financial institutions, mainly insurance companies and pension funds, have become the dominant shareholders in nearly every blue chip company on the Johannesburg Stock Exchange.

But Mr Bloom says that the magnitude of the deal was such that it could only have been contemplated by major institutions

Bargaining

Preparations for the deal culminated in two weeks of top-secret, hard bargaining in London which pitted Messrs Donald Gordon, Gordon Waddell and Tony Bloom against the extremely tough Gary Weston.

Mr Bloom made two trips to London in one week, and in the second week Michael Rapp, MD of Liberty Life, took over to negotiate the details.

"Negotiations were extremely difficult and sensitive," says Mr Bloom, but he makes it clear that in the South African team, Gary Weston had four "tough and canny" adversaries.

He stressed that Associated British Foods had no wish to sell, that there had been no move on the part of the British company to divest itself of its South African assets.

Major interest

Mr Bloom also disputed the contention that the double-edged deal had given Anglo American, the third leg of the consortium, a major interest in the giant SAB.

It appears that through both its 40 percent holding in JCI, and its direct investment, Anglo will eventually hold no more than 25,2 percent of Premier and only 8,5 percent of SAB.

Anglo American, which was not involved in the London negotiations, was brought into the transaction because of the massive reverse gearing which involved a negative cash flow of R65-million.

"The sheer magnitude of the deal meant that no company on its own would have been able to carry it," Mr Bloom said

Anglo, however, had played a very low-key role.

Replying to accusations that the move represented a significant reduction in competition in a South African market which Liberty chairman Donald Gordon predicted last year would soon be "controlled by only six companies", Mr Bloom said that despite its size, Premier's R1,7-billion turnover was only 10 percent of the annual turnover in South Africa's food industry.

Competitors

Major competitors include Barlows (C G Smith-Tiger), Anglo-Vaal, a clutch of multinationals such as Unilever and Nestle, and the agricultural co-operatives.

On the fact that the move simply strengthened the dominance of the JSE by major financial institutions such as insurance companies and pension funds, Mr Bloom said such was the size of a major modern company that only institutions had the cash to ensure control.

"This is a feature of stock exchanges all over the world.

"But in South Africa there are far fewer institutions which control the market, and there is exchange control which tends to bottle up funds inside the country," he said.

Fewer

In a marked difference to other financial institutions which dominate the JSE, both Liberty Life and JCI are public companies which are accountable to shareholders

Following Friday's announcement, SAB's MD, Mr Dick Goss, put out a non-committal statement to the Press.

It's effect was that SAB would have to consider implications of the deal further

OVERSEAS

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UN MOVED

moved by bombs

(84) 58 S Times. 29/5/83

By Neil Behrmann and Elizabeth Rouse

INTERNATIONAL bankers, brokers and investors are so far unconcerned about the recent bomb attacks in South Africa and the incursion into Mozambique.

But they caution that if violence grows there could be an increase in sales of South African securities and tighter lending requirements.

The feature of market response to the recent acts of violence in South Africa is that international investment opinion was unmoved.

Although the Financial Times gold share index has fallen by 7,5% since the first incident, it is apparent that investors are worried about the disappointing performance of the gold price and the strength of the dollar rather than the question of political risk in South Africa.

This is a vast difference to attitudes in the years following the riots in Soweto in 1976. If such violent outbreaks had occurred then, foreign sales of South African shares would have increased rapidly and around 20% would have been lopped off the share index.

After a canvass of several London and New York brokers and bankers, it is evident that their clients were hardly concerned about the bombs and the defence force's move into Mozambique.

The most cautious comment came from Mark Harris of Williams de Broe Hill Chaplin, London brokers which have long-standing historical links with the Johannesburg stock market.

He said that the violence made investors aware that gold shares were overvalued in relation to the gold price.

Even so, Messrs Harris of Williams de Broe, Charles Brittain of Galloway & Pearson, David Drummond of Strauss Turnbull, David Fitzpatrick of Merrill Lynch, Julian Baring of James Capel and Andre Sharon of Drexel Burnham Lambert in New York all emphasised that gold-price performance was the major factor.

The bulls believe that the share market will stabilise and rise because they are optimistic about the gold price.

The bears are worried about the share market because they fear that the bullion price will fall.

The main concern is that South African share prices have increased dramatically since June last year, but by the same token some of the more cautious brokers and investors are expressing the same concern about Wall Street, London and other international markets.

Andre Sharon said important factors influencing equity markets were oil prices, inflation and interest rates. All these factors were highly favourable for stocks and bonds, and unfavourable for hard assets such as gold.

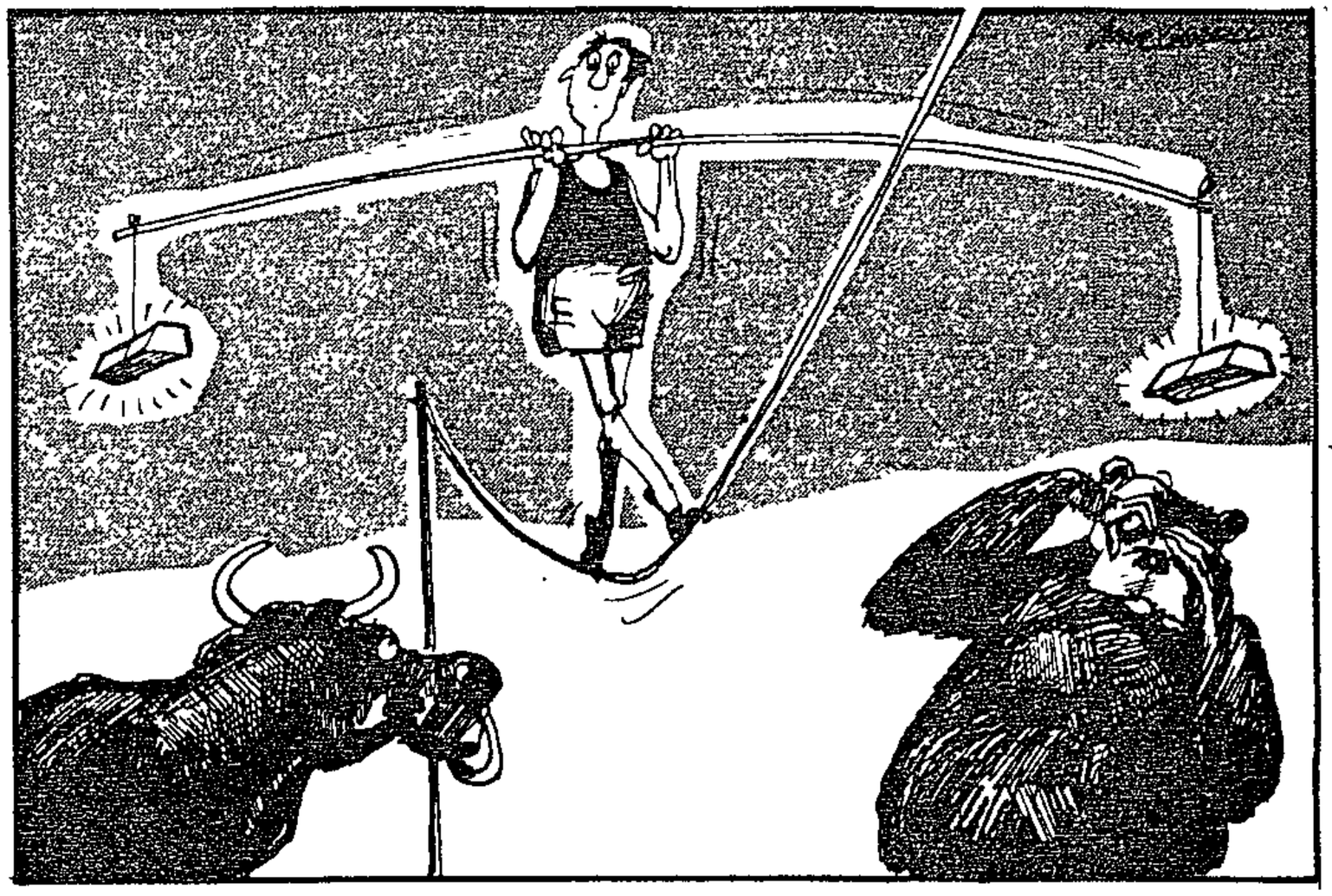
"Never have circumstances been so fortuitous for real growth in major industrial economies, which have shown negative growth in the past three years."

Mr Sharon forecast that if the oil price stayed in the $28-a-barrel region it would mean an injection of 1% real growth in the gross national product of industrial economies within 12 to 18 months and a reduction in the inflation rate of 0,8% to 1%. Gold would then lose out.

The other side of the scenario, favourable for gold, was a steep decline in the oil price, say to $15-$19 a barrel, and continued increases in major industrial countries' monetary supplies.

That would imperil the UK, for example, and precipitate a banking crisis, because countries would default on loans.

Continued increases in monetary supplies would send inflation into double-digit figures by the third quarter of 1984 and gold could take off, said Mr Sharon.



More concern over poor gold price

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underlining, emphasis or for diagrams, for which pencil may also be used.

3. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book (s) are used.
3. No part of an answer book is to be torn out.
4. All answer books must be handed to the commissioner or to an invigilator before leaving the examination.

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

FINANCE - GENERAL

1983

JUNE — DEC.

Thousands

s may have been misled about SADF connection

S. Times

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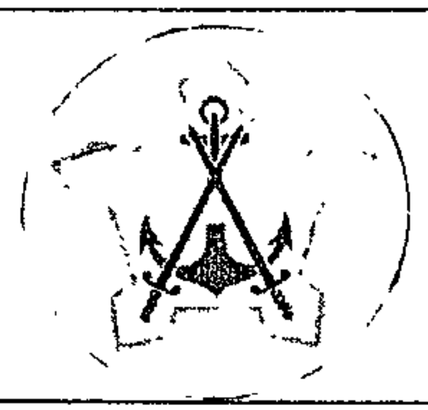


The insignia which marked the launch of 'Defence Bonus Bonds'

Mr Horwood has not announced a name change for bonus bonds

By BRIAN POTTINGER

TENS of thousands of South Africans have bought Defence Bonus Bonds in the belief that their money goes directly to the Defence Force.

Instead, proceeds from the R560-million Bonus Bond kitty are used for all government departments. Now, amid a mounting uproar, the Government is considering dropping all reference to the Defence Force in its Bonus Bond scheme. Startling claims were made this week that marketing had misrepresented the true nature of the Bonus Bond scheme.

No official decision has yet been taken by the Minister of Finance, Mr Owen Horwood, to drop references to the SADF in the marketing literature of the Bonds, but Treasury officials confirmed this week that for some time they had been trying to steer away from "misapprehensions" created by the initial marketing strategy

They admit that the marketing of the bonds may have misled the public.

The official Opposition has called for a review of the Bonus Bond system in the wake of the revelations.

Finance officials said this week that the bonds were really loans by individuals to the State and, in terms of the Exchequer and Audit Acts, all yields from loans ended up in the Exchequer

"It all goes into the Gold Pot," said Mr R P Wronsley, secretary of the Treasury

Indirectly

From this "Gold Pot" the various departments are allocated money through the Budget so that, although the SADF indirectly draws benefits from proceeds of the hefty R550-million in the Bonus Bond kitty, so do several other State departments.

The most finance officials can say is that the bonus [illegible] relieve pressure on the Treasury and make the release of money for defence purposes easier.

Concern over the Bonus Bond scheme came to a head recently at a meeting of the Parliamentary Select Committee on public accounts.

Mr Harry Schwarz, the Progressive Federal Party's chief spokesman on finance, claimed nine out of 10 people were under the impression the money from bonds was being used for defence purposes.

Finance officials at the meeting agreed and said it was the residue of the impression created when the scheme was launched.

Misleading

The department had for some time stopped referring to Bonus Bonds as "Defence Bonus Bonds" so as not to be misleading.

Mr Wronsley described the concern over the Bonds as a "non-issue" and said the budget showed defence was getting a fair slice of State resources which included proceeds from the Bond scheme.

Mr Schwarz has called for a review of the Bonus Bond system and suggested there should be two sorts of schemes: a general scheme for general revenue and one or more special schemes for specific items such as defence or social services

"Whatever is done, it must be made absolutely clear to the public what they are buying."

The Bonus Bond scheme was launched in 1977 at the suggestion of General Neil Webster, then director of resources, SADF, amid fierce criticism from the Afrikaans churches that the scheme amounted to a lottery

For years bonus bonds

☐ To Page 2

Bond cash goes into 'Gold Pot'

□ From Page 1

have been marketed with full use of SADF insignia and numerous calls to the public to support the defence effort by subscribing

When announcing the Defence Bonus Bonds in Parliament in March 1977, Mr Horwood said the scheme would make an attractive investment for the private investor "to encourage him to make a greater contribution to the financing of our sustained defence effort".

Shortly afterwards Mr P W Botha, then Minister of Defence, said he would push through with the scheme as it was his duty to see the necessary facilities and armaments were made available for the fighting forces.

At a Port Elizabeth meeting the Mr Botha said no country could be self-sufficient in armaments and for this reason "the successful handling of the marketing of Defence Bonds is of cardinal importance".

In June Mr Horwood told Parliament he hoped the Defence Bonus Bonds would "make a great contribution to the financing of our defence needs in particular".

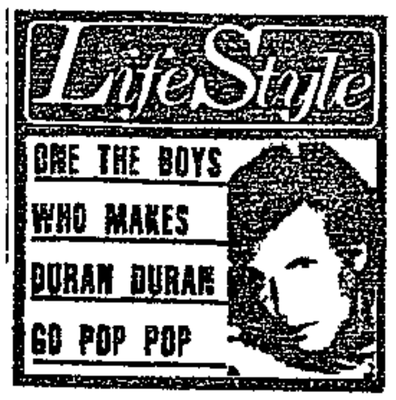
When the bonds were launched in 1977 they were accompanied by military parades throughout the country and SADF personnel took an active part in the promotions work for the scheme.

As recently as last year Mr Horwood referred in his Budget speech to the bonds as Defence Bonus Bonds.

Mr Wronsley said this week the Department of Finance had not believed it was necessary to make a public statement about the dropping of the SADF connection.

"I think the whole argument is pointless. If the proceeds from the bonus loans were not available the Treasury would have to find money from other sources to meet the SADF budgetary requirements In that way one can argue that all the proceeds from the bonds might indeed go to defence."

He said it would make a budgetary nightmare if specific taxes or loans were allocated for specific purposes



Disability payout curb

INSURANCE BROKERS OBJECT TO 'FREE-MARKET INTERFERENCE'

By Alec Hogg

FROM the beginning of next month, individuals will be restricted in their ability to take out disability insurance

A decision was reached at an until-now secret meeting of the Life Offices Association (LOA) in November last year to restrict the benefits available to anyone who is disabled to the lesser of a lump sum of R300 000 or 75% of the monthly income earned at the time of disablement.

Several independent insurance brokers have approached Business Times with the complaint that this is an unwarranted restriction which will inhibit their ability to do the best for their clients.

The brokers also believe that this is a distinct interference in the free market by the monopolistic life-offices body. Every life-assurance company is a member of the LOA.

Because of the possibility of being adversely affected, the brokers have all preferred to remain anonymous.

Their major beef is that the individual can now no longer plan adequately for the contingency of being disabled.

■ ■ ■

One broker pointed out that someone earning R2 000 a month would in future be able to receive only R1 500 if disabled.

He added that "the staff in the respective institutions have no knowledge or profess to have no knowledge of this 'new product' or the destructive effect it will have on John Citizen, despite my strong probing".

"Is this because they are scared of what they are going to spring on the individual?"

The life offices maintain, however, that what they are doing is in the best interests of the individual.

Old Mutual Theo Hartwig explained that one must not allow it to be more profitable for the individual to be unemployed, as this gives him little incentive to return to work.

Mr Hartwig likened the position to one's motor vehicle:

"If you were allowed to insure your car for double its market value, the incentive to write it off and then claim the inflated insurance would be great.

"Similarly, if someone is earning the same as, or more than, when disabled than when he is working, most individuals will prefer not to go back to work," he added.

To complicate the matter, many disablements are subjective. It is impossible to prove that someone's backache is not bad enough to stop him working, while the temptation for a heart-attack victim to take more time away from work than is really necessary is great when his income is hardly affected.

Senior general manager of Anglo American Life Bill Haslam pointed out that the experience from other countries where no limit on disability insurance was applicable was that the level of claims rose sharply in times of economic recession.

He said: "The experience in Australia, after the introduction of a State scheme caused the majority of the population to become over-insured, was that the incidence of claims rose sharply.

"In South Africa, we are ensuring that an individual does not profit out of being disabled."

■ ■ ■

Mr Hartwig stated: "If a person can profit out of an insurance company, he will. This is not a malevolent effort to impose the insurance companies' will on the individual, but rather to keep a more equitable system."

Although independent brokers reckon that this is a cover-up of the real situation, it is difficult to argue with the point expressed by life offices that if the free-market position ran its full course it would adversely affect the individual.

As Mr Haslam said: "If there were no limit on the amount of disability insurance, the incidence of claims would probably increase sharply, and this would eventually have to be passed on to consumers through higher premiums."

Political-risk cover pitfalls

By Julian Kraft

THE system of covering political risk set up by the Government after the 1976 riots is not working effectively, causing policyholders to seek insurance cover elsewhere.

Many companies and individuals are bypassing the machinery provided by the Government — held to be rigid, unwieldy and inadequate — and are turning to insurers abroad, notably Lloyds of London.

Several brokers interviewed by Business Times this week argued that policyholders were not being properly catered for by the present local system.

One broker, David Hersch of Cape Town, cited an example involving a client company which was a victim of the recent Pretoria bomb disaster.

The company's claim is in dispute because it was not covered under the Government's SA Special Risks Insurance Association (Sasria) scheme, apparently because the company's written request for renewal of the policy was mislaid by the insurance company.

"If the political risk element had been part of the company's general risks policy it would have been renewed automatically

"All the necessary machinery is available within the insurance industry itself to cater for this without leaving insurance companies themselves exposed to an undue amount of risk," said Mr Hersch.

Another example involves the Bloemfontein bomb blast, where the main victim, Walter Volker, owner of the car under which the bomb was placed, has been told by his insurers that he is unlikely to collect a cent in terms of his comprehensive car insurance. The car is valued at R5 500.

"If consumers were not obliged to take out separate political risk policies but could have this cover as part of a package, more people would find it worth their while to get such cover and more money would flow into the Sasria fund," said Mr Hersch

Further objections to the Sasria scheme in its present form are.

- Having political and general risks under separate policies tends to lead to disputes between the respective insurers over payouts
- Sasria's cover is confined to material damage but does not cover consequential damage, which is usually greater
- Sasria is inflexible as it covers 100% of material assets but does not permit "first loss" or "excess" clauses for policyholders unable to afford full insurance or wanting better rates

A Johannesburg firm of brokers, Political and Credit Risk Managers, specialising in political-related policies, is one of the first companies to come into the market to offer Lloyd packages which overcome the pitfalls of the local system.

The company's managing director, Ian McIntyre, said all the above objections were major deterrents to using Sasria.

"It means that the policyholder, who is the most important element of the whole business, is not getting the cover he needs and is in danger of not getting his money when he makes a claim," he said.

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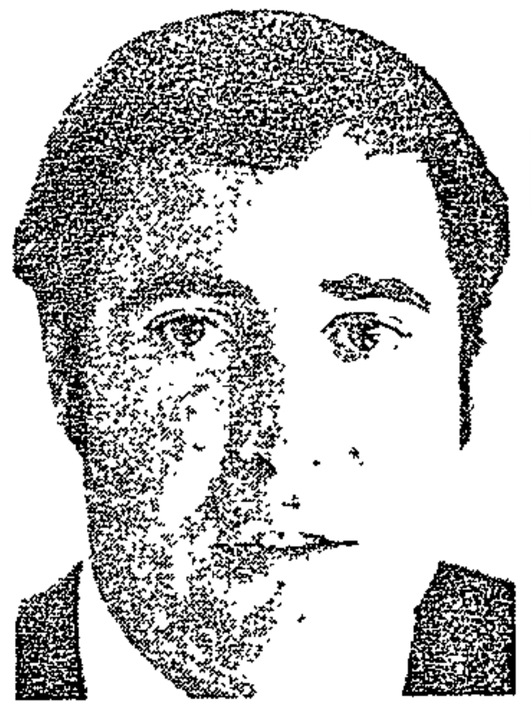
conomic Spotlight

7/6/83 Star

Relaxing foreign exchange curb on residents must wait



Further freeing of exchange controls will depend on such factors as stronger foreign exchange reserves, with improvements in the mechanism of the foreign exchange, money and capital markets, says Mr Michael Brown, chief economist at Davis Borkum.

The interim report of the (De Kock) Commission of Inquiry into the Monetary System and Monetary Policy in South Africa published in January 1979 set in motion a process of evolutionary reform in the nation's foreign exchange market.

Having changed the securities rand to the financial rand in early 1979, and allowing certain transactions to be undertaken by residents in this market, the Reserve Bank in February 1983 abolished the financial rand for non-residents.

This was a step towards the Commission's goal of "a unitary foreign exchange market, subject to official intervention and limited exchange control".

The easing of exchange controls on February 7 has raised expectations of further relaxations for residents. The possibility of a "Pandora's box" of funds from South African institutions seeking portfolio investment opportunities abroad has at least made the airlines serving this area wealthier as flocks of international investment advisers have descended on the local scene hoping to attract their share of South African funds freed from exchange control.

It seems that their efforts, while ultimately not likely to be in vain, are at least a little premature in present circumstances. It should also be remembered that, for non-residents, the move from the securities rand to the financial rand and its eventual abolition took more than four years

Dr C L Stals, Senior Deputy Governor, South African Reserve Bank, in reiterating its commitment to an evolutionary process of foreign exchange control reform at a recent address to the Johannesburg branch of the Economic Society, suggested that these pre-conditions would have to be met before further relaxations:

1. SA foreign exchange and domestic money markets should be able to handle the substantial and abrupt changes in flows of capital and commercial funds should the market be opened up. The technical improvements that would have to be effected in the markets would probably comprise:

(a) Development of a market-related forward exchange market as recommended by the De Kock Commission;

(b) Broadening of the rand/dollar spot market by allowing all export and import proceeds to flow through this market. This would encompass paying gold mines in dollars for bullion sold to the Reserve Bank;

(c) Improvement of the transmission mechanism by enabling external dealings and holdings of rands to the Euro-Rand market. Recent changes allowing authorised foreign exchange dealers to hold a total balance of R600 million abroad are a step in this direction;

(d) Domestic interest rates should become more subject to market determination and able to react rapidly to volatile capital flows and changes in external conditions. The exact steps envisaged there are still subject to the deliberations and recommendations of the De Kock Commission, although Dr Stals did hint that certain changes in the money and capital markets could be implemented before the finalisation of the Commission's report;

(e) Current restrictions on non-residents such as blocked rand accounts and restrictions on non-resident company borrowings in South Africa will need to be abolished

(2) The SA balance of payments would need to improve further — largely subject to an acceleration of the present anaemic rate of international growth, further improvements in the gold price and the yet to be assessed effects of the drought on domestic growth and balance of payments proceeds;

(3) Foreign exchange reserves would need to be built up substantially to cope with the effects of a volatile gold price, non-resident activities on the JSE and the leads and lags in exchange markets brought about largely by the borrowing of local operators in international capital and trade finance markets.

Some criticism has arisen in that a country such as South Africa, which is relatively starved of capital, should not run the risk of becoming an exporter of capital.

Proponents of this view argue that the rate of capital formation in South Africa is in any event slowing. Calculations by the Bureau for Economic Research, Stellenbosch, bear this out. The savings ratio to GDP has declined from an annual average of 11,3 for 1960/1969 to 9,8 for 1970/1979 and is expected to be well below this for the coming decade.

The lack of internally-generated capital formation has resulted in a fall in the rate of growth of total fixed investment from 8.3 percent during 1960-1970 to 4,9 percent for 1970-1980.

More disturbing, the long-term growth rate in private fixed investment has fallen from 7,9 to 2,8 percent for the same periods.

The declining level of capital formation and investment has been one of the main reasons for the fall in the long-term growth rate for the SA economy from close to 6 percent in the 1960s to below 4 percent for the 1970s.

A large measure of SA savings are contractual – ie savings in the form of pension and insurance contributions, etc. A significant degree of domestic capital formation, therefore, rests with major life insurance institutions.

Total assets of long-term insurers and private pension and provident funds in 1981 were R26 300 million. Present projections are that the incremental cash flows accruing to these funds in 1983 will total about R6 000 million.

The risk exists that a significant portion of these assets or cash flows could be invested abroad, for whatever objectives, and thereby reduce even further the retention of capital accumulation and, therefore, funds available for investment in South Africa.

The opposite view would be that, if SA residents were unable to invest abroad, the flow of funds would tend to be cyclical.

Advantage would be taken of the high returns available during the early stages of international upswings and funds thus committed would be repatriated at times of a downswing.

These types of capital flows would assist in the adjustment process, reducing liquidity build-up during periods of balance of payments surpluses and improving liquidity during periods of deficits.

It is not improbable, however, that domestic investors would hold a percentage of assets abroad, more or less permanently, in order to diversify portfolios. The authorities will, accordingly, need seriously to consider changes, of a monetary and fiscal policy nature, which will promote the level of savings in South Africa before enabling a portion of these savings to be exported.

In sum, before further relaxations in exchange control are considered, strengthening in the level of foreign exchange reserves, improvements in the mechanism and efficiency of the foreign exchange, money and capital markets and some experience of living with the recent changes will be required.

But the authorities are committed to a philosophy of a freer market mechanism and further relaxations will come — albeit these changes will probably be gradual when the time is considered ripe.

US ban on SA loans likely

By SIMON BARBER
Washington Bureau

WASHINGTON. — Despite strong objections from the Reagan administration, the House Banking Committee seemed certain yesterday to accept the Solarz amendment prohibiting US bank loans to South African, forcing US subsidiaries in the Republic to adhere to a strengthened version of the Sullivan principles.

The measure, which has already been adopted as a rider to the Export Administration Bill by the House Foreign Affairs Committee, was the subject of day-long hearings before the banking subcommittee on financial institutions, which must approve it before it can be sent on to the house floor.

The chairman of the banking committee Mr Fernand St Germain, a Rhode Island democrat, praised the legislation and bitterly criticised the seven major US banks invited to testify — Citibank, Bankers Trust, Chase, Chemical, Morgan, Bank of America and Wells Fargo — for failing to appear.

Demonstrating the depth of the administration's opposition, four senior officials, from the State, Treasury and Commerce departments and the export-import bank, were sent up to to fight the rider.

The Deputy Assistant Secretary of State for Africa, Mr Frank Wisner, argued that, while the US "strongly endorses the Sullivan code, we view voluntary adherence as the best vehicle for exercising corporate responsibilities in South Africa.

"Turning the code into a congressionally mandated legal requirement for doing business in South Africa would destroy it," he said.

Supporters of the measure, including the Rev Leon Sullivan himself, insist that only 147 of the approximately 300 US-controlled firms in SA have signed the principles

Mr Wisner pointed out that those companies accounted for 71% of all employees potentially covered by the Sullivan code.

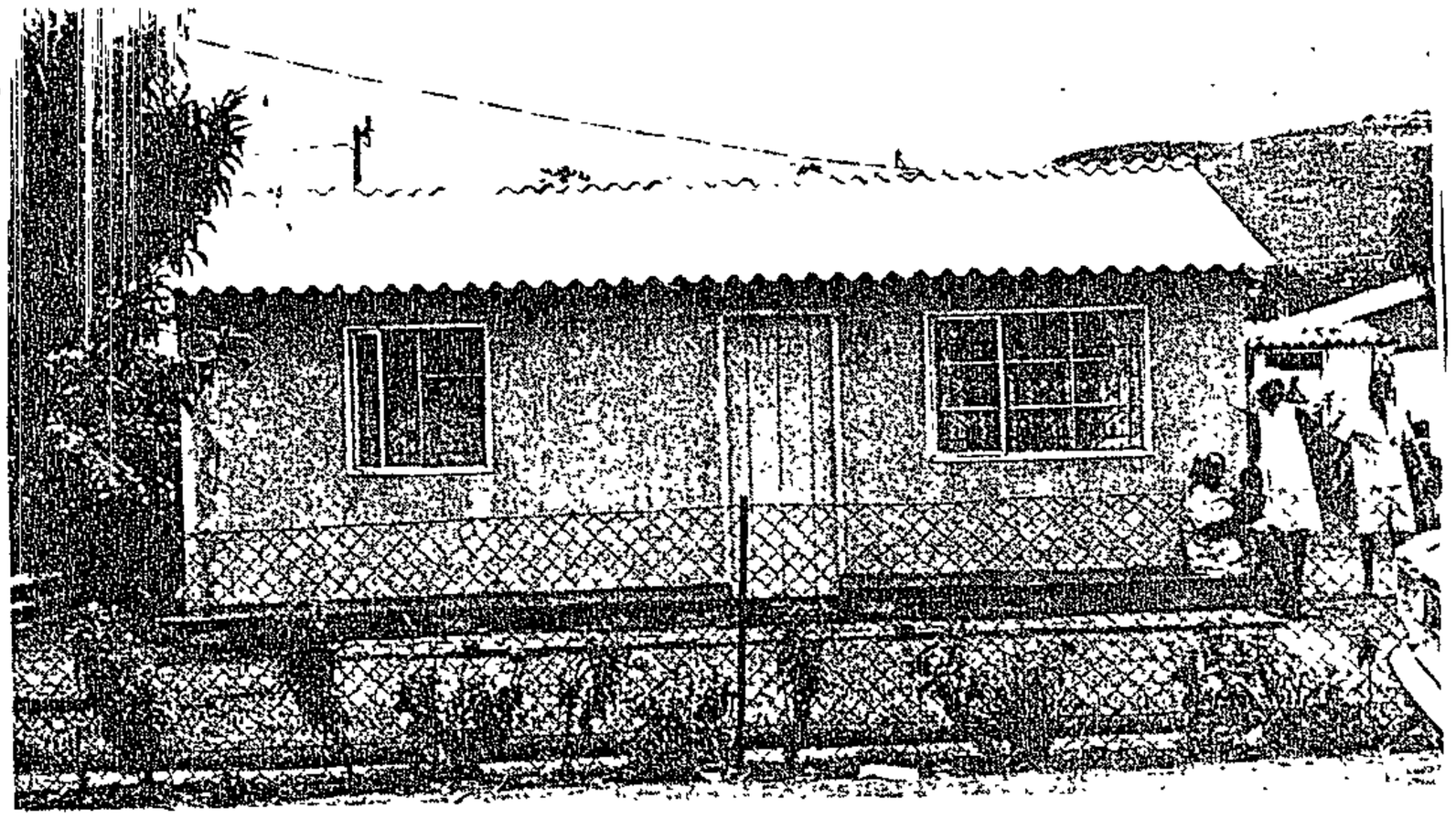
Mr Robert Cornell, the Deputy Assistant Secretary of Trade and Investment Policy at the Treasury, argued that outlawing the import of Krugerrands to the US "may be illegal under the general agreement on tariffs and trade (GATT)", and would not prevent the purchase of South African gold in other forms.

Restrictions of US bank lending to South Africa "could be viewed as evidence of US readiness to use capital controls for political ends and impair the credibility of our international monetary and financial policies".

Mr William Draper, president of the Exim Bank, which provides government financing for US companies wishing to sell their products overseas, and which is already prohibited by the 1978 Evans amendment from supporting any transaction that might be construed as maintaining apartheid, insisted that further restrictions could only diminish US commercial competitiveness.

Such opposition notwithstanding, the Democrat-controlled banking committee was more disposed to accept yesterday the argument of Mr Sullivan, who said that, while his code had been effective, it has not been able to get the desired results quickly enough.

Mr P W Sceales ... wanted to help long ago.



Loans even for boxes like these.

UBS moves to help 'matchbox' buyers

NOW here's a big helping hand.

The United Building Society, the largest in the land, has made two important decisions which will help lower-income people, especially those who want to buy their houses in the State's Great Housing Sale which starts on July 1.

● The UBS will grant loans on basic 51/6 houses. This means the society will accept these little four-roomed houses with their outside toilets and asbestos roofs and brick or cement block structure, as security for mortgage loans — provided of course the construction is sound.

In the past building societies have insisted on traditional white housing standards before granting mortgage loans. They then moved on to granting loans on township houses provided people improved those houses to meet minimum standards. Now the UBS has gone even further and will consider lending on unimproved matchboxes.

Of the 500 000 houses coming on sale for all races, 300 000 are in urban black areas, and most of them are 51/6s. It is expected these houses will sell for less than R1 400 in Soweto.

● Where the joint income of husband and wife is below R350 a month, the UBS will consider not only the monthly repayment such people will have to make to the building society, but also their monthly payments for site and services. Where building societies usually insist that bond repayments must not exceed 25% of the person's income, the UBS will, for this very low-income group, see that the bond repayments plus site rental and service charges do not exceed 25% of the joint income.

As HOMEFRONT pointed out recently, people have to go on paying site rental and service charges to the administration boards whether they buy or rent their houses. These charges may be far higher than the house rent or loan repayments. (Monthly accounts for metered use of water and electricity remain separate as they are living expenses, like food, clothing and transport.)

"While the United's decision to enter the field of mortgage finance for low cost housing is a major breakthrough in the critical sphere of black housing, it will also be extended to whites, coloureds and Indians," the society said in a statement yesterday.

"Applications will be treated on merit."

Mr P W Sceales, chairman of the UBS, advocated building society loan finance for black home ownership long before the country's laws allowed it. Now, provided applications meet UBS requirements, the society is trying to help even the humblest home-buyer.

No "Home Ownership"

HOUSES sold in black townships during the Great Housing Sale will be available ONLY on 99-year-leasehold.

A senior spokesman for the Department of Cooperation and Development told HOMEFRONT yesterday that the sale houses could not be bought under the Right of Occupation or "Home Ownership" schemes run by the administration boards

This corrects previous information given by administration board spokesmen to HOMEFRONT.

Discounts of up to 40% are available to people of all races who buy their rented houses for cash — ie with their own money or with loans from a building society or their employer.

Exchange contr going 'in month

S. Times

58 12/6/83

Business Times Reporter

EXCHANGE control is to be abolished completely and permanently.

The abolition will not occur immediately and the powers-that-be are talking of it in terms of months, not years.

But, because the Government has no intention of reversing relaxations, it is likely to proceed in steps, sure that each one works before getting to the ultimate objective of a totally unrestrictive flow of funds to and from the country.

A panel of economic authorities headed by the Director-General of Finance, Dr Joop de Loor, has told fund managers controlling billions of rands that total and permanent exchange-control freedom is a long-term priority.

"The question is not if, but when and how."

Dr de Loor told Business Times that, barring unexpected economic setbacks, the process of relaxation would take "months rather than years".

Addressing top local and foreign investment managers and bankers at a seminar in the bushveld organised by stockbrokers Simpson Frankel Kruger, Dr de Loor and his colleagues spelt out preconditions for foreign-exchange freedom and possible ways of achieving it.

JOOP DE LOOR ... "Long-term priority"

QUESTION NOT IF, BUT HOW, WHEN, SAYS DE LOOR

The main preconditions are:

- Net reserves will have to improve still further and more short-term foreign debt will have to be repaid before further relaxation takes place.
- The new system of a unified rand and freedom for non-residents to withdraw investment funds must bed down — and be subjected to some rigorous testing.

Asked by Business Times whether there is a minimum gold price or net reserve figure at which greater liberalisation might be introduced, Dr de Loor said: "No, we are not so concerned about absolute figures at a given time.

"We would like to see healthy net reserves and to be confident that the balance of payments is in a medium-to-long-term uptrend."

This implies that the authorities would like to believe that gold is on a well-established upward track before the gates are opened.

The new unified rand system removed the financial rand, which acted as a shock absorber for the foreign reserves when non-residents disinvested from South Africa.

Now the reserves are directly affected by every cent withdrawn and capital movements have been "very volatile".

There have been large inflows on the capital account as the gold price has moved up and foreigners have bought shares, and large outflows as gold has moved down and foreigners have sold.

The authorities wish to see how the reserves cope with a major setback in the gold price or foreign-investment confidence before proceeding cautiously towards complete relaxation of exchange control.

Apart from bolstering the net reserves still further with balance-of-payments surpluses and repaying short-term foreign debt, "we would also like to see the money, capital and foreign-exchange markets develop further and become more sophisticated", said Bramie van Staden, deputy governor of the Reserve Bank.

To this end, if the gold price holds up, the panel said, it is highly likely that gold mines will be paid for their gold in US dollars, and that they will be able to hold or exchange these as they see fit.

One other precondition is a far higher level of personal savings in the economy.

Dr de Loor said the authorities would not act boldly, scrapping exchange control and then reimposing it. As each relaxation was introduced, it would be permanent.

And relaxation will not be subject to all kinds of conditions and red tape — hence the need to proceed with great caution.

Relaxation has already occurred in that non-residents are free to take money out of the country — and in the authorities' more liberal attitude to applications by South African companies to acquire companies abroad or set up foreign subsidiaries.

Once the mines are being paid for their gold in dollars — they will not be able to market their own gold, said Dr De Loor — a second probable step, assuming healthy net foreign reserves, would be permission for the big institutions — the life assurers, pension funds and mining houses — to invest a portion of their assets abroad.

To prevent speculation against the rand, only long-term investment will initially be permitted.

After this, the trio said, companies will be able to make portfolio investments.

Last of all, individuals will be permitted to move money in and out of the country at will.

Initially there will be maximum amounts but, provided economic circumstances permit, these will fall away.

Trial of strength averted

S. TIMES
12/6/83

By Alec Hogg and David Ross

ONLY heavy negotiating and an accommodating attitude by the Anglo American group this week saved the South African business community from a trial of strength which would have ranked in the same league as last year's Sanlam/Rembrandt debacle.

At one stage it appeared certain that SA Breweries chief executive Dick Goss, his deputy, Meyer Kahn, financial director Selwyn McFarlane, and executive directors Sol Kerzner (chief of Southern Sun), Ronnie Cohen (Amrel) and Ken Williams (beer division) would resign.

It was only after top-level negotiations which lasted well into the early hours of Wednesday morning that this potential disaster was averted.

The reason behind the near palace revolt at SAB was the structuring of a deal between the Anglo/Liberty Life/JCI consortium and the Premier Group.

According to the original announcement, Premier would obtain a 35% stake in SAB in exchange for the issue of new Premier shares to the consortium.

This would have given the food company effective control over a group which has three times its total assets, and makes more than treble the profit.

■ ■ ■

Now that the deal has been restructured, however, Premier will be divided into a trading and an investment company, with the trading operation expected to apply for a listing, in its own right, on the Johannesburg Stock Exchange some time in the future.

The investment company will hold a controlling interest in the trading operations of Premier (at present it has 100%) and the 35% stake which has been acquired in SA Breweries. Between them, Anglo, JCI and Liberty will control the top company.

The new arrangements appear to alter little of any substance in the deal.

Mr Goss has stated that his basic objection to the original deal revolved round the interest of shareholders and possible conflicts of interest between managements of Premier Group and SAB.

But it remains difficult to understand:

- What these conflicts of interests were.
- How they are removed by the new arrangement.

After all, Premier Group is not in brewing, hotels, furniture or retailing. Although the principal actors in the fray all aver that the new arrangement is a better one, in practical terms it is difficult to see how.

Yet another question is what motivated Mr Goss in concerning himself with ownership of shares in the company.

A director's job is to run the company in the best interests of shareholders rather than to worry about who the shareholders are. But clearly he believes that his stand was justified.

Premier Group chairman Tony Bloom will, with Mr Goss, be joint deputy chairman of the new holding company.

It has been rumoured that Mr Bloom might no longer be responsible for the day-to-day running of the Premier trading company.

"It's the first I've heard of it," he told Business Times. "There will be no change in the day-to-day running of Premier Group."

Overall, it appears that the new arrangement is cosmetic rather than substantial.

■ ■ ■

On the other hand, the appointment of Gavin Relly, chairman of Anglo American Corporation, as chairman of the new holding company suggests that Anglo's previous stance as merely a minor consortium member need not have been taken too seriously.

One cannot help drawing analogies between this clash and the one which occurred at Sanlam subsidiary Gencor last year, which ended in the premature resignation of the mining house's executive chairman, Wim de Villiers.

If Dr de Villiers had had the kind of support from management which Mr Goss obviously enjoys, there may have been a different outcome.

Then again, the SA Breweries situation may also have ended a lot differently if it were Sanlam and not the Anglo/Liberty consortium which was involved.

GAVIN RELLY ... chairs new company

Anglo pours oil on troubled SAB-Premier Group waters

Star 13/6/83

No early moves on Forex - official

By Trevor Walker

South African foreign exchange controls will not be eased further in the next few months, and with the world economy in its present parlous state total abolition is remote, Finance Minister Mr Owen Horwood has told The Star.

Mr Horwood was asked to comment on heightened expectations in Johannesburg that further moves were imminent, including that of allowing institutions to invest abroad.

In another development over the weekend Dr Joop de Loor, Director General of Finance, was quoted as saying that further relaxation was not a matter of if but when and how.

This morning Dr de Loor said the article in which he was quoted did not give a clear picture of the sentiment he had tried to express. He had not implied that foreign exchange control relaxation was an immediate priority of the authorities.

Mr Horwood said he was aware that the business community was expecting more moves in the near future.

But while the authorities had made it clear that continuing to streamline exchange control was an ongoing operation, the timing of any new moves would have to be geared to the performance of the local and world economy.

He said the economy would have to return to a strong upward path and the net reserves would have to show strong gains.

In addition the exchange rate of the rand would have to be strong and to have held stable for quite a long period. Under present circumstances the rand's rate was "probably about right."

The gold price was still well below its high for the year and, taking into account all the various economic indices that had to be watched, it was quite clear that relaxation of foreign exchange control was not possible in the foreseeable future.

Some directors are enjoying the good life

Farm 'rights' draw R40-m investments

By Colleen Ryan,
Consumer Reporter

South Africans who invested fortunes in farm investment schemes more than a decade ago are still waiting for promised profits.

But despite disappointing results the farm scheme concept lives on — new companies are still accepting millions of rands from consumers.

The companies usually promote an exotic product such as coffee, kiwi fruit, jojoba beans or macadamia nuts.

They promise to plant, maintain, market and sell the product on behalf of small investors.

The investors can buy the "rights" to a certain portion of the crop and salesmen usually encourage clients to pay in instalments.

Financial experts have warned that many of the farm schemes can be regarded as high-risk investments and some agriculturalists have also expressed reservations about the feasibility of producing some of the crops.

An attorney who has made an in-depth study of this field estimates small investors have invested close on R40 million in schemes in the last 12 years.

He told The Star most investors had limited legal rights and would find it difficult to sue the companies involved.

"The investors would have to be extremely wealthy to afford to take the matter to court.

"It would be extremely difficult for investors to prove the companies owed them money as litigation would be complex," he said.

One company which has disappointed some investors is Macadamia Finance, established about 12 years ago.

Five thousand South Africans invested about R7 million in half-acre lots. So far the macadamia speculators have had pitifully small returns on their investments.

The company claims some investors have received profits but The Star has records of others who claim to have received no money from the company.

"The truth is that investors were promised something that was impractical," said Mr Peter Dielwart, a financial adviser recently appointed to reorganise the company.

"I do not believe the company's founders intended to mislead anybody, they just did not realise the complications involved," he said.

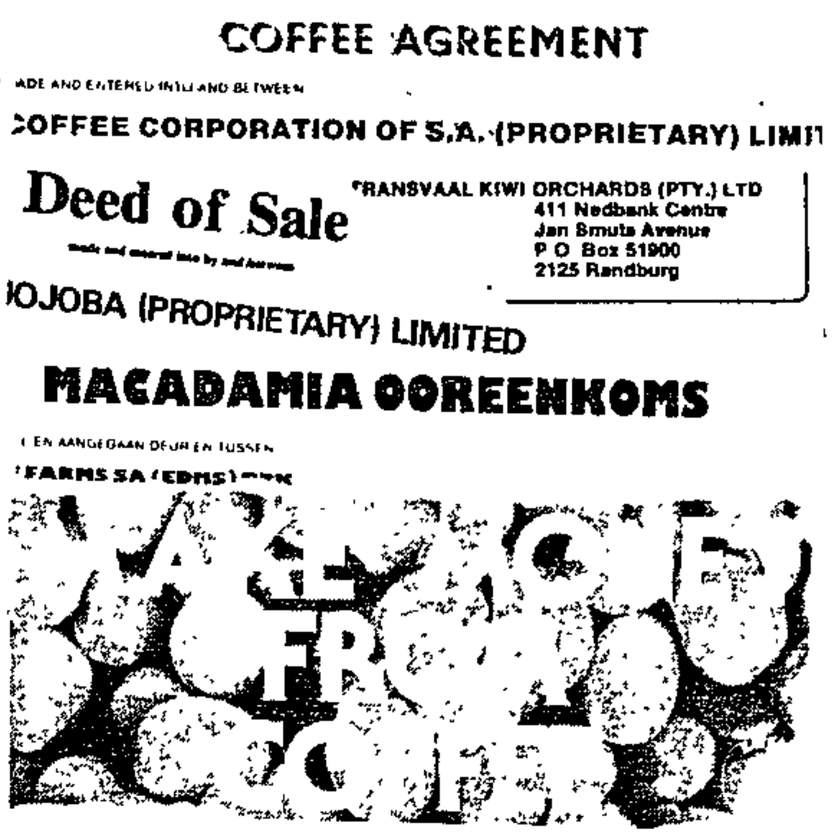
Companies which have not been able to meet investors' expectations claim they underestimated the expenses involved in establishing farms.

The Star has established that some companies' money has provided directors with comfortable lifestyles including top salaries, luxury homes and company aeroplanes.

An example of favours for directors is a loan made to a former director of Macadamia Finance, Mr Charles Barrett.

He borrowed R600 000 from Macadamia Finance and the loan was never repaid, Mr Dielwart said.

● See Page 11.



answers. The use of
able. Red or green ink may be used only for underlining, emphasis or for diagrams, for which pencil may also be used.
3. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book (s) are used.

lator.
3. No part of an answer book is to be torn out.
4. All answer books must be handed to the commissioner or to an invigilator before leaving the examination.

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

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Star 13/6/83 2 Auto seeds 58

Nut investors are rebelling

Since the early 1970s entrepreneurs have been persuading South Africans to invest in such exotic agricultural products as olives, macadamia and jojoba nuts, and kiwi fruit, promising rich profits. Consumer reporter COLLEEN RYAN has investigated the fascinating world of farm investment companies and, in a series of articles, will trace their history and focus attention on current investment opportunities.

South Africans were intrigued by an investment offer in the early 70s — a project which promised "a solid income for generations to come".

Macadamia Finance invited the public to buy the rights to the profits of macadamia nut plants on a farm near Barberton and promised a first dividend within six years.

Five thousand South Africans responded. They paid in about R7 million for half-acre lots.

That was 10 years ago. So far the macadamia speculators have had pitifully small returns on their investments.

"Investors were promised something that was impractical," said Mr Peter Dielwart, a financial adviser recently appointed to reorganise the company.

The Star has records of clients who have not received any profits from the scheme. Mr Dielwart says some investors received more than R200.

In terms of the contracts the investors signed they are obliged to pay the company a maintenance fee of about R175 a year. Some of the investors have refused to pay and are in arrears.

In January the company calculated that investors owed it R350 000. Mr Dielwart said efforts would be made to recover this money.

"This scheme is not dead," said Mr Dielwart. "We intend to make this a profitable investment, but we must restore cash flow."

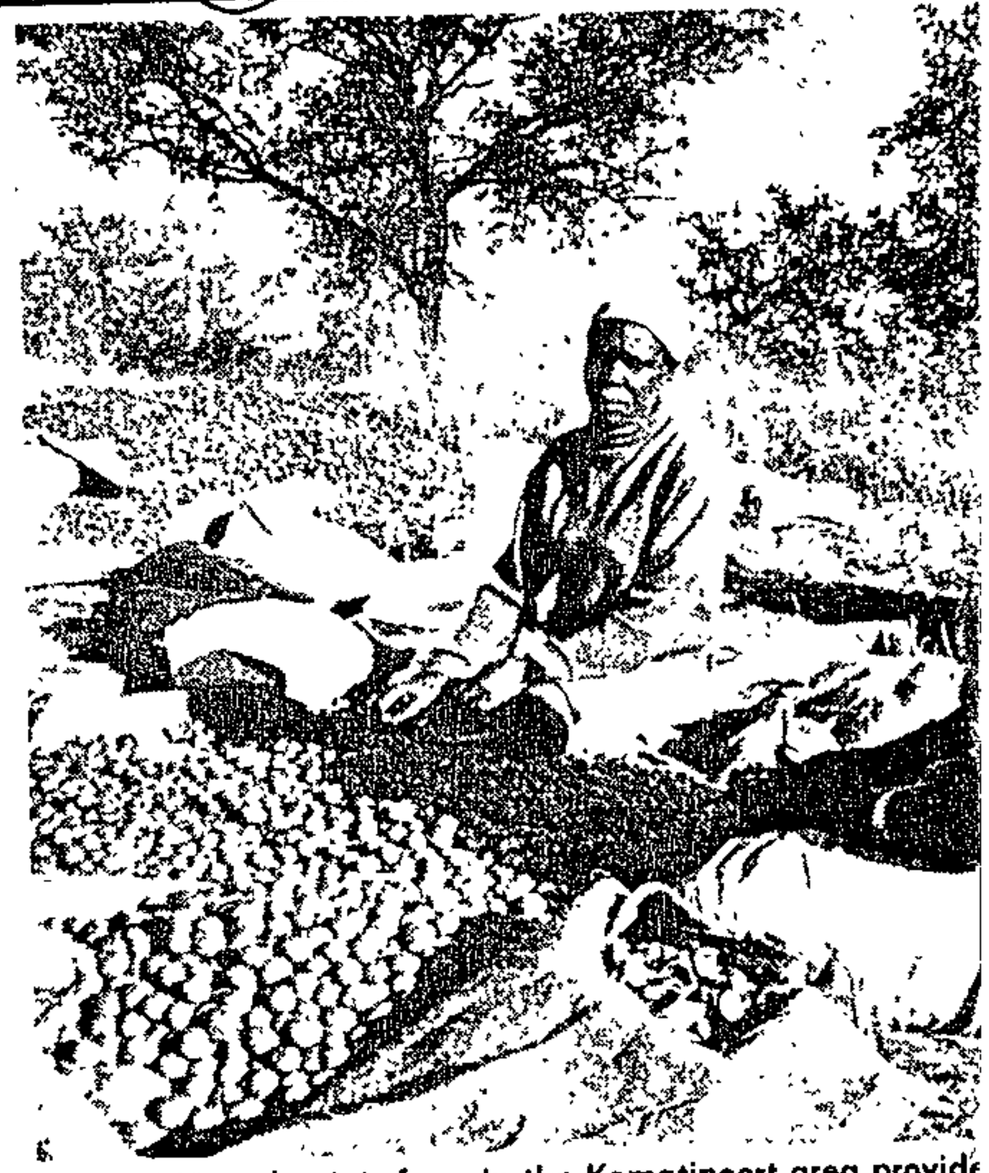
He said that at the end of last year Macadamia Finance was short of money but that the situation had improved.

The company's new marketing strategy was successful. There was demand for the product, he said.

"This year we expect to sell 30 tons of nuts which we have processed and packed," he said.

He said he believed Macadamia Finance had reached a turning point and the macadamia plantation would yield bigger harvests each year. Investors would be paid a dividend next year.

Macadamia Finance intends to convert investors' rights into shares.



Lowveld Macadamia's farm in the Komatipoort area provide 100 labourers.

The Star Monday June 13 1983 11W

First dividend 'token gesture'

Private investors have paid an estimated R4 million to Lowveld Macadamia since the launch of the company in 1972.

The directors used the money to finance a macadamia nut farm in the Komatipoort area.

They promised investors profits within five years but so far no investors have benefited from the scheme.

This year, however, Lowveld will pay its 2 700 investors their first profit — R1 a share.

The payment should be seen as a token gesture and in coming years profits would be greater, said a director, Mr Coen Wium.

Mr Wium said the dividend had been made possible because the financial position of the company had improved.

Each investor originally bought the rights to the profits of a certain portion of macadamia trees on the company's farm. The company agreed to maintain and market the crops and pay investors a profit after expenses had been met.

In 1980 Lowveld Macadamia became an unlisted public company and investors' rights were transferred into shares.

The issuing of shares was in the interests of investors because they could now share in the profits of the company as a whole instead of just in a portion of the macadamia trees, said Mr Wium.

Mr Coen Wium

Although investors now own "shares", these may not be traded at the stock exchange because Lowveld is an unlisted company.

Over the years investors have found it difficult to sell their rights, possibly because the profits promised have not been forthcoming.

● There is an interesting connection between Lowveld Macadamia and another farm investment company, the Coffee Corporation. Originally the money paid to Lowveld Macadamia by investors was paid to a trustee, the firm of attorneys, Rose-Innes and Du Preez of Barberton. Mr Cas du Preez, previously of Rose-Innes and Du Preez, is now chairman of Cofcor.

Mini-farm investors have few legal rights

Farm scheme investors had limited legal rights and most had no control over how their money was spent, an attorney said.

After an in-depth study of the field, he found that South Africans had invested close on R40 million in various schemes during the last 12 years.

The mini-farm concept originated in the United States and Americans had invested vast sums of money in various schemes.

Many US projects had proved disappointing for investors and strict laws now controlled mini-farm promotions.

South Africans who invested in such schemes had limited legal rights, he said

"Most of the mini-farm contracts state that the investor is entitled to the profits after company expenditure

"But the investors have no control over the management of the company and therefore no control over expenditure.'

It would be difficult for investors to ever sue the companies involved, he said.

A common feature of many of the mini-farm companies was that investors' money was paid into a trust account

Salesmen highlighted that feature claiming that investors' money was "safe"

If there was a trust account, there was also a deed of trust. However investors rarely saw that document which was an important part of the sales agreement

"Customers should always ask to see that deed," he said

Many promoters claimed in their advertising material that the farms were protected by insurance

"Investors never actually see it and have no way of knowing how much it is worth, what it covers and what kind of policy it is," he said.

No buyers for shares

In February 1972 a Welkom couple, Mrs and Mrs T Theron, decided to invest in a "mini-farm" in the Lowveld.

They were so impressed with the sales talk of a company agent they agreed to sign a contract investing R1 500 in a new macadamia farm.

The agent, Mr Charles Barrett, promised them rich returns within five years. But 12 years after they bought the rights in the farm, they claim they have received no money from the company, Macadamia Finance.

Mr Theron even considered selling his "shares" in the company, but had to abandon this idea because he could not find a buyer.

The company also refused to refund his money.

Far from refunding his original contribution, Macadamia Finance has made more demands on Mr Theron for money.

In addition to buying the macadamia rights, Mr Theron also agreed to pay the company a maintenance fee of about R100 a year.

The Therons estimate they have paid at least R500 over the years for the "upkeep" of the farm.

"We have stopped paying our fees now — why should we throw good money after bad?" asked Mrs Theron.

"Recently we received a statement for R235 from the company but my husband refuses to pay.

"We have given up hope of getting our money back and nobody wants to buy these shares," she said.

Where did R7-m go?

A consultant for Macadamia Finance, Mr Peter Dielwart, conceded in an interview with The Star that his company experienced a serious cash flow problem at the end of 1982.

What happened to the estimated R7 million paid by investors to the company?

The company claims vast sums were ploughed into the macadamia farm but a company loan of R600 000 was made to a former director, Mr Charles Barrett

This money was then transferred to another company which subsequently went into liquidation

Mr Dielwart said this loan, worth R1 million with the interest involved, was never repaid to Macadamia Finance. The company recovered the rights — worth about R375 000 — which Mr Barrett held in the company but these rights are valueless unless they can be re-sold.

(5?) Star 14/6/83

Kiwi fruit firm tempts investors

"Put it into Kiwifruit and just watch it grow This fruit assures you and your family a continuous income for more than 50 years."

These are the claims made on the front cover of a brochure being mailed to thousands of people.

What is kiwi fruit, and why are investors trying to grow it in South Africa?

That is a question the managing director of the African Kiwifruit Investment and Development Company, Dr F Bunger, was at first reluctant to discuss with The Star.

He believes his company receives unfavourable publicity because it employs the same marketing techniques used by some companies which have not lived up to their promises.

Dr Burger insists that Kiwifruit is different, and the scheme will work for investors.

Also known as the Chinese gooseberry, kiwi fruit is grown mainly in New Zealand and exported to Europe, says Dr Bunger. He believes South Africa can capture a share of the market.

Most of the New Zealand fruit arrives in Europe in June — but there is a big demand for it in the earlier months.

He says that this is when South African kiwi fruit would be ready for exporting.

"Investors in New Zealand are earning 46 percent return on their original investment, and we are advertising the same returns," says Dr Bunger.

African kiwi fruit is offering investors the chance to buy the rights to the profits of kiwi fruit vines planted on the company's two farms.

The "units", which cost R1 360 each, can be bought with a deposit of R120 and monthly payments of R34.

The company guarantees to plant, maintain, replace and process the fruit for the first four

Kiwi fruit — gown mainly in New Zealand and exported to Europe but it is believed South Africa can capture a share of the market.

come, says Dr Bunger.

In theory, this means that if someone invests the minimum of R1 360, he will receive R625 each year for life.

Inflation will cause this figure to rise, but in terms of today's values, this is what the profit will be worth.

In return for this, Afri-

Dr F Bunger, managing director of African Kiwifruit Investment and Development Company

can Kiwifruit will charge investors a 15 percent management fee.

The scheme sounds great on paper — but what are the drawbacks? Dr Bunger admits that he cannot guarantee investors a return in four years.

prices in 10 or 20 years' time. The contract the investor signs does not guarantee a certain percentage profit.

The contract merely states that the "limited partner" will receive the net profit from the rights to the crops, minus the expenditure incurrred by the company, and its 15 percent management fee.

Any investor in an agricultural project should also consider the possibility of a water shortage — the present drought is threatening the livelihood of thousands of farmers.

Dr Bunger is, however, confident the company's farms in Rustenburg and Lydenburg have adequate water supplies.

"We appointed a specialist to examine the situation on our Lydenburg farm. He said two dams would have to be built in the next two years to ensure an adequate supply of water. The first will be completed in October."

How long will the vines bear fruit for investors?

Farm investment schemes came under the spotlight 10 years ago when South Africans were persuaded to invest in macadamia farm projects. Despite the disappointing results, some businessmen believe there is merit in the farm scheme concept. In part two of our series, Consumer Reporter COLLEEN RYAN examines one of the new projects — a kiwi fruit investment scheme.

"It cannot be guaranteed, but the probability is very high," he says. "If

"That is a good question. The oldest commercial trees in New Zealand

tempts investors

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African kiwi fruit is offering investors the chance to buy the rights to the profits of kiwi fruit vines planted on the company's two farms.

The "units", which cost R1 360 each, can be bought with a deposit of R120 and monthly payments of R34.

The company guarantees to plant, maintain, replace and process the fruit for the first four years at no further cost to the investor. The company promises to pay investors their first return in the fifth year.

The vines will be fully matured in 12 years, and investors can then expect at least 46 percent return on captial for years to come, says Dr Bunger.

Kiwi fruit — gown mainly in New Zealand and exported to Europe but it is believed South Africa can capture a share of the market.

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In return for this, African Kiwifruit will charge investors a 15 percent management fee.

Dr F Bunger, managing director of African Kiwifruit Investment and Development Company

The scheme sounds great on paper — but what are the drawbacks? Dr Bunger admits that he cannot guarantee investors a return in four years.

"It cannot be guaranteed, but the probability is very high," he says. "If I guaranteed a return after four years, and for some reason we could not pay one, some investors would insist on getting returns, and this might jeopardise the project's future."

Another problem is that no one can predict with certainty market prices in 10 or 20 years' time. The contract the investor signs does not guarantee a certain percentage profit.

The contract merely states that the "limited partner" will receive the net profit from the rights to the crops, minus the expenditure incurrred by the company, and its 15 percent management fee.

Any investor in an agricultural project should also consider the possibility of a water shortage — the present drought is threatening the livelihood of thousands of farmers.

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"We appointed a specialist to examine the situation on our Lydenburg farm. He said two dams would have to be built in the next two years to ensure an adequate supply of water. The first will be completed in October."

How long will the vines bear fruit for investors?

"That is a good question. The oldest commercial trees in New Zealand are 70 years old and are still bearing fruit," he says.

What if the kiwi fruit vines should die?

"We will replace them at no further charge," Dr Bunger says. "We do not say there are no agricultural risks, but we will do our best to reduce them."

Farm investment schemes came under the spotlight 10 years ago when South Africans were persuaded to invest in macadamia farm projects. Despite the disappointing results, some businessmen believe there is merit in the farm scheme concept. In part two of our series, Consumer Reporter COLLEEN RYAN examines one of the new projects — a kiwi fruit investment scheme.

(58) Hansard Q. 61 1577 -

Commercial banks: financial assistance

15/6/83 1578

955. Mr J. H. VISAGIE asked the Minister of Finance:

(1) Whether the South African Reserve Bank and/or any other Government or semi-Government body granted any financial assistance to commercial banks in the Republic in the latest specified period of 10 years for which figures are available, if so, (a)(i) by which body or bodies and (ii) to which commercial banks was this assistance granted in each case, (b) what amount was involved in each case and (c)(i) on what conditions and (ii) at what rate of interest was this assistance granted;

(2) whether any amounts are still owing in respect of this assistance; if so, (a) by whom, (b) to whom and (c) what amounts are involved in each case?

The MINISTER OF FINANCE:

(1) Yes One of the main functions of a central bank is to act as lender of last resort to banking institutions In exercising this function. Loans are frequently made to banking institutions. either directly or indirectly through the intermediation of the discount houses. Depending on the requirements of individual borrowers,

these loans are for varying amounts and different periods In addition, the interest rates on these loans show wide fluctuations because they are adjusted continuously in accordance with changes in market rates and with due regard to prevailing monetary policy

In terms of the South African Reserve Bank Act, the Bank publishes a monthly statement of liabilities and assets in which the Bank's loans are shown in total. However, in accordance with normal banking practise in South Africa and abroad, details of loans to individual clients are considered to be confidential and are not disclosed

(2) Not applicable.

(58) Star 16/6/83

Is little jojoba a big investment?

Farm investment companies market a variety of unusual products but most use the same method to obtain money for their schemes. Salesmen encourage investors to by rights in the company in return for attractive profits. In the fourth and final part of our series, Consumer Reporter COLLEEN RYAN investigates a company that sells jojoba beans.

It has been called a little wonder bean -- an all-purpose product that could save the sperm whale from extinction.

The jojoba (pronounced hohoba) bean produces an oil and its promoters claim it can be used as a substitute for sperm whale oil.

The marketers of jojoba beans say there is worldwide demand for the product and that a litre is worth at least R20.

South Africans are being offered the chance to invest in a number of jojoba farms.

Duineveld Jojoba is marketing 250 sq m lots for R1 300 (R325 deposit and R40 a month).

The investor does not buy the land and does not own any shares — he is merely entitled to the profits of the 47 bushes planted on a particular area of the farm.

The company promises to cultivate, maintain and process the jojoba for no further charge for the first six years.

After six years, when the jojoba plants begin to produce a profitable crop, the company is entitled to charge investors a maintenance fee.

Investors are told to expect their first return in the fourth year and after 12 years, when the plants are fully developed, they are promised a minimum of R750 each year for an initial investment of R1 300.

The agreement the investor signs does not guarantee a minimum return or profit.

The contract states that after six years Duineveld Jojoba will continue to manage and maintain the farm at the "purchaser's expense". No figure is specified and the investor has no say over what makes up company expenses.

Investors are also given the right to maintain, process and sell the beans themselves, if this is their choice.

Is there any chance that Duineveld, like some of the earlier farm investment schemes, could be over-optimistic about the projected profits?

Mr Malcolm Anderson, an investment adviser employed by Duineveld, said:

"We promise investors a return based on one fifth of the current world price, assuming that only half the crops bear fruit."

Mr Anderson is an independent consultant hired to market the scheme.

There were three directors who owned 30 percent of the rights in Duineveld, said Mr Anderson — who is also a big investor in the farm.

Mr Anderson said the farm management periodically invited overseas experts to visit the farm to give advice and observe progress.

He said a professor from Stellenbosch University also visited the farm regularly to "advise us".

The Star checked with the university and the professor Mr Anderson named said he had visited the farm only once.

"I do not want to be involved with this. I gave them advice just as I would to anyone who requested it," he said.

When The Star contacted the company again to clarify this point, the managing director of Duineveld, Mr Barry Launspach, confirmed the professor had visited the farm only once.

Mr Anderson has an unusual method of marketing the jojoba scheme. He provides potential investors with copies of articles written on jojoba beans and the Duineveld project.

"We prefer to use documentation from independent bodies — we have to be able to prove everything we say," he said.

Some of the articles state that jojoba oil can be used as a lubricant in car engines. Two of the reports said Duineveld intended to send samples to the Automobile Assocation for tests. Was this ever done?

"There was discussion on this, but I don't think we did have AA tests done," said Mr Anderson.

Is the farm project affected by the drought?

Mr Anderson said water was not a problem for the company.

"Jojoba plants can go for a year without water, so we are unaffected by the drought. Plant seedlings are watered by tankers during the first two years."

Another possible drawback is that investors may not re-sell their rights without the permission of the company.

Mr Anderson said the company would re-sell the rights for investors, but only after all plots had been sold.

There were 1 000 ha for cultivation and 300 ha had still to be planted and marketed, he said.

Risk is high, warns Pretoria researcher

The Research Institute for Horticulture in Roodeplaat, Pretoria, warns that the production of jojoba oil in South Africa should be seen as a high-risk venture.

Dr J T Meynhardt, deputy director of the institute, writes in a Department of Agriculture newsletter that too little is known about the suitability and potential of growing jojoba beans in South Africa.

The beans are not regarded as an agricultural crop. They are planted from "wild" seeds as no tested and cultivated plants are available.

Many of the farm investment schemes are in the south-western Cape.

"But although the climate is acceptable, much of the soil in this region is sandy and not suitable for jojoba production."

Dr Meynhardt also questions the claim that jojoba oil can be used as a substitute for spermwhale oil.

whale oil.

The marketers of jojoba beans say there is worldwide demand for the product and that a litre is worth at least R20.

South Africans are being offered the chance to invest in a number of jojoba farms.

Duineveld Jojoba is marketing 250 sq m lots for R1 300 (R325 deposit and R40 a month).

for no further charge for the first six years.

After six years, when the jojoba plants begin to produce a profitable crop, the company is entitled to charge investors a maintenance fee.

Investors are told to expect their first return in the fourth year and after 12 years, when the plants are fully developed, they are promised a minimum of R750 each

tain the farm at the "purchaser's expense". No figure is specified and the investor has no say over what makes up company expenses.

Investors are also given the right to maintain, process and sell the beans themselves, if this is their choice.

Is there any chance that Duineveld, like some of the earlier farm investment schemes, could be over-optimistic about the projected profits?

Mr Malcolm Anderson, an investment adviser employed by Duineveld, said:

"We promise investors a return based on one fifth of the current world price, assuming that only half the crops bear fruit."

Mr Anderson is an independent consultant hired to market the scheme..

There were three directors who owned 30 percent of the rights in Duineveld, said Mr Anderson — who is also a big investor in the farm.

Mr Anderson said the farm management periodically invited overseas experts to visit the farm to give advice and observe progress.

He said a professor from Stellenbosch University also visited the farm regularly to "advise us".

The Star checked with the university and the professor Mr Anderson named said he had visited the farm only once.

"I do not want to be involved with this. I gave them advice just as I would to anyone who requested it," he said.

When The Star contacted the company again to clarify this poi managing dire Duineveld, Mr Launspach, co the professor ha the farm only one

Mr Anderson unusual method keting the jojoba He provides poi vestors with copi ticles written on beans and the D project.

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Many of the farm investment schemes are in the south-western Cape.

"But although the climate is acceptable, much of the soil in this region is sandy and not suitable for jojoba production."

Dr Meynhardt also questions the claim that jojoba oil can be used as a substitute for spermwhale oil.

"According to a study by the Office of Arid Land Studies and the Midwestern Institute of the National Academy of Sciences, jojoba oil will not be able to replace spermwhale oil," he says.

"It does not mix with the other oils used in the processing of products for the pharmaceutical industry and the leather industry."

There is a scarcity of oils and consequently prices are high, but production could become uneconomical if supply exceeded demand, he warns.

Dr Meynhardt says jojoba oil can be used by the cosmetics industry in the manufacture of make-up and skin-care products.

Banks succeed as Islamic law kept

Mr E E Kharsany is managing director of the Islamic Corporation, which this year received permission from the Registrar of Financial Institutions to accept "investments" with a minimum term of five years. Under Islamic law Muslims are not allowed to receive or pay interest. Here he discusses the modus operandi of Islamic banks which are becoming increasingly known outside their traditional home in the Middle East.

"Ye who believe! Fear Allah and give up what remains of your demand for usury, if ye are indeed believers. If ye do it not, take notice of war from Allah and His Messenger. But if ye turn back, ye shall have your capital sums. Deal not unjustly and ye shall not be dealt with unjustly."

This Koranic injunction shows Islam to be categorical in its condemnation of usury. Islamic law makes no distinction between interest and usury and any gain derived from lending money is strictly forbidden or haraam.

To satisfy the needs of devout Muslims, much time and energy has recently been invested in establishing Islamic banks which neatly avoid the issue of interest.

The prohibition of the practice of interest is by no means unique to Islam. In the Old Testament injunctions addressed to the Judeans decreed that money lent at interest to "a brother" is condemned as an abomination. (Book of Deuteronomy 23:20). The belief that "usury is at the heart of our social disorders" is held by some contemporary Roman Catholics.

The basic principle of socialism is against interest and Karl Marx ridiculed it as "unearned income". Other communist writers labelled it theft.

The Islamic banking system concept was initiated in Egypt in the early 1960s but failed largely for political reasons. As Middle East countries grew wealthier after the 1973 oil crisis they took on greater economic significance. They also sought suitable investment opportunities for their surplus cash.

Saudi Arabia established the Islamic Development Bank in 1975. Last year it financed 16 foreign trade operations worth $243,4 million and projects worth $199 million.

Islamic banks are now established in Jordan, Sudan, Egypt, Kuwait, Bahrain and Dubai.

Contrary to conventional banks, Islamic banks do not offer interest on deposits but a share of the profits from their investment.

The two most important requirements in any investment are risk and ownership. Islamic banks operate without paying interest like this:

- Under Murabaha the bank finances trade by buying the commodity, transporting it to the customer and selling it at a mark-up.
- Under Mudaraba, the bank sets up and owns a project but agrees with the independent managements on a split of the profits and on a way for the management eventually to buy it out.
- There is Musharaka, similar to Mudaraba except that the investor has an equity in the venture and participates in the risk undertaken and the profits earned or losses incurred in the venture from the outset.

All these Islamic banks have been highly successful, returning profits in their first year of business by a system of sharing gains or losses with those who borrow for business ventures.

Some bankers are sceptical about this performance, arguing that Islamic banks have taken part in businesses already up to the hilt in mainstream bank loans and are heavily involved in the notoriously volatile Gulf speculative real estate.

There have been no Islamic bank failures, but it will take a few more years to judge their performance. These banks have established themselves as viable alternatives to the Western interest-oriented financial institutions.

They have also emerged elsewhere in the world, in Pakistan and Malaysia for example, although in Britain the complex legal and technical requirements laid down by the Bank of England have resulted in the formation of holding or investment companies.

Dar al Maal al Islami (Islamic House of Funds) has set up a $10 million Islamic investment company on the Isle of Man — intended to spearhead the bank's operations in Britain and West Europe. It also plans to set up 26 investment and 20 solidarity companies (insurance co-operatives) and 28 Islamic banks in West Europe and America.

Islamic banking has emerged as a powerful new force in international banking and is being treated as a feasible alternative to Western banking.

I contend it is an expression of the desire by the Muslim people to control their own affairs and will be firmly established all over the globe by the turn of the century.

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Mr Hugh Machlachlan has been appointed general manager, operations, of The SA Permanent Building Society.

Standard pips Barclays on cheque deposits

STANDARD Bank made major gains in cheque deposit business in the first quarter of this year and overtook Barclays for the number one market share spot

This emerges from an analysis of the quarterly BA9 returns by financial institutions for the three months to March 31

At the end of that quarter Standard Bank group had 35,6% of the cheque deposit market, followed by Barclays (32,7%), Volkskas (15,7%) and Nedbank (9%)

At the end of 1982 the figures were Barclays 34,7%, Standard 32%, Volkskas 16,6% and Nedbank 9,6%

Standard and Barclays have, of course, the biggest network of branches

The market share figures may also change considerably in the present quarter, ending June 30, in view of the aggressive competition between the banks, started in March by Nedbank, to attract or retain cheque account business

Meanwhile, however, the building societies are offering sharp competition to all the banks

A survey of the BA9 returns by the economic research division of Standard Bank Investment Corporation shows that at the end of March the building societies had attracted savings of R7 649-million

That was equivalent to 41,7% of the combined savings held by banks and building societies

In 1979 the societies had only 34,5% of the business

At March 31 this year Standard had 18,1% of savings (R1 384-million), with Barclays at 17,3% (R1 325-million), Nedbank at 8,3% (R638-million) and Volskas at 8,1% (R621-million).

In terms of total deposits Barclays continued to head with list with R8 424-million Then came Standard, R7 750-million, Nedbank, R4 969-million, Bankorp, R4 316-million, and Volkskas, R4 273-million

Barclays also remains dominant in hire purchase writing 38%, or R2 382-million, of total advances

Standard was top in leasing with R1 127-million, ahead of Barclays with R1 067-million and a long way ahead of the rest

By HOWARD PREECE

Southern Sun drops casino venture

Financial Reporter

SOUTHERN SUN'S R270-million casino/hotel complex plans at Atlantic City, New Jersey, are off.

The group is not now moving into the US — or at least not for the time being.

Southern Sun said yesterday that negotiations with American Leisure Corporation (ALC), announced earlier this year, had been terminated

Three months ago the group made a provisional agreement with ALC to buy for R28-million the land for the "Camelot" complex and for various licenses and permissions.

Last month, however, Mr Dick Goss, the chairman of Southern Sun, announced that provisional agreement with ALC had not been finalised and had lapsed.

He said, however, that Southern Sun and ALC were still talking.

Mr Sol Kerzner, the managing director of Southern Sun, flew to the US to see if the venture could be salvaged.

Last night, however, Mr Goss said:

"Despite serious efforts agreement could not be reached, and negotiations have accordingly been terminated."

The Southern Sun plan ran into heavy opposition from anti-apartheid groups.

Their supporters included the Mayor of New Jersey and a majority of the City Council

IDC twins static

Financial Reporter

THE Industrial Development Corporation's investment twins, Industrial Selections and National Selections, posted near-static profits in the year to June.

Both are paying as-you-were final and, therefore, total dividends

Industrial Selections' attributable profit dipped 0,7% from R10 590 000 to R10 520 000 after tax of R14 000 (1981-82 R27 000) while National Selections' profit fell 3,9% from R9 701 000 to R9 325 000 after tax of R45 000 (R55 000)

Industrial Selections is paying a 14c final dividend, making a 28c total for the year. National Selections' total is 30c after a 15c final

Gold recovers

GOLD recovered slightly in London yesterday. It was fixed at $408,25 in the afternoon compared with $407,50 in the morning and $407,90 at the second fixing on Tuesday.

Stags reign on JSE as Pru climbs to 400c

STAGGERS had a field day on the Johannesburg Stock Exchange yesterday when Prudential Assurance became the second company this month to join the ranks of the listed

Brokers said that an estimated 20% of the shares allotted last week were sold to a market starved of a new listing in the insurance sector for many years.

It was not only the small investors which baled out with handsome profits. Large lines of stock were available throughout the day — indicating that institutions, unsatisfied with the size of their allotments, were also stagging

Soon after trading opened, Pasca changed hands at 375c. The price then rose quickly to a morning-session peak of 415c before easing under increased selling pressure to 405c.

However, the stock regained some of its lost momentum in the afternoon call to close at 412c — 64,8% above the 250c issue price.

Brokers said that the number of sellers was probably increased by the higher-than-expected price the scrip fetched Pre-listing estimates had Pasca trading for between 330c and 360c during its first few weeks on the JSE boards

The new listing's performance appeared to encourage buyers to look for stock elsewhere in the insurance sector — resulting in a 55c improvement by Liberty Holdings

The banks and financial services board was also quite strong. Hill Samuel added 20c to 350c, Sage 5c to 585c, Bankorp 15c to 420c, and Trust Bank a marginal 3c to 175c.

Elsewhere on the industrial and financial boards, trading was lifeless and few stocks featured.

In the industrial holding sector, Barlow Rand lost 5c of the 15c it added on Tuesday to close at R13,35, Malbak eased 30c to 470c, and Protea fell 5c to 300c.

In the tobacco sector, Rembrandt Controlling Investments firmed 60c to R19,60 on speculation that the group may be involved in a takeover of the suspended Rennies.

Gold shares opened easier and in spite of a mini-recovery on the world bullion markets during the afternoon, investors were wary about increasing buying orders.

Many of the falls were immaterial, however, and turnover light. There were 44 falls and no rises

Among the heavier-weighted stocks, Randfontein led the way lower with a R4 drop to R156

On the diamonds board De Beers added ...

Unisec reverses decision to subsidiaries

CONTRARY to indications in the chairman's statement Unisec will be convening a meeting to cancel the shares held by wholly-owned subsidiaries.

Dr A S Pienaar, Unisec outgoing chairman — he is to be succeeded by Mr Henry Villiers, managing director of Standard Bank Investment Corporation — said at the company's annual meeting in Johannesburg yesterday that "having received further counsel's advice indicating that it might not be in the shareholders' interests the directors have decided not to convene ...".

The well-attended meeting — more than 28-million shares were represented out of a total issued capital of more than 50-million — was told that Unisec had finalised an agreement with Romatex over control of Berg River Textiles

Other disclosures that emerge from the meeting as a result of close questioning by a number of shareholders were that Unisec subsidiary L Suzman had acquired Metro Cash & Carry's tobacco and cigarette distribution interests, giving it a national distribution network, and that Unisec's international trading division had ceased trading.

Asked by a representative of Sage Holdings whether Unisec would consider inviting a Sage nominee to join Unisec's board Dr Pienaar replied: "No"

The question of shares held by subsidiaries has been a thorny issue at Unisec for some time, not least during the acrimonious battle for control with Sage Holdings.

In the annual report Dr Pienaar referred to a 1979 statement which said 7 807 282 Unisec shares held by three wholly-owned subsidiaries would be cancelled.

"Due to technical difficulties the cancellation was deferred but now our legal advisers have produced a practicable means of cancelling such shares and shareholders will be asked to approve the necessary resolutions at an extraordinary general meeting."

ew study reveals glaring
iministration deficiencies

The 'lower' ustice of pass aw courts

The sausage-machine justice of the Commissioners' Courts where black people, including children, caught up in the influx control web appear for trials that last 30 seconds to a few minutes and face a jail sentence of months, has again been highlighted in a new study by a Johannesburg lawyer. Anthony Duigan reports.

ry three minutes a black
n, woman or child is arrested
iewhere in "white" South
ica for being in the wrong
ce at the wrong time or for
having a reference book in
or her pocket.

nat is the start of a process
usually results in a spell in
a brief appearance in court
a trial often characterised
"procedural irregularities"
a 'lower standard of jus-
", according to a new study
the Johannesburg Pass
is.

The study, entitled "Is This
tice?", reveals the extent to
ich the enforcement of influx
trol and the procedures em-
yed in the Commissioners'
urts undermine the general
ndards of criminal justice,
cludes Mr Ramarumo Mona-
, a research officer for the
ts University Centre for Ap-
ed Legal Studies.

His study is based on two
eks of observation of prac-
es employed by five of the
annesburg Commissioners'
urts during last December.
r Monama and another law
aduate recorded the proceed-
gs in 369 trials.

Mr Monama found:

There was a 66 percent in-
se in the number of blacks
d in Johannesburg in 1982
mpared with 1981 – more than 40 000 against 24 334 the previous year.

● The shortest time spent on the cases attended was 30 seconds, the longest period was seven minutes. About 60 percent of all accused were convicted on the day of their first appearance, while fewer than one in 10 were acquitted or discharged. Only five of the accused had legal representation.

● The heaviest fine imposed was R250 and the longest jail sentence was 250 days. The usual sentence appears to have been between R30 (or 30 days) and R90 (or 90 days). More than a third of the cases (135) involved people who had been held in custody after their cases had been remanded from an earlier hearing.

A number of the cases heard were also postponed for between one and 19 days with no bail granted unless specifically requested by an accused with some idea of legal procedure.

● In 48 of the cases the accused had a reference book which, it appeared, he or she was not given an opportunity to get — a transgression of the ruling laid down by court decision and police regulation that a person be given "reasonable opportunity" to fetch his reference book.

The administration of justice was left almost entirely in the hands of the influx control bosses — the Department of Co-operation and Development — and it appeared that the prosecutors had usually been promoted from positions as clerks and interpreters in the department, said Mr Monama.

"Their experience of the law of evidence and of criminal procedure is therefore inevitably limited and this may well contribute to the number of procedural irregularities that characterises these courts," he added.

Too often the impression given is that the courts are determined to complete the roll as soon as possible — a case of "justice sacrificed in the interests of haste".

During his period of observation none of the commissioners explained to an accused that he or she could be released on bail, even when the State postponed a case. When bail was specifically requested it was often fixed so high that it was difficult for the accused to afford it — between R70 and R100 for cases in which the fine was rarely more than R30 or 30 days.

Certain aspects of cases observed clearly showed up irregularities, Mr Monama believed:

● Courtesy and the civilised standards of behaviour required in courts generally were missing. For instance, the accused — and even witnesses — were referred to by first names or case numbers only.

● No investigating officer was called to prove the accused was in an "illegal" area.

● In one case an accused said he was coloured and the case was postponed for seven days. The accused went back to jail and no mention was made of bail.

More than 44 percent of the cases tried in the female Commissioners' Court during three days of last December were postponed at the request of the prosecutor.

"Such a high number of postponements should be cause for concern, particularly because the accused are unrepresented and their right to bail is neither explained nor respected," said Mr Monama.

Schoolchildren who visited their parents in Johannesburg also fell foul of influx control and ended up in court, said Mr Monama. About 10 cases involving youngsters below the age of 16 years were heard during the two-week period. In some cases the children were deported to their homelands without any notice to their parents.

There was also no indication in the Commissioners' Courts that legal aid through the Legal Aid Board was available.

The study concluded that justice was being undermined in these courts and nothing would change until legal representation was introduced on a large scale for pass offenders.

UBS to provide mortgages for basic housing

SOUTH AFRICA's largest building society, the United, has agreed to accept basic 51/6 houses as security for mortgage loans to urban blacks in Soweto and elsewhere.

These houses are constructed of cement blocks under asbestos roofs and have two bedrooms, a livingroom, kitchen and outside toilet. They measure about 47,5 m².

Anticipated selling prices in Soweto range between R800 and R1 400.

This decision follows the recently announced marketing campaign involving some 500 000 housing units owned by the Department of Community Development and local authorities.

Of these, 300 000 (mostly of the 51/6 type) have been earmarked for blacks. The UBS expects to provide a substantial proportion of the mortgage loans for these houses, the aggregate selling price of them being in excess of R600 million.

The decision to accept low cost housing as security does not mean an abandonment of sound lending policy. All properties will have to comply with normal criteria to be acceptable.

In cases where the joint income of husband and wife is below R350 a month, monthly repayments plus site rental must not exceed 25% of joint income.

While the society's decision to enter this field is a major breakthrough, it will also be extended to whites, coloureds and Asians. Applications will be on merit.

The UBS has to date lent more than R22 million to urban blacks in terms of the 99-year leasehold legislation, which represents some 50% of the total of all bonds registered.

The chairman of the society's head office board of directors, Mr P W Sceales, is on record as having advocated building society mortgage to finance home ownership for blacks many years before legislation to make this possible was placed on the statute book.

BANKING 58

Prime punch-up

FM 17/6/83

The present wave of intense competition among the big commercial banks moved into a new phase this week. As three raised their prime overdraft rates by one percentage point to 15%, it appeared that the other two were holding back in an attempt to win more customers.

At the beginning of the week, Barclays started the ball rolling with a rise to 15%. It was followed quite quickly by Trust and Volkskas. But Nedbank and Standard held back, although a decision by the latter could be imminent.

As the banking industry sees it, Standard and Nedbank are letting the others sweat. "It is a whole new ball game," remarks one senior banker, "since the ending earlier this year of the Register of Co-operation (Roco)," a cartel whereby the banks agreed to maintain minimum prices for key services.

Of the big banks, Barclays and Standard are the largest and it is often suggested that when one of them moves on prime rate, the other must as well. The cost of money to Standard, its deposit mix and number and type of its customers put it in a position of less flexibility compared with, say, Nedbank. For that reason alone it might have to follow Barclays sooner rather than later.

But there was speculation that Standard and Nedbank were holding back as part of a deliberate marketing ploy, rather than as a function of their individual funding costs. Standard may deny this, but the market claims that it has been indulging recently in some very aggressive marketing tactics to regain reduced market share. However, it is Nedbank that is said to be the best placed of all to hold off longest from putting up prime. It recently turned in some excellent profit figures, its margins are not under the same type of pressure as its competitors and it is also in the middle of a particularly hard — and public — marketing campaign On the other hand, it does depend on relatively expensive wholesale cash to support its lending base

Another frequent claim is being trundled out again — that one of the other big banks has been peddling something called "super prime" This is a rate between one-and-a-half and two percentage points below prime for special customers it wants to woo away from — or prevent being wooed by — the opposition. No banks admit publicly to doing it — but it almost certainly happens and does raise the relevance of prime itself

Those customers who maintain split accounts with more than one bank should be able to exploit the position to their advantage. Quite simply, they just have to use the overdrafts of the bank which is charging them the lowest.

The reasons for the rise in prime have been well documented The gold price has fallen, the rand weakened and the reserves declined, all of which squeeze market liquidity. But the catalyst was undoubtedly last week's Treasury tender for R300m of government stock. Whether it was designed to lift rates to curb the growth in money supply or not, it had that effect. To those who argue that Pretoria did not want higher rates, that constitutes a backfire.

Of course, the rise could be temporary, as the recent up-and-down movement of the 90-day bankers' acceptance rate suggests. But the banks are responding to market forces in text-book fashion In fact, Barclays is said to have cleared its move with Pretoria by pointing out that market forces were pushing it in that direction, and that it would raise prime unless the authorities expressly forbade it. Pretoria, to its credit and mindful of its commitment to the market, agreed — but possibly with some reluctance.

Schwarz criticises luxury flats for Land Bank officials

Star 18/6/83

58

Political Staff

CAPE TOWN — The Land Bank decided against buying a flat in Sea Point as parliamentary accommodation for its top officials because it was situated across from the coloured beach.

So, instead of buying the Sea Point flat for R180 000, the bank bought two flats for more than R500 000 at Three Anchor Bay.

Mr Harry Schwarz, MP, the Opposition's chief spokesman on financial matters, said yesterday that this had been revealed to the parliamentary Select Committee on Public Accounts.

The select committee has recommended that the bank should sell the two "excessively luxurious and expensive" flats.

Mr Schwarz said that the managing director of the Land Bank, Mr T C de K Pienaar, told the committee that the Sea Point flat was situated across from the coloured beach and was in a dangerous area.

Mr Schwarz said this was incorrect and was an entirely unacceptable attitude, particularly at a time when a new constitutional dispensation was considered.

Evidence heard by the committee was that the two flats had appreciated in value and could now be worth R700 000.

"In these circumstances there is no justification for the continued ownership of these flats by the Land Bank — particularly at a time when the demands of the farming community for assistance are probably at the highest level since the 1930s," Mr Schwarz said.

Other matters concerning the Land Bank dealt with by the committee were two farewell functions for the former managing director which were given in the 1982 financial year and which cost R11 403.

One function, for 300 people, was catered for at R17,57 a head and cost a further R3 300 for flowers, decoration, music and an illuminated address.

The other function, for 330 people, was catered for at R8,36 a head.

Mr Schwarz has demanded that the matter be debated in Parliament.

The Minister of Finance, Mr Owen Horwood, has not yet indicated whether time would be made available for such a debate before the Assembly adjourns at the end of the month.

R27-m glass-processing plant for Bophuthatswana

By Stan Kennedy

An official sod-turning ceremony took place yesterday (Friday) at Ga-Rankuwa, Bophuthatswana, where a R27 million glass-processing factory to serve the motor industry and replacement market is being built.

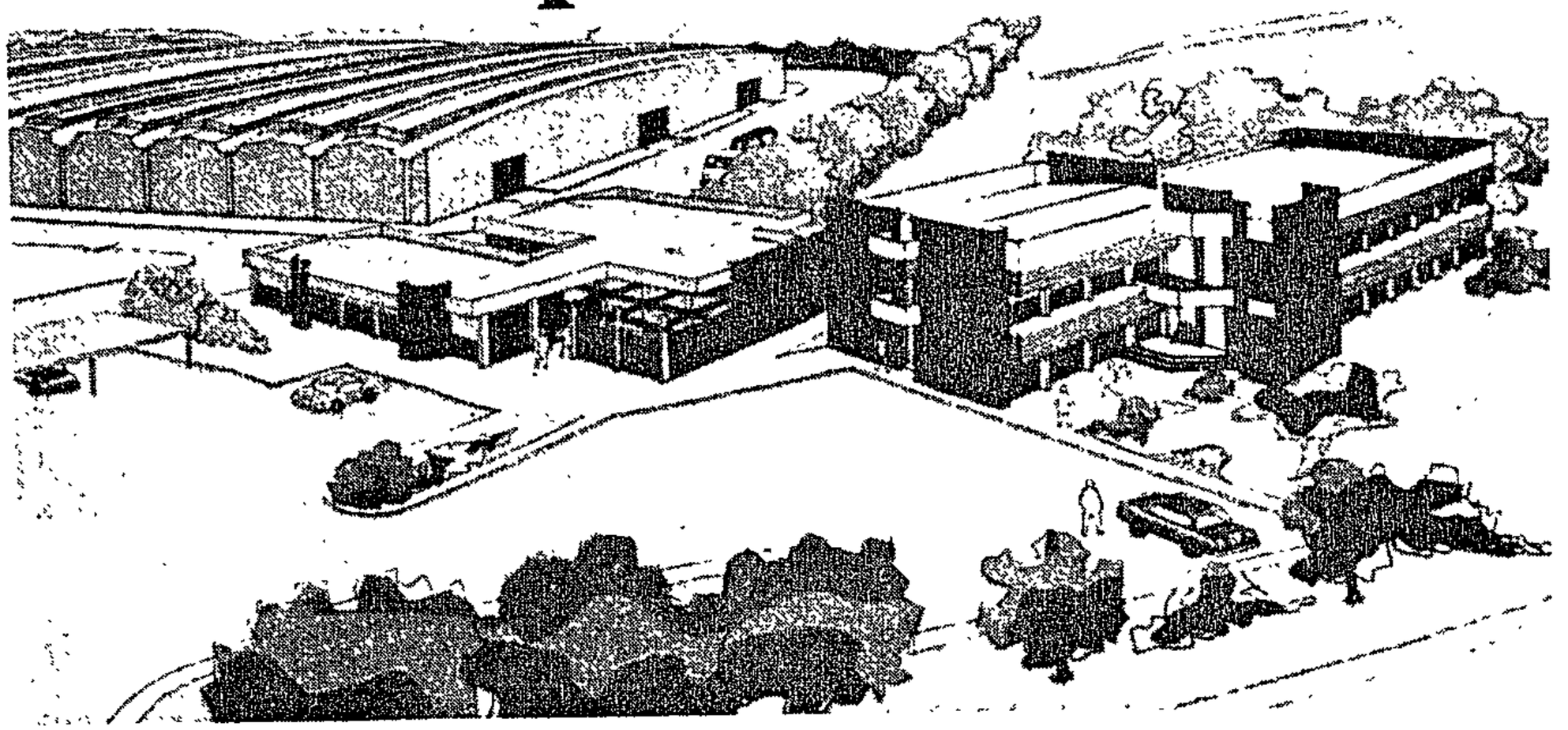
The project is a joint venture by three financial institutions with substantial interests in motor companies. They are Wesco, which controls Toyota and owns 40 percent of the new project, Messina, which controls Datsun and owns 30 percent, and Amic, which controls Sigma and also owns 30 percent.

The directors of the new company, Wesglas, represent the three financial institutions. They are Dr Albert Wessels (chairman), Mr Chris Griffiths, Mr Paddy Koevert, Mr Peter Whitfield, Mr David Dry, Mr Danie du Preez, Mr Callie van der Merwe and Mr Terence Kelly.

Raw material sheet glass will be procured from Pilkingtons. The initial programme, when the plant opens in July next year, will be the manufacture of laminated vehicle windshields and tempered side and rear windows The rear windows will be fitted with demisters.

There are already two glass manufacturers — Shatterprufe of Port Elizabeth which makes laminated windshields and Pilkingtons of Springs which makes tempered glass.

However, the new company is confident it can almost immediately grab a 50 percent share of the R60 million original equipment market. The replacement market is worth about R100 million.



Artist's impression of the Wesglas factory being built at Ga-Rankuwa, Bophuthatswana. When it goes on stream in July next year, it will produce laminated windscreens and tempered glass for motor industry. Later it will move into making glass for the building industry.

"We hope the motor manufacturers will support us. We don't regard them as captive markets, and we will have to fight hard through price, quality and service," said Mr du Preez, who is responsible for the planning and co-ordination of the factory.

The factory, which will employ about 140 workers, will be near the Sigma and Datsun plants at Rosslyn. The Toyota plant in Durban is presently supplied by Shatterprufe and Pilkingtons, but Wesglas sees no problem in meeting its requirements despite the long distance.

Glass processing will be under licence to Asahi, leader in glass techniques in Japan, which designed the factory and will supply about 80 percent of the equipment. The balance of the highly-automated plant will come from local sources.

At the official opening yesterday, the managing director of Bophuthatswana National Development Corporation, Mr Wynand van Graan, said: "The basic fear of foreign investors is the threat of nationalisation and the lack of protection in other respects.

"In Bophuthatswana, the principle of free enterprise is written into the constitution, and companies are not burdened with obstructive legislation, rules or regulations. The few laws that still worry us are those inherited on independence, but they will in time be adapted to our situation.

He said the maximum tax on profits for companies other than mining was 38 percent and there was no tax on capital gains or undistributed profits.

Ga-Rankuwa was probably one of the most promising unrestricted industrial development areas in Southern Africa, he said. In time would be commercial development ing of a vanadium de mated to be worth R lion.

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R27-m glass-processing plant for Bophuthatswana

By Stan Kennedy

An official sod-turning ceremony took place yesterday (Friday) at Ga-Rankuwa, Bophuthatswana, where a R27 million glass-processing factory to serve the motor industry and replacement market is being built.

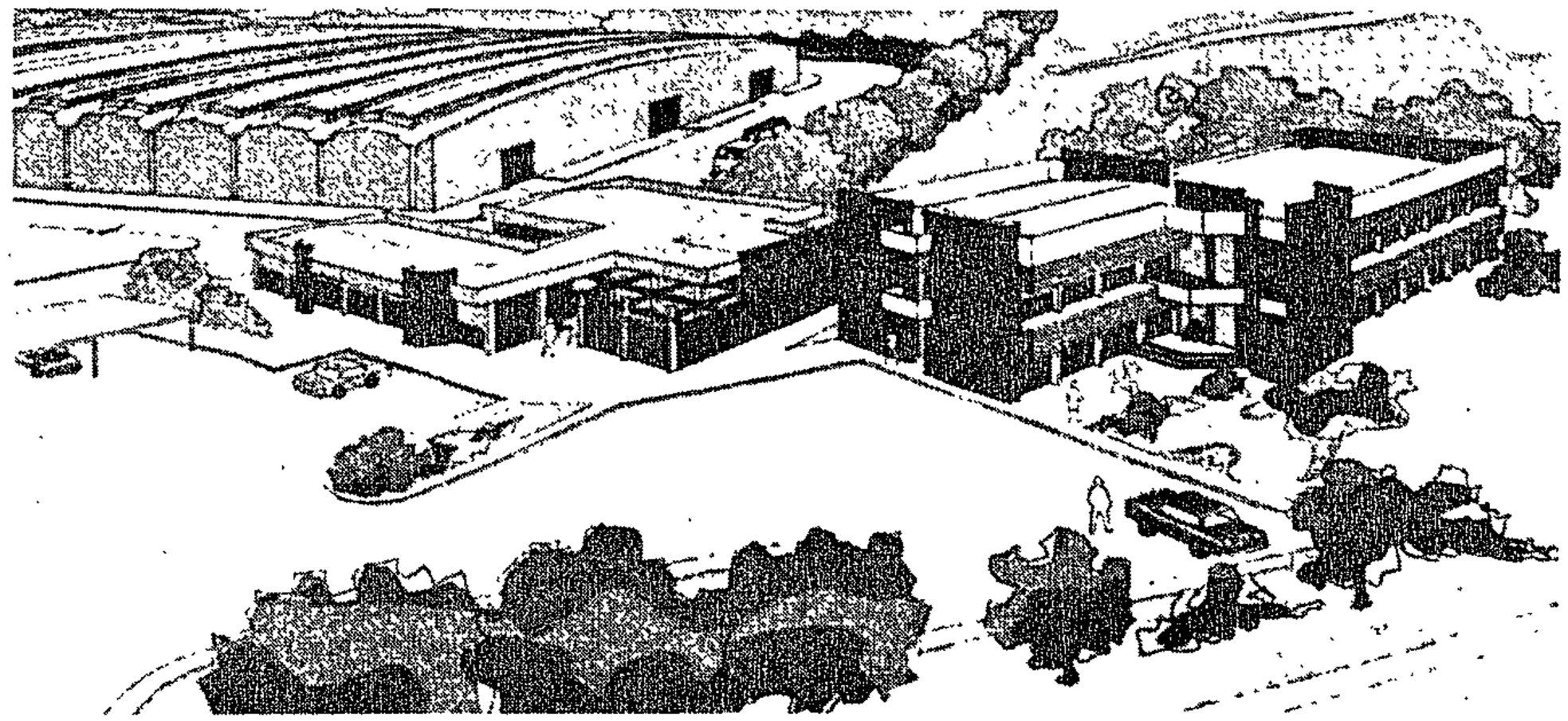
The project is a joint venture by three financial institutions with substantial interests in motor companies. They are Wesco, which controls Toyota and owns 40 percent of the new project, Messina, which controls Datsun and owns 30 percent, and Amic, which controls Sigma and also owns 30 percent.

The directors of the new company, Wesglas, represent the three financial institutions. They are Dr Albert Wessels (chairman), Mr Chris Griffiths, Mr Paddy Koevert, Mr Peter Whitfield, Mr David Dry, Mr Danie du Preez, Mr Callie van der Merwe and Mr Terence Kelly.

Raw material sheet glass will be procured from Pilkingtons. The initial programme, when the plant opens in July next year, will be the manufacture of laminated vehicle windshields and tempered side and rear windows. The rear windows will be fitted with demisters.

There are already two glass manufacturers — Shatterprufe of Port Elizabeth which makes laminated windshields and Pilkingtons of Springs which makes tempered glass.

However, the new company is confident it can almost immediately grab a 50 percent share of the R60 million original equipment market. The replacement market is worth about R100 million.



Artist's impression of the Wesglas factory being built at Ga-Rankuwa, Bophuthatswana. When it goes on stream in July next year, it will produce laminated windscreens and tempered glass for motor industry. Later it will move into making glass for the building industry.

"We hope the motor manufacturers will support us. We don't regard them as captive markets, and we will have to fight hard through price, quality and service," said Mr du Preez, who is responsible for the planning and co-ordination of the factory.

The factory, which will employ about 140 workers, will be near the Sigma and Datsun plants at Rosslyn. The Toyota plant in Durban is presently supplied by Shatterprufe and Pilkingtons, but Wesglas sees no problem in meeting its requirements despite the long distance.

Glass processing will be under licence to Asahi, leader in glass techniques in Japan, which designed the factory and will supply about 80 percent of the equipment. The balance of the highly-automated plant will come from local sources.

At the official opening yesterday, the managing director of Bophuthatswana National Development Corporation, Mr Wynand van Graan, said: "The basic fear of foreign investors is the threat of nationalisation and the lack of protection in other respects.

"In Bophuthatswana, the principle of free enterprise is written into the constitution, and companies are not burdened with obstructive legislation, rules or regulations. The few laws that still worry us are those inherited on independence, but they will in time be adapted to our situation.

He said the maximum tax on profits for companies other than mining was 38 percent and there was no tax on capital gains or undistributed profits.

Ga-Rankuwa was probably one of the most promising unrestricted industrial development areas in Southern Africa, he said. In time would be commercial development and mining of a vanadium deposit estimated to be worth R6 000 million.

There were 177 industrials stands, and R17 million had been spent on infrastructure. Total amount invested and committed for commerce and industry was more than R70 million, and there were several big projects in the pipeline. Sixteen of the 100 biggest companies in South Africa were operating in Bophuthatswana, he said

Overseas investment was increasing, and many new investments now involved oversas elements of capital and know-how.

Mr Wessels said the concept of competing motor companies joining resources to make components could have great economic advantages.

"It may lead to more standardisation, higher volumes, greater productivity and ower costs. Ultimately, the motoring public will benefit from such cooperation."

The company intends to employ Tswanas not only as factory operators but to train them for many positions.

"In fact, we are demonstrating our sincere desire to share managerial responsibility by inviting a Tswana to serve on our board."

Wesglas, while not unaware that its competitors were established concerns, financially powerful and with well-depreciated assets and sound business relationships, was facing the future with confidence, he said.

Bonus Bond system is 'necessary and desirable' — PFP

GOVT MIGHT SCRAP BONDS

w/c ARGUS 18/6/83 (58)

By TOS WENTZEL,
Political Correspondent

THE Government might scrap its controversial but highly lucrative Bonus Bond scheme which has attracted millions of rands from South Africans in the six years of its existence.

This was the speculation in Nationalist circles today following the renewed controversy over whether revenue from the scheme should be applied for defence purposes only, and also whether the scheme amounts to a form of gambling or not.

Opposed

However, the Progressive Federal Party came out in strong defence of the bonus bond scheme today. The party's finance spokesman, Mr Harry Schwarz, said he was "completely opposed" to the abolition of the bonus bond system.

It was disclosed recently that the money was not used only for defence, as originally stated, but that it went into the general revenue fund.

"The bonus bond scheme is necessary and desirable to deal with the raising of money on loan from the public," Mr Schwarz said.

"The public should, however, be fully informed as to the use to which the money has been put. If it goes into the general revenue fund this should be made clear, or if it goes for defence it should go into a special defence fund."

Today the Nationalist Press speculated that the Government was again taking a thorough look at the whole system.

Since 1977 the bonds have raised hundreds of millions of rands, but some Afrikaans churches have opposed the system because it contains an element of gambling.

No decision

The matter has apparently been seriously discussed in Government circles but no final decision has been taken.

The Minister of Finance, Mr Owen Horwood, is ill and the Director General of Finance, Dr J H de Loor, was not available for comment today.

It is believed that thousands of people refused to participate in the scheme because of its defence association, and that others were strongly motivated to participate for this very reason.

While the Ned Geref Kerk has restated its opposition to the Bonus Bond scheme, the Nederduitsch Hervormde Kerk is to write to the Government expressing its concern that funds from the bonds were not used for defence purposes.

It was announced recently that 21-million prizes worth more than R1 800-million have already been paid since the inception of the scheme in June 1977. About 101 000 prizes worth about R14,4-million are awarded each month.

EVERY CANDIDATE MUST enter in column (1) the number of each question answered (in the order in which it has been answered); leave columns (2) and (3) blank.

Keep the bonds, says Schwarz

CAPE TIMES 20/6/83

By MICHAEL ACOTT
Political Correspondent

THE Opposition finance spokesman, Mr Harry Schwarz, leapt to the defence of bonus bonds yesterday with an appeal to the government not to abandon the prize-draw scheme.

Mr Schwarz criticized the weekend statement by the Prime Minister, Mr P W Botha, which has cast doubt over the future of the five-year-old project.

Mr Botha's surprise announcement that the scheme might be abandoned follows renewed controversy about bonus bonds, instituted to help fund increased defence spending

Conservative Afrikaans circles condemned the scheme at the outset as a lottery, while it was attacked from the left as paying for the defence of apartheid. Then a parliamentary committee on which Mr Schwarz served disclosed that proceeds were paid into general government funds and were not used exclusively for defence.

This led the Conservative Party leader, Dr Andries Treurnicht, to issue a statement saying the bonus bond scheme verged on an unacceptable State lottery.

'Not committed'

Mr Botha said at the weekend that the government was not committed to the bonus bond scheme and was prepared to drop it if a better way could be devised of financing defence and other State needs.

Earlier this month the scheme was vigorously defended by the Minister of Finance, Mr Owen Horwood, who said "excellent" results had enabled increased defence spending without major tax increases or drastic cuts in other State expenditure.

Mr Harry Schwarz

Mr Schwarz, whose original suggestion led to the institution of bonus bonds, said Mr Botha's statement had done the worst thing for any investment — undermined confidence in it

People were now thinking about redeeming their bonds and he asked what would happen to bond sales when post offices opened today

Mr Schwarz appealed to Mr Botha and Mr Horwood to restore confidence in bonus bonds by stating at the earliest opportunity that the scheme would continue.

He suggested that the money be used specifically for defence by channelling it into the Special Defence Fund, which was now properly audited and "in order" after the problems of the Information scandal days.

Mr Schwarz said the rise of the CP was possibly one of the main reasons why the government was backing away from bonus bonds.

"The government is over-sensitive and is over-reacting. In the last two elections nobody has really voted against the National Party because of bonus bonds."

Stake not lost

The lottery argument had died away until revived by the CP. Bonus bonds were not a lottery because the original stake was not lost. All that happened was that part of the interest payable was set aside for prize draws.

Mr Schwarz said nearly R600-million had been invested in bonus bonds.

Apart from finding other sources of funds for defence, the government would have to borrow money to repay these bonds if the scheme were to be abandoned. This could mean higher taxes, a compulsory loan levy or a new issue of government stock which might affect interest rates.

Mr Schwarz dismissed as ridiculous Mr Botha's contention that bonus bonds had been instituted by a previous govermnent. It was a Nationalist government in which both Mr Botha and Mr Horwood had served, he said.

● **Bonus bond probe, page 2**

Churches opposed

(Cont'd from Page 1)

would approve an alternative method of raising funds for the Government, provided this had no gambling associations.

A spokesman for the Presbyterian Church in South Africa said his church had not taken a stand.

"We are deeply involved in issues in South Africa which we feel to be of much greater importance than the Bonus Bond controversy," he said.

SUPPORTED

"For this reason we have not discussed Bonus Bonds at all."

The only Afrikaans church which supported the bonds, the Nederduitse Herformde Kerk, might reconsider its support.

Professor J P "Bart" Oberholzer, chairman of the Commission of the General Assembly of the church, said the commission was concerned that Bonus Bond funds did not go solely to defence.

He said the fact that the funds were to go to defence had played a great part in his church's original stand. The commission would ask for a "plain explanation" on why the public had been told of the change in the funds only after such a long time.

RENEWED

The Rev Austin Massey, general-secretary to the citizenship department of the Methodist Church, said they had taken a decision in 1930 to "vigorously oppose" lotteries of any kind, including state lotteries and premium bonds.

'Bonds ideal to aid SADF'

By Tos Wentzel
Political Correspondent

THE Opposition today again called on the Government to retain Bonus Bonds and end uncertainty about the system.

Mr Philip Myburgh, the Progressive Federal Party's chief spokesman on defence matters, said in a statement that the sale of Defence Bonus Bonds was the ideal way of making funds available to the Defence Force to acquire modern equipment and to update systems which had become obsolete.

WORRY

"Many members of the public are now worried and confused because of the deceptive way in which the Government initially created the impression that Bonus Bonds were to be used exclusively for defence purposes, only to learn that the money is also being used to prop up apartheid regulations.

"By placing bonds under the control of the Special Defence Account, the money will be paid into the fund which is used exclusively for the purchasing of defence equipment. No deception will be possible, and the Special Defence Account will administratively be fully accountable for the money.

NO DOUBT

"When the Defence Bonus Bond scheme was launched there was no doubt that the money

(Turn to Page 3, col 1)

Bonds

(Contd from Page 1)

scheme. "They are always inviting you to guess the number of beans in a jar at church bazaars or the weight of various objects, all for prizes," said a caller.

A UCT student, Mr Richard Gosnell, said Bonus Bonds should continue to be sold — as long as the proceeds were not used for the Defence Force. "Too much of the country's capital goes on defence," he said.

Most people were full of praise for the scheme.

"It's the finest thing in the country — I always look forward to the monthly draw," Mr J Moolman, of Kuils River, said.

Mr M Kleyn, of Parowvallei, said Bonus Bonds were the "poor man's hope" and did not "take all of a person's money like horse racing."

Mrs R Ross, of Rondebosch, said Bonus Bonds were one of the best investments available. The bond holder's money was always 100 percent safe and interest of five percent was paid.

"The draw is something to look forward to every month," said Mrs L du Plooy, of Standfontein.

● A spokesman for the Bonus Bond scheme said there had been no rush to cash in bonds.

Best
t way to raise State money; better than racing, say Argus readers

Save the Bonds!

Argus 21/6/83

Staff Reporters

KEEP the Bonus Bonds! That's the message to the Government from Argus readers who swamped our switchboard for hours to give their views.

Of more than 200 readers who managed to get through to the newsdesk, only 20 said they thought the scheme should be abolished.

All the rest said: "Keep the Bonds!" And more calls were coming in today.

Most readers who telephoned have no objection to the money raised by the bond scheme being used for purposes other than defence.

Many believe this is desirable.

A woman who said she was a doctor of literature and a "P W Botha person" as well as a member of the NG Kerk, said it would be "ridiculous" to cancel the Bonus Bond scheme as it did so much good.

"If they allow horse racing why not Bonus Bonds?", she asked

Taxes up

Very few people said they could think of a better way to raise money for State projects

Many said they were sure taxes would go up if Bonus Bonds were scrapped

The attitude of some churches towards Bonus Bonds was severely criticised by several callers.

"Not everybody believes in churches — why should they get the final say on such issues," Mr A Butler, of University Estate, said

Not hungry

Mr P T Burger of Belhar said he was a Christian but did not agree with the stand taken by some churches.

"Families don't go hungry because of Bonus Bonds, people don't lose money like they do with horse racing," he said.

Others accused the Ned Geref Kerk of being "hypocritical" because of its opposition to the

(Turn to Page 3, col 1)

Call to end bonds confusion

(Contd from Page 1)

was to be used exclusively for defence purposes.

"Even national servicemen and Citizen Force members invested their money with enthusiasm because they were made to believe that by so doing they were making a further contribution to defence.

"Many of these young men are livid at the realisation that they were misled by the Government.

"Any suggestion to stop the sale of Bonus Bonds must be resisted.

Pleas for end to 'bungle' on bonds

CAPE TIMES 21/6/83 58

Political Correspondent

OPPOSITION pressure for retention of the bonus bond scheme mounted yesterday as party spokesmen accused the government of bungling and deception.

Both the Progressive Federal Party and the New Republic Party said bonus bonds should not be abolished merely because the government had failed to explain that not all the proceeds were used for defence.

They said the government should pay the money into a special fund for defence purposes instead of jeopardizing a popular and worthwhile project.

The chief opposition defence spokesman, Mr Philip Myburgh (PFP Wynberg) and the NRP leader, Mr Vause Raw, said the bond system should be put on a sound footing, not abolished.

The opposition finance spokesman, Mr Harry Schwarz, said opponents of defence bonds should realize that the alternatives were higher taxes or reduced spending on defence and social services.

Their strong reaction followed a statement by the Prime Minister, Mr P W Botha, that bonus bonds were unpopular in church circles and would be abolished if the government could devise a suitable alternative way of financing defence and other State requirements.

Controversy

Mr Botha's statement came after renewed controversy about the defence bond system when it emerged that the money was not used exclusively for defence but was paid into general government funds.

Conservative opponents, whose objections to what they saw as a prize-draw lottery have been overcome by their patriotic support of defence projects, then repeated their criticism of the scheme.

Mr Myburgh said yesterday that defence bonus bonds were an ideal way of enabling the Defence Force to buy modern equipment and update obsolete systems.

'Worried'

People had become worried and confused on learning that the money was being used "to prop up apartheid regulations". They included young servicemen who had invested enthusiastically and were livid at learning that they had been mis-

Prince William, who turns one today, with Princess of Wales, in an official photograp William's parents are on a tour of Can birthday. ● 'Defiant' visi

ROMENS
WINTER SELL-OUT
STARTS TODAY
DON'T DARE

Three UK joggers die

LONDON. — Three middle-aged runners had died yesterday in "fun run" marathons staged on the hottest day of the year in many parts of Britain, organizers reported yesterday.

John Juliff, 50, collapsed from an apparent heart attack into the arms of a friend after completing 19km of a 21km run at Colchester.

Mr Barry Norris, 45, collapsed after running 5,6km at Sheffield. He revived briefly after a policeman gave him

Cape July '

By INTUITION

THE Cape-trained gre Stella Maris is thi year's "dream horse for the Rothmans Jui which has inspired su port from small punter throughout the country

One Natal punte stands to win R250 000 the dream comes true.

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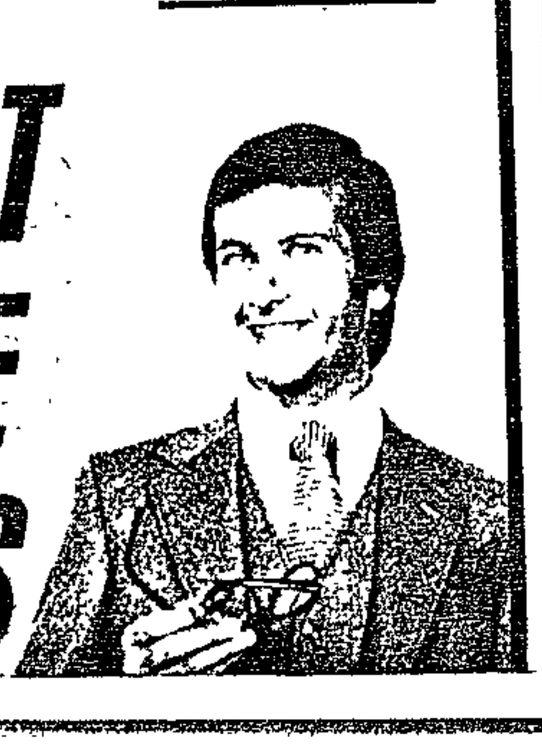
"Any suggestion to stop the sale of bonus

➡➡➡ To page 2

Prince William, who turns one today, with his fa Princess of Wales, in an official photograph tak William's parents are on a tour of Canada a birthday. ● 'Defiant' visit by

ROMENS
WINTER SELL-OUT
STARTS TODAY
DON'T DARE MISS



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Mr Barry Norris, 45, collapsed after running 5,6km at Sheffield. He revived briefly after a policeman gave him heart massage but died soon after being taken to a hospital.

Mr Thomas Collins, 56, died at Newcastle-On-Tyne, 3,2km after starting to run. — Sapa-AP

Cape g July 'di

By INTUITION

THE Cape-trained grey Stella Maris is this year's "dream horse" for the Rothmans July which has inspired support from small punters throughout the country.

One Natal punter stands to win R250 000 if the dream comes true.

Last year the "dream woman from the Free State" correctly predicted Jamaican Rumba's victory, resulting in one of the biggest betting coups in the race's 86-year history.

A syndicate of about 50 reportedly won more than R800 000 on Gail

CAPE TIMES 21/6/83

bonds must be registered." Mr Myburgh said

Mr Raw said the government had an unhappy knack of getting itself into a mess, even when there was no need to do so

"All that was necessary was an acknowledgement that the sales campaign may have been misleading. Instead they have tried to wriggle and explain to the stage that the bonds themselves may be in jeopardy"

Mr Schwarz said the net investment in bonus bonds at the end of last year was just over R500-million, with purchases estimated at about R150-million a year.

He asked: "Are people opposing bonus bonds advocating that taxation should be increased to provide this extra R150-million each year, or are they suggesting we should cut back on defence, housing or pensions?"

● Leading article, page 8

Cape Times 23/6/83 58

SAB negotiates $150m loan for future projects

By JOHN MULCAHY

JOHANNESBURG. — South African Breweries has negotiated $150m in offshore medium-term credit facilities to be used for future projects.

The total loan is for seven years, the first three years being treated as a revolving facility, and fixed for the remaining four years

In both cases the terms are at rates of less than one percent above Libor (London interbank offered rate), which is currently at about 10 percent.

Facilities

A SAB spokesman said yesterday the facility was not aimed at any specific project now, although later on it may be set aside for a particular programme or scheme.

The chief executive of SAB, Mr Dick Goss, says in his annual review the group's policy of securing appropriate facilities ahead of project commitments was more than justified in the favourable terms obtained on the offshore facility.

He says SAB's borrowing facilities are now comfortably in excess of requirements.

Mr Goss says SAB's investment focus will be placed on expanding its existing business base through organic growth, without resorting to major acquisitions "unless unique opportunities offer themselves within the existing areas of focus".

Overseas investment exposure will be limited to no more than 10 percent of group net assets, and the business mix, which has the beer division providing about half of SAB's attributable earnings, is regarded as an optimal portfolio balance.

In spite of depressed conditions SAB will continue its capital investment programme in the current year, says Mr Goss, and in the beer division, capacity expansion "remains a commitment to ensure that the market demand for quality beers is satisfied at all times, to an increasing degree from larger breweries".

Southern Sun's existing hotels are constantly being renovated and refurbished to maintain high standards, while opportunities to erect strategically sited large hotels will also be pursued.

The group's retail interests will seek to increase their penetration by continuing to relocate and enlarge existing stores, although expansion through new stores will be undertaken at a slower pace.

"As in the past, operating leases will be concluded for all the retail and general purpose property requirements.

"On the other hand, the durable and semi-durable manufacturing activities will continue to trade from existing capacity with no expansion planned."

Group budgets

Mr Frans Cronje, SAB's chairman, says group budgets indicate a capability of matchings earnings a share for the full year, but if the accelerating downtrend in private consumption expenditure does not level out by the middle of the current year it will be difficult to meet budgeted performance.

Trading conditions were especially difficult last year and 1983 has opened with what appears to be an accelerating downtrend in consumer spending, a key determinant of SAB's activity.

More discussions with church groups in August, Schwarz told

Bond assurance

ARGUS 24/6/83
58 250

By TOS WENTZEL,
Political Correspondent

THE GOVERNMENT had not so far been prepared to consider abolishing the Bonus Bond scheme, the Deputy Minister of Finance, Mr E Louw, told the Assembly today.

Answering questions put by Mr Harry Schwarz, he said that churches and other parties had on various occasions made representations concerning the abolition of Bonus Bonds.

The objections were mainly scriptural.

"While the Government has at all times recognised the right of those concerned to hold divergent views on the bonds, it has thus far not been prepared to consider the abolition of the scheme," he said.

Mr Louw said gross investments in the scheme up to May 31 amounted to R877 009 360 of which, on the same date, R539 543 505 was outstanding.

Statement

He referred to the recent statement by the Prime Minister, Mr P W Botha, in which Mr Botha had said that if the Government could devise a better way if financing defence and other needs it would not regard itself bound to continue with Bonus Bonds.

He indicated that he would have further discussions with church groups in August.

Mr Louw turned down all other Opposition questions by referring to the statement and saying that, until the Government had arrived at a decision, no further statements would be made.

Controversy erupted over Bonus Bonds a few weeks ago when it was disclosed that money raised by the Bonus Bond scheme did not go only to defence, as was widely believed.

Instead it was made clear that the proceeds were available for various State departments.

Misled

These disclosures led to allegations from the official Opposition that the public had been misled.

This was supported by remarks by the Secretary of the Treasury, Mr R P Wronsley, conceding that a "misapprehension" had been created in the marketing of Bonus Bonds.

Although the Opposition criticised the manner in which the Bonus Bond scheme had been presented to the public, it strenuosly opposed suggestions that the scheme should be abandoned.

A poll of Argus readers showed overwhelming support for the Bonus Bond scheme.

Bonanza

PRETORIA. — The current R10 000 Bonus Bond Bonanza has been won by certificate 1807152022, bought at the Gobabis post office in SWA/Namibia. — Sapa.

(127)(58) DM 24/6/83

UBS prepared to lend R100m a year

AT LEAST R100-million a year! That is the amount the United Building Society is prepared to make available to people who want to buy their rented houses when the Great House Sale starts some time in July

Mr P W Sceales chairman of the UBS, told the society's annual meeting in Johannesburg yesterday that the UBS had told the Department of Community Development it foresaw no difficulty in making at least R100-million available to would-be buyers of the 500 000 houses which are being offered, at up to 40% discount, to their tenants.

"We are satisfied that the houses, although austere, are perfectly acceptable as security in that we have no doubt there would always be willing buyers for such properties at the indicated price levels and they do represent solid, permanent structures" Mr Sceales said

He said the success of the scheme, devised by the Urban Foundation in Katlehong, on the East Rand, had shown it was possible for a black community to acquire their own homes at prices they could afford "without the need to insist on elaborate structures with very high standards of finish"

Mr Sceales said the shortage of surveyed stands for new buildings for urban blacks was "alarming".

"When one sees and hears all the problems with shackdwellers, it is apparent that the highest priority should be given by the authorities to making surveyed stands available on a massive scale without delay," he said

EXPOSED: JSE SCANDAL

A SCANDAL involving millions of rands is about to burst upon South Africa's financial community.

An investigation has uncovered widespread irregularities — which occur almost daily — in the normally staid and conservative gilt-edged securities market.

Fortunes have been made by operators who deal, theoretically, with other people's money without risking a cent of their own.

At the Johannesburg Stock Exchange this week, stories abounded of relatively junior employees moving into or near the millionaire bracket after operating for only a few years.

Irregular

One clerk, the Sunday Times was told, cheerfully signed a personal cheque for more than R500 000 when confronted by his superiors.

Inquiries by officials of the JSE and the office of the Registrar of Financial Institutions have established that stockbrokers, bank officials and employees of life insurance companies are among the people involved in the irregular, and in some cases possibly fraudulent, trade.

Because of the huge sums involved (gilt-edged stock rarely trades in packages of less than R100 000, and more frequently deals are well over R1-million each), the profit on a parcel of gilts can be considerable, even if there has been only a fractional shift in the interest rates.

It is this opportunity to skim off and retain profits which has apparently tempted individuals to deal for their own account without informing their broking firms or companies.

The value of gilts (which are fixed-interest securities) is determined by the movement of interest rates in the market.

When interest rates rise, their price falls.

Once a deal has been struck, payment can be delayed for up to nine weeks after the transaction.

This system of delayed payment has enabled individual dealers to buy bonds for their own account and to make handsome profits when interest rates fall and the prices of gilts go up.

For example, an individual who bought R1-million worth of stock when interest rates were at 14,75 percent and sold the same stock when the rates fell to 11 percent, would enjoy a tax-free capital profit of R200 000 — without investing a cent.

'Gingerbread'

The bigger the amount involved, the greater the potential profit, so dealers operating on their own accounts may not have limited themselves to "small" deals of around R1-million.

As one commentator put it: "They were taking the gingerbread off the gilts."

A JSE investigation was launched two months ago after the collapse of Gilt Acceptances, a non-banking company which operated extensively in the bond market, where vast fortunes are traded in government and quasi-government stock.

The collapse of Gilt Acceptances cost the stockbroking community alone an estimated R2-million. At least one institutiuon, Norwich Union, was also hurt.

According to reliable sources interviewed by the Sunday Times this week, follow-through investigations have revealed that malpractices extend much further than was at first suspected.

"Gilt Acceptances was just the tip of the iceberg," said one stock exchange source yesterday.

Three accredited members of the JSE (partners of broking firms) and more than 10 clerks resigned shortly after the interim report of the investigation was made available to stockbroking firms.

Since then, much more information has come to light and the tenacity displayed by the investigators suggests that a fullscale purge is on the cards.

The president of the JSE, Mr Paul Ferguson, and the Registrar of Financial Institutions, Mr Naas van Staden, were not available for comment yesterday.

Trust

Clerks, or dealers, operating in South Africa's bond market are given absolute trust by their companies.

Although, theoretically, the dealers are required to record every deal made, the investigations have revealed that, in many instances, this was not done.

As rates on the bond market fell sharply between August last year and the end of the first quarter of 1983 — and given the nine-week settlement period which provides protection against any hiccups in the overall trend — the potential profits were huge.

The bond market, also called the gilt or capital market, involves the trading of paper securities issued by the government and quasi-government bodies in return for loans from the private sector.

Since life insurers are compelled to invest 53 percent of all pension fund monies and 33 percent of all other funds invested with them in gilt-edged securities, trading in the bond market is understandably huge.

On the JSE alone, some R16 640-million worth of bonds were traded during 1982.

Dealers making a fortune in gilt-edge skim-off

Huge stock fiddle

From Page 1

By ALEC HOGG

The JSE coat-of-arms . . . it's motto: "My word is my bond."

NATS' BANKERS SCORE AGAIN!

(58) S. Express 26/6/83

By MIKE CADMAN

THE Government's favourite bank, Volkskas, has emerged as the main beneficiary of the Johannesburg city council's R30-million plan to 'save Ellis Park' at the expense of the taxpayer.

The TRFU has been crippled by the cost of the immense debt incurred to build the magnificent Ellis Park stadium. It cannot even pay the 20% interest on the loan and is facing bankruptcy.

The rescue plan put forward by Mr Francois Oberholzer, chairman of the management committee, is simple:

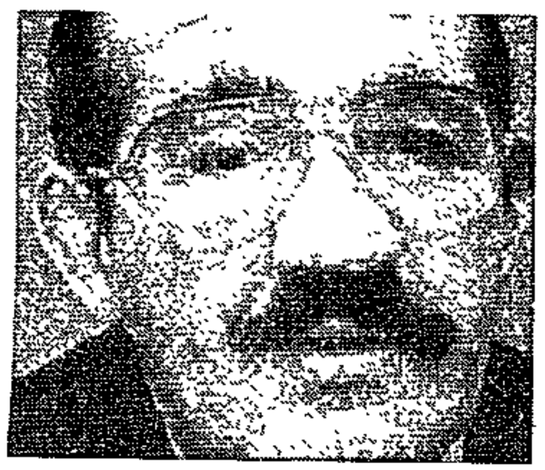
☐ First, the law would be changed to enable Johannesburg to borrow about R30-million abroad on behalf of the TRFU.

☐ Most of the cash — about R27-million — would be handed over to Volkskas, freeing it of the threat that the TRFU might default on repayments.

☐ The TRFU, which has already had difficulty paying off R100 000 due to the city council, would then be expected to repay the new loan plus interest.

☐ If the TRFU defaulted, the Government would be expected to make good the shortfall.

● Francois Oberholzer — acknowledges Government help needed.



● Geoff Stark — he has challenged estimates as unrealistic.

The effect would be to transfer Volkskas's bad debt to the taxpayer.

Mr Oberholzer acknowledged this week that the Government could end up subsidising the TRFU for at least 10 years, but he thought the TRFU could cope with repayments in 15 years.

However, Mr Geoff Stark has challenged these estimates as unrealistic. He said the president of the TRFU, Mr Jannie le Roux, had gone to "his political friends" to get money for Ellis Park.

Mr le Roux, like most members of the Cabinet, is a prominent member of the Broederbond. In past years, many Nationalist councils and institutions transferred official accounts from other banks to Volkskas.

The Government frequently uses Volkskas's services — and Volkskas was the main bank used for the Info secret operations.

"Why don't they just let the TRFU go bankrupt like any business?" Mr Stark asked. "The council could then repossess the land and we could start from scratch again."

The Local Government Ordinance No 17 of 1939, as amended, forbids local authorities to

To Page 2

P.T.O.

Cosas newsletters. — DDR

Cheque duty now 5c

JOHANNESBURG — Stamp duty on cheques, drafts, travellers cheques, sight bills and promissory notes will be raised to 5c from 3c from July 1.

Cheque forms bought from banks before July 1 and negotiated after that date will not be affected but customers will pay the additional stamp duty on cheque books bought after July 1 irrespective of whether the cheques are franked 3c or 5c duty paid.

Revenue stamps should not be stuck on cheque forms as this will tend to jam the electronic equipment.

Users of suppliers cheques must make arrangements for the additional 2c duty to be franked on them. — DDC.

CAPE TIMES 29/6/83

Development Bank launch tomorrow

Political Correspondent

THE Southern African Development Bank, a R2 000-million project aimed primarily at assisting the independent homelands, is to be launched in Cape Town tomorrow.

The Prime Minister, Mr P W Botha, and leaders from Transkei, Bophuthatswana, Venda and Ciskei are among the dignitaries expected at the function in the Civic Centre.

The decision to launch the bank, announced by Mr Botha himself in 1980, is an essential part of his plan for a "constellation of states", an economic commonwealth of South Africa and former homelands.

After several delays, final agreement was reached at a meeting between South Africa and the four states involved in November 1982. The target launch date was September 1 this year.

Guidelines

Mr Botha told Parliament in February that non-independent homelands had also accepted guidelines for the formation of the bank.

"The agreed objectives of the bank can be summarized as the promotion of economic development, increased productivity and improved levels of living in particular in the less developed parts of the region covered by its membership," he said.

"These objectives are to be pursued through the more effective mobilization and application of human and financial resources for development."

The bank would not compete with the private sector but would supplement and support it.

The project is also designed to counter the flow of people from homelands to the four main economic centres in South Africa by stimulating economic development and industrial deconcentration in the homelands themselves.

Anglo-Old Mutual rift widens

30/6/83

By BRENDAN RYAN

THE resignation of Dr Jan van der Horst, chairman of the Old Mutual, from the board of Anglo American Corporation is seen as a further widening in the rift between these two huge investment groups.

Dr Van der Horst resigned at the beginning of last week. Both he and the Old Mutual's managing director, Mr Frans Davin, are overseas and could not be reached for comment yesterday.

A spokesman said Anglo's chairman, Mr Gavin Relly, greatly regretted the resignation of Dr van der Horst.

Mr Relly had nothing to add to this comment and was not available to be interviewed.

Dr Van der Horst was invited to join the board of Anglo by Mr Harry Oppenheimer in August 1980.

He was one of five outside directors invited on to the board. The aim was to bring in people whose experience had been gained outside the immediate field of Anglo's operations.

The Old Mutual holds 7% of Anglo, but this is not enough to command a seat on the board and no other Old Mutual appointee will take Dr Van der Horst's place.

The resignation is the result of a growing conflict of interest between the business of Anglo and Old Mutual

This may go back back to the deal which put control of major food company Tiger & Sugar Holdings firmly in the Barlow Rand camp.

Old Mutual recently swopped its stake in Tiger & Sugar for Barlows shares, taking its Barlows holding to 24,8%, which compares with an Anglo holding in Barlows of 13,4%.

It is believed this is one of the factors which led to the deal in May this year whereby control of South Africa's other major food group, Premier, went to a consortium of JCI, Anglo and Liberty Life.

The consortium also put its combined stake in South African Breweries into the new Premier group and Anglo, through its direct 20% stake in Premier and indirect stake through 39,7%-held JCI, has moved well ahead of Old Mutual as the largest shareholder in SA Brews.

Two aspects of this deal could have upset Old Mutual. After JCI it was the largest shareholder in SA Brews, but was left out of this deal which also demonstrated the growing relationship between Anglo and the Liberty Life insurance group.

Knowledge of the negotiations that took place over the Premier deal was probably restricted to the executive committee of Anglo's board, of which Dr Van der Horst was not a member.

This action by Anglo may have been a major factor leading to his resignation when added to the growing conflict of interest between Anglo and Old Mutual that the deal represented.

Another factor which may have influenced Dr Van der Horst is the possibility of a link-up between Liberty Life and Anglo American Life Should it take place, it would be a formidable competitor for the Old Mutual in its own field of business.

The negotiations through which Old Mutual bought control of Rennies from Jardine Matheson followed close on the heels of the Premier deal.

Old Mutual paid what was generally seen as inflated price for the shares and made a fundamental change to its business philosophy by going for control. Previously it was content to take minority holdings in its investments.

Old Mutual's minority holdings extend throughout the Anglo group and include 4,7% of De Beers, 6,2% of Anamint which is a major shareholder in De Beers, 7% of Anglo, 6,9% of Amcoal, 6,4% of JCI, 7,3% of LTA, 3% of Southvaal Holdings, 2% of Rustenburg Platinum and 1,7% of Vaal Reefs.

At the time of Rennies deal it was suggested by some observers that other institutions were bidding keenly against Old Mutual and that one of them was Anglo. This would not have improved Old Mutual's relationship with Anglo.

Van der Horst resigns from Anglo board

By BRENDAN RYAN

JOHANNESBURG. — The resignation of the chairman of the Old Mutual, Dr Jan van der Horst, from the board of Anglo American Corporation is seen as a further step in the polarization between these two huge investment groups.

Dr van der Horst resigned at the beginning of last week. Both he and the Old Mutual's managing director, Mr Frans Davin, are overseas and could not be reached for comment yesterday.

An Anglo spokesman said yesterday that the chairman, Mr Gavin Relly, greatly regretted the resignation of Dr van der Horst.

Mr Relly had nothing further to add to this comment and was not available to be interviewed.

Dr van der Horst was invited to join the board of Anglo by then chairman, Mr Harry Oppenheimer, in August 1980.

He was one of five "outside" directors invited onto the board with the purpose of bringing in people whose experience had been gained outside the immediate field of Anglo's operations.

Shareholding

The Old Mutual holds seven percent of Anglo but this shareholding is not enough to command a seat on the board and no other Old Mutual appointee will take Dr van der Horst's place.

The resignation is believed to be the end-result of a growing conflict of interest between the business of Anglo and Old Mutual.

This may go back back to the deal which put control of major food company Tiger & Sugar Holdings firmly in the Barlow Rand camp.

Old Mutual recently swopped its stake in Tiger & Suger for Barlow's shares taking its Barlow holding to 24,8 percent which compares with an Anglo holding in Barlows of 13,4 percent.

Consortium

It is believed this is one of the factors which led to the deal in May this year whereby control of South Africa's other major food group, Premier, went to a consortium of JCI, Anglo and Liberty Life.

The consortium also put their combined stake in South African Breweries into the new Premier group and Anglo, through its direct 20 percent stake in Premier and indirect stake through 39,7 percent held JCI has moved well ahead of Old Mutual as the largest shareholder in SAB.

Two aspects of this deal would have upset Old Mutual. After JCI they were the largest shareholders in SAB but were left totally out of this deal while it also revealed the growing relationship between Anglo and the Liberty Life insurance group.

Restricted

Knowledge of the negotiations that took place over the Premier deal was probably restricted to the executive committee of Anglo's board of directors of which Dr Van der Horst was not a member.

This action by Anglo may have been a major factor leading to his resignation when added to the growing conflict of interest between Anglo and Old Mutual that the deal represented.

Another factor which may have influenced him is the possibility of a link-up between Liberty Life and Anglo American Life which, should it take place, would create a formidable competitor for the Old Mutual in its own field of business.

The negotiations through which Old Mutual bought control of Rennies from Jardine Matheson followed close on the heels of the Premier deal.

Inflated price

Old Mutual paid what was generally seen as inflated price for the shares and further made a fundamental change to its business philosophy by going for control.

Previously it was content to take minority holdings in its investments. The insurance group's minority holdings extend throughout the Anglo group and include 4,7 percent of De Beers, 6,2 percent of Anamint which is a major shareholder in De Beers, seven percent of Anglo, 6,9 percent of Amcoal, 6,4 percent of JCI, 7,3 percent of LTA, three percent of Southvaal Holdings, 2 percent of Rustenburg Platinum and 1,7 percent of Vaal Reefs.

At the time of Rennies deal it was suggested by some observers that other institutions were bidding keenly against Old Mutual and that one of them was Anglo which would also not help Old Mutual's relationship with the mining house.

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes.

Development Bank agreement signed

By JOHANN POTGIETER
Political Correspondent

CAPE TOWN — The Development Bank of Southern Africa — the first confederal institution established in terms of Government policy — was formally launched at a ceremony in Cape Town today.

The South African Prime Minister, Mr P W Botha, and the four "independent" black states — Ciskei, Transkei, Venda and Bophutatswana — signed the articles of agreement of the bank, which has a total initial subscription of R2 000 million.

In his address Mr Botha said the bank would "play a crucial role in promoting an acceptable rate and pattern of economic development in Southern Africa".

It would, further, "provide a visible demonstration of the desire and the ability of governments in Southern Africa to join each other in decision-making, on a consensus basis, about matters of common concern".

The Prime Minister of Transkei, Chief George Matanzima, opened the signing ceremony with a prayer in Xhosa In his address he said the recent Northern Transvaal by-elections had given the Government a mandate to embark on a course of reform

"We are gathered here in a real sense to strengthen that mandate for the sake of stability in Southern Africa," he said.

"In view of its dominant position," Chief Matanzima said, "the steps of political, economic, and social reform taken in South Africa will play a key role in the realisation of this prosperity".

He said the current efforts to step up economic development of the four states "cannot now, or in the foreseeable future, be seen as an alternative to the employment of substantial numbers of our work-seekers inside South Africa".

President Lennox Sebe of Ciskei said the bank was "the great bank of hope", but he criticised the decision to locate the headquarters of the bank in Johannesburg

President Patrick Mphephu of Venda said the countries' economies badly needed the transformation that would be made possible by the bank.

The Bophuthatswana Minister of Public Works and Water Affairs, Mr M A Kgomengwe, who attended on behalf of President Lucas Mangope, who is ill, said the establishment of the bank would enhance "peaceful stability".

The ceremony was attended by several Cabinet members, the Leader of the Opposition, Dr F van Zyl Slabbert MPs and various other dignitaries

The Minister of Finance, Mr Owen Horwood, was unanimously elected president of the bank's council of governors.

Dr Simon Brand, formerly head of the Prime Minister's Economic Advisory Council, was elected to the post of chief executive

The following governors were appointed to the council: Dr Piet Koornhof, Mr Chris Heunis, Mr Pik Botha, Dr Dawie de Villiers, Dr G P C de Kock (all of South Africa) Mr S M Qaba (Transkei), Mr S L L Rathebe (Bophuthatswana), Mr Gota F N Ravele (Venda) and Chief M E P Malefane (Ciskei).

Alternate governors are Mr K G Nota (Transkei), Mr R Cronje (Bophuthatswana), Mr Gota E R B Nesengani (Venda) and Mr I Melville (Ciskei).

Parliament and Politics

1/7/83

Parliament and Politics

Cape Times ~~1/6/83~~ (58) ~~(01)~~ ~~103~~ ~~200~~ ~~206~~ 6

Matanzima: Development 'no alternative'

Political Staff

CURRENT efforts to step up the economic development of the independent homelands should not be seen as an alternative to the employment of many blacks in South Africa, the Prime Minister of Transkei, Chief George Matanzima, said yesterday at the City launching of the Development Bank of Southern Africa.

Consultations in the manpower field would have to include pressing issues such as a loosening rather than a tightening of influx control measures.

Addressing the South African Prime Minister, Mr P W Botha, and other top government officials at the ceremony at the Civic Centre, Chief Matanzima warned that econonomic progress could easily be undone if reform in South Africa "neglects to accommodate the legitimate aspirations of all its people, including those blacks who are permanently resident in the urban areas ...".

● Signing of the articles of agreement of the Development Bank of Southern Africa was a logical and essential step at this stage of the evolution of development co-operation in Southern Africa, Mr Botha said.

Describing the signing as "an historic occasion", Mr Botha said it represented the culmination of an intensive process of planning and negotiation which started at the time of the Carlton Conference in November 1979, when the idea of establishing a development bank was first broached at government level by himself and others.

"It also represents the start of a new phase in co-operation on economic development between Southern African States.

He said that in preparing the ground for the Development Bank much was learned from the experience with development banks elsewhere in the world.

"However, in several respects the uniqueness of Southern Africa had to be taken specifically into account, and this meant that models developed elsewhere could not simply be taken over without substantial adjustments.

"In particular, the close historical, geographic and functional interdependence between the States which are to participate in the development of Southern Africa, had to be reflected in the structure and procedures designed for this institution."

The bank will be a multilateral institution with the Republics of South Africa, Transkei, Bophuthatswana, Venda and Ciskei as original members.

Other independent States in Southern Africa might also become members, while the self-governing non-independent national States would participate as constituent parts of the South African Republic, according to a press statement issued at the signing ceremony by the participating heads of government of the bank's articles of agreement.

The bank would support economic development mainly by granting loans and providing technical assistance and training.

● The bank was a challenge and a promising experiment towards furthering the economic development of Southern Africa, said the Minister of Finance, Mr Owen Horwood, who was unanimously elected president of the council of governors of the bank.

Speaking at the press conferenc signing ce said he had dence in achieving it moting heal developmen Africa.

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Parliament and Politics

Development 'no alternative' to jobs in SA

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● The bank was a challenge and a promising experiment towards furthering the economic development of Southern Africa, said the Minister of Finance, Mr Owen Horwood, who was unanimously elected president of the council of governors of the bank.

Speaking at the press conference after the signing ceremony, he said he had every confidence in the bank achieving its goal of promoting healthy economic development in Southern Africa.

Mr Horwood said the Development Bank would open formally on September 1 this year.

● The President of Ciskei, Chief Lennox Sebe, yesterday criticized the decision not to establish the headquarters of the Development Bank of Southern Africa in one of the four independent black States.

He said that by basing the bank in Johannesburg, a "golden" opportunity to promote it as a truly multilateral confederal institution to the rest of the world "sadly" had been sacrificed to convential interests.

Speaking at the official establishment of the bank, Chief Sebe said Ciskei had hoped that the inauguration of the bank would have made a significant impact on the international political arena.

It was also hoped that it would have been seen by the world as an "unqualified and geniune" commitment of the South African Government to a constructive programme of development in all the developing States in the region.

While the bank might still fulfil this purpose and achieve these objectives, a golden opportunity had been lost through not siting its headquarters in an independent State. — Political Staff and Sapa

A layman's guide to the

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JOHN MULCAHY looks at the increasingly acrimonous struggle for superiority between the

THE resignation of Dr Jan van der Horst, chairman of Old Mutual, from the Anglo American board of directors, is the surface manifestation of a far deeper and far-reaching clash of the giants.

An analogy can perhaps be drawn with the gunfighters of The Wild West, with An d Mutual reaching the Where South Africa j big enough for both t

There are obvious participants in the show such as Sanlam, Rembrandt, Barlows and Liberty, but at the moment the focus is on Anglo and Old Mutual.

Sanlam, through its control of Gencor, is already an established competitor of Anglo on the mining and industrial fronts, while Rembrandt, although it has strong ties in banking and insurance, through Volkskas and Legal & General, is a relative newcomer to the fight for control of industrial South Africa.

Barlows is firmly in the Old Mutual camp, and is a head-on competitor with Anglo in areas such as mining (Rand Mines), food (Tiger), sugar (CG Smith) and heavy engineering.

Liberty is probably the one company among the bigger groups that will feature prominently in the next round of the confrontation between Anglo and Mutual.

Anglo American's life arm is way down on the list of major South African insurers, and Liberty, with assets of about R2 500-million is well short of the big two insurance companies — Mutual has assets of more than R5 000-million and Sanlam's assets total about R4 000-million.

A merger of Anglo's life business and that of Liberty would put the merged operation very much in the big league, probably edging out Sanlam and about R1 000-million short of Mutual in terms of total assets.

While other areas of competition are obviously of concern to Anglo and Mutual, the insurance company must react directly to any intrusion on its own domain, so that if Anglo does do a deal with Liberty, there will be no possibility of a reconciliation between Mutual and Anglo.

Long-time protagonists, the rift between Anglo and Old Mutual is indicative of the extent to which ownership of the South African investment cake has already been claimed.

What is now happening is a desperate fight for the remaining slices.

An observer remarked recently that there seemed little point in the big institutions gobbling up all the smaller companies, as the time would come when the authorities, in the form of the Monopolies Commission or the Competitions Board, would take their cue from the American anti-trust legislation and force the giants to dismantle their huge Lego sets.

The point, said a stockbroker, is that there will be even more money to be made when the huge groups are dismantled.

It is commonly held that the links which bound Anglo American and Old Mutual really started feeling the strain when Mutual and Barlows restructured the shareholding of Tiger Oats, to give Barlows direct control of the food group and Mutual a bigger stake in Barlows.

Anglo was undoubtedly upset about this deal, as its own aspirations in the food industry were no secret, and the subsequent deal on Premier gave Anglo the stake it had been after in the food industry.

But the roots of the rift could stretch further back, into the middle of last year, when strong rumours were circulating on a possible outside bid for control of De Beers.

At the time Rembrandt was rumoured to have designs on De Beers, and Mutual was said to be a willing ally.

Although neither Anglo nor De Beers commented on the speculation at the time, it emerged late in October that Anglo had bought another 10-million De Beers shares, presumably to fend off unwanted predators, including Mutual and Rembrandt.

This would have been another thorn in Anglo's side, and a stern warning that Mutual should be regarded as a staunch competitor, and no longer an ally.

In May this year, when control of The Premier Group was brought back to South Africa by a consortium comprising Anglo, Liberty and Johannesburg Consolidated Investments, it was said that the deal was concluded to bring back to South Africa a valuable and strategic asset.

This was indeed true, and no-one can deny the inherent value of a controlling stake in one of the country's two food giants.

But it was the second leg of this deal, almost dismissed as an afterthought by the consortium at the time, that really set the cat among the pigeons, and threatened to widen the Anglo/Mutual rift to a chasm.

Officially, the consortium gave the reason for the sion of South African eries in the second leg Premier deal as a option.

By pooling their res holdings in SAB, the tium ended up with 34% of the giant consumer group, colle the biggest individual holder, and effectiv troller of the group.

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Relly keeps SAB and Premier poles apart

the increasingly acrimonous struggle for superiority between the business giants of South Africa

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But it was the second leg of this deal, almost dismissed as an afterthought by the consortium at the time, that really set the cat among the pigeons, and threatened to widen the Anglo/Mutual rift to a chasm.

Officially, the consortium gave the reason for the inclusion of South African Breweries in the second leg of the Premier deal as a financing option.

By pooling their respective holdings in SAB, the consortium ended up with about 34% of the giant liquor and consumer group, collectively the biggest individual shareholder, and effectively controller of the group.

But left on the sidelines was Old Mutual, which before the Premier deal was the biggest shareholder in SAB after JCI.

There had been an unwritten agreement between Mutual and the Anglo group (which controls JCI) over their shareholding in SAB, to the effect that if either party ever decided to dispose of its stake in SAB the other would have first option over the shares.

How far this agreement actually stretched and to what extent it was legally binding is not generally known, but that Mutual treated the consortium's deal on SAB as a slap in the face is undoubted.

The Mutual's deal with Hong Kong conglomerate Jardine Matheson, in which it bought control of Rennies, was said by some to have been a knee-jerk reaction to the Premier/SAB deal, but even if this was not the case, the price paid suggested some motive not immediately apparent.

Will Mutual use Rennies, and particularly Holiday Inn, as a direct assault on SAB subsidiary Holiday Inn? Or will Mutual try to swop a stake in Holiday Inn for additional SAB shares?.

Even the Rennies deal was not without some of the acrimony and distaste that seems to be a feature of the Anglo-Mutual relationship of late.

The reason for Mutual having to pay what many regarded as an exorbitant price for Rennies was due to the appearance on the scene of a competitive bidder — as word has it, none other than the mighty Anglo/JCI

The battle lines are drawn at the top of Anglo and Mutual, but may take longer to unfold lower down the scale, because of the widespread crossholdings and alliances throughout industry.

What is clear is that Dr Van der Horst found his position as a director of Anglo American untenable for a number of reasons.

- Mutual's strong position in Barlows, especially after the deal on Tiger, must have made Dr Van der Horst's position on the Anglo board untenable
- The effective takeover of South African Breweries was engineered by the Anglo executive committee, behind the board's back
- The strong possibility that Anglo and its connections pushed the Rennies price, forcing Old Mutual to pay a high price for the shares.
- Anglo must have a natural desire to have the market leadership in any sector in which it operates, and this includes insurance. A merger of Anglo American Insurance with Liberty would put Anglo/Liberty within range of Mutual's market leadership

For the future, most of the really big areas of South African business have been accounted for.

Anglo is the biggest South African shareholder in Barclays — Mutual has a significant stake in Nedbank. Standard Bank has been close to Liberty since its inception, Volkskas is close to Rembrandt and Trust Bank is owned by Sanlam.

Anglo has Anglo American Insurance and a possible link with Liberty — Mutual is the country's biggest life assurer and then comes Sanlam.

In engineering, Anglo has Amic — Mutual has Barlows.

In food, Anglo has Premier — Mutual has Tiger

In hotels, Anglo has Southern Sun — Mutual has Holiday Inn.

In sugar, Anglo has Tongaat — Mutual has CG Smith.

In paper, Anglo has Mondi, Sanlam, through Gencor, owns Sappi.

Any major asset that becomes available in future is likely to be subject to a tooth-and-nail battle for control, and even companies that now pride themselves on their independence will find that everything has a price.

This was underlined by the price Mutual paid for Rennies, and now that such parameters have been established, battles in future will be fought at high prices

Post Focus

Undercurrents in bank ceremony

Political Correspondent JOHANN POTGIETER writes the first of a series of overview reports and commentaries on the parliamentary session which is now in recess, pending the vital constitutional debate from mid-August onwards. The others of the series will be published next Wednesday, July 6, and Saturday, July 9.

CAPE TOWN — It was entirely appropriate that the last day (the 102nd) of the first part of this "reform" session coincided with the launching here of the development bank of Southern Africa — what President Lennox Sebe of Ciskei called "the first confederal institution to serve Southern Africa".

This, truly, was a gathering of the elite of grand apartheid, both white and black, facing an audience representing not only the political and financial establishments, but also the white opposition parties

Ranged behind the green-covered tables of the five heads of delegation, each with his own lush flower arrangement and his own miniature flag, sat the solemn packs of men in whom apartheid and its legacies have, for the moment, invested power.

Not all the faces in the black delegations were black, by the way. One of the two whites in the five-man group from Bophuthatswana was Mr Rowan Cronje, once a Cabinet Minister in Ian Smith's Rhodesian regime and leader of Rhodesian Afrikanerdom.

In the centre (figuratively as well as literally) sat Mr P W Botha's phalanx — Owen Horwood, the economics professor who guards the coffers of the State; Chris Heunis, the mercurial constitution-maker; Pik Botha, rigidly statesmanlike (with that lifeless stare he has perfected); Piet Koornhof, the grand master of apartheid rhetoric; Dawie de Villiers, the diminutive and frail sometime rugby hero; and the expressionless Dr Gerhard de Kock, the man who signs the bank notes.

And in the front row of the audience facing them were the leaders of the three white opposition parties represented in Parliament, and further back — mixed in among the top finance officials and the Nationalists — were pockets of Progressive Federal and Conservative MPs, straining at times to hear the speeches read behind the green tables.

That afternoon, in the last hours before the adjournment, an indulgent P W Botha gently admonished the Leader of the Opposition, Dr F van Zyl Slabbert, for ridiculing at times the "momentous event" that had played out under Nationalist rule — what the Prime Minister called the "beautiful process" whereby those four states had become independent, and this "biggest attempt ever at the devolution of power in the continent of Africa".

But, said Mr Botha, he appreciated Dr Slabbert's presence at the morning's ceremony, as well as that of the other opposition parties. Talking directly to Dr Slabbert, Mr Botha said this had meant much for the blacks at the ceremony.

The only people who were conspicuously absent from the gathering, in fact, were the coloured and Indian leaders whom Mr Heunis has convinced — partly, at least — that they should join his Government's limited reform exercise, even if they insisted in public that they would not play by its rules.

The most likely reason for their absence was that this ceremony was not the "reform Government" at work. This was the "separate development Government" — the "liberators" of nations, first setting them "free", and then gathering them together in a great, generous multilateral confederation, supposedly unfettered by the horrors of apartheid.

All, of course, did not go smoothly, and Chief George Matanzima, Prime Minister of Transkei, the senior black regime in the protocol of confederation, insisted on crossing some of the wires the Nationalists so studiously keep apart.

Mr Heunis, in each of his marathon discourses in Parliament (at times, after two hours or more, he seemed to have exhausted even himself) has insisted that in his party's view the constitutional development of blacks must proceed along "a different path" and "independence" and "confederation" are presumably vital pointers along that path.

And for the "urban blacks" — those permanently, irrevocably part of the South African economy — a special Cabinet committee had been formed, and it would soon begin deliberations on a wide front, Dr Koornhof said the other day. And in the meantime they will soon elect their own separate local authorities.

No-one knows much beyond that, except that it would, in the Govermernt's eyes, be silly to bring blacks into the tricameral structure since that would require a dozen or more extra chambers to accommodate all the separate "ethnic groups".

(This remains, by the way, one of the grandest pieces of opportunism of the session. There are cultural differences inside the supposedly ethnically homogenous white group far greater than between supposedly separate groups of blacks. Why allow the representatives of Afrikaners, English-speakers, Jews, and naturalised immigrants in the same chamber, if urbanised Xhosas and Zulus, for example, cannot do the same.)

But Chief Matanzima clearly had little respect for the excruciating subtleties of political segregation in an integrated economic world.

"The progress achieved at these multilateral forums can easily be undone if the welcome process of reform in South Africa neglects to accommodate the legitimate aspirations of all its people, including those blacks who are permanently residents of South Africa and have no connection with other independent countries"

But Chief Matanzima went further. Consultations between the five governments, he said, will have to deal with pressing issues "such as a loosening rather than a tightening of influx control", and he welcomed on behalf of his Government the Rikhoto Appeal Court judgment "in so far as this touches on the family life of migrant workers in South Africa"

Way back in the audience, a group of Conservatives glanced at one another, and smiled They had told the Government this session that influx control was breaking down, that the Government had lost its guts . . . here Matanzima was saying influx control must be loosened further

They had warned the Government that the refusal to retroactively close the Rikhoto loophole would mean the influx of millions, possible five million in 10 years . . . here Matanzima, who wanted "substantial numbers" of his workseekers employed in South Africa, was welcoming the judgment.

They had warned that bringing coloureds and Indians into the once-white system would be the thin edge of the wedge . and here Matanzima was making the success of confederation conditional on the accommodation of the "legitimate aspirations" of blacks in South Africa (and everybody knows what that means)

Chief Matanzima's comments will join the growing armoury of CP propaganda weapons, used with stunning efficiency this session. When they taunted in the Waterberg and Soutpansberg that the Government was "scared" of testing white opinion about "power-sharing" in a referendum, Mr Botha had little choice but to call a referendum.

They have scored again and again by quoting the Rev Allan Hendrickse and Mr David Curry to show the "witches' brew" constitution would enhance conflict, not reduce it.

Another move in 'battle of banks'

By Julian Kraft

THE acquisition by Bank Holding Corporation of SA (Bankorp) of short-term insurance brokers Hoeveld Makelaars puts the spotlight on the back-door approach the group is applying in the fierce "battle of the banks".

Hoeveld is Bankorp's second such acquisition in the past 18 months. It bought Plus Makelaars early last year, and brought it under the same umbrella as its own short-term broking company, Sancura.

The three companies serve numerous staff associations representing the public service, hospital personnel, the police, defence force and others — a total of 150 000 individual consumer members.

The group has close links with several large independent short-term brokers.

Bankorp has adopted a relatively "soft sell" approach in wooing consumer money into Santambank and Trust Bank.

It applies a cross-marketing strategy through provision of a wide spectrum of financial services to consumers — incorporating insurance, life assurance, finance, banking and trust-company services.

■ ■ ■

"We have gone a long way down the road of cross-marketing and are happy with the progress we have made," Stoffel Erasmus, managing director of Bankorp and chairman of its non-banking subsidiaries, tells Business Times.

Short-term insurance is seen as the starting point from which customers are introduced to the other financial services of the group, including those offered by the banks.

By this referral process Santambank, the group's main consumer bank, wins many new customers with minimum effort.

The profitability of this approach is further enhanced by Bankorp's concentration on broking concerns serving staff associations, thus enabling it to offer group schemes with the dual benefit of reduced rates to the consumers concerned and profitability on a par with other banks.

"People identify with a group that can meet all their financial requirements," says Mr Erasmus.

"The bank has the benefit of lower marketing costs, and so gives preferential rates.

"The market for group schemes has expanded rapidly in the past 10 years as insurance people have realised the need to give people insurance at low rates."

Truck tyre comes und

SOUTH Africa's R240-million retail truck tyre market has been attacked by the world's leading tyre manufacturer, Michelin, which claims there is an abysmal lack of knowledge in the local repairing and retreading industry.

Michelin SA, part of Sigma Power, which imports the country's widest range of heavy truck steel belted radial tyres, is critical of the low standard of tyre maintenance throughout the country.

"Millions of rands are lost through sheer negligence," says the company's factory and technical manager, Bob Harrison.

"Sophisticated imported tyres, costing more than R500

Compact

By Julian Kraft

WITH clear signs that the hi-fi market is about to break out of the doldrums and move into an extended period of renewed growth as a result of the recent introduction of the compact disc, Bromain Holdings subsidiary Teltron is preparing for an aggressive attack in this area.

Teltron is one of the leading suppliers of sound systems in South Africa.

Tomorrow it will introduce a video recorder under the

Property portfolio now at R40-m

COMMERCIAL Union is fast expanding its property portfolio, which has now reached the R40-million mark.

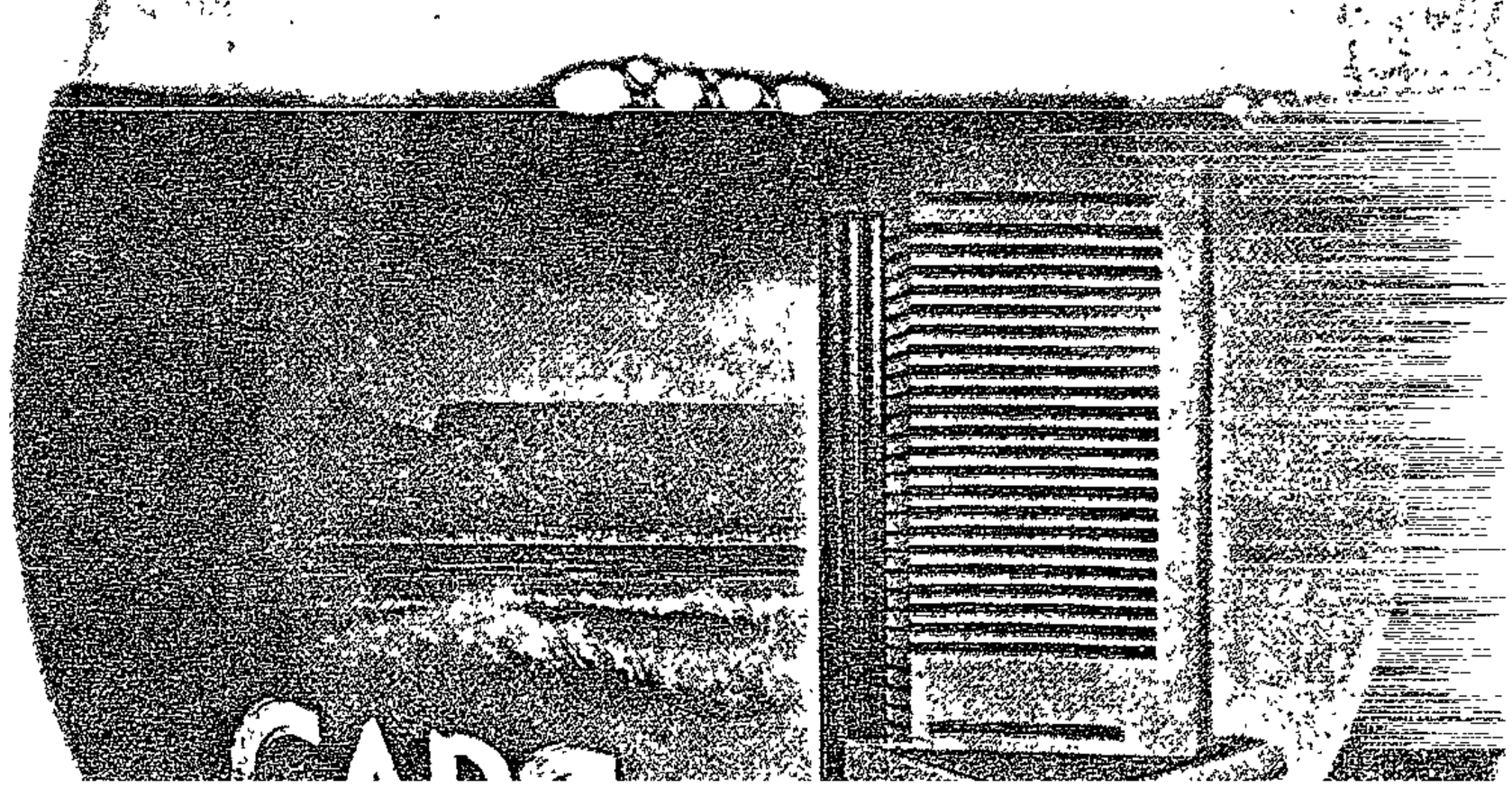
The two latest and most important development projects on the drawing board for next year are worth nearly R30-million:

● A R15-million office development financed by the institution on behalf of the advertising and PR company BBDO, which needs new headquarters in Sandton by 1984 with 11 000m² of office space.

"This is probably the most ambitious office project for a sole tenancy now going up outside the CBD," says Commercial Union's Roger Wanless.

● A R14-million office park is being constructed at Bedfordview's Pellmeadow Estate, which will come on stream in 1984 with 11 000m² of office space spread over three buildings.

Get the Real Taste of the



Retco spawns a pyramid as profits boom

By PAUL DOLD
Financial Editor

RETCO the country's largest sectional title developer produced scintilating profits in the past year with attributable net profits rocketting to R5,1m from the projected R1,5m, and the group is to consolidate its share capital and spawn a pyramid A final dividend of 1,5c is being paid making a total of 2,5c.

Retco's major office block Poyntons Building in Pretoria is being revalued from the historic cost of R7,5m to R37m which will boost the net asset value per share from 15,8c to 45,3c.

New valuation

The leases with government departments in the block have now been renegotiated and the new valuation has been based on this development.

The profits announced yesterday reflect the booming demand for flats a trend which is continuing unabated although the tightening supply of building society finance could brake the momentum to some extent

Currently the rate of sales is being more than maintained and the group has adequate stock now totalling R31m.

Profitability

Wholesale margins remain intact and Retco itself is confident subject to the normal caveats that profitability this financial year will be increased.

The formation of the pyramid to be called Propgrp (The Property Group of South Africa Ltd) suggests considerable expansion lies ahead with the controlling shareholders able for the first time to use paper to acquire property without diluting their control situation

Retco's will no longer be a "penny stock" characterized by a huge share capital — the 100m shares are to be consolidated on a one for 10 basis

Participating

The pyramid will hold some 75 percent of the new issued Retco capital of 40m shares with all shareholders participating both in Retco and the pyramid.

One of Retco's problems has been its thousands of small shareholders. Of the 14 000 shareholders some 6 000 own less than 200 shares. Post consolidation shareholders who hold less than 100 shares are to be allowed to top up their holding to 100. Those deciding not to do so will have their shares sold for them on the JSE

After the consoldation there will be a cap issue with three shares being issued for each share held These shares will be automatically renounced in favour of the pyramid company and the pyramid in turn alloting one share for every two shares in Retco.

Consortium

Shareholders who stayed aboard for the ride when the Cape Town consortium bought control from Breweries had done well with the share price rising from around 17c to over 40c.

The latest net asset value should at least underpin the current price and a five percent dividend yield rating would suggest the share could move to around 50c. This price does not discount future developments and the share warrants a medium term hold at least

Mutual buys R1m Checkers prefs

CAPE TIMES 5/7/83 58

By PAUL DOLD
Financial Editor

THE Old Mutual unit trust has bought some R1m Checkers convertible prefs and appears to be taking the view that the worst may be over for this store group.

While the latest acquisition was disclosed in the trust's June quarterly report, market analysts are not discounting that the Mutual may in fact have picked up more shares and could emerge with a sizeable stake in Checkers

Market value

There are no indications at this stage that a battle for control could emerge between the Mutual and the Kirsh camp The stake could merely be a long-term investment.

The Mutual's quarterly report said that 300 000 prefs with a market value of R1 050 000 were bought in the past quarter — the first time that Checkers has appeared in the portfolio.

Signals

Checkers managing director, Mr Gordian Utian, who was unaware of the Mutual purchase said last night that Checkers was progressing very nicely and should do more than break even in the new financial year just started

"Trading conditions are still very tough but in the last three or four months there have been better signals on turnover with the group having stabilized."

Thus far Mr Utian who moved into Checkers 14 months ago has been cleaning up the operations and no new stores have been developed.

The first new store opens at Emmarentia Johannesburg this week which in itself suggest a more encouraging phase is underway and another 10 stores are planned this year.

"We are marketing, cleaning and pushing the company forward," Mr Utian says.

Checkers has withdrawn from its Big D hypers which have been turned into Checkers hyper stores and sold most of the six convenience Check-In stores. Most of the department stores have been sold.

"We are trading nicely and well on the road to recovery. The economy and particularly the drought are however making trading difficult. Costs are rising with margins under and competition is strong. But I think we can claim to be leading now and not following . . .

Key concern

"The bottom line is still a key concern but we are hoping to be in profit this financial year and we cannot at this stage see any reason why we should not be firmly in profit," Mr Utian says.

Checkers' results for the year ending June will be available in August but the figures will be purely academic, reflecting the continued pruning in the past year.

Mr Utian says it will still take some six months before all the skeletons are finally removed but nothing major is liklely to be found.

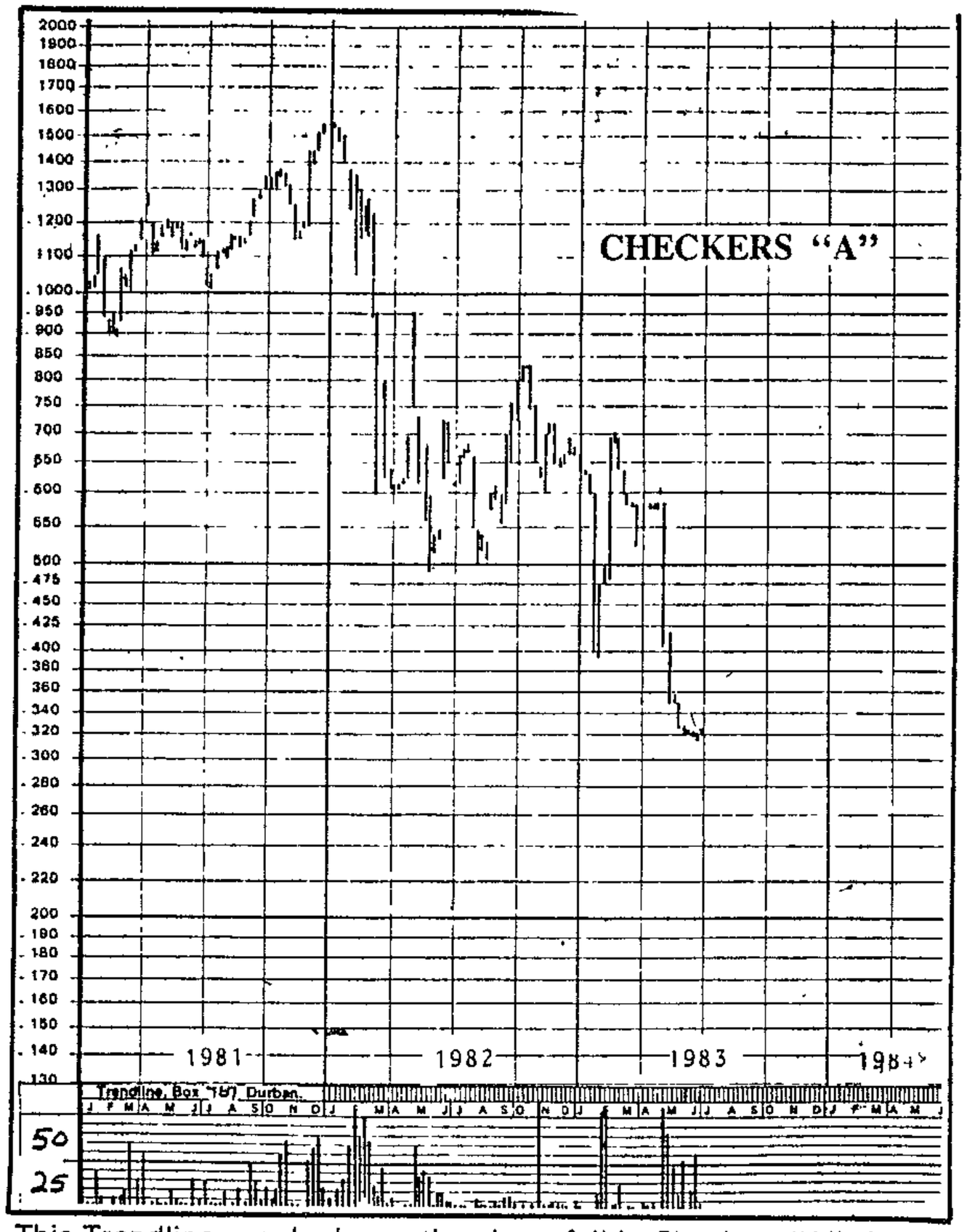
The pref shares are convertible into ordinaries at R3 a share in 1986.

New acquisition

Another new acquisition for the Mutual unit trust was a parcel of Dorbyl with 28 000 shares at a market value of R210 000 being bought.

At the end of the June quarter the fund had a portfolio value of R273,2m, well up on the March R234,7m, with the fund liquid — some 19 percent of funds or R50,4m is available for investment.

It was an active quarter for the fund with several holdings being increased but there were no sales. These included Afrox (31 300 shares), Gefco 64 700, Volkskas 23 700, Sasol 72 700 Russels 38 700, Protea 57 500. Some 14 400 Metkor, 10 700 Placor, and 11 100 McCarthy were added. Among the mining sector the holding in Angvaal was topped up by 1 500 (A's).



This Trendline graph shows the sharp fall in Checkers "A" shares over the past two years.

Allied to meet needs of black home buyers

HOME FRONT

ALLIED Building Society will meet the housing needs of blacks by providing mortgage loans for those buying their houses under 99-year leasehold, including 51/6 houses, the chairman of the society, Mr E F Allen, said yesterday

The society would also grant loans to approved administration boards to enable them to provide infrastructure and sub-economic housing, including houses erected under self-help schemes, Mr Allen told the society's annual meeting

Allied would also erect houses through its development company for purchase under 99-year leasehold with the aid of loans from the society, he said

But, although the development company had undertaken successful housing projects in black, coloured and white areas, including Soweto, the lack of suitable residential sites, especially in black townships, had greatly restricted its activities, Mr Allen said

Because of the shortage of serviced residential stands at reasonable prices, the development company had turned its attention to developing its own townships but was concerned at the high cost involved

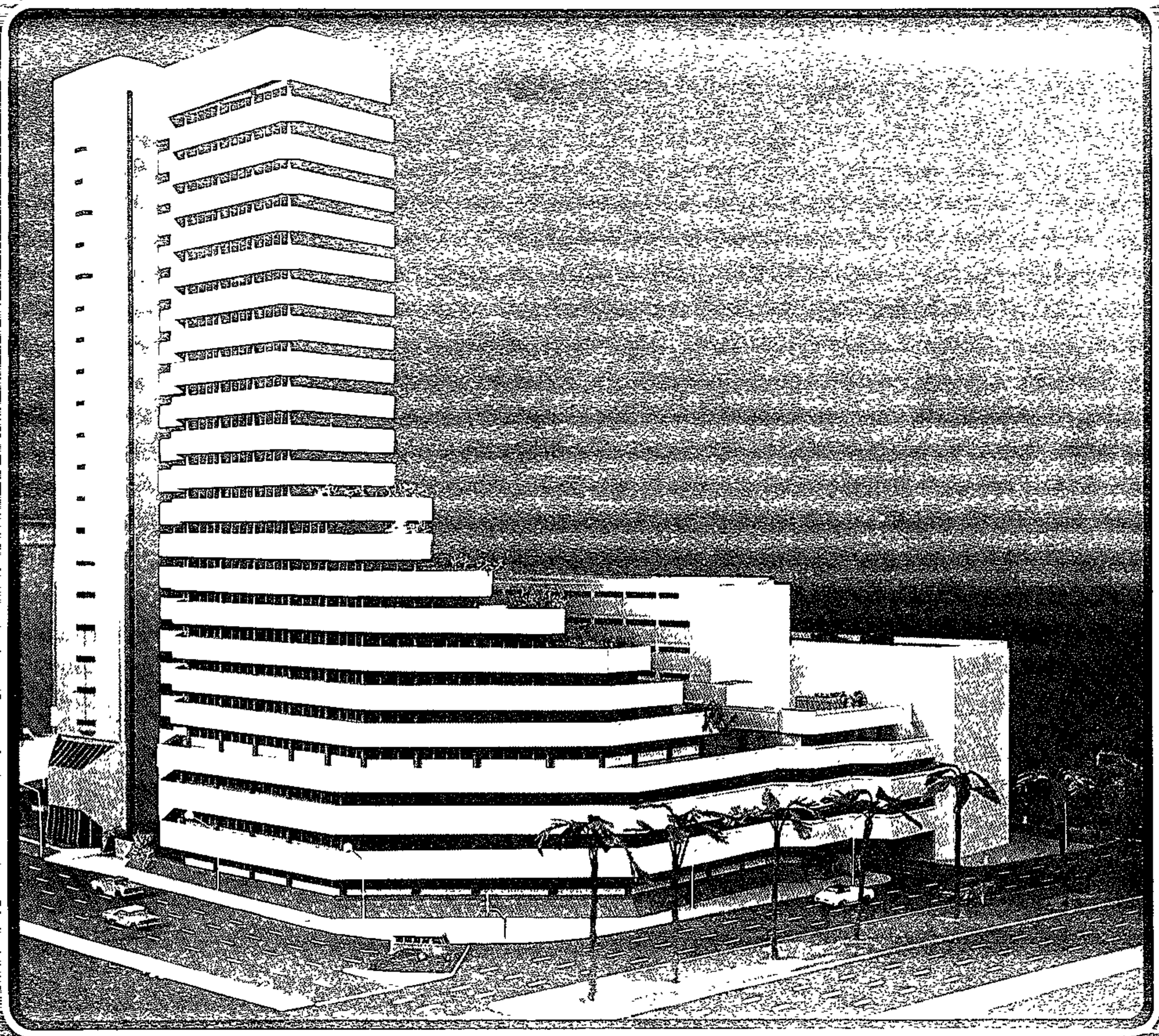
"The expense of developing and servicing raw ground is substantially increased by heavy holding costs resulting from inordinate bureaucratic delays," Mr Allen said

He asked for urgent steps to be taken to streamline the whole process of proclaiming townships

He also appealed to administration boards to remove unnecessary red tape and streamline procedures

For the first time, an administration board chairman — Mr J M van Rooyen, chairman of the Orange Vaal Administration Board — seconded the adoption of Allied's annual report

Mr Van Rooyen praised the society for the fact that its new branch office in Sebokeng would be entirely staffed by blacks who had received the most advanced training possible.



OLD MUTUAL PROPERTIES

A corporate report. Supplement to Financial Mail. July 8 1983

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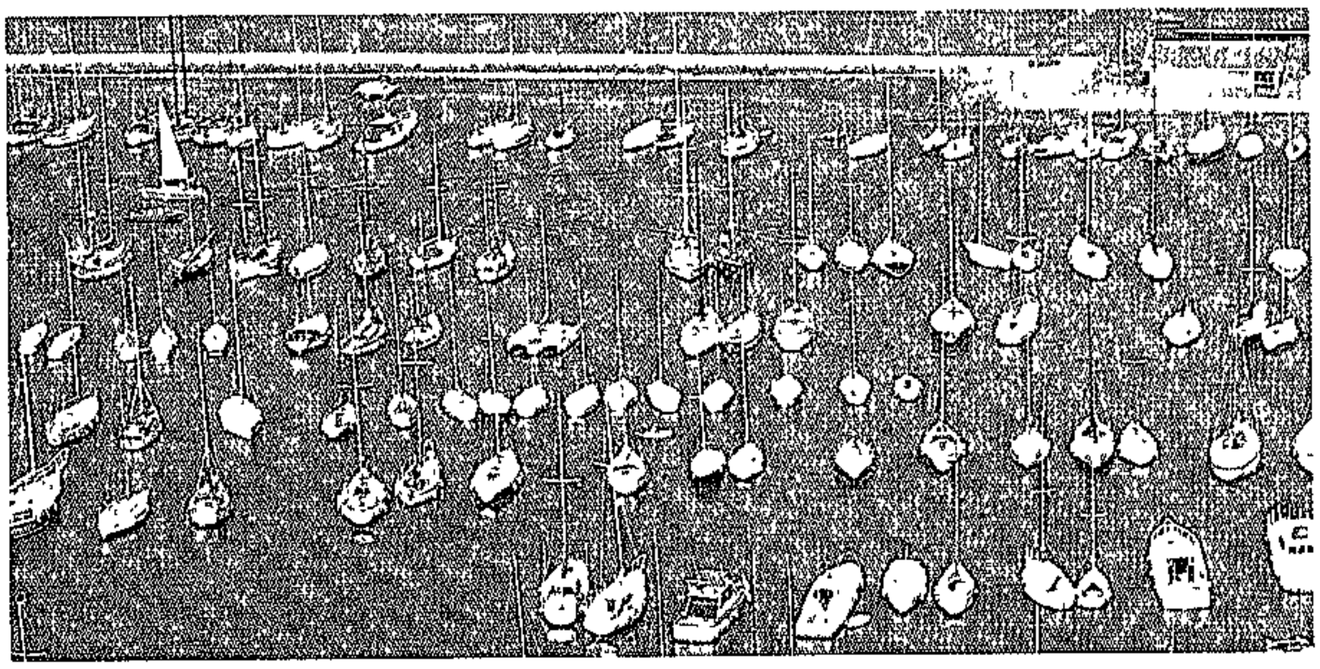

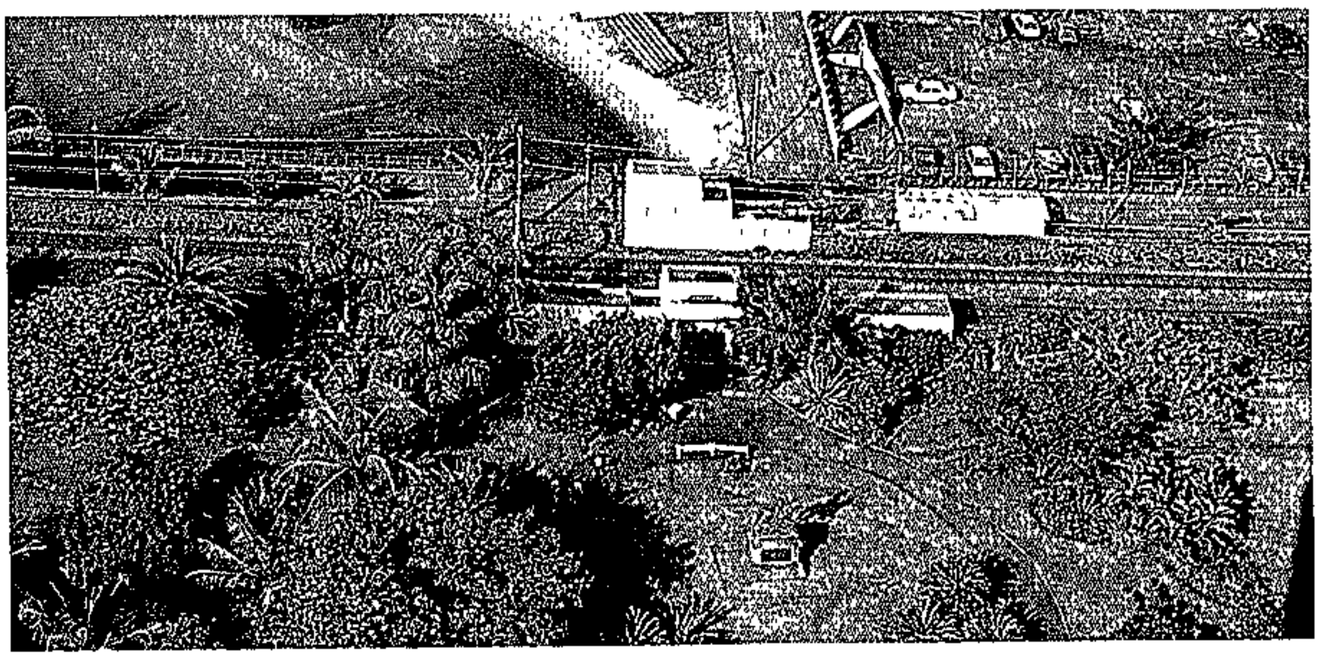

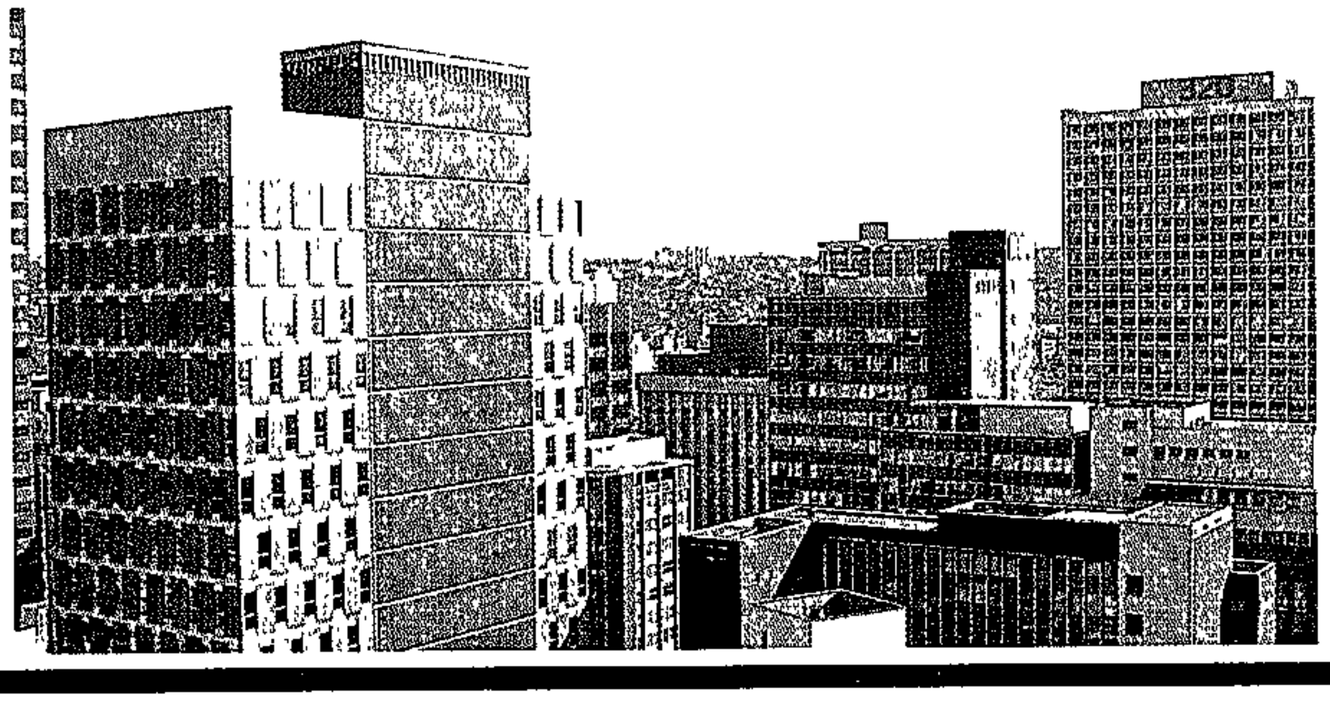

OLD MUTUAL PROPERTIES

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..I need flexibility."

AN EXAMPLE OF FLEXIPENSION IN ACTION

Take the case of a businessman, a farmer or professional man who at 40 commits himself to 30 units of R100 each to finance his FlexiPension Program (contributing R3 000 p.a.).
A month before his 60th birthday he informs Old Mutual of his decision to gradually phase himself out of his business into retirement, taking a drop in income from his business each time he "cashes" a portion of his FlexiPension units.
On the assumption that the average net annual compound growth rate in Old Mutual's FlexiPension investment portfolio will be 12% p.a. and that its current annuity rates (1.2.82) and methods of calculation will still apply, his projected position will be as follows.

	Amount available to buy a pension R	One-third taken in cash to reinvest R	Balance as monthly pension R	Cumulative monthly pension R
6 units at 60	43 770	14 590	347,12	347,12
6 units at 62	56 190	18 730	455,46	802,58
8 units at 64	95 776	31 925	790,82	1 593,40
6 units at 66	91 446	30 482	768,78	2 362,18
4 units at 69	87 036	29 012	751,66	3 113,84
Total at age 69	374 218	124 739	3 113,84	

Please note that if the average annual compound growth rates are higher than the 12% assumed above, improved benefit payments will arise but, conversely, if the actual rates are lower the proceeds will be lower than those stated above.

butions from time to time, in addition to your regular premium units.

The tax concessions allowed are highly favourable. In any one income tax year your contributions to FlexiPension and other retirement annuities you might have, are tax deductible up to 15% of your net income from your business or profession.

The amounts you contribute yearly in excess of this percentage may be carried forward year after year until deducted from net income for income tax purposes or used to increase the tax-free portion of any lump sum on retirement. This applies equally to any lump sum amounts you may want to pay in to boost your FlexiPension program.

Life and disability cover option

FlexiPension also allows you to build in life and disability cover at any time subject to Old Mutual's normal evidence of insurability.

Bad patch bridging to protect your cover

To ensure that this life and disability cover is kept intact when your business, practice or farm strikes a bad patch, FlexiPension has a bridging facility to protect you. This facility will be operative for up to three years at a time.

An asset you can never lose

If, after a period, you are unable to maintain your FlexiPension contract it will be made "paid-up" and your accumulated contributions up to that point in time will continue to grow until maturity at any age you elect between 55 and 69. It cannot be ceded, nor can it be sequestrated. It is yours for life.

Old Mutual's profit-earning power

The self-employed inevitably devote all their energies to building their business or practice. They walk the road of risk and reward. Which could mean a late start to building your pension program. And capital growth becomes the major factor.

This is where FlexiPension relies on Old Mutual's financial strength and profit-earning power. It has no shareholders, so all the profits are shared among its policyholders. In this way Old Mutual adds profit to your investment to increase its worth.

Through a phone call to your insurance broker or any Old Mutual office you can have a personal pension program with flexibility to build it as your good fortune dictates.

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Your anchor in life.

"I'm self-employed. I want to gradually phase myself out of my business and into retirement.....

"I've put all my energies into the business. And while the rewards have been worth it, I haven't had the time to do many of the things I've always wanted to do.

My FlexiPension is going to give me the opportunity to change that.

I'm going to start by working a four day week. Then a three day week. And I'm going to use my FlexiPension to take up my reduction in monthly earnings so I never suffer a loss in income nor will I become a burden to my younger associates in the business.

When I eventually stop working my FlexiPension will provide the regular monthly income I'm accustomed to now, for the rest of my life."

FlexiPension is a unique pension program created by Old Mutual to meet the needs of the self-employed.

The key to its flexibility is the unit system for premium payment and for withdrawals at retirement, contributions being in annual units of R100 each, payable monthly.

You can take out any number of units between now and age 69 without having to take out a new policy contract. Changes to your contribution levels are accommodated by a simple endorsement on your original contract.

When flexibility counts even more

Even more valuable to you as a self-employed person is the flexibility to dictate the form your pension should take and the time it would suit you to take it.

By giving Old Mutual just one month's notice, you can start retiring. So if you decide to work only part of the month and draw less salary you can call on a portion of your FlexiPension to maintain your income level while the balance continues to grow. And can even be built on and boosted as your financial status allows.

You may want a portion of the units you withdraw to be paid out in cash (not more than one-third). The balance must be taken in the form of a monthly pension. You can of course elect to use the total amount of the units to provide a pension.

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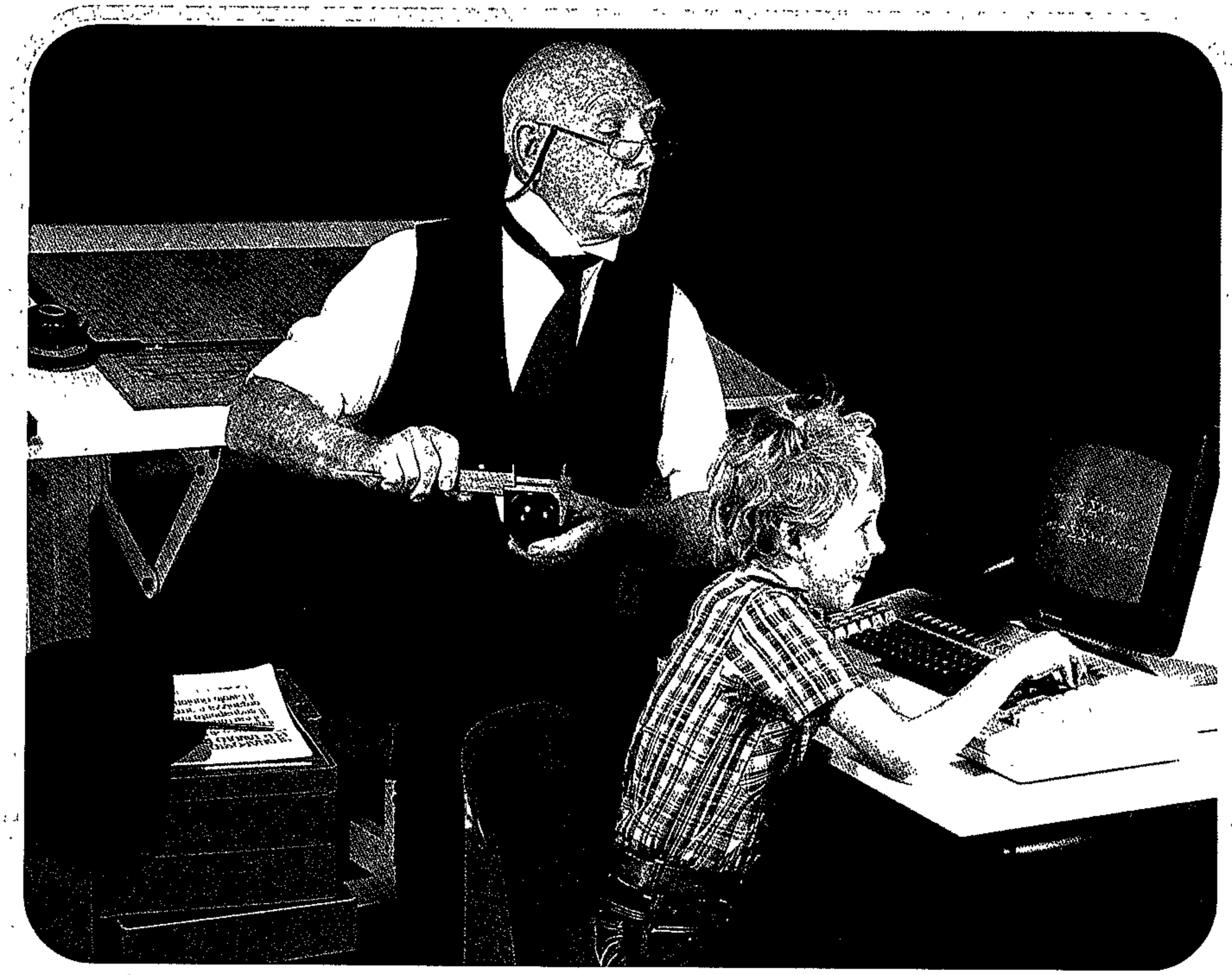

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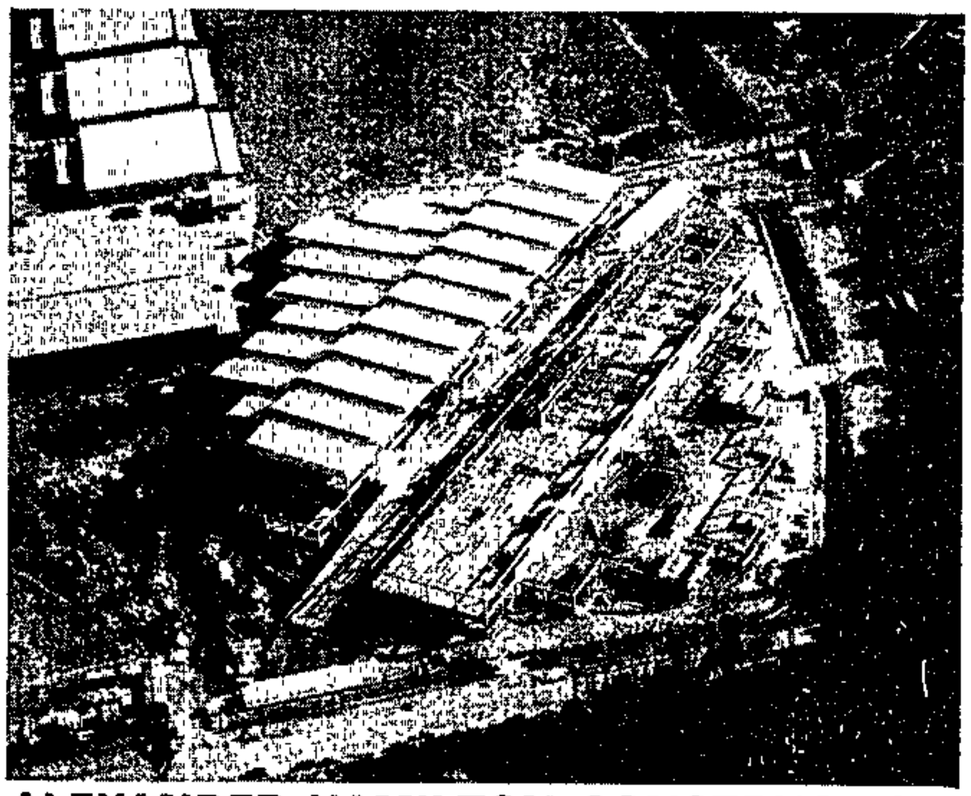

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Foreword

Old Mutual's property investments, in a scant five years, have risen fourfold to over R1 billion. The life assurer is now the largest private landlord in the country. This expansion in property stems from the requirement of the institutions, as they grow in size, to find new, lucrative sources of investment income. Property is secure and with good earnings and capital appreciation potential, it slots admirably into their investment strategy, which needs to be certain of future income growth to fund liabilities to policyholders and pensioners.

The property division has adopted a highly professional approach to its work. It invests only in long-term, low risk property, which serves the top sector of the market. In practice, this means involvement mainly in industrial, prime office and retail property. To enable informed, skilled and, where necessary, rapid decision making, the division has built up in-house skills in a wide range of activities. Such skills cover investment analysis, construction project management, marketing and administration.

In the face of property market scepticism, the division has demonstrated entrepreneurial flair. It foresaw the rentals boom of the last few years and in the late-Seventies it bought a large number of office blocks at most favourable prices. More recently it has begun a programme of industrial parks development. The looming shortage of industrial land in SA promises to bring this project great reward. With an established record of success, the division is confident that, in four years, Old Mutual's property assets will have reached R2 billion.

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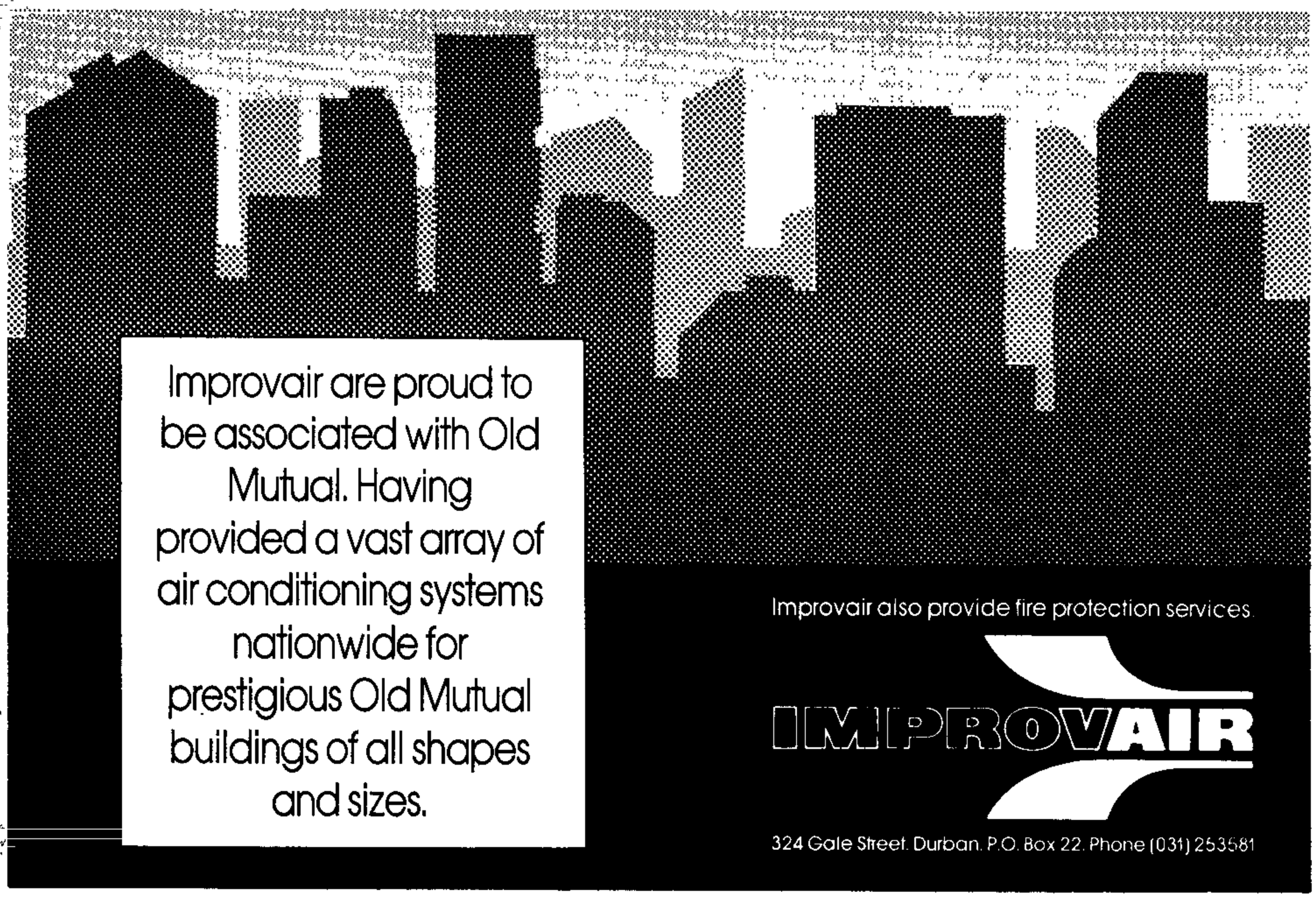

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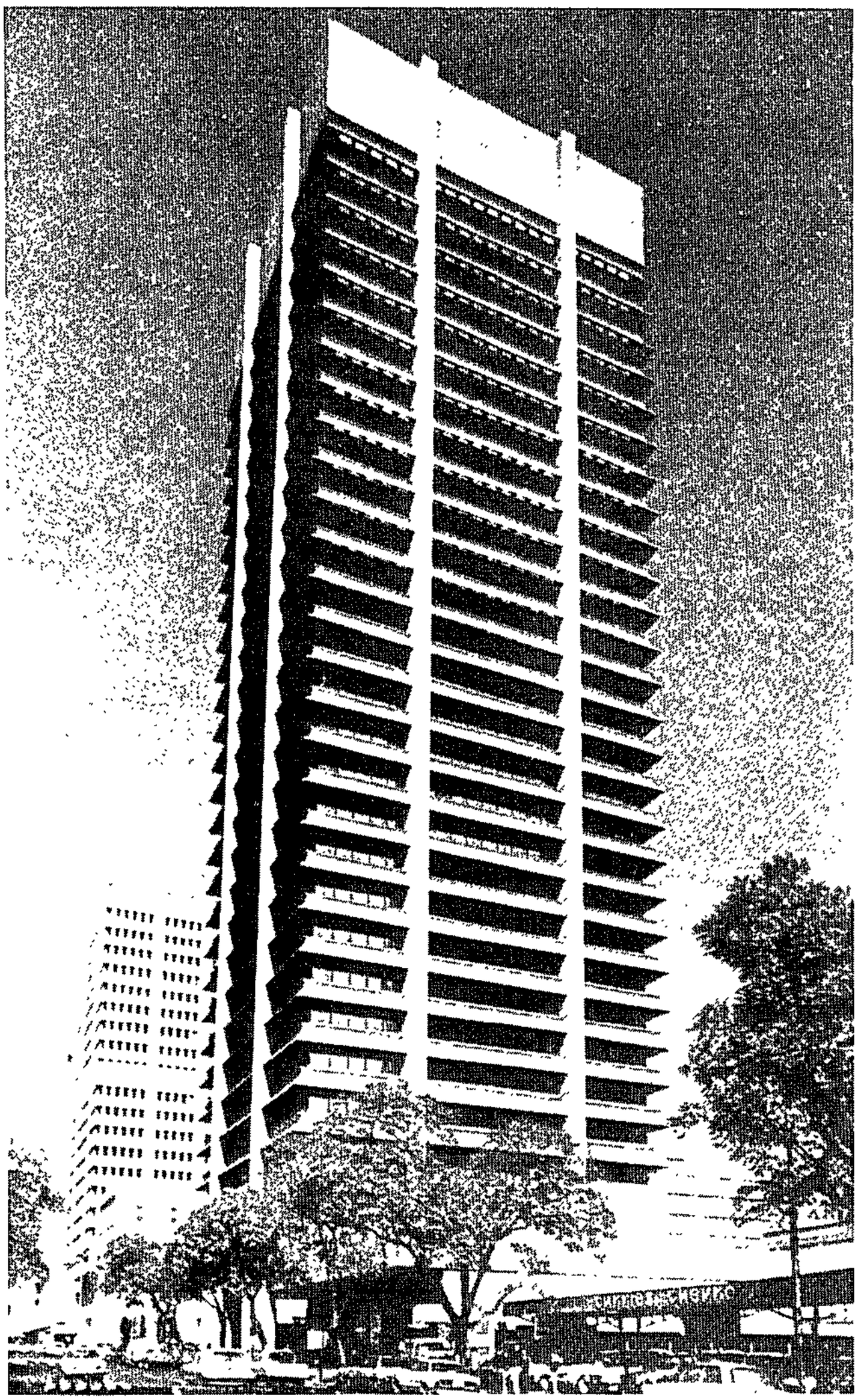
A new giant

The growth of Old Mutual's property division has been sudden and dramatic



Vermeulen Street, Pretoria ... a property jewel

On June 30 1983, the SA Mutual Life Assurance Society's property division controlled assets at book value of some R950m, invested in fixed property (R750m), mortgage bonds and property unit trusts. A further R150m earmarked for development projects under way boosted the total asset figure to about R1 100m. This is greater than the combined assets of all property companies quoted on the JSE.

If the property division of the society (known colloquially as the Old Mutual) were listed, it would rank 10th in size on the JSE's list of top industrial companies.

For the new property giant, growth has been sudden and dramatic. Ten years ago, on June 30 1973, Old Mutual had a property portfolio of R114m. And just five years ago, the total value of its property assets, at R268m, was a mere quarter of what it is today. Even more pronounced has been the variation in spread by sector and region.

At end-June 1983, with comparative June 1973 figures in brackets, 38% (49%) of Old Mutual's property portfolio was invested in offices, 33% (3%) in industrial and 7% (23%) in residential property. And whereas 10 years ago 34% of the total property portfolio was in the western Cape, that figure is now 13%, while the Rand's share has climbed from 16% to 42%.

Today the jewels in Old Mutual's properties crown are office complexes, industrial parks and shopping centre developments and redevelopments. The tall concrete and glass high-rise in the CBD or the industrial estate bordering on the highway that you drive along each day could well be owned by Old Mutual.

Its greater involvement in property is easy to explain. With life offices and pension funds the dominant savings institutions in SA — from 1976-1979 they held 90% of all personal saving — they need new outlets for investments which are profitable and secure.

As Old Mutual MD Frans Davin puts it, "the property division has a very important role to play within Old Mutual as one of the investment growth areas. This is particularly so where the long-term insurance industry has to cope with compulsory prescribed investments and only a limited percentage is available for discretionary investment. It is important that we see substantial growth in property and that we are in a position to offer our existing and future policyholders and pension fund clients the opportunity to share in the potential growth of a property portfolio."

Old Mutual has come a long way since 1865, when its first-ever property, the house of Cape Colony Prime Minister John Mol-

teno, was sold at a loss of £1 572. It had been bought for its own use, but the society's members (the policyholders) felt it was not suited "to the position and means of the society." It is an equally far cry from the two-storey office and flats buildings that Old Mutual erected in small towns and villages across the country to provide suitable accommodation for its expanding life insurance business.

About 45% of Old Mutual's properties are still located in the country area. The smallest is a house at Wesselsbron in the Free State, bought in 1960 for £2 500. But the big money comes from the 55% of properties in the metropolitan areas — that is, from prime office, industrial and retail letting. The country portfolio earned R5m in rentals in the last financial year and the metropolitan portfolio R70m.

To handle the challenges posed by such rapid and diversified expansion, the property division, under the sure hand of manager Martin Buss, has undergone a fundamental transformation both in policy and organisation. In-house expertise has been built up in all aspects of property management. New investment criteria, designed to yield optimum returns, have been approved. The message one hears repeatedly from Old Mutual's property men is that "we can't afford to make mistakes."

Indeed, constant vigilance is needed to negotiate the quicksands of the property industry. Crucial decisions involving huge sums must be taken. Should a R27m office high-rise that must be 95% let to pay its way be built? Will industrial parks, built on spec for R110m and which embrace revolutionary concepts for SA of low density land use, be fully occupied to provide the vital return? Does the projected increase in consumer spending power in a prosperous area of Pretoria in the Eighties justify R45m in shopping centre extensions?

The scope for error is huge and the challenges will grow. Old Mutual invested R100m in property in its 1981-1982 financial year. In the 1982-1983 year, invested funds rose to R170m and are expected to reach R350m by 1985-1986. As the "heady" days of

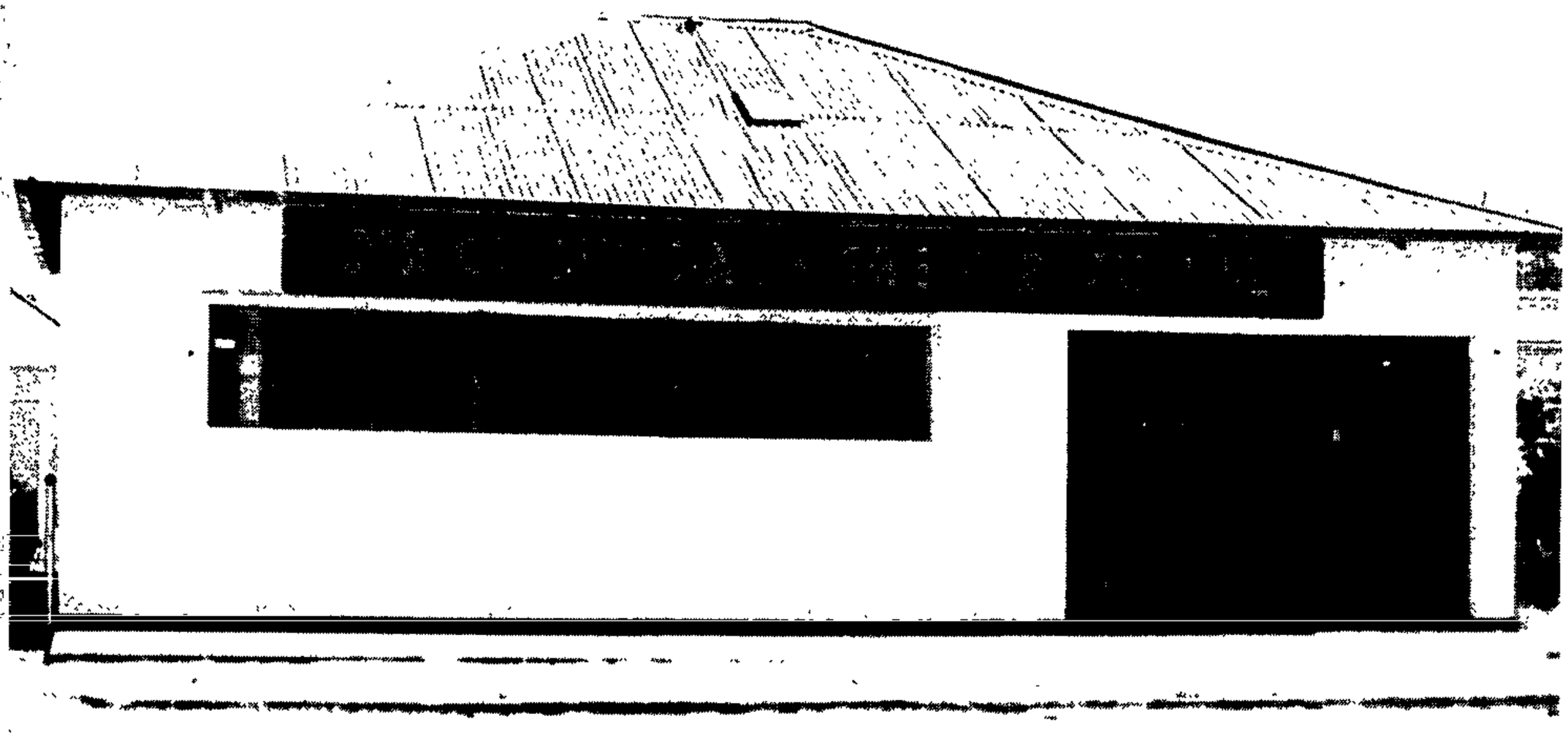
CHANGE IN SPREAD

Percentage spread in value of SA property investment by region and type of property

	% Spread of portfolio at 30.6.73 Book value	% Spread of present portfolio & commitments Est book value
Western Cape	34	13
Eastern Cape	11	4
Witwatersrand	16	42
Pretoria	12	18
Natal	12	21
Country Areas	15	2
Total	100	100

	% Spread of portfolio at 30.6.73 Book value	% Spread of present portfolio & commitments Est book value
Offices	49	38
Shops	25	22
Residential	23	7
Industrial	3	33
Total	100	100

Source: OM Properties



Wesselsbron office ... from the old to the new

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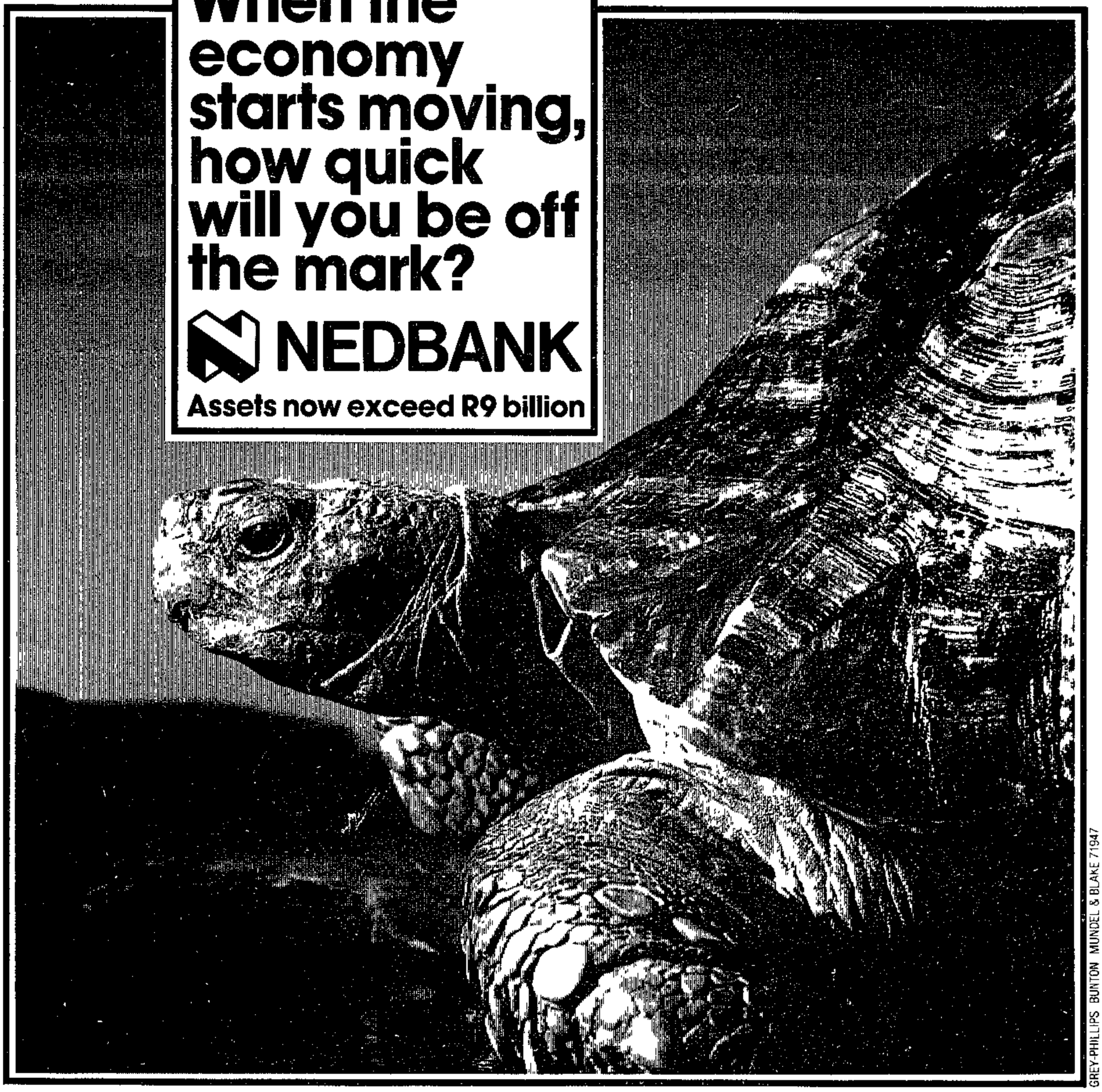

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gain prime office purchases are over, at least for now, development is assuming the dominant role. A R260m development programme has been approved for the next two years. It will concentrate on industrial property development, particularly industrial parks, as demand for industrial space is expected to be very strong.

With a total 1,6m m² of space under management or construction, of which 335 000 m² (industrial: 225 000 m², offices 65 000 m², shops 45 000 m²) is under development or was purchased recently, Old Mutual has begun to pay much greater attention to marketing. The division, which is adopting a more public profile, has launched a nationwide selling campaign.

"We shall be offering an overall package," says investments manager Derek Stuart-Findlay, who is also overseer for marketing. "As SA's prime supplier of space, we can build your own head office or supply you with existing and new space throughout the country. It will be like selling retirement annuities."

Not that Buss or his men appear unduly daunted by the challenges of the property market. "We are caring people," he says. "We care about our policyholders and tenants deeply. You must do a deal that is fair for both parties because that way you will continue to do more business together. That is our basic philosophy."

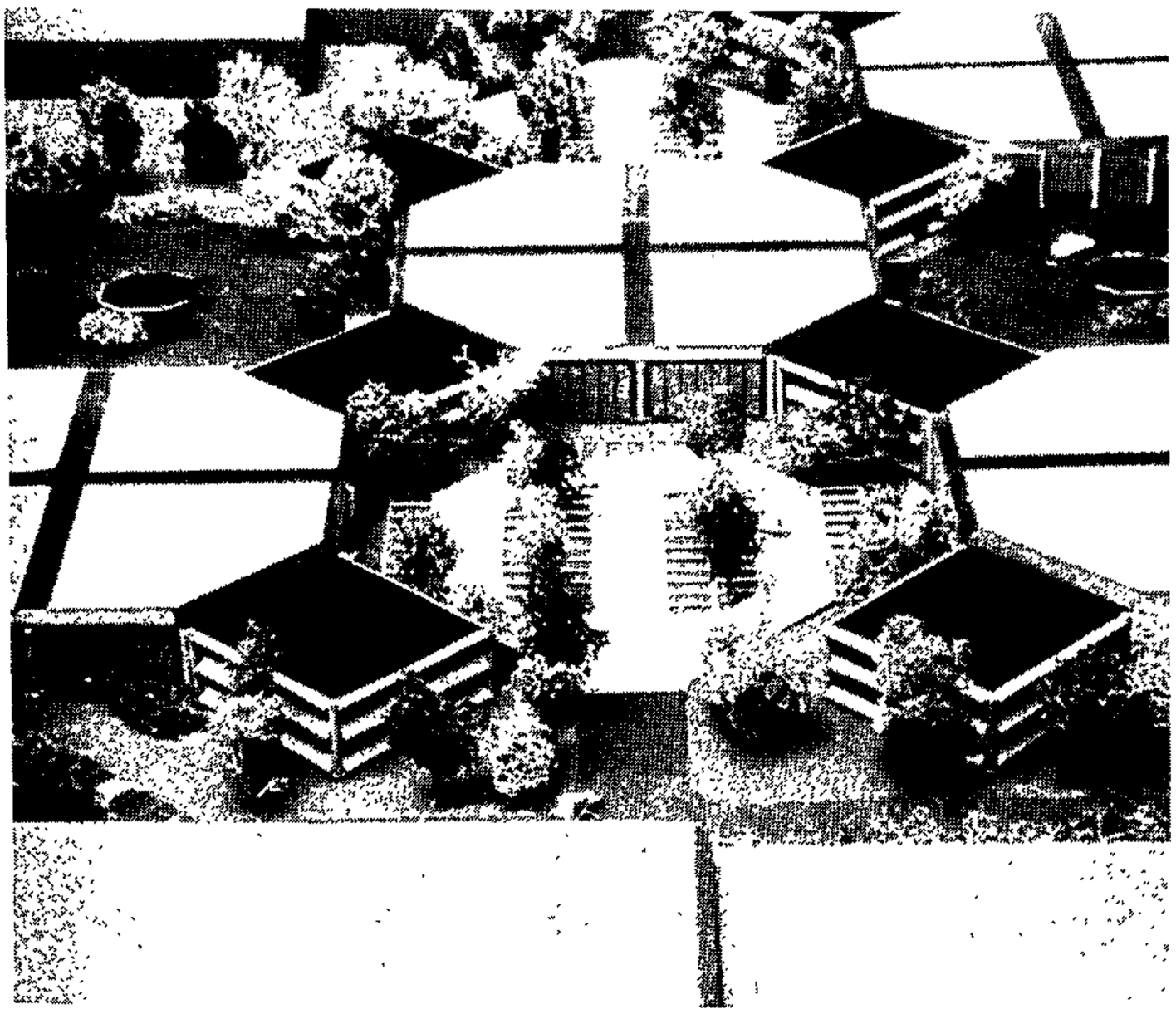
Industrial innovation

Old Mutual is introducing industrial parks with pleasant work surroundings and up-market appeal

Property is people! So say Johannesburg regional manager Mike Raggett and Pretoria regional manager Freddie Blake in unison. "We manufacture a product and the product is used by people. If we cannot cater to their needs and wants, we cannot sell our products." In Old Mutual's boldest speculative property venture to date, it is pioneering a R110m development of five "human" industrial parks.

Industrial parks exist in SA but neither in size nor in the grandness of their conception do they match those planned by the Old Mutual. Four of them, two on the reef (City Deep, Isando), one in Pretoria (Hermanstad) and one near Durban (Prospecton), will come on stream early next year. The fifth, at New Germany near Pinetown, was completed recently.

Very much the brain child of property division manager Martin Buss, industrial parks, with their emphasis on a pleasant work environment and a smart appearance, have placed great priority on human needs. Claims Raggett: "They are a new form of industrial accommodation. They fall into a gap in the market for companies who require an upmarket image." Innovative features include generous landscaping provisions, the separation of trucking and ordinary car traffic (not in New Germany) and an asymmetrical rather than grid-iron street layout.



Isando ... warehouses of the future

Most important, to achieve and maintain environmental and operational standards, development and subsequent management control will vest in a single authority, the Old Mutual. Unlike industrial townships, with their mostly haphazard growth and unkempt state, these parks will be uniformly maintained. One tenant's building will not detract from that of his neighbour. The strategy is to fill the parks with upmarket tenants and so create secure, long-term growth prospects.

Says investments manager Derek Stuart-Findlay of the finished product: "The tenant walks in and is given a key. All facilities are there: the factory, yards, trucking and parking areas, staff facilities and no zoning problems. All utilities and services have been taken care of in advance."

After New Germany, the Pretoria industrial park is nearest completion. Built in a rectangular shape, the park is located on the Apies River only six kilometres from Church Square. It enjoys close proximity to road and rail links to all parts of the Transvaal. About 42% of the space will be landscape and parking coverage and, counting 2 ha of adjacent Council land which will also be landscaped, 4 ha out of a total 9,5 ha will be given to greenery. Says architect Dave Bryant proudly: "It's the best quality industrial space in Pretoria."

City Deep will be the biggest park. Units in sizes from 2 000 m² to 12 000 m² make it ideal for manufacturing. Among the modcons are floor grills to improve ventilation, good lighting which contributes to a bright, spacious effect and suspended space with underfloor parking. Isando, intended as a

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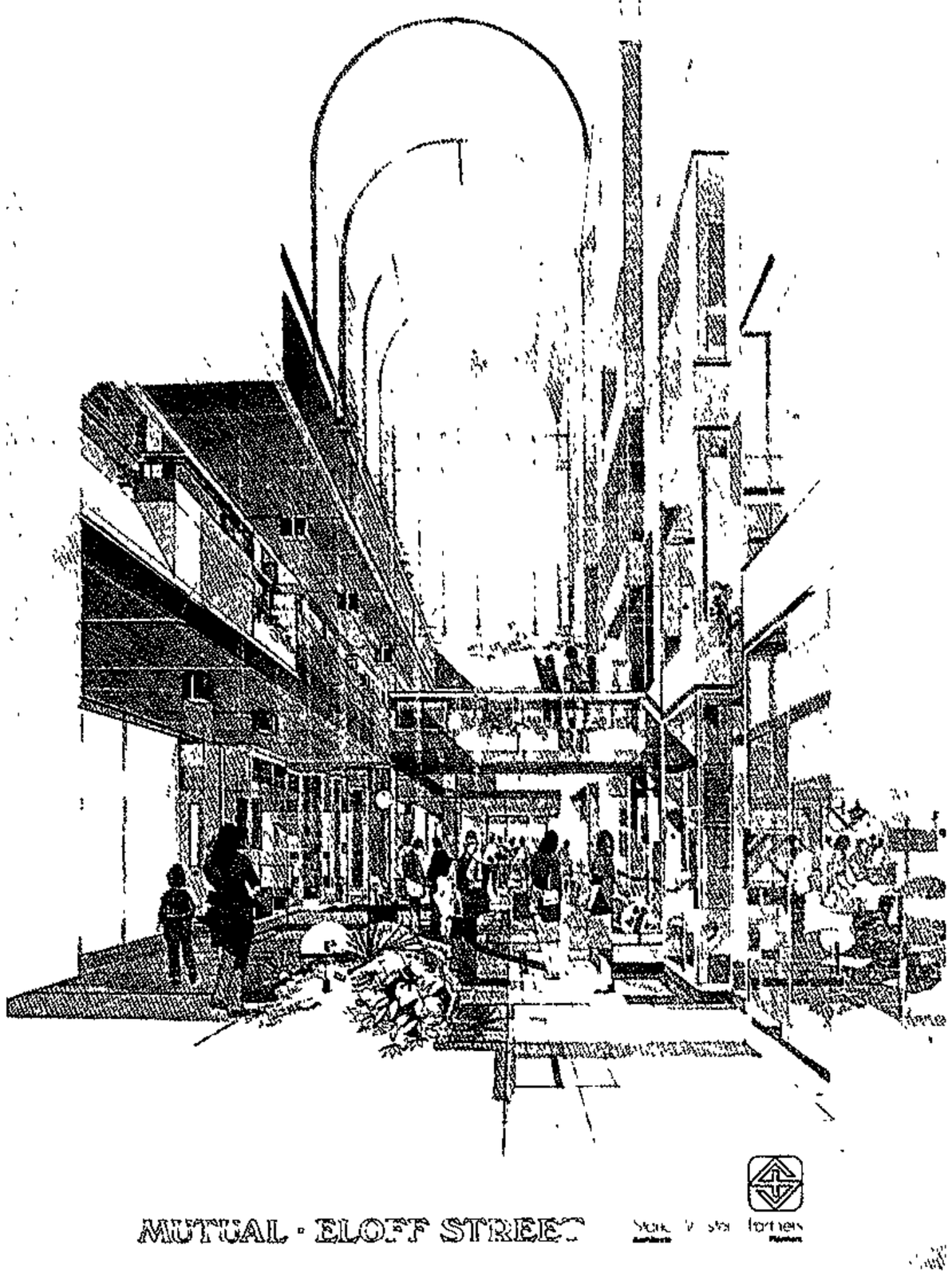

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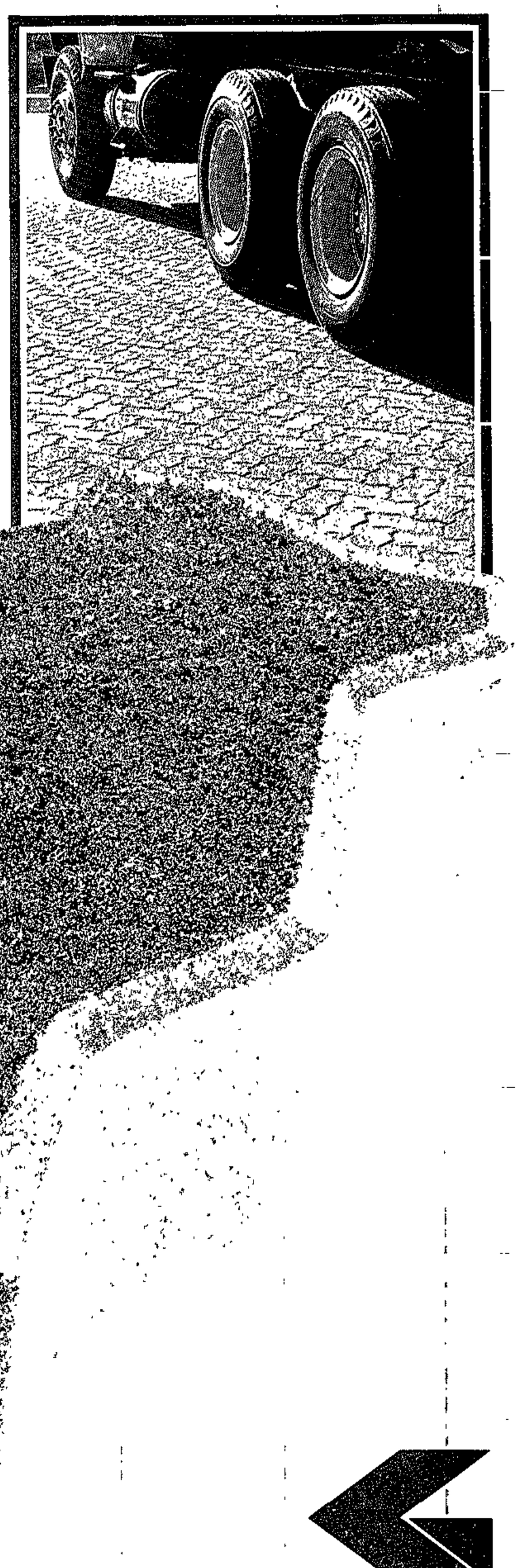

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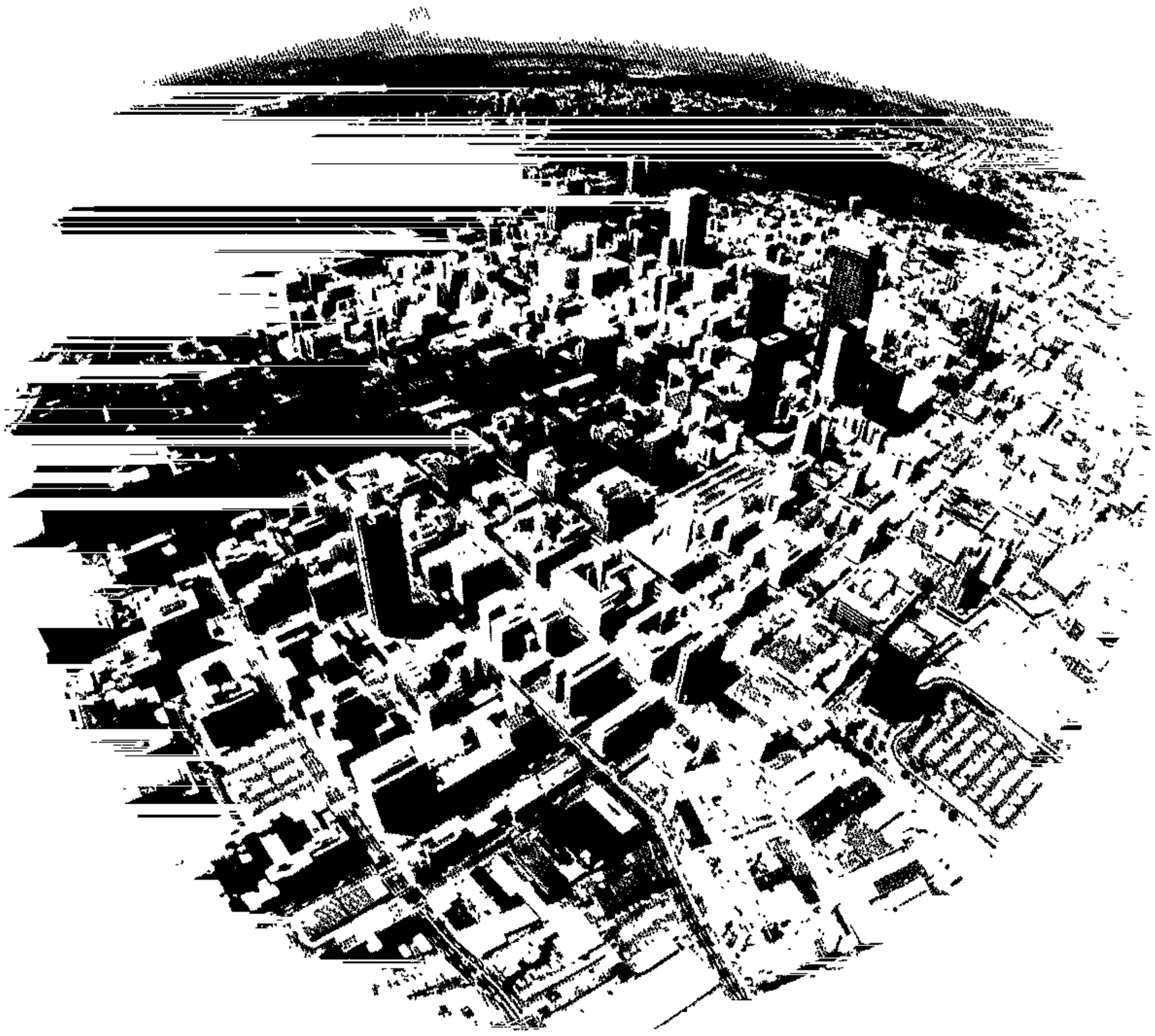

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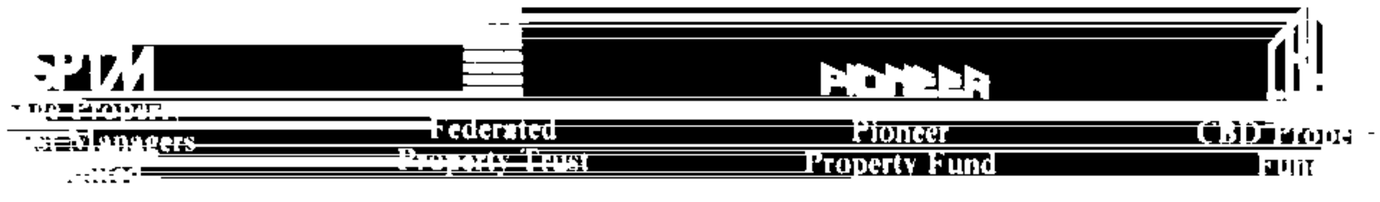

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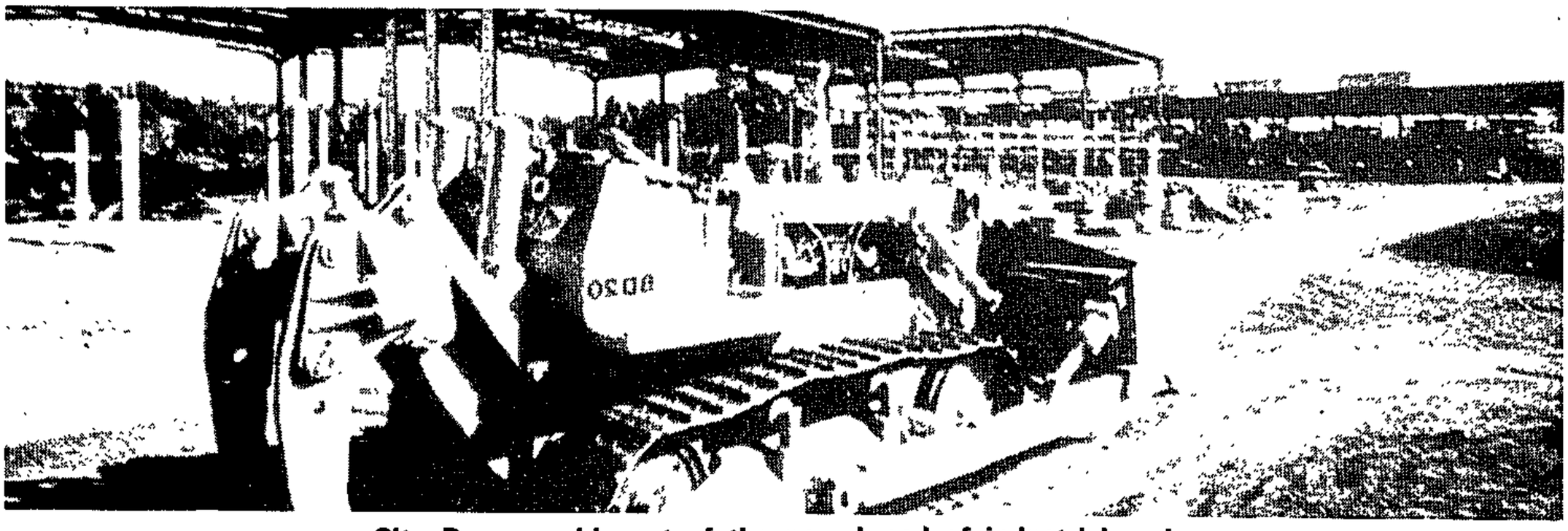


City Deep ... biggest of the new breed of industrial parks

warehouse park, will be the most futuristic in appearance. Built to a molecular lay-out, the warehouses are octagonal in design with alternating warehouse, delivery area and parking lot space, encased in greenery.

The warehouses are interlinked by "corridor" buildings which can be used for office, additional warehouse or staff recreational purposes. The impression is of a huge spreading space capsule, an Old Mutual galactica. Little more than a stone's throw from Jan Smuts Airport, the park is well suited to serve as a transit point, especially for high-tech goods.

New Germany consists of four double-storey units and two 3 000-4 000 m² sheds, erected on a steep piece of ground, which would not be used normally for industrial development. As one drives up the hill, one turns off onto access and parking platforms, which join one upper and one lower level between the buildings. Borehole-watered shrubbery, bright orange doors and chocolate-brown roofs add much colour to the development, 20% of which has been let to Courtaulds for the manufacture of car seat coverings.

The Prospecton development is a huge two-storey structure built on a corner site. This facilitated the development of good access and exit points and a three-way separation of car and truck traffic. Vertical access between the two levels is possible. Architect John Frost designed the building to allow the north/south parallel to form a diagonal through it, which maximises natural light. Prospecton's high coverage, however, does not make the scheme a typical industrial park.

As 30%-40% of coverage will be taken up by parking, loading and landscape facilities, the question exciting the property market is whether Old Mutual will get the high rentals needed to make the parks pay. Industrial land use in SA is traditionally space intensive with landscaping a matter for the gods. Old Mutual, by contrast, is spending an average R1m "on the environment" in each of its three Transvaal parks. Lower density development means that fewer tenants will have to pay higher rentals. On the Rand, for example, where prime industrial rentals are R5-R6/m², Old Mutual says it is going for R6-R7/m².

Old Mutual, to outward appearances, is adopting a relaxed line. Lettings will not be finalised until the projects are completed. "Tenants," says Buss, "will then appreciate what they are paying for." And Raggett argues that better productivity from a more contented work force, employed in pleasant surroundings, will more than offset the employer's higher rental.

In the US experience, industrial parks have been predominantly high technology manufacturing centres. As we are not yet in the same high tech league and as SA industry historically is self-housed, preferring specialised, long-term premises, the parks' more likely initial use is as warehouse depots.

Certainly the signs are pointing Old Mutual's way. Industrial space, especially on the Rand, is expected soon to be critically short. Old Mutual's pilot industrial park project at Maitland in Cape Town, started in 1977, commands premium rentals of R4,60/m² for space in its category. Since the economic upswing should be under way when the parks come on stream next year, hopefully there will be strong demand.

For his part, Buss exudes confidence. "We are poised perfectly with the industrial parks" he says. "We will talk space requirements with people, but we will not as yet talk rentals."

THE PARKS

City Deep: R35m development. 50 720 m² in units from 1 900 m² to 11 900 m². Every 1 900 m² to 2 200 m² of factory/warehouse space has a 240 m² office and ablution area. Underground parking. The park is situated on the Heidelberg road about 5 km from the Johannesburg CBD and 1 km from the SATS container depot. Architect: Stauch Vorster & Partners. Main contractor: LTA.

Isando: R30m development. 31 500 m² with letting in multiples of 1 450 m², eg: 1 450 m², 2 900 m²,etc. Located 1 km from Jan Smuts Airport and zoned for warehousing, the park would be an ideal transit point, especially for high-tech goods. Architect: Rhodes-Harrison, Fee & Bould. Main contractor: Stocks & Stocks.

Pretoria: R26m development. 41 500 m² to be let in unit sizes from 310 m² to 9 000 m². Zoned for general industrial or warehousing purposes. The park is well located for road and rail access throughout the Transvaal. Architect: Burg, Dougherty, Bryant & Partners. Main contractor: Benstra Construction.

Prospecton: R15m development. 30 000 m² to be let in unit sizes of 2 500 m² to 5 400 m². Built on two levels, near Louis Botha Airport, Durban, the park is suitable for general industrial or warehousing purposes. Architect: John Frost of Interarc. Main contractor: Alexander Hamilton.

New Germany: R6m development. 17 000 m² lettable in units from 789 m² to 3 675 m². There are two large buildings of 3 000 m² and 3 675 m². One level, ie: the upper floor of one building and the lower floor of another, constitutes 4 700 m² and can be rented *en bloc*. Use: general light industrial or warehousing. The park, recently completed, is located in the heart of the New Germany industrial area. To date, 20% is let at a rental in excess of R3,50/m².
Architect: John Frost of Interarc. Main contractor: Alexander Hamilton.

Office building with style

Modern design, good views and much greenery contribute to the appeal of offices

How would you like your suite of offices in Durban to have a panoramic view of the harbour and yacht basin? And if you want easy access to conference facilities and good restaurants, you need go no further than the Royal Hotel across the road. Parking will be available. A five-minute walk will bring you to the heart of the Durban CBD. If you want to work in even grander style, your office suite could have its own garden too.

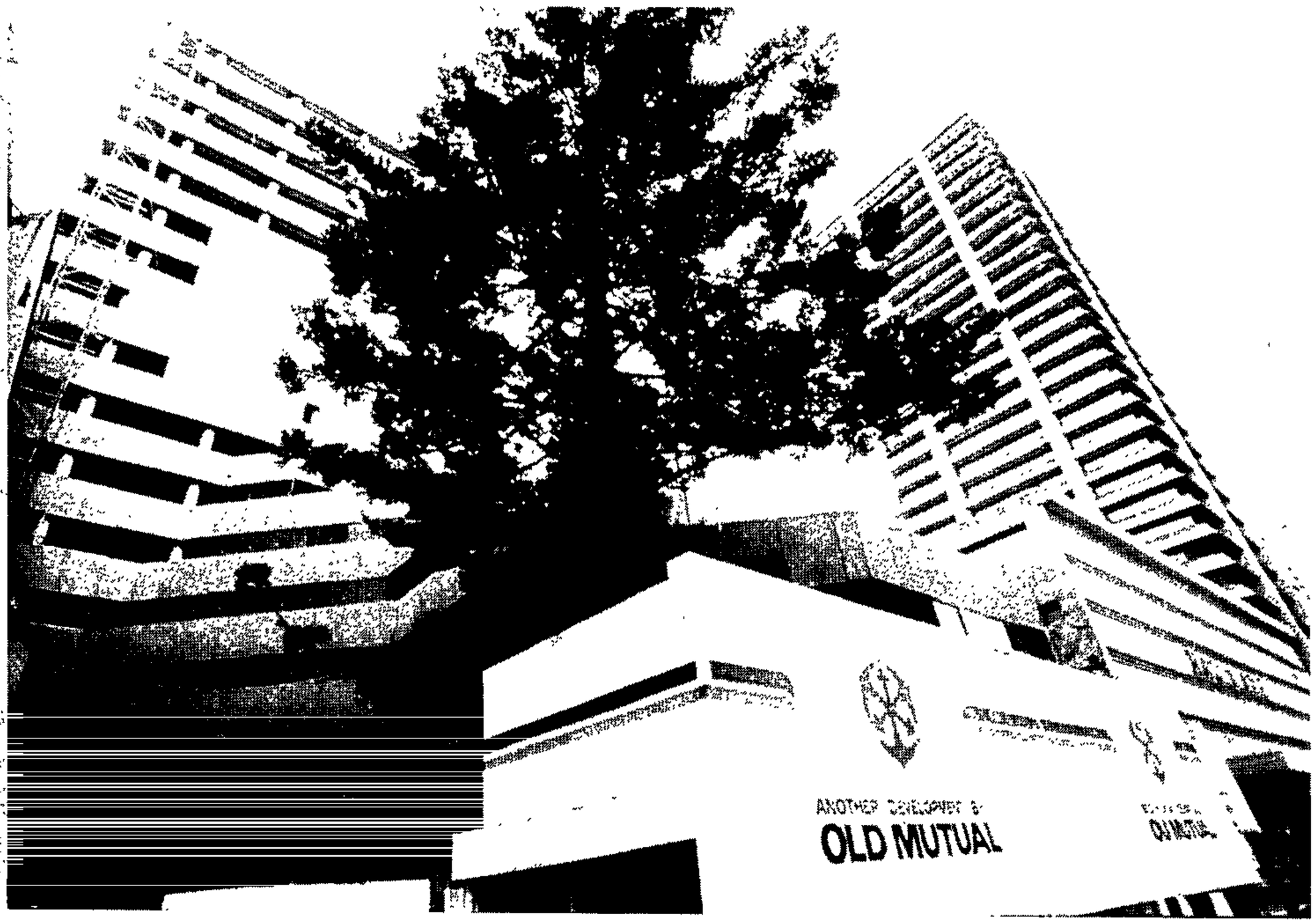
These are just some of the advantages to be offered by Durban's smartest office complex, the Marine, built on the site of the old Marine Hotel. A R27m development on the corner of the Esplanade and Gardiner Street, the Marine will be completed in December this year. It promises to be the most exciting thing to hit Durban's office market for years.

"An architect is always supposed to say that his next building will be his masterpiece" says Stauch Vorster partner Derrick Garvie who designed the Marine, "but if I had to do it again, I would not do it differently." Indeed the Marine represents a triumph of space design. The 0,9 ha site, narrow and rectangular, is hemmed in on the east side by the Royal parking garage and on the north by the Royal. Garvie's mandate was to build an office complex that interfered as little as possible with the view from the Royal's bedrooms.

He designed, therefore, a 22-storey crescent shaped structure that hugs the site's western perimeter and tapers down on its southern side, which faces onto the Esplanade. The building is splayed at 45° angles to form a long, diagonal fronting on the Esplanade/Gardiner Street corner. Aesthetically, this breaks the monotonous, rectangular type of building design and softens the Marine's form.

Practically, it offers office workers what Durban regional property manager Malcolm Gruneberg, justifiably calls "unparalleled views of the harbour and yacht basin across the palm-lined Victoria Embankment." These are views, which, in the conventional, rectangular sort of building, workers would never have got. And the view from the Royal is left virtually intact.

From the fourth to the 10th floors are cutback terraces with triangular, corner gardens. They would be ideal for office parties or a private conversation or even simply to step outside, take a breather and admire the view. The garage has been extended, to provide over 1 200 parking bays and to link up on the site's south-east corner with the Marine. Together with the Royal, a complementary office, hotel, conference and park-



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development has been established.

Below in the courtyard will be a 40 m² enclosed garden of fully grown palm-trees. The hope is to recapture some of the atmosphere of the renowned Palm Court in the Marine Hotel, where in bygone days Durban's smart young set dined and waltzed. On the ground and first floors will be speciality stores and a coffee shop.

Garvie hopes also to set up a wine bar on the second level, overlooking the garden. There would be terrace space for the overflow from a successful bar, green plants cascading from the balustrades facing on the courtyard and translucent vaulted light to give an airy, spacious, natural effect.

By the use of space voids, Garvie intends the Marine's tenants to experience a visual conception of unity and wholeness. Window apertures in the walls by the lift-bays will allow more light entry and afford snatched side-views of the yachts.

Another feature will be six of Otis' latest "elevonic" control lifts. Installed at a cost of R1,2m, they will be the first to become operational in SA. The lifts, when empty, are programmed to travel automatically to the ground floor at the start of the work-day and to the upper levels at the day's end. When a lift is called, a control mechanism will ensure that no lift has a clear run to ground level while another makes seemingly endless stops on the way down.

Every floor will boast outside walkaround terraces. These will block out the sun's heat, thus enabling ordinary glass windows (only half as expensive as reflecting glass) to be installed. They will also function as fire escapes and enable window-cleaning without disruption to office routine.

Garvie thinks the Marine's speed of construction has been a point of great interest for Durbanites. Built by LTA, speed has been possible as the ceramic tiles, used for its fascias, were pre-cast into concrete panels and can be attached in blocks. Old Mutual is not talking rentals at this stage, but it will almost certainly ask well in excess of the going R12,50/m² for prime Durban space.

Of property manager Martin Buss, Garvie has only praise for "the leeway he gave us in design. Buss's enthusiastic attitudes" he says, "contributed to the idea that economics and architecture could be successfully married."

Another Old Mutual office development soon to come on stream is the R16m Mutual and Federal office complex in Pretoria. Two-thirds of the space is let already and the first tenants will move in by November. Design of the building was much influenced by the narrow site, like that of the Marine, the need to restore a historic building on the site and Old Mutual's desire to preserve a 20 m-high Norfolk pine.

The first five floors ascend in staggered, terraced formation, the next 10 rise sheer above. The building is splayed to maximise light access.

The shape of the terracing was determined by the monument and the tree, which has been so tenderly cared for that barely a twig was damaged during building operations. Comments Pretoria property manager Freddie Blake: "It must be unique to have such a tree in the heart of a SA city."

The courtyard is to be landscaped; green plants will tumble down from the terraces and the garden will be brought into the foyer.

Letting units range from 300 m² on the upper levels to 900 m² further down.

Architects Stauch Vorster will restore the historic building to reflect some of its original uses. Built in 1902, they are the oldest commercial premises in Pretoria. They were used first as a tobacconist's shop with living quarters on the second floor, before they saw service as a cigarette factory for the Eureka company. The tobacco shop and upstairs flat will be restored to their original appearance. At the back will be an art gallery for exhibitions.

A third project is the 14-storey Field Street development in Durban. The building abuts on the existing Durban Bay House and this gave architect Thurston Raats of Campbell, Bernstein and Irving the unusual idea of using the ramps in Durban Bay House to give access to parking floors in the new building. The site's narrow size would have made it impossible for the Field Street development to have its own parking ramps and provide adequate parking. Development cost is R15m and the building will create some 8 000 m² of office space.

Old Mutual will be virtually the only supplier of new office accommodation in Durban in the next two years. As it has developed 45 000 m² of industrial and 30 000 m² of office space on spec in and around Durban in the last few years, the Durban office is going to be hard at work marketing it all.

How the division functions

Expertise in a wide range of property skills has been developed to promote efficiency

Old Mutual's property men are troubled by an image they believe the property market has of them as poor operators, who can afford to, and do, make mistakes. If this image exists, it owes something to the late Seventies when the division bought prime office sites with initial low returns. Such a conception, however, is unfair.

The institutions must invest long-term (see box "Investment policy") as this best guarantees the steady, assured growth they need to fund commitments and bonuses to policyholders. Based on long-term criteria, the property division showed great foresight in 1979-1980, when it bought prime office buildings in the Johannesburg, Durban and Pretoria CBDs at knock-down prices.

Capital values have trebled in three years as leases have been renewed at market levels. For example, a third of the space in Johannesburg's M & F building, bought in early-1979 when average rentals were R5,10/m², now yields R16/m². Nedbank Mall, acquired soon afterwards, now commands average rentals of R16/m² on a similar third of the space against R4,15/m² at the time of the purchase.

Market rentals on other purchases show similar huge gains, as recorded in the accompanying table. Of course, in most of these buildings, market returns are limited at present to about one-third of the lettable area. Leases on the other two-thirds of lettable area have yet to revert to going rates. But the table shows the potential for massive rental growth as leases expire.

"Old Mutual saw that office properties were selling for dramatically less than replacement cost," say regional property managers Mike Raggett and Freddie Blake in discussing these prime office purchases. "Something was wrong. Either building costs were too high, office rentals too low or yield requirements too high. After we studied past trends and future progressions, it was decided that office rentals were out of line." They were right.

How does the property division organise itself? With 1 200 employees, it places a premium on acquiring skills in all areas of its operations — research, investment analysis, development management, leasing and maintenance. A skilled, multi-faceted workforce, it is reasoned, makes for better financial control and maximises the expertise available for decision making. In property development, for example, rather than using outside project managers, the division has assembled its own specialists with

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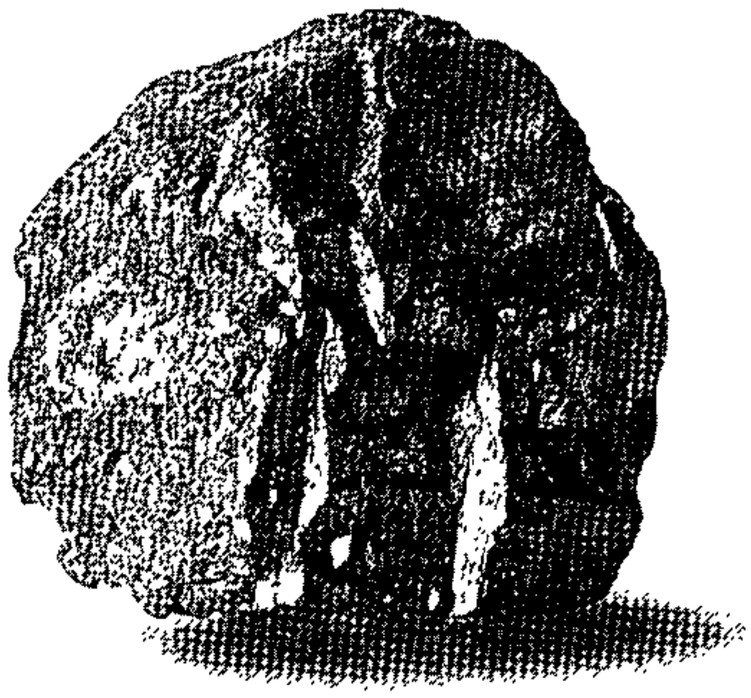

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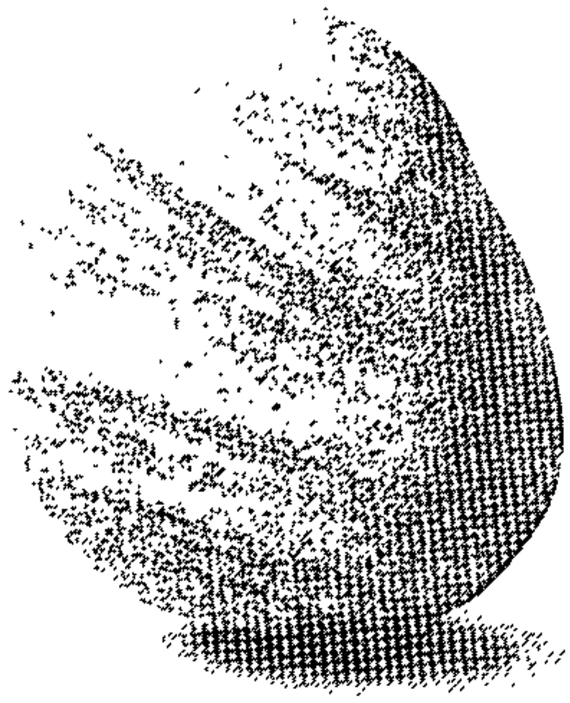

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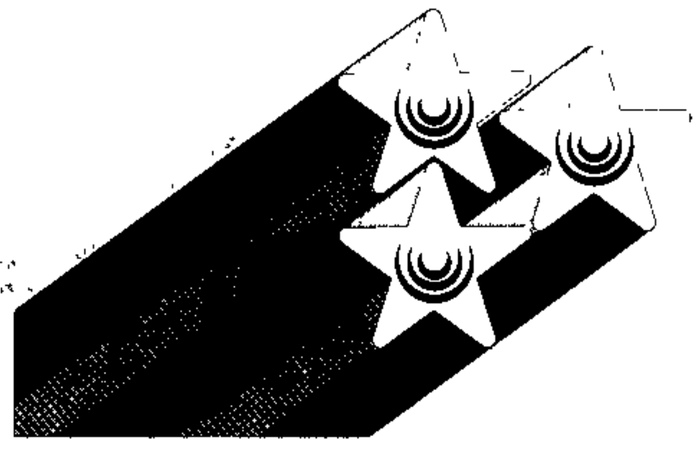

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In-house administration means that through its country and regional offices in Johannesburg, Pretoria, Durban, Port Elizabeth and Cape Town, the Old Mutual does its own rent collections, leasing, cleaning, repairs, maintenance and security. Lease rate negotiation, an assignment often undertaken by regional staff members, can be an intricate business that requires a keen knowledge of going rates and what the market will bear. An error can mean forgone income which, compounded over the years, can be substantial.

Investments manager Derek Stuart-Findlay estimates that by doing leasing itself, the division saved R3,5m in the last financial year. It intends to follow this policy on the leasing of the Isando warehouse park. Functions like cleaning and security are handled in-house unless, as in Natal, outside contractors do the job more economically. Regional offices, by their exposure at first hand to the local property market, also play a significant part in providing information back-up for investment decisions.

Investment analysis, conducted predominantly at head office, has become very sophisticated. On the one hand, the work assesses the financial viability of proposed property purchases and developments. On the other, it involves the research, so necessary in property investment these days, to forecast the future course of economic growth, interest rates, rentals and consumer spending.

Property research manager Erwin Rode has won widespread recognition in the market for the astuteness of his work, recognition which has earned him the chairmanship of the SA Property Owners' Association's (Sapoa's) statistics committee.

Marketing is another area in which the division seeks to consolidate its skills. An intensive sales campaign is to be mounted. Among the ideas of recently appointed marketing manager Keith Christensen, an immigrant to SA from Sacramento, California, is the organisation of an Old Mutual exhibition stand to promote industrial parks at trade fairs held this year in Johannesburg.

Theme of the exhibit: come to Old Mutual first. This May and June, armed with scale models of its industrial parks and

RENTAL GROWTH POTENTIAL
Some major investments before the upswing in rentals

	Transfer date	Purchase price Rm	Average rentals on purchase R/m²	Open market rentals today R/m²
M & F Building, Johannesburg	5,79	*—	5,10	16,00
I.B.M. Building, Johannesburg	3,80	11	3,71	16,00
Triomf House, Johannesburg	3,80	3,1	4,40	15,50
Nedbank Mall, Johannesburg	4,80	10	4,15	16,00
Durban Bay House, Durban	7,80	11,3	3,90	12,50
African Eagle, Pretoria	9,80	15,1	4,07	14,00

* Not disclosed, as a condition of sale.
Source. OM Properties

an audio-visual film extolling the virtues of the portfolio, Old Mutual exhibited at the materials handling and electronics components shows at Milner Park, Johannesburg. The display aroused "much interest," says Christensen, but it is early days yet to judge its success.

The job of binding these branches of expertise into an effective whole falls to the division's seven-member management committee. Mobility and fast decision-making are the marks of its style. These are characteristics dictated to a considerable extent by the division having its head office in Cape Town and the bulk of its portfolio elsewhere in the country. Three of its members are at Old Mutual's head office in Cape Town, two in Johannesburg, one in Pretoria and another in Durban. Formal meetings are held monthly in different cities in SA and individual members see each other regularly at other times.

The committee makes the crucial investment decisions and personnel appointments and monitors the monthly performance of the buildings in each region. Although all regions and sections of the division are represented, the committee works as a team. Its members are not there merely to propagate the view of their constituency, but to formulate joint decisions. Committee decisions are then implemented by inter-sectional and regional work teams at the second tier of management.

When necessary, the committee prides itself on moving fast. Nedbank Mall in Johannesburg was purchased for R10m in three days. As Stuart-Findlay puts it: "We can tie up deals within a week or two. Estate agents are human and they go to the people who can give them the quickest answer."

Due possibly to a hangover from 1865, when Old Mutual lost money on its first property transaction, its Act of Incorporation states that all property deals must be approved by Old Mutual's board or the board's executive committee.

Says property division manager Martin Buss, recalling the office-buying days: "Everyone had been gloomy about property for years. It took a lot of courage for us to go to the board and say 'I want to spend R10m-R15m on a property.' But the board has always supported us."

FAST MOVING

It began on a Friday afternoon when Natie Kirsh telephoned property division manager Martin Buss. Was the Old Mutual interested in buying the Nedbank Mall in Commissioner Street, Johannesburg? Indeed it was. The team went into action.

First thing Monday morning, then investment analysts Mike Raggett and Arnold Prosch (Prosch now heads the Port Elizabeth regional office) jetted to Johannesburg. Assisted by Zimbabwe manager David Frost, they carried out, in the next 36 hours, a detailed check on the building and its leases. They were especially impressed by the efficiency of expense recoveries. Title deeds were checked by the attorneys.

Wednesday saw Raggett and Prosch back in Cape Town. Meanwhile, the other interested party, the Pru, which had been mulling over the deal for three months, got wind of what was afoot and offered Kirsh R10m for the property. Kirsh, as he had made the approach, was willing to sell to Old Mutual for the same price. A quick decision was needed.

Off went Buss, armed with the property analysis, to see MD Frans Davin and investments GM Peter Bieber. On Wednesday night, Bieber told Kirsh the deal was on. Thursday midday it was ratified after approval by the executive committee. On Friday a letter confirming the sale was in Kirsh's hands.

Did the team celebrate with champagne? "No," says Raggett, "we moved on to the next deal."

Nothing but the best

Project management requires training and aims to ensure a development's completion on time and within budget

"Our expertise lies in management as well as in the technical side of development," says development manager Pierre van Ryneveld of his section's responsibilities. Property development's functions are twofold — to assess the technical attributes of a property under consideration and to provide the management expertise necessary to control cost, quality and time.

The biggest assignment is to assemble and co-ordinate the project teams that handle Old Mutual's developments. Old Mutual's policy is to use outside professional expertise on building projects as this maximises the variety of design at its disposal and distributes work more widely in the private sector. The architect is the recognised leader of the construction team which, of course, includes engineers, quantity and land surveyors and building construction (drainage, sprinkler installation) and security specialists.

But Van Ryneveld argues strongly that it is unrealistic to expect managerial responsibility to reside in the architect alone. Nowadays the architect is expected to be a designer, technician and trained manager all in one. "Seldom," observes Van Ryneveld, "does one find all these skills in one man. To overcome this problem a greater input of management expertise is required." This is where Van Ryneveld and his staff of 12 full-time employees, including architects, quantity surveyors and civil engineers, play their part. Their job: to ensure the project's smooth running, its cost containment and its completion within the budgeted time.

Psychological suitability is a prime prerequisite in the recruitment of Old Mutual's project managers. "They may be technically good," says Van Ryneveld, "but they must have the ability to handle people. They must be respected for their technical skill and be able to cope with a development project, a multititude of different people, the architect, other professionals and MDs and persuade them of the course they should be following." Once chosen, project managers get a wide training both on the job and in formal tuition, which covers project budgeting, quality and time control, the law of building contracts and aspects of business leadership.

The 12 are split into project teams, each of which handles major developments of R60m in total and three minor projects of R2m-R3m each. Pre-project planning must be very precise, as speed is of the essence if costs are to be contained.

At present inflation levels, says Van Ryneveld, if the Haylett formula is applied to a R60m development, contract escalations can cost R400 000 a month or R4,8m annually. Under market conditions, escalations can be up to three times more, so it is vital, once a development is agreed on, to

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BUILDING TIPS

Design flexibility and control over energy costs, says development manager Pierre van Ryneveld, are two indispensable elements in long-term building planning. He offers a number of suggestions which could be incorporated in future design strategy:

☐ Providing semi-deep rather than deep space. "There is a definite hostile reaction by certain tenants," he states, "to the concept of vast areas." Open planning is suitable for activities which historically have been conducted in open offices, eg: draughting or book-keeping work. But it would not do to put management, much of whose work is confidential, into open planning. Buildings with narrower width also do not require such sophisticated air-conditioning systems and can make more use of natural lighting.

☐ Establishing a central open space in the building, ie: atrium planning, in which green plants grow. An atrium can create an "atmosphere" and can function as a cooling aid.

☐ Siting buildings to present the smallest wall facade to the major heat sources, which come from the west and east. Buildings could also be better insulated by double-glazing to prevent heat loss or gain.

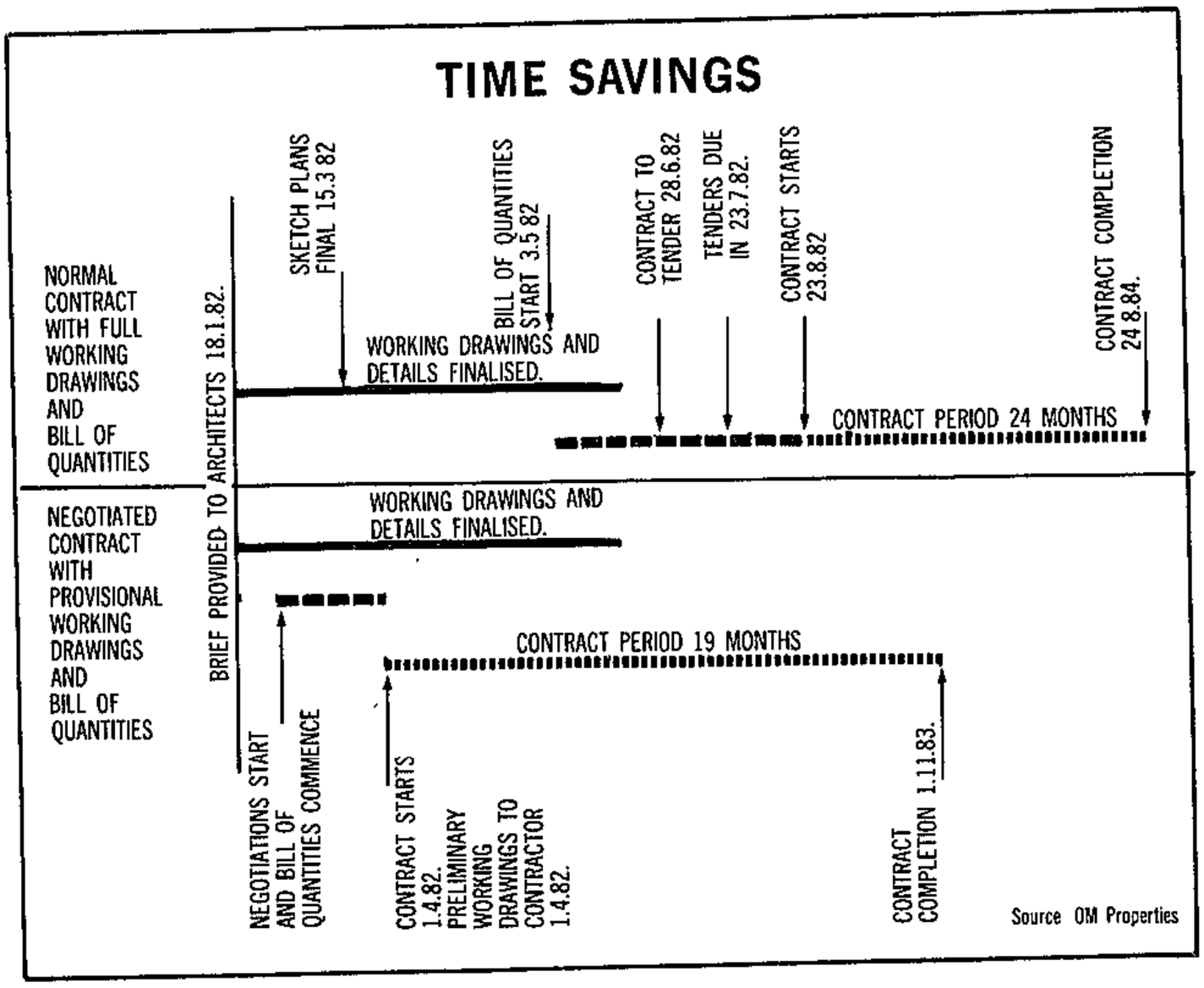
Today's widespread use of glass facades in building design causes high heat absorption. Installation of expensive heat reflecting glass can act as a control but the proper design of canopies and deeper recesses can be a more economic means of combating heat problems.

☐ Single-storey structures such as factories, warehouses and shopping centres could make more use of the fill area beneath the ground-floor as a thermal storage area. Instead of soil and rubble, well-graded clean rock could be placed beneath the ground-floor surface. A collector on the roof could heat air, which would then be blown over the rocks, warming them up and so providing an underfloor heating system. If more heat is required, hot air can be blown directly into the building from the collector.

In summer, cool night air could be blown over the rock-bed. This would cool the building in the day. A second rock-bed, cooled by the evaporating effect of a fine water spray, would also help cool air before its distribution to work areas.

☐ Computers could monitor the energy bill, matching energy performance against budget. If an office became too hot, an automatic mechanism could reduce or cut off heat.

TIME SAVINGS



build quickly. Otherwise capital escalations could slice returns to a point which makes the project unviable.

Plans are worked out in close co-operation with other sections such as investment, marketing and maintenance. Marketing must know what the tenant will go for and it can advise on the best configurations of space for leasing. Maintenance has the problem of containing escalating energy costs. After approval by the Management Committee, technical and marketing briefs are forwarded to the architect. The briefs deal with the building's purpose, budget parameters, the time scale for completion, landscaping, site problems and what image the building should project.

If negotiations replace tendering as the method of awarding the building contract, cost and time savings (see table and graph) can be considerable. Estimates prepared on a development project now nearing completion and built by negotiation, forecast an outlay of R38,1m, compared with R44,8m had a conventional bill of quantities contract been used. Ten months will be gained. As the contract is proceeding on time and under budget, these targets should be met.

Unlike conventional building contracts which are finalised only after completion of the working drawings and bill of quantities, negotiated contracts are concluded while the architect's plans are still on the board. This type of contract negotiates the rates

COST SAVINGS

Cost comparison between normal and negotiated contracts

(a) Normal route: working drawings and full bill of quantities tendered upon before building.
(b) Negotiated contract.

	(a) Normal route	(b) Negotiated contract
Building cost	R27 915 000	R27 915 000
Professional fees	3 630 000	3 630 000
Pre-contract escalation	6 309 000	1 734 975
Contract price	R37 854 000	R33 279 975
In contract escalation	6 950 000	4 837 025
Final building cost	R44 804 000	R38 117 000

Project management ... beauty and maximum return

...than the amounts on the bill of ...ities as amounts get determined later. ...rices can be some 5% higher than conven...nal contract prices but, claims Van Ryne...veld, "I hit site so much earlier that 5% is ...st lost along the way. Compared with the ...avings on escalation costs and the oppor...unity to earn earlier income, it is ...gligible."

Negotiated contracts are best used, he ..., on complex developments handled by ... or two contractors or if the market is ...y and tenders are inflated. Big changes ...ould not be made to the sketch plans as ... cost involved would be too large. Thus it ... vital to have complete clarity in the ...rketing and technical briefs on what sort ... building is wanted before the architect ...even begins his plans.

Van Ryneveld is adamant that successful ...gotiations can take place only "if trust ... integrity of purpose are present on both ... of the table." Recent successful negoti...ions have been concluded with Dura Con...ruction in the Cape, LTA Construction, ...rray & Roberts, Giuricich Construction, ...ndra Construction in Pretoria and Ham...on Construction in Natal.

Once the project is underway, weekly reports on work-in-progress are filed with Van Ryneveld. Every month he meets with the project teams to discuss matters relating to developments. There could be problems over the sub-contracting or the roofing. The emphasis is on quick decision making and problem solving, as it is Old Mutual's property gospel that projects be finished on time.

Service problems

Not that Old Mutual is immune from the high cost, poor service problems which beset SA's construction industry. "I am extremely worried about the building industry at the moment" admits Van Ryneveld, "as high costs would seem to be a continuing aspect. Hence the necessity for firm control on projects."

Van Ryneveld's especial concern is the avoidance of responsibility by some professionals, contractors and sub-contractors for faulty design work, notably specialised work like structural steel roofing and double volume shop fronts. Against whom does the developer, as payer, have recourse? In the architect's defence it can be said that a highly specialised training in a wide variety of design work is next to impossible.

Better management and more clear delineations of responsibility for work done can help matters. The Old Mutual awards sub-contracts, for example, on the architect's advice and after consultation with the builder so as to ensure quality control. But Van Ryneveld would be very happy with a composite insurance structure which covers all professionals and the general contractor for a period of some 10 years (see box: Project protection).

Van Ryneveld would also like to see building contracts revised to restore the developer's common law rights of action. Under the standard building contract presently used, these rights are waived once the developer has signed the final certificate of approval. Guarantees on the building materials leave the developer in a worse-off position than under the common law.

Property development is no piece of cake but Van Ryneveld confidently says, "at the end of the day we have a building that is going to give us the maximum return to the ultimate benefit of Old Mutual's policyholders."

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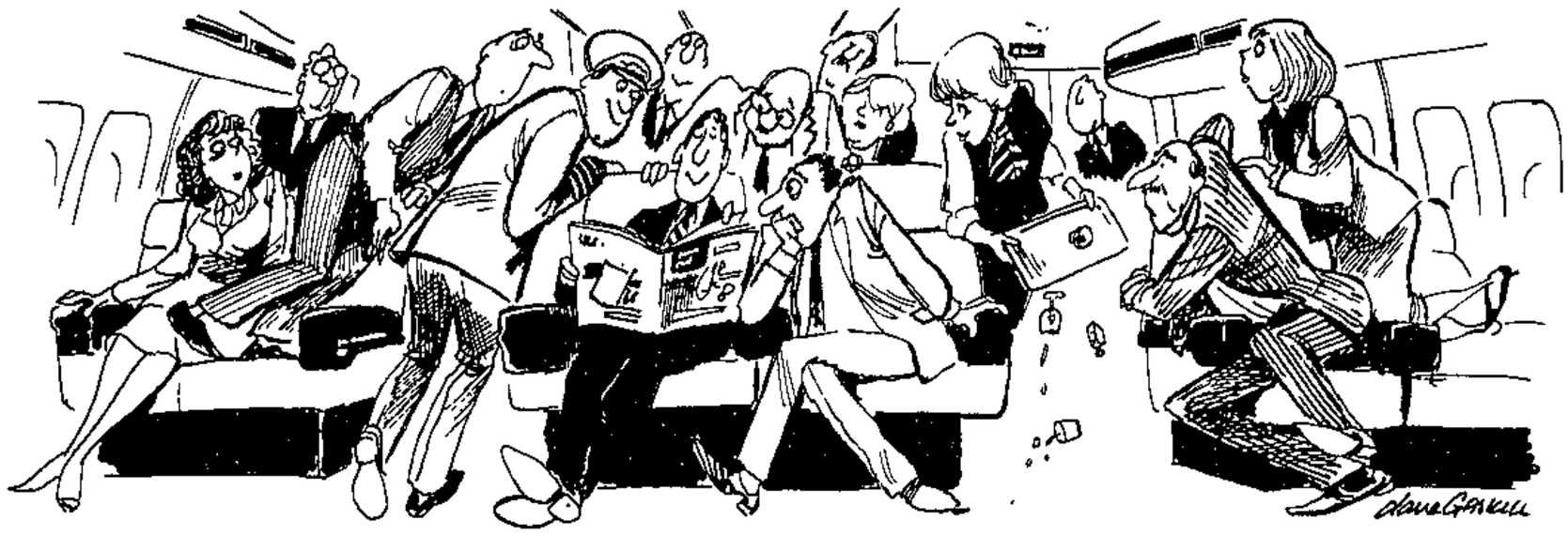

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Research and the future

The property research unit must advise management on broad purchasing strategy and forecast rentals

The veneration the property division reserves for research manager Erwin Rode is something akin to what the ancient Greeks must have felt for the Oracle at Delphi. As the source of some of the division's most guarded secrets, Rode was perhaps understandably reticent when the *FM* sought to probe into his work.

Rode's job is prediction. When will the next trough in the building industry occur? Old Mutual needs to know so that it can plan its development programmme accordingly. Knowledge of how rentals will behave is crucial to assess expected yields on an investment. Likewise, information as to the likely turnover of a major tenant, especially one in retailing, is important as retail leases usually provide for a share in the profits from turnover. In a nutshell: the research department must advise management when, where and what type of property to buy or develop and it must forecast expected rentals.

As Rode explains, "the conventional wisdom in acquiring property is the three Ls: location, location and location. But timing is just as important."

The starkest demonstration of Rode's maxim came in the property crash of the Seventies. How many of the best located office blocks in the CBDs of the land were earning a good return then in the face of a horrendous oversupply of space? Old Mutual stayed out of the carnage of those years, cleverly timing its purchases of prime office sites until shortly before real rentals began their recovery.

Rode concludes that this period proved no short-term relationship between rentals and building costs. "It is a fairy tale," he says, "to say that because building costs go up, rentals will go up. In the short term, supply and demand determine rent. Only in the long term do rentals oscillate around building costs. But people won't build unless they can get the right yields in return. But because of the length of time it takes to put up office blocks (two to five years), one gets wild swings in over- and under-supply."

The graph, prepared by Rode, that accompanies this article, shows that in the tremendous boom of the late-Sixties, high yields on developments meant conditions were immensely favourable to construction. Buildings were erected in the belief that rent rises would go on indefinitely; in reality they levelled off at the start of the Seventies.

When new buildings were completed, a huge oversupply emerged. As building cost inflation ground inexorably onwards, costs rose more rapidly than rentals and it was uneconomic to build. Construction, not unnaturally, ceased and the Eighties were bequeathed an immense undersupply of space. Rentals, responding to market forces, took off.

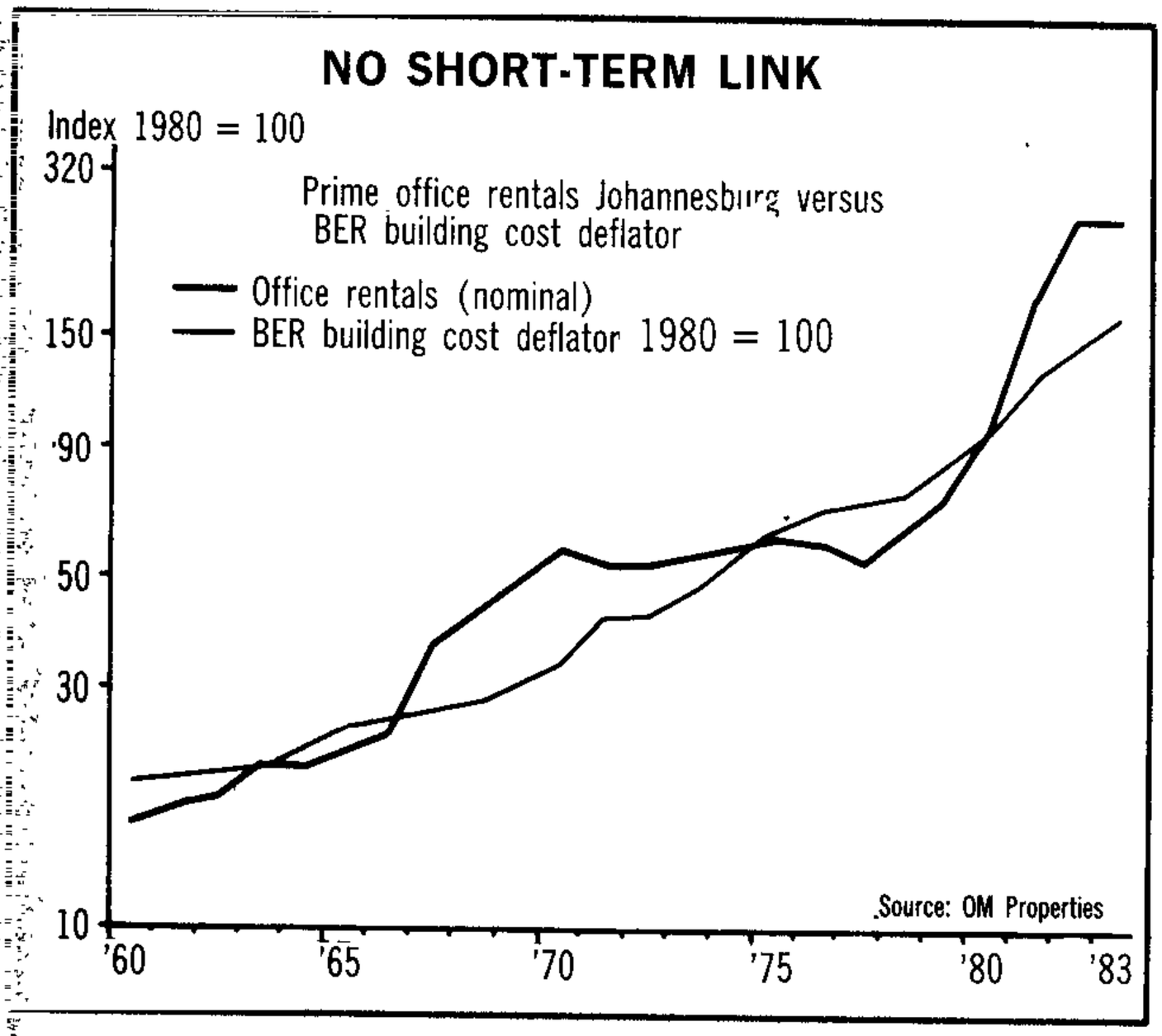
When Rode wears his other hat, that of Sapoa's statistics committee chairman, his concern is with the micro-economic aspect of improving property expense management. Starting with office blocks, Rode would like to see an industry-wide income-expense analysis report. The yardstick should be an expenses/m² of lettable area formula, as this renders a more exact measurement of cost factors. The conventional standard of expressing expenses as a percentage of gross income is less appropriate, due to gross income fluctuations which have nothing to do with the efficiency with which expenses are managed.

This June, therefore, Sapoa circulated a questionnaire among its members to establish how many would participate in a scheme to file expense returns. A report, summarising the data and grading buildings by age, geographical area, building size and number of storeys, would be published annually. Target publication date for the first issue, covering the 1983 calendar year, is June 1984.

The advantage for participating office block owners is that they could measure their expenses/m² against an industry median. Moreover, as the trend now is to quote net leases, with the tenant paying all running expenses, the sophisticated tenant will in future start to compare running costs in different buildings. The better expense-managed landlord would have an edge.

Raising his sights still further, Rode hopes that industry reports could be compiled on occupancy levels, which would indicate a developing over- or under-supply situation. He also has in mind a standard chart of accounts, which would standardise all expense and income accounts and would include office and industrial buildings, shops and flats.

But first the basic statistics must be bettered. Here, Rode says, we are "light years" behind the US. For the scheme to get under



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Among their many innovative commercial designs are the Tyrwhitt Mall in Rosebank, Cavendish Square in Claremont and the Marine in Durban, currently under construction.

In the industrial sector, a worldwide innovation has been brought to South Africa by Old Mutual Properties - Industrial Parks.

A unique concept that incorporates the latest advances in operational technology into attractive fully-landscaped settings.

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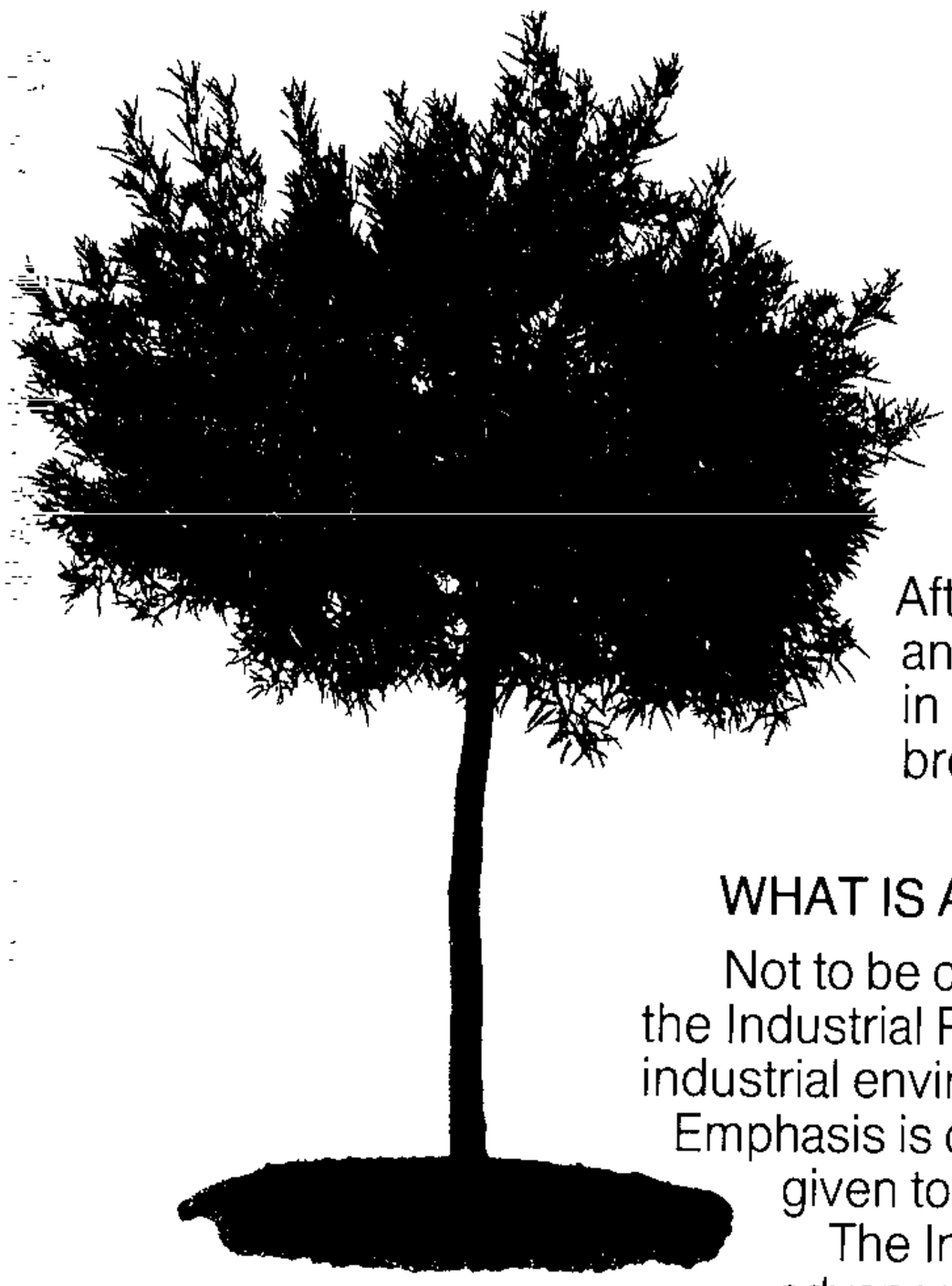
OLD MUTUAL PROPERTIES

VZ, OGILVY & MATHER 83/67253/1



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INDUSTRIAL PARKS: THE NEW INDUSTRIAL REVOLUTION.

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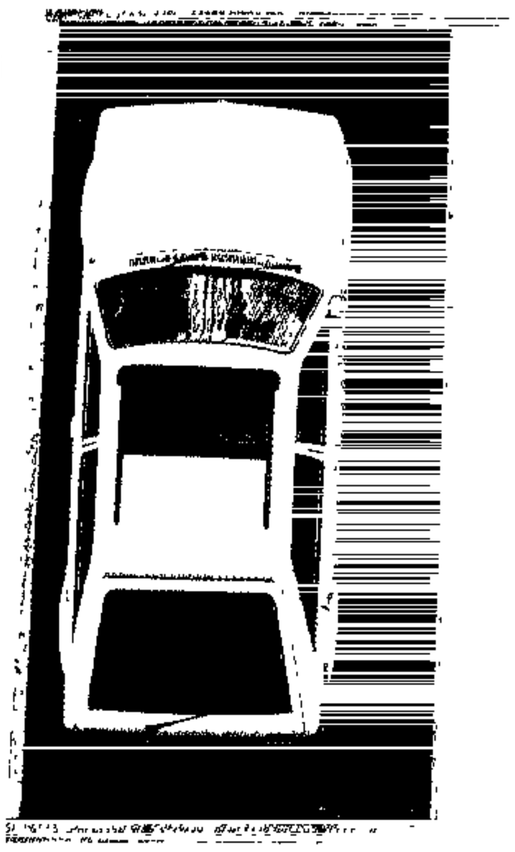


WHAT IS AN INDUSTRIAL PARK?

Not to be confused with an industrial township the Industrial Park is a complete, carefully planned industrial environment.

Emphasis is on high quality with special attention given to building and environmental design.

The Industrial Park incorporates the latest advances in building and operational design into an attractive, fully landscaped setting.

WHAT ARE THE ADVANTAGES OF INDUSTRIAL PARKS?

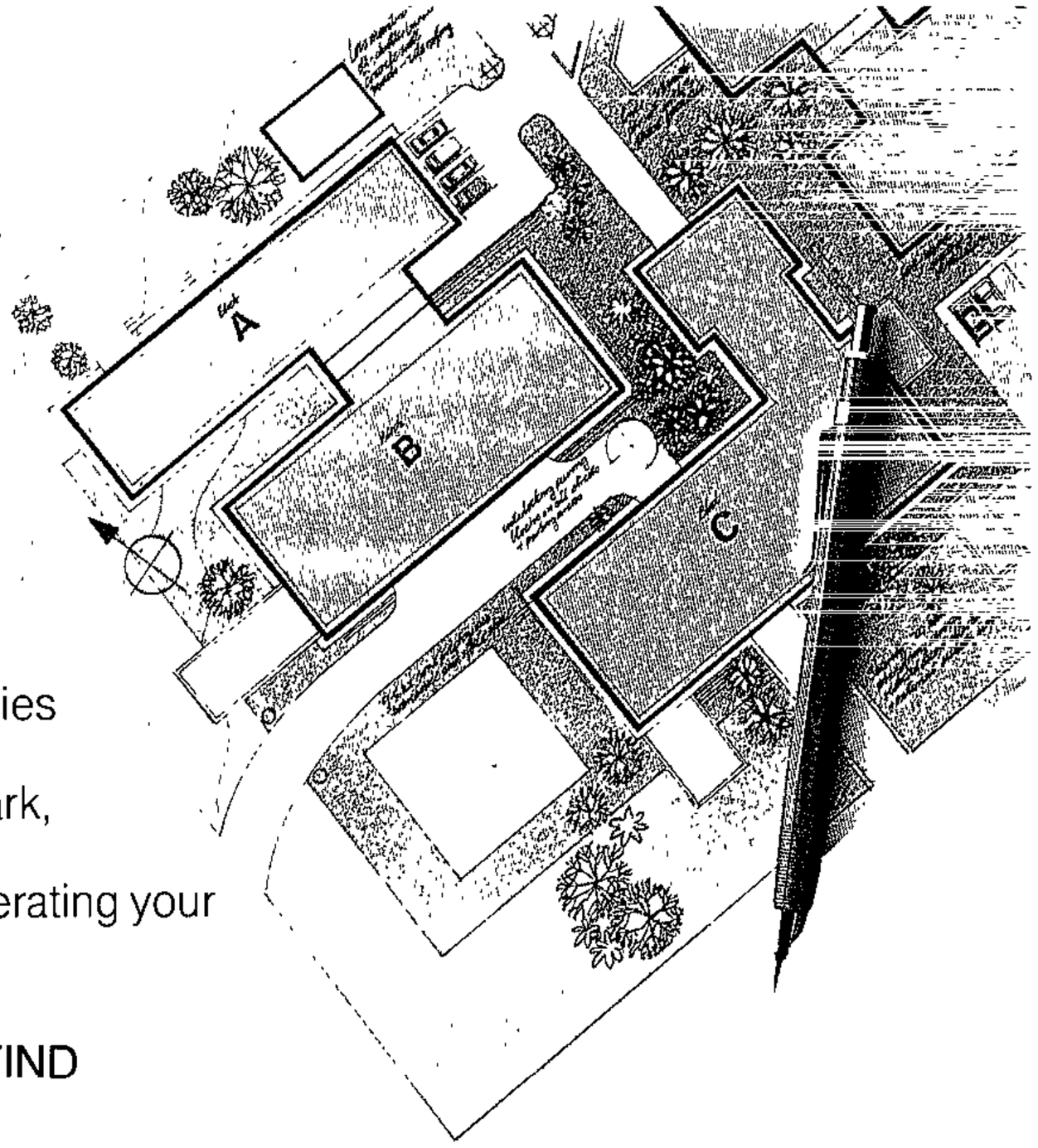
The Parks are prestigious, yet functional and provide accommodation for industrialists, distributors and head offices. Buildings are designed for maximum space utilisation and flexibility. Catering for production, warehousing and office facilities that blend operational efficiency into a pleasant working environment. All this contributes to a quality of working life that encourages higher productivity and attracts and retains a higher standard of staff.

WHERE ARE THE INDUSTRIAL PARKS SITUATED?

Old Mutual Properties are developing Parks in Isando and City Deep, Johannesburg; Hermanstad, Pretoria; New Germany and

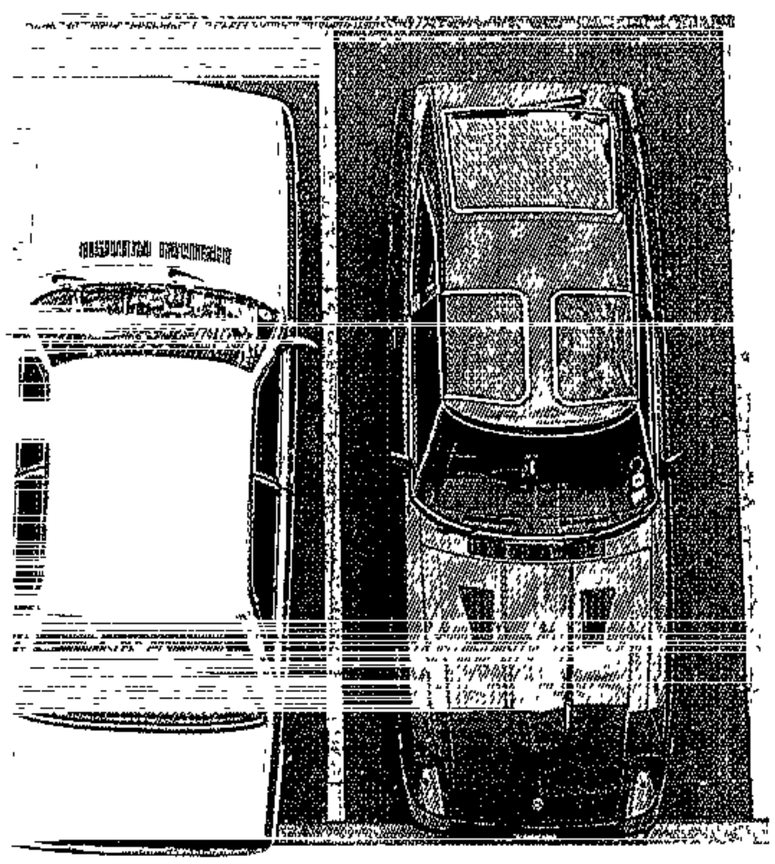
Old Mutual Properties. A corporate report. Supplement to Financial Mail July 8 1983

Prospecton, Natal and in Maitland in the Cape. Designed to take advantage of the unique characteristics of each location, the Parks reflect the advanced technology, operational utility and aesthetics of the Industrial Park concept.



WHO WILL ADMINISTER THE PARKS?

To ensure that the high standard set for each Park is maintained, Old Mutual Properties will administer and supervise every park, leaving you free to concentrate on operating your business.



HOW CAN YOU FIND OUT MORE?

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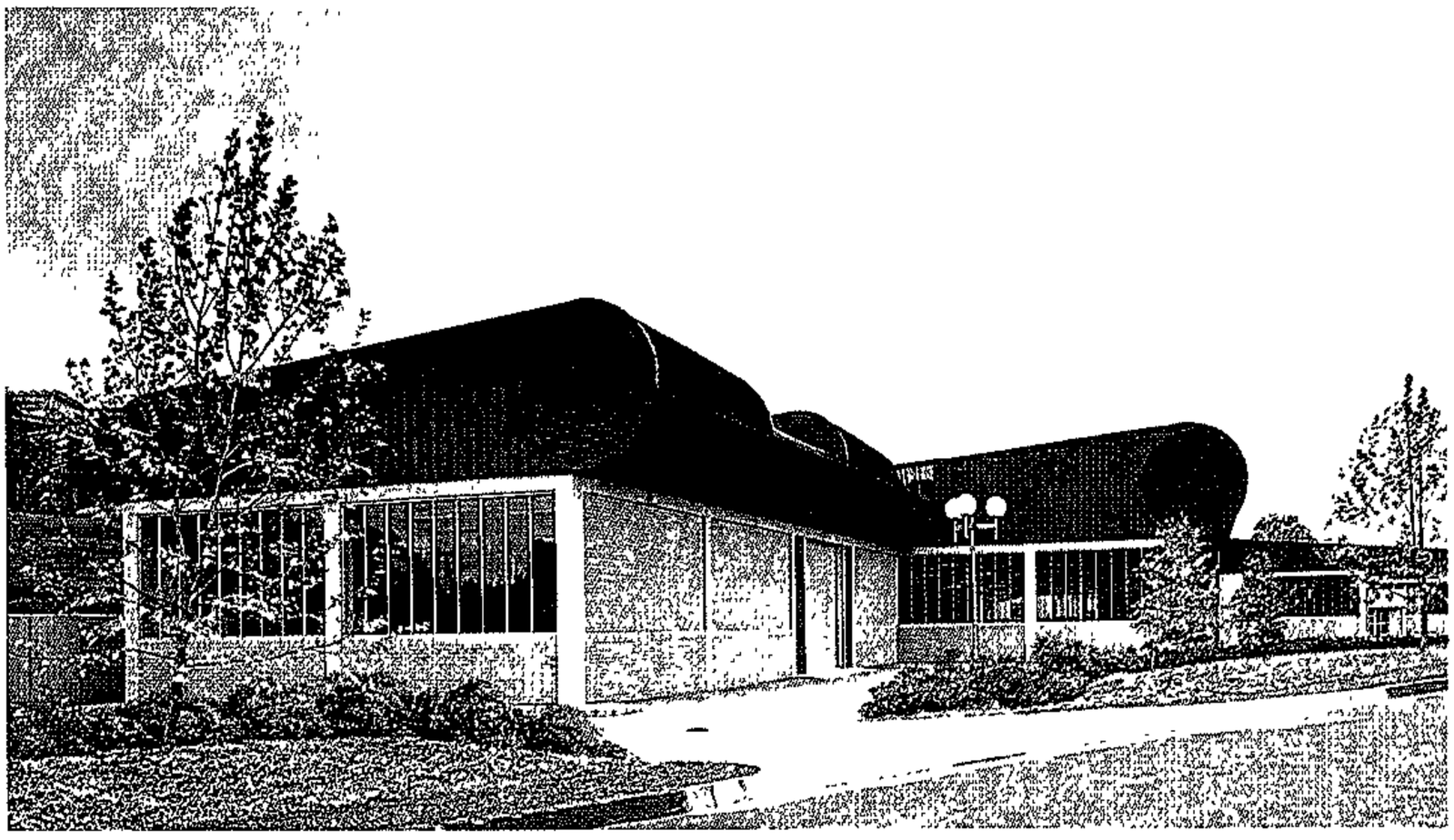

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Notice how the recessed windows give light without the glare of direct sun.

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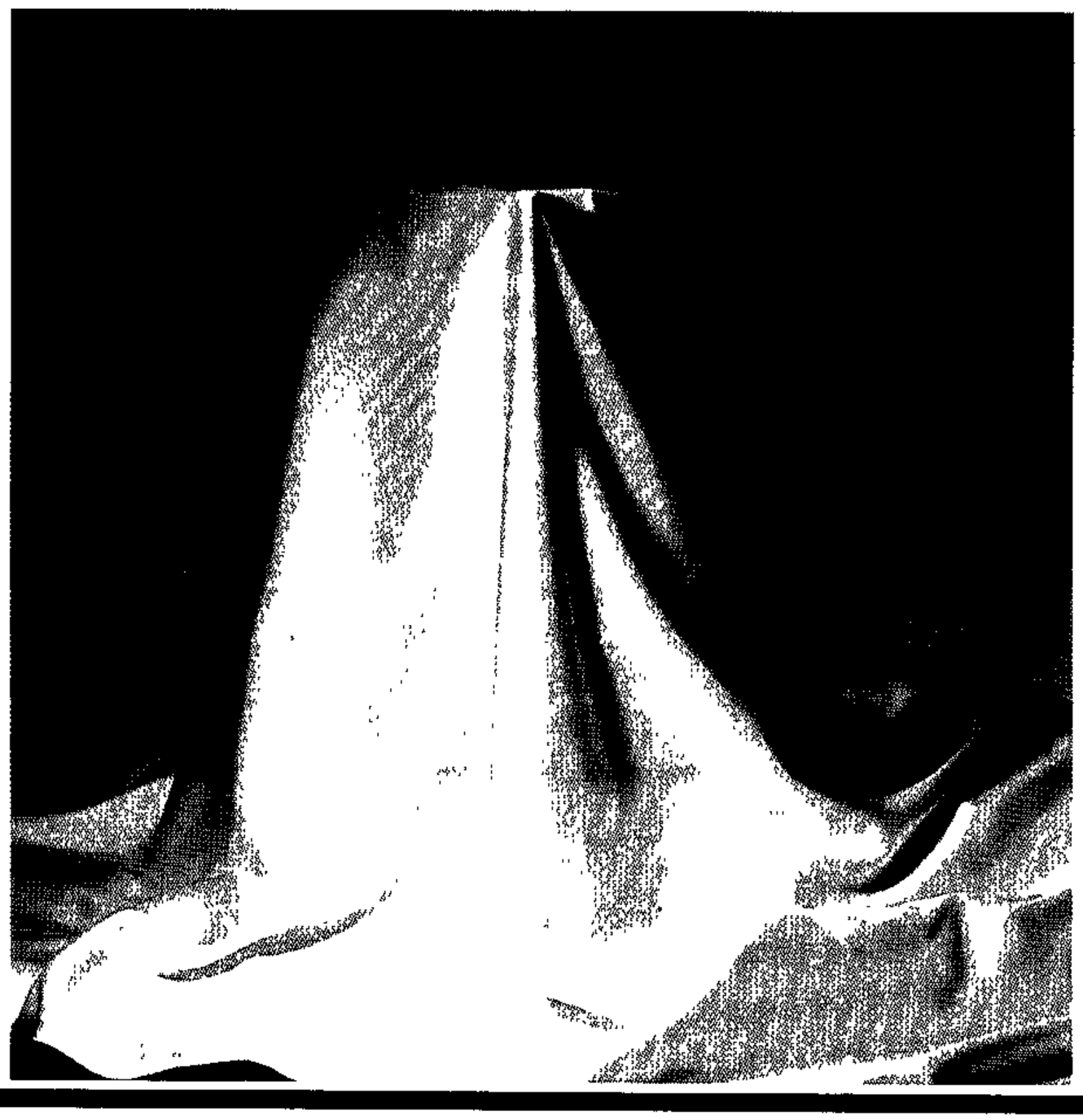


OLD MUTUAL PROPERTIES

VZ, OGILVY & MATHER 83/67253/4

Before Old Mutual buys a building, it despatches an investment analyst armed with a check-list to test construction quality, do a title deeds search, ascertain town planning and zoning regulations and prepare a financial analysis.

The building's income is established and assumptions are made as to its net income flow over a future time period (usually 20 years). Vital to these assumptions are the research department's forecasts as to how market rentals and expenses will behave.

The income figures, actual and projected, are capitalised at a rate known in the division as a hurdle rate. This is the minimum rate of return acceptable on an investment. It is computed on a forward assessment of a five-year average rate on a collection of prime semi-gilts, to which is added a risk factor. This factor is calculated for every individual building in terms of its locality, quality of construction, ability to maintain income and its adaptability to different space usage. The higher the risk, the higher the hurdle rate.

On capitalisation, the total figure arrived at is the building's net present value (NPV) and it is the maximum amount the Old Mutual will pay for the property.

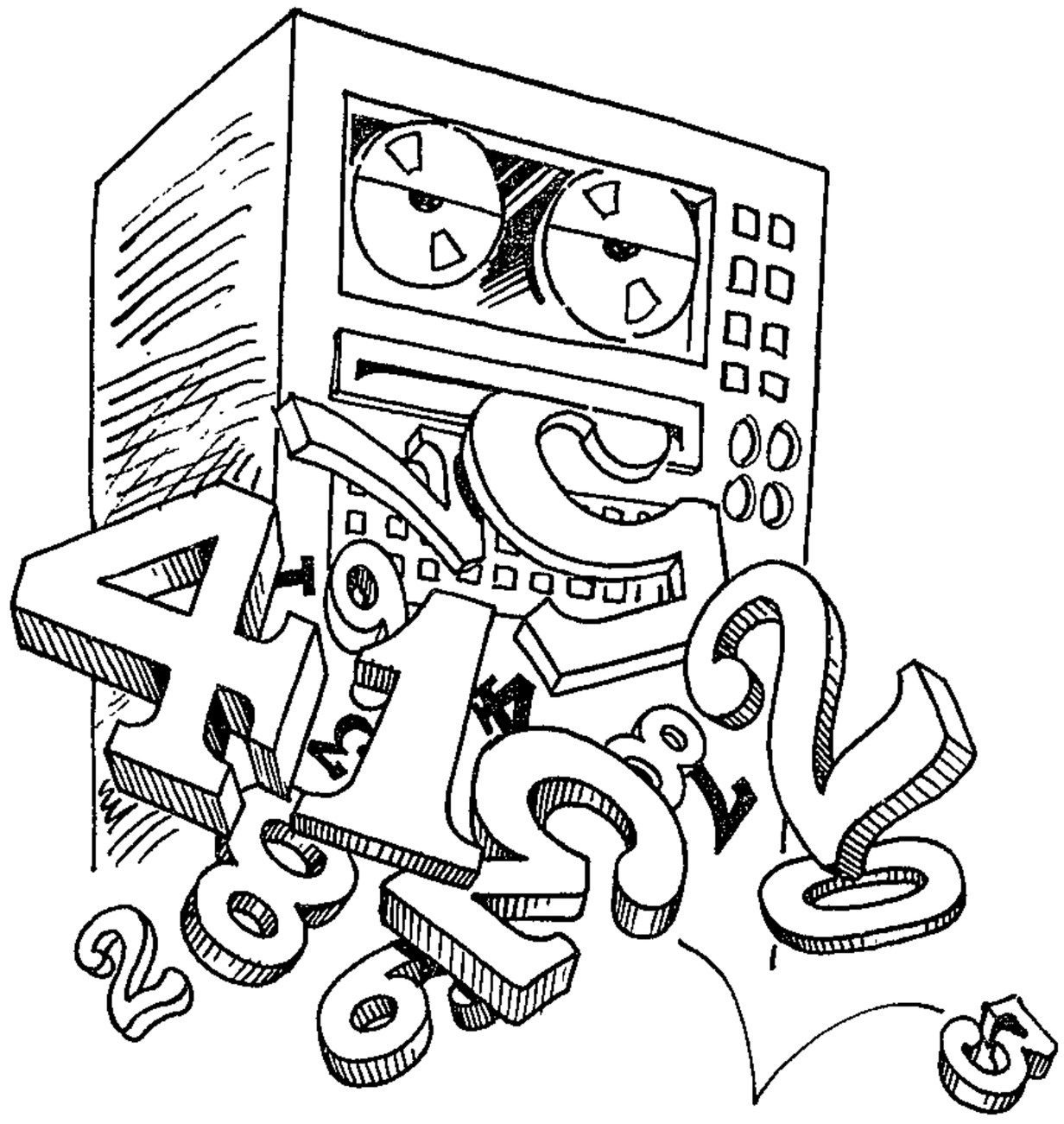
Should the seller be a shrewd bargainer and the purchase price agreed on is around the Old Mutual's maximum offer, the hurdle rate will coincide roughly with the Internal Rate of Return (IRR). The IRR is the expected annual average rate of return on the purchase price, after projected cash inflows and outflows have been discounted over the time period to present-day values. The efficiency of property investments can then be measured against alternative investments in, say, equities.

The IRR becomes the minimum yield target on an investment. *It must be achieved* if the investment is to perform as expected. Hurdle rates, NPV's and IRR's can be run through the computer over and over again but as Johannesburg property manager Mike Raggett points out, "any calculations of this nature are only as good as their worst assumptions."

A building's worth is essentially a combination of assumptions and the most contentious part is its worth when the cash flow period ends. Asset values often do differ wildly. To assess financial viability, therefore, all valuations assume that the property's value will be equal to its initial cost. In effect, the Old Mutual adopts the very conservative approach of assuming no capital appreciation at all. An investment's viability is judged by its income growth potential.

Unquestionably, however, risk calculations will grow in importance and in sophisticated technique. Computers, statistical minutiae and financial wizardry apart, a "gut feeling," says Raggett, still counts in property. One knows instinctively if the purchase or the development is a good or a bad thing.

To which research manager Erwin Rode adds: "You can reduce risk and unearth investment opportunities but you can never research risk away completely."



way, buildings must be suitably measured. Sapoa urges the completion of this project by the year-end, using the three standards of usable, rentable and construction area. Usable area measures actual occupiable space on a floor but, on multi-tenant floors, excludes common areas like toilets and corridors.

Rentable area covers the entire floor and includes common areas like passages and toilets, but excludes stairs and lift shafts. Construction area, not important for leasing purposes, incorporates the entire building — including parking, lobbies and lift shafts.

Of the three, rentable area is the most "critical" as it enables a direct comparison between multi-tenanted and single-tenanted floors. And to avoid confusion, Rode suggests that rental rates in future should be qualified rent/m^2 rentable or rent/m^2 usable.

But Sapoa will have to battle against owners' suspicion that once returns are filed, confidential information will be leaked to the opposition. Furthermore, the smallness of the SA market means most major investors know one another and have a good idea of their competitors' management ratios.

And when one considers, says Rode, that even present statistical techniques are often poorly applied, such as the use of straight-line projections of rental income, often assumed into perpetuity, then the omens for radical improvement in the short term do not look good.

Looking at the top

Teamwork is the name of the game, so who plays on the top team?

On the day after the FA cup final replay, the Management Committee met in Pretoria. Buss, who is not an avid soccer fan, had watched the game on TV and commented to the assembled how evenly balanced the teams appeared at the outset. As the match wore on, Manchester United had slowly but surely gained dominance but with no one player outstanding. Their success, Buss felt, was a victory for teamwork.

This anecdote sums up the style of Old Mutual's property division — close teamwork and enterprise which has turned the Old Mutual into the largest and one of the most innovative landlords in the country. So who are the men who run the division?

Martin Buss has presided over the division since 1978. A Natalian, he taught English and history at Maritzburg College and Glenwood High School for four years before doing articles and qualifying for his CA. Later, he ran a small property company in Natal, followed by a four-year stint with Anglo-American Properties in Cape Town and 18 months with Vavasseur Holdings in Johannesburg. In 1975, he returned to Cape Town and joined the Old Mutual.

To sit in his office, decorated with a fine set of Thomas Baines bird-prints, is to get a glimpse into his style: fluency, movement and intimate understanding of property. The conversation turns from office buildings in Singapore to a shopping centre conference in Paris (where Buss went last year to glean ideas for the Eloff Street redevelopment) to industrial parks in San Francisco.

Back on home turf, Buss talks of the need for a formal, theoretical course to improve the knowledge of people in property and to give them a recognised degree. A video display unit at his elbow gives instant information on all of Old Mutual's properties. On deals and projects, Buss is very much the maestro, his command of facts and figures is as good as anything in that VDU.

Between times, he is director of the Property Practitioners' Institute, sits on Sapoa's executive committee and is a member of a committee which advises the PM's economic planning unit. Buss is a man in the right job at the right time.

Investments manager Derek Stuart-Findlay has the office nearest to Buss. Stuart-Findlay is a Cape Town aristocrat. His great-great grandfather emigrated from Scotland to the Cape in 1835 and 10 years later participated in the founding of the Old Mutual. Schooled at Bishops, and after reading for his B Com at UCT, Stuart-Findlay joined the Old Mutual in January 1970.

Cautious, but self-assured and certain of his brief, Stuart-Findlay also puts in time as secretary of one of the Western Province Round Tables.

Recreation is spent with his family: swimming, cycling, walking or mountaineering in the peninsula. His main work love, however, is property. "One can achieve enormous satisfaction out of putting deals together," he ventures. And of the men under his command, "We place a lot of pressure on young people to produce the goods. Many of them achieve results which surprise even the individuals themselves. They can achieve great self-esteem."

Across the passage is administrative manager Vic Gunning's office. When fresh out of school, Gunning had hoped to train as a teacher but joined the Old Mutual "three days after writing matric." That was 25 years ago and he worked first on property valuations and then on computers, which remain a big interest. After a three-year stint as an investment analyst in Johannesburg, the only time in his life that he has not lived in Cape Town, Gunning was promoted to head office.

"Nobody who has ever worked in a branch wants to come back to head office," he says candidly. Gunning is a Capetonian who prefers Johannesburg with its noise and bustle (head office is a huge building in Pinelands far removed from city life). "In Johannesburg you are working in the most dynamic property market in the country," he explains. But Gunning is about to move into a house "with a fine sea view" in Llandudno near Hout Bay and he concedes that it compensates for not being in Johannesburg.

A Johannesburger attached to Head

The top team (l to r) ... Stuart-Findlay, Van Ryneveld, Blake, Buss, Gruneberg, Raggett, Gunning

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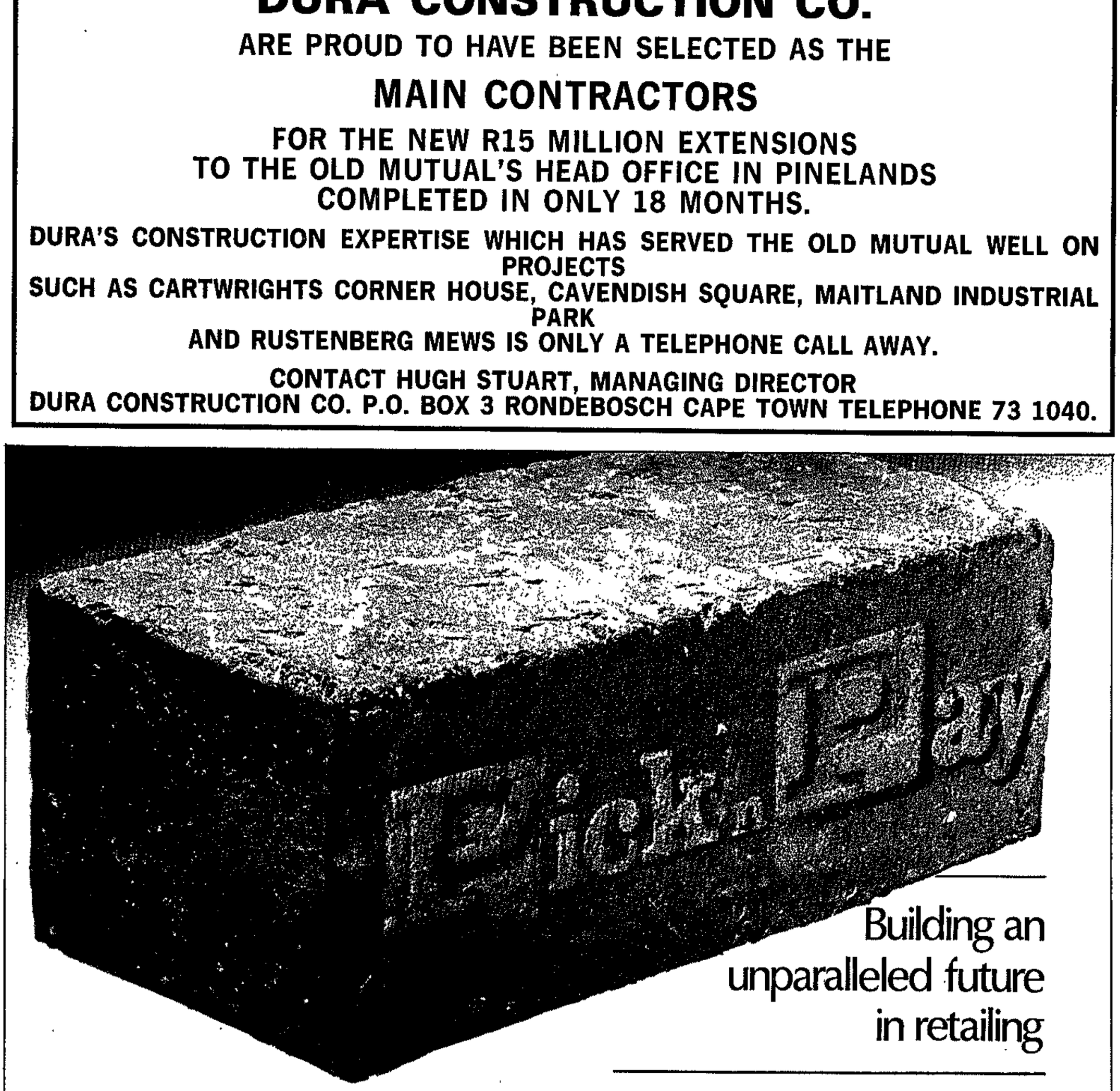

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OLD MUTUAL PENSIONS

VZ, OGILVY & MATHER 83/87009

Office is development manager Pierre van Ryneveld. A nephew of SA Air Force founder Sir Pierre van Ryneveld, he trained in architecture at UCT and worked for 27 years, first as an architect then in contracting, before joining the Old Mutual in 1977. On the way, he acquired a B Com in administration from Unisa. Van Ryneveld feels his work experience and "invaluable knowledge" gained as an international training director for the Boy Scouts, have equipped him well for work on the third great pillar of property development, which is management.

At present, Van Ryneveld is writing a book on project management. Its theme: to look at ways of controlling investment projects to the client's advantage. His aim is to place property development management in SA on a more professional footing. Of his job he comments simply, "I have fashioned it to my ideas."

Johannesburg regional property manager Mike Raggett is the city's second resident on the management committee. Outgoing, full of ideas, a nascent Sir Michael Edwardes with a superb grasp of property investment and marketing, Raggett cuts a modern style. Born in Wales, to where his mother was evacuated during the Blitz on London, Raggett grew up in Essex. After school he worked on the London Stock Exchange, and rose to become a stock exchange dealer for the Government Broker, trading on the floor in a top hat.

In 1976, he emigrated to South Africa, following his parents who had arrived 10 years before. Raggett likes sunshine and blue skies and felt that his two sons would benefit more from a South African upbringing. He joined the Old Mutual as a property investment analyst and then came to Johannesburg as regional property head. "Property is something you become totally involved in," he says. "Work and pleasure are closely allied. I don't believe that in property you put yourself under stress unless you enjoy dealing with it."

Pretoria regional head Freddie Blake is an engaging personality, often given to humour, who possesses sound judgment. Cape Town-born, Blake joined the Old Mutual in 1962, first in the mortgage loans section and later in the fledgling property division. He has been in Pretoria for over five years. "I love property because of the variety and job satisfaction," he declares. "You work with people, unlike other investments where you buy pieces of paper."

A family man, Blake spends most of his spare time with his wife and two children, a boy and girl. They have no desire to go back to Cape Town. "It is a different lifestyle in the Transvaal," he says, "the weather is fantastic and the people are more social. In Cape Town you can go to the beach, not bother about others. In the Transvaal, people interact better."

Durban regional manager Malcolm Gruneberg has enjoyed a varied career. He has faced problems from coping with the water shortage in Durban to nationalisation of life insurance in Zambia. With the Old Mutual for 36 years, Gruneberg did service in Cape Town, Johannesburg and Transkei. "After that I became ambassador to black Africa with three years in Zambia and five in Kenya."

Gruneberg headed Old Mutual's office in Nairobi which nowadays handles mostly mortgage and investment business. Kenyan President Daniel Arap Moi was an Old Mutual client with a bond on one of his houses. In Durban, Gruneberg is involved with Rotary and belongs to the golfing Nomads, who play once a month on different courses to raise money for charity.

Says Gruneberg of property: "It's vital. No two problems are the same. There's never a dull moment."

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The market redrawn

Institutions are now the dominant property investors, but will they build enough to meet demand?

Should the life assurers be in property at all? "It is difficult to say" answers research manager Erwin Rode, mulling over his own question, "because of a lack of hard facts about the performance of property. But in an efficient equities market, scores of capable analysts are looking constantly for over- or under-priced shares. Consequently price more or less equals value and one cannot outperform an efficient market consistently.

"There is disagreement" he continues, "about the degree of efficiency which the JSE has achieved but there is no doubt that the SA property market is notably less efficient than the JSE. Due to a dearth of published, usable statistics, fundamental research is difficult and the professional property investor can easily outperform the property market."

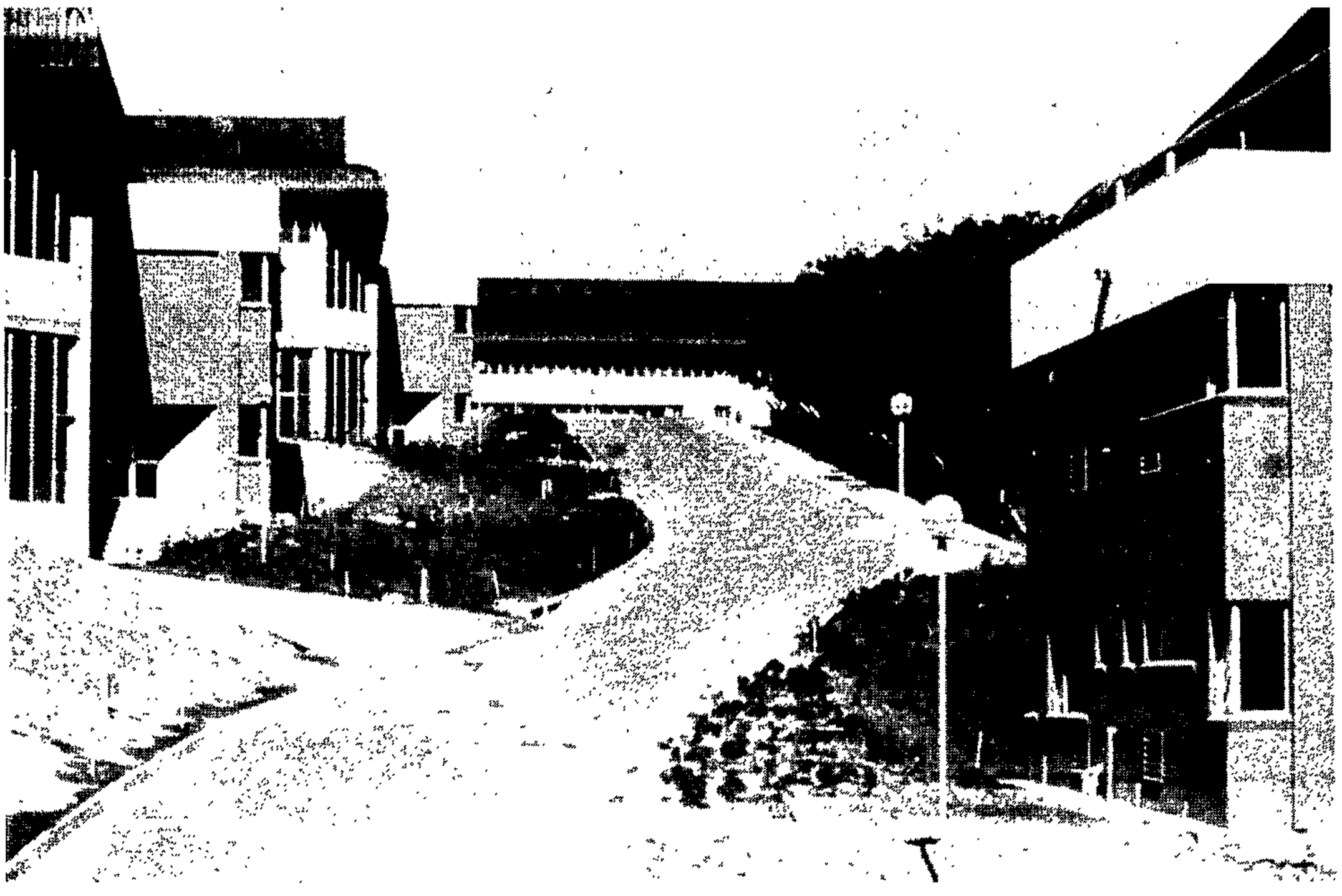
Old Mutual's property division believes that research pays. Strong evidence of its effectiveness came in 1979-1980 when the division was first off the mark in buying prime office buildings. With industrial parks, the division promises again to hit the jackpot.

As Stauch Vorster partner Bryan Prisgrove observes (see "Construction hassles"), Old Mutual is unusual in the boldness it demonstrates in its investment policy. Says manager Martin Buss, explaining the investment policy: "We only accept a low yield of less than 10% with certain enhancement in the near future. We do not accept low yields because we are a long-term investor. We do, however, take a long-term view of an investment."

Should the division accept a lower yield initially than might be gained on a non-property investment, then, in the long-run, the property investment will be expected to perform better. To a degree, therefore, long-term property investment means a vested interest in high inflation because big returns historically are not earned when inflation is low. Old Mutual's researchers may also base their forecasts on a high growth rate in the SA economy in the next 20 years. Property would then be in demand and returns would be very good.

The main advantage of property investment, however, is that it is safe and secure, with an assured potential for income growth. But whatever assumptions lie behind a long-term property strategy, the *raison d'etre* of property research is to forecast future returns on an investment. Such knowledge is vital to purchase or development decisions.

What sort of market will exist in future industrial and commercial accommodation? In the classical free-for-all market of bygone years, a rentals boom like that en-



New Germany industrial park ... a property market innovation

joyed recently would have triggered-off a frenetic burst of building activity. But building cost inflation has strangled the small entrepreneur, leaving the field in large-scale office and industrial development to the institutions and large property companies.

So is there a "true" market, especially in office accommodation or is the market oligopolistic? Can the institutions, through their control of supply, exert continuous upward pressure on rentals to conform with

INVESTMENT POLICY

Old Mutual's property investments are governed by the following considerations. They must be:

☐ Top-of-the-market in property;
☐ Normally, a 20-year hold proposition for purposes of calculating income projections;
☐ Management un-intensive (management increases costs);
☐ In high-growth areas, in the main the PWV and Natal; although the Cape is by no means ignored; and
☐ Capable of re-sale if the expected returns are not satisfactory.

In practice, application of these criteria has meant the purchase and development of prestige office-blocks, industrial parks and shopping centres. As good-quality office-stock for sale is in short supply at present, Old Mutual's property activity is focusing on development. Of its R250m current development programme, 45% has gone to the industrial parks, 37% to office construction and 18% to retail projects.

This recession, Old Mutual has followed a counter-cyclical policy of large-scale building as costs are not rising so rapidly. The strategy assumes that the new industral parks/office blocks will come on stream to coincide with the economic upswing, when demand for space will be stronger.

By 1985, if all goes well, the present developments will be fully let and income-producing. Old Mutual is not too specific about actual and expected yield returns. It says disclosure would be embarrassing to tenants and useful to competitors.

Yield averages vary widely on different properties, but as MD Davin points out, property is identified as a growth area. To compete with alternative possibilities, Old Mutual probably is going for an annual average return over 20 years of at least 18% from property.

Its financing requirements do not favour short-term, high-yield investments, which usually carry a large element of risk. Instead, the society's need is for assured sources of future income to fund long-term liabilities to policyholders and pensioners.

Property, with an earnings potential for many years plus capital appreciation, is well suited to a long-term investment strategy. To maximise certainty of obtaining good yields, investment is placed in the top-end of the market. Within this framework, however, exists considerable scope for the property division to exercise initiative.

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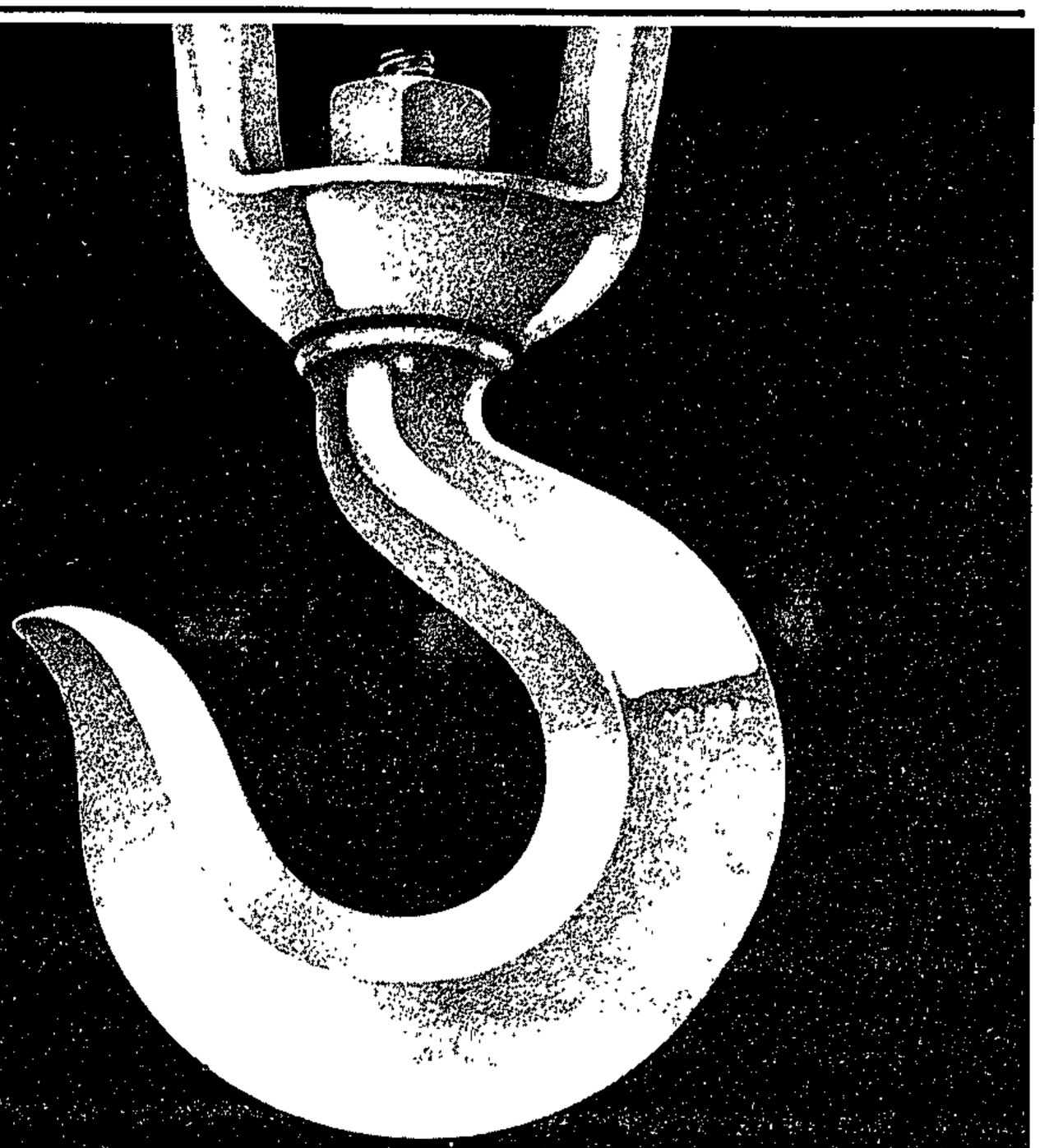

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their yield requirements?

Old Mutual's answer to these questions is twofold. Competition between the institutions themselves will ensure an adequate accommodation supply, they say, while at the same time, the market will enjoy more stable supply conditions as rentals will conform more closely to development costs. The problem is that if all the institutions invest in the top sector of the market (see box "Investment Policy"), the blue-chip tenant will be more than catered for. But what of the small or medium-sized office or industrial space user?

On the Rand, severe shortages of industrial space are forecast. The *Property Economist* estimates that by 1985 a shortfall of 324 500 m² of commercial and 260 750 m² of industrial space will exist in the 25 main SA local authority areas (*FM* February 11). Old Mutual, for its part, expects a compound 3,5%-4% growth in demand for office space from 1983 to 1986 in SA's main CBDs.

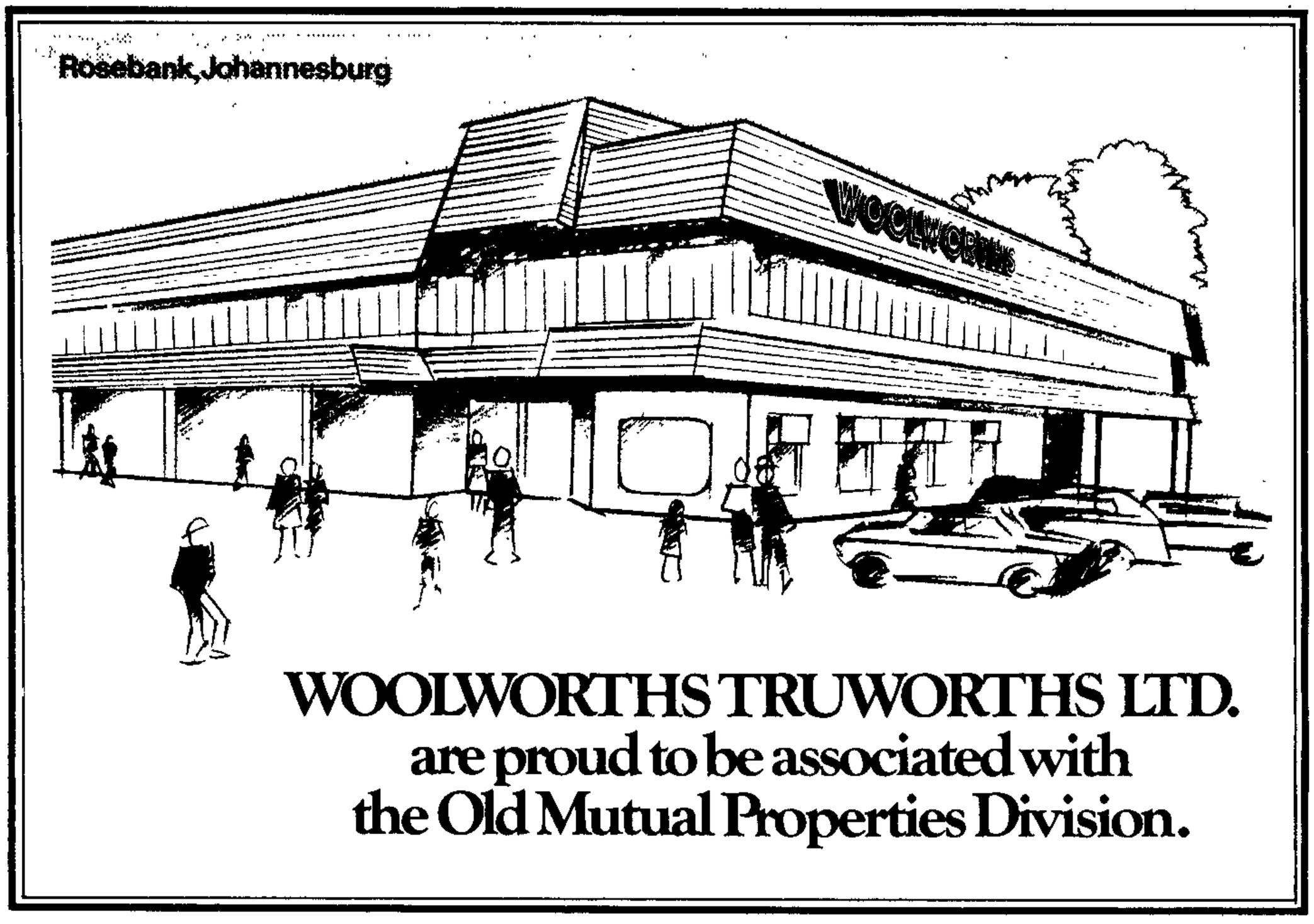
Regional property managers Mike Raggett and Freddie Blake agree "the indications are that there will be a shortage but as to quantity it is too early to say. Based on our research, we would put up a building if there is sufficient demand. But we cannot build a 50 000 m² building and have it only 80% full. Our returns are not so great that we can carry such voids. As institutions, we tend to err on the cautious side. We will not go in for speculative risk."

One certainty is that in a suppliers' market, rentals will continue their climb. The Johannesburg tenant who pays R3/m² on prime office space enjoys, in Raggett's words, "subsidised accommodation." Sooner or later market rates will catch up and the best thing for the tenant to do, suggests Raggett, "is to make allowances in his costing for large rental increases."

Old Mutual's leases are very flexible as they provide for three or five-year renewal after which rental reverts to the market rate. The lease's annual rental escalation could also be more closely related to market rates so that reversionary increases are not so dramatic. A salutary point to remember is that real rentals reached their 1970 levels only recently, despite a 380% rise in the Stellenbosch BER's building cost index since that date.

Will there be adequate investment opportunities in property for the weight of new funds that over the next few years will come flooding in? Raggett and Blake are optimistic. "We are not compelled to invest R300m next year," they say. "If there are only

Menlyn Park, Pretoria ... looking to growth



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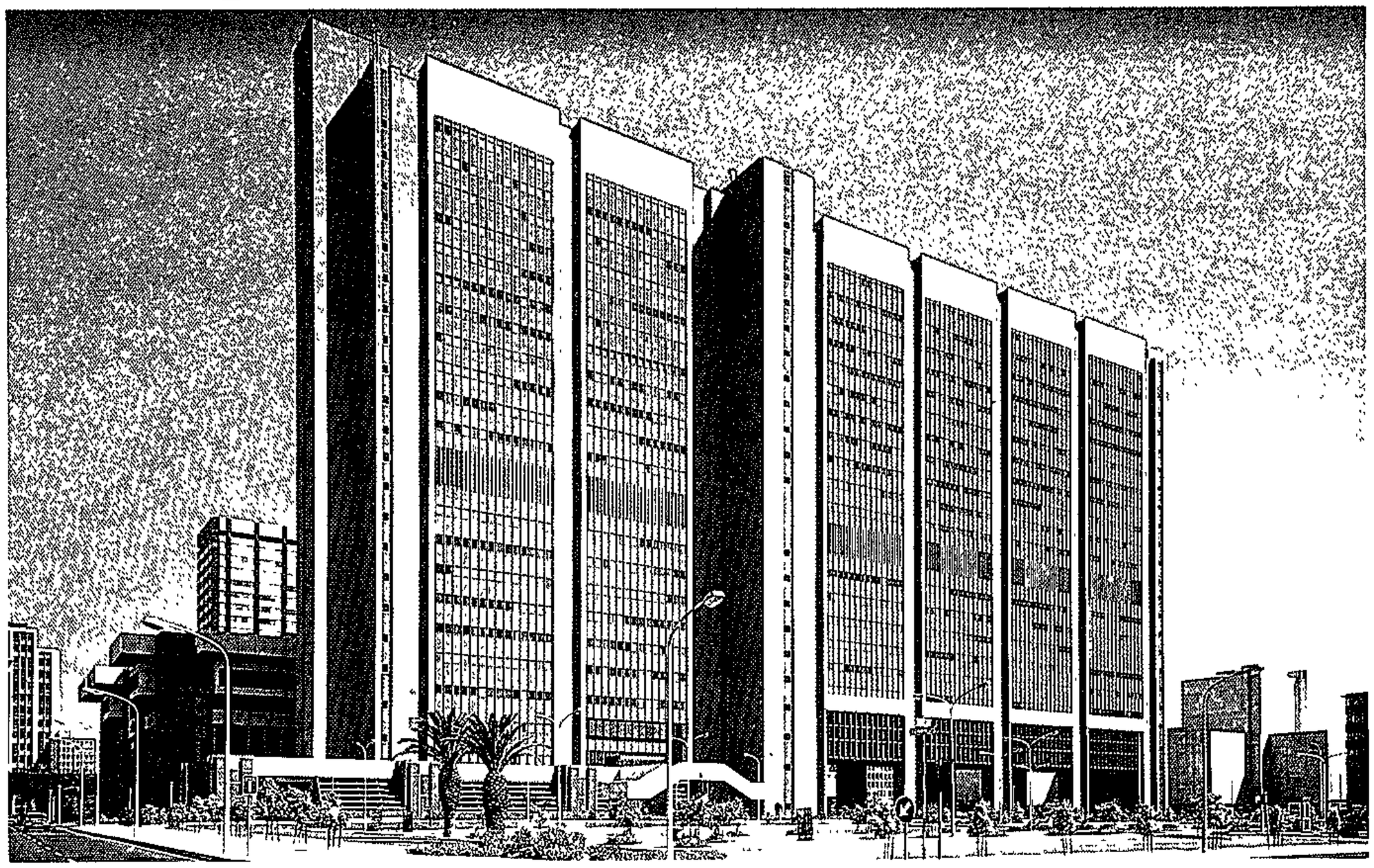

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opportunities for R200m, then we will only invest R200m. But we believe the market is big enough to absorb R300m."

They point out that inflation has distorted measurements of property value because it is often difficult to determine when a property is "cheap" or "expensive." When compared in real terms with building, consumer or wholesale price rises, the property might be cheaper today than 12 years ago. It might have greater capital appreciation or earning growth potential than alternative property investments. This would make the property a "bargain" to buy at its "expensive" price. The real worry, they claim, is not that the "bargains" do not exist but to identify them.

Still, the division is not finding it easy to invest as much money as it would like. Opportunities at present for the purchase of existing stock are not plentiful. Money in development projects means capital tied up in non-earning investment, which means less income is available for policyholders and pension funds. With many equities probably overpriced, sooner or later, some reappraisal of investment strategy, perhaps when government allows institutional investment abroad, would seem to be called for.

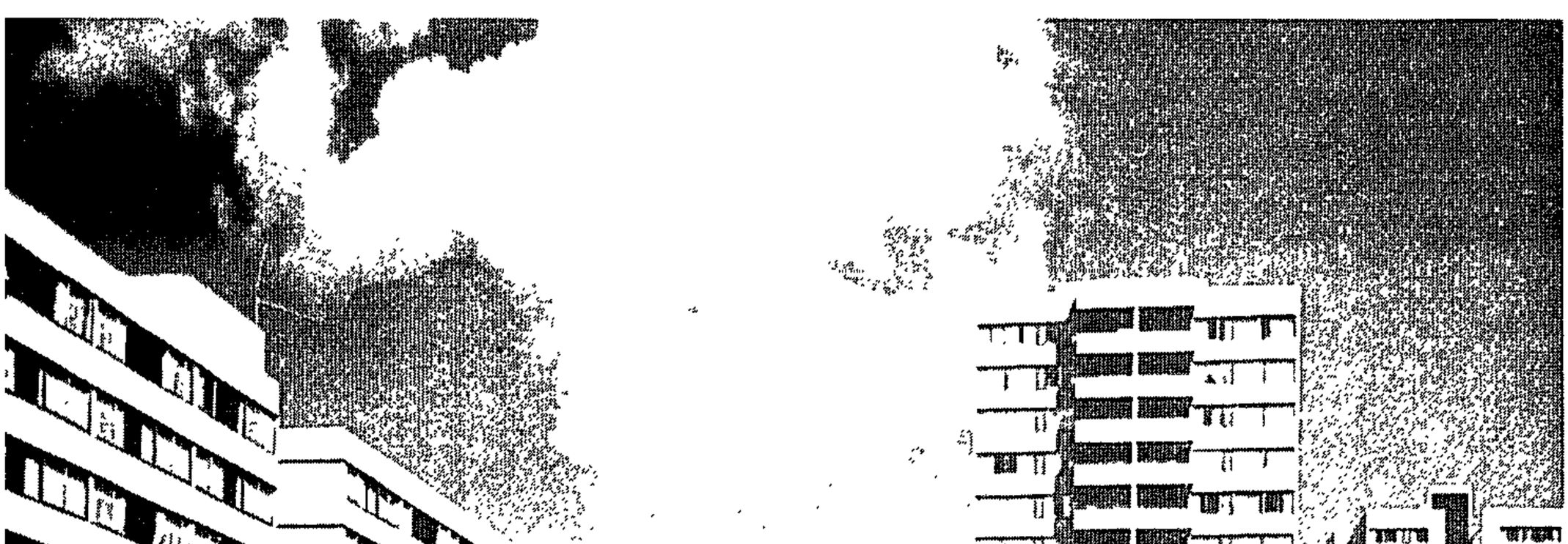
Problems with housing

Residential investment presents difficulties as it does not yield adequate returns

When the topic of residential investment is broached, the property division adopts a very cautious line. Comments manager Martin Buss: "We specifically turned away from short-term investments. We do not do sectional title schemes, residential townships, block-share schemes nor industrial townships because all you end up doing is getting your money back provided your timing is right."

Residential investment simply does not fit in with Old Mutual's current property investment criteria. Township development is high risk, short-term, too management intensive and does not absorb an appreciable amount of the cash flow. Flat purchases would be feasible. But when the division investigated the possibility three years ago, as it foresaw that rents were set for sharp increases, it found only one complex of five blocks of flats (Marlborough Park in Cape Town).

Most major blocks, which are Old Mu-



Marlborough Park ... shortage of residential buying opportunities

PROPERTY AND PENSION BENEFITS

Gains from Old Mutual's properties form part of the proceeds credited to the pension (multifund and guaranteed) and individual policyholders' funds. Of Old Mutual's total property assets of some R1,1 billion, R115m (market value R153m) was invested at the end of May 1983 in the pensions multifund.

Returns on a property, that is, income yields and increased market values, are divided between the two funds according to their monetary contribution to the property investment.

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Property returns credited to the guaranteed pensions or individual policyholders' funds are used, with other investment proceeds, to finance the bonus rates declared annually on these classes of policies.

On the multifund, once a property is linked to its participants, that is, to the property units each holder owns in the multifund, all returns net of expenses are credited to those units only. As most premium contributions to the multifund are transferred monthly, fundholders will enjoy linking benefits on an on-going basis to all properties to which linking is made.

A pooled property multifund portfolio remains the best medium for pension funds to acquire a diversified stake in property.

Even a fairly large pension fund, with R50m assets, can invest only R2,5m in a single property, as a pension fund is not permitted to invest more than 5% of its total assets in any one property.

Old Mutual has also introduced a plan which enables pension funds to acquire a stake in a particular property. This "shareholding" has the advantage of simplifying the legal formalities of property ownership, eliminating management problems, which are taken over by Old Mutual, and greatly enhancing the liquidity of the investment.

For the investor, the average annual or time-weighted return on an amount invested in the untaxed multifund property portfolio at the start of the periods shown below has been:

- ☐ January 1 1973 to December 31 1982: 15,7%;
- ☐ January 1 1978 — December 31 1982: 19,7%;
- ☐ January 1 1980 — December 31 1982: 20,6%; and
- ☐ April 1 1982 — March 31 1983: 27,7%.

These increasing returns reflect the rentals boom and property market value rises of the Eighties.

Of course, integral to the multifund is that the policyholder bears the risk of any market downturn, so constant improvement in returns is certainlynot guaranteed.

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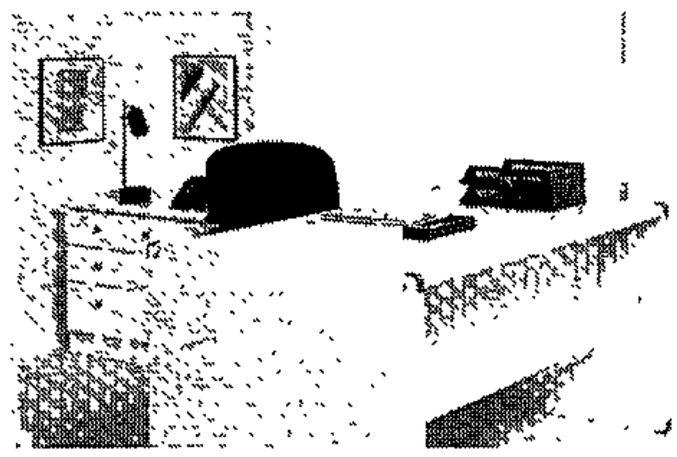

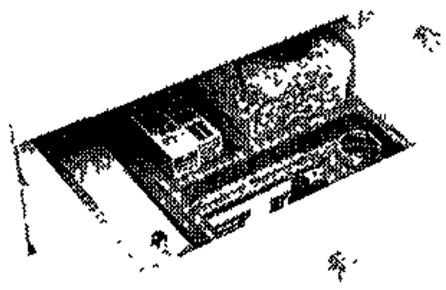

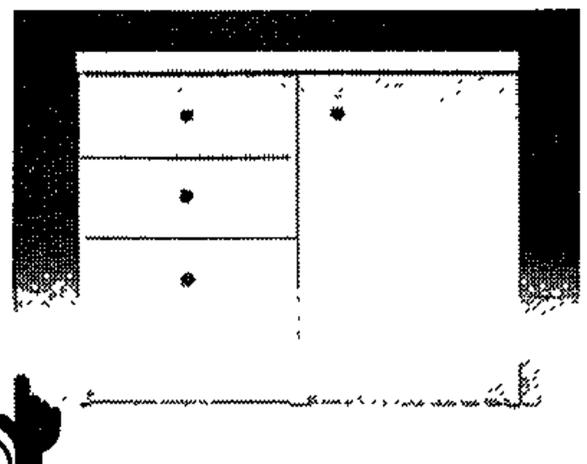

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tual's natural market given the size of its investable funds, are subject to block-share schemes and sectional title. As a life office, Old Mutual must own its properties 100%, as its Act of Incorporation states that liabilities must be to its policyholders only.

What of building flats? When he gave evidence to the Parliamentary select committee on rent control earlier this year, Buss listed three drawbacks to residential development: rent control, high building costs and the demand for large flats.

Since World War 2, Old Mutual has owned flats, at present 3 851 of them, and it has seen this investment suffer from the progressive imposition of rent control in the past. Rent control, whether in force or kept on the statute book for use in possible future contingencies, raises the risk level on an investment, as income growth could be circumscribed.

Furthermore, building cost escalations in the last 10 years have made new flat developments unviable, unless rentals rise to levels well above present market rates. On an upmarket block of flats in Johannesburg's northern suburbs, for example, the current market rental for a three-bedroomed spacious flat is a monthly R600. At replacement cost, on the same yield, the rental would have to be R2 400. Actual income on the block is in fact 55% short of the market rental.

In Pretoria, the monthly rental for a two-bedroomed flat in a block servicing the middle-income group is R310. To give the developer a net return of 10% on replacement cost, the rental on this unit would have to be R650. Clearly these rentals are at present unsustainable.

Although flat returns have recovered dramatically since 1981, so that Old Mutual's flat yields today are about half those on its offices, compared with one-third two years ago, the returns still make office development much more attractive. As Buss says, "the commercial sector can afford to pay a reasonable rental because it can be absorbed better into the cost structure. Housing rentals, however, absorb a higher proportion of personal income, so it is much harder for them to keep pace with building costs — and they do not."

People still demand spacious accommodation. Although living space locally tends to be under-utilised in world terms, South Africans are unlikely to accept smaller-sized homes for fear of living in second-class accommodation. Larger houses built at ever more prohibitive cost will remain the trend. Result: residental shortages will worsen.

What if Old Mutual bought participation equity in small property developers or in small development projects? Participation bonds go against Old Mutual's policy of unfettered ownership of its properties and, argue regional managers Mike Raggett and Freddie Blake, it amounts to an argument to subsidise the competition. Assume, they say, that a private developer needs funding of 80%. He can accept 11%-12% on his equity but, due to interest rate charges, he must get at least 18% on the borrowed equity. The average return on his building would have to be about 16,8%.

Black areas ... not the institutions' field

As the institutions fund their own developments, a 12% initial return plus growth prospects would give a worthwhile return on the investment. To lend, therefore, to the small developer would be to lend to a competitor who could build at a higher cost only. "What the argument really means" says Blake, "is that the institutions should lend but not themselves build."

Old Mutual, of course, has every intention of staying in the office development business.

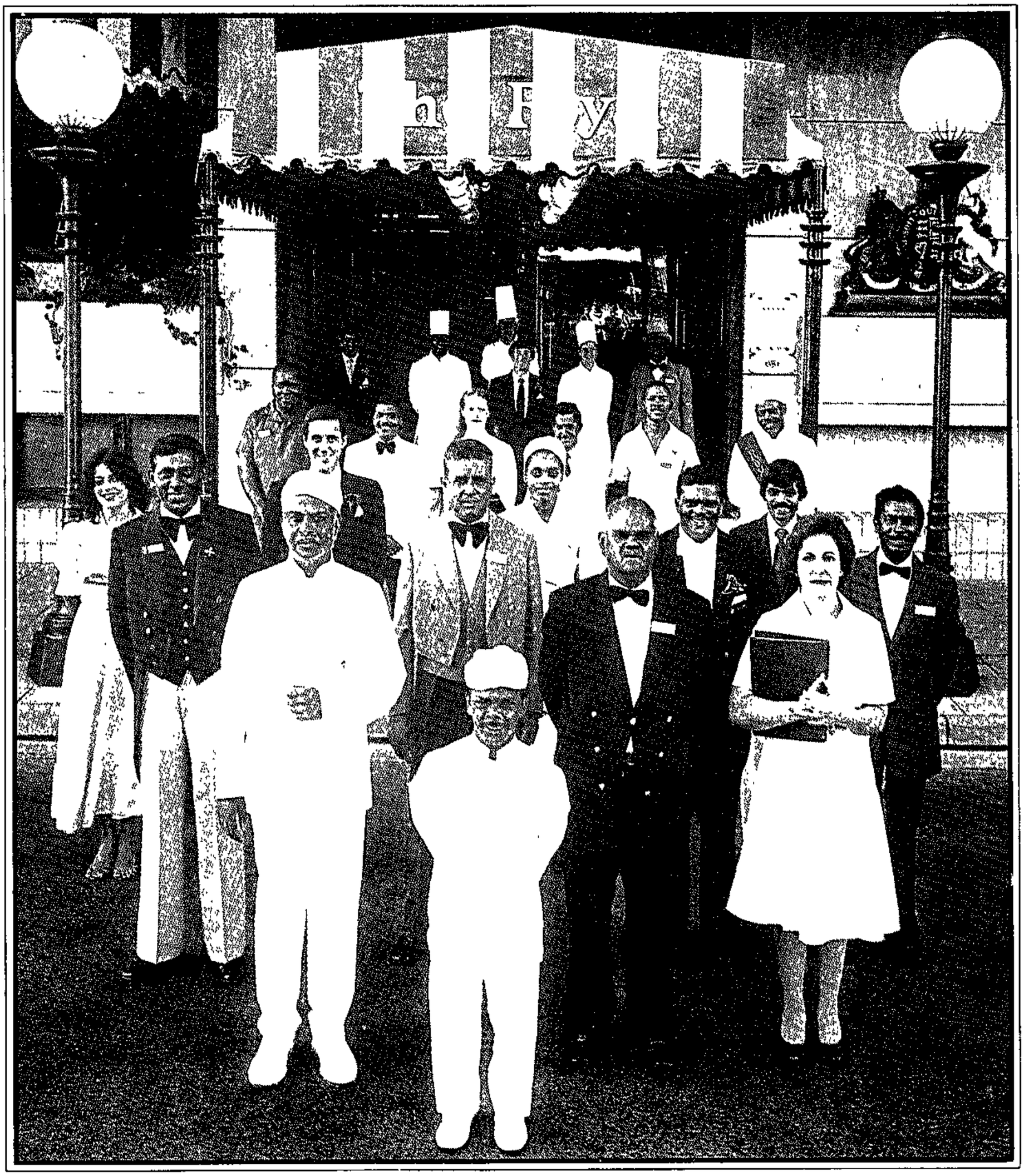
A R1,5m development of 50 houses at Verulam near Durban was an example of a housing development which produced unfortunate results. The land was bought from the Verulam Council and, after a year's delay over proclamation, the estate was developed. Most of the houses were sold last year through agents, after a stormy auction sale at which 11 houses were offloaded. During the sale, Old Mutual was accused, unfairly it feels, of exploitation of the Indian community by making them bid against each other. So much for an experiment to finance a project of direct community benefit.

Another thorny question concerns property investment in black areas. Old Mutual has not been inactive on this front. Loans of R23m have been extended to the National Housing Commission for black housing. The division is to put up an office development at Esikhawini near Richards Bay to house Old Mutual's sales staff.

But what of investment in black areas on a large scale? MD Frans Davin fields the question himself. "We are willing," he says, "to invest in the black areas or the independent states provided the necessary security of ownership is ensured. Up to now this has been a problem as we have not been able to obtain clarity or definite assurance." And there is a question of priorities. Should Old Mutual concentrate, for example, on putting up office buildings in the new Ciskeian capital of Bisho when the Ciskei's need is to develop food resources?

Old Mutual is interested in agricultural investment in any area. But how is it to be done? Last year, an agricultural leaseback scheme with a large client fell through. In other sectors, the division is not against building bridges and roads. As government apparently is contemplating the introduction of tolls, it could, to save costs, investigate the feasibility of awarding development contracts to private tenderers.

How residential and black area development problems are to be tackled is unclear. Government could help by allowing investment in residential development to count as part, say 5%-10%, of prescribed asset requirements. It seems, however, that housing will become politically controversial and that the institutions will be right in the middle of it.



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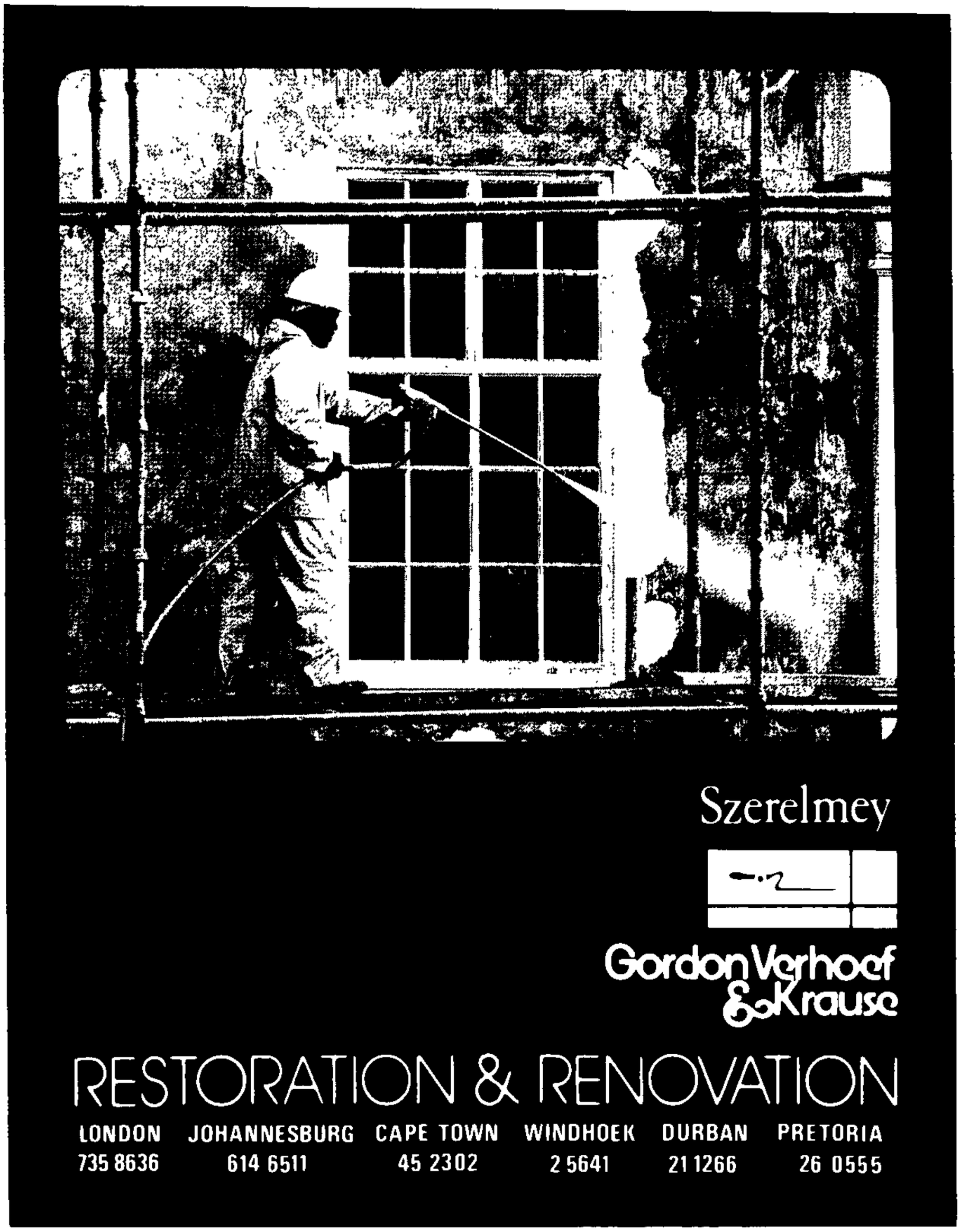
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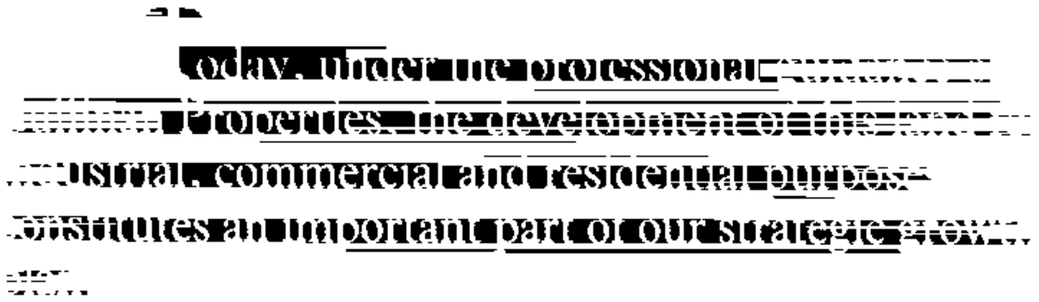

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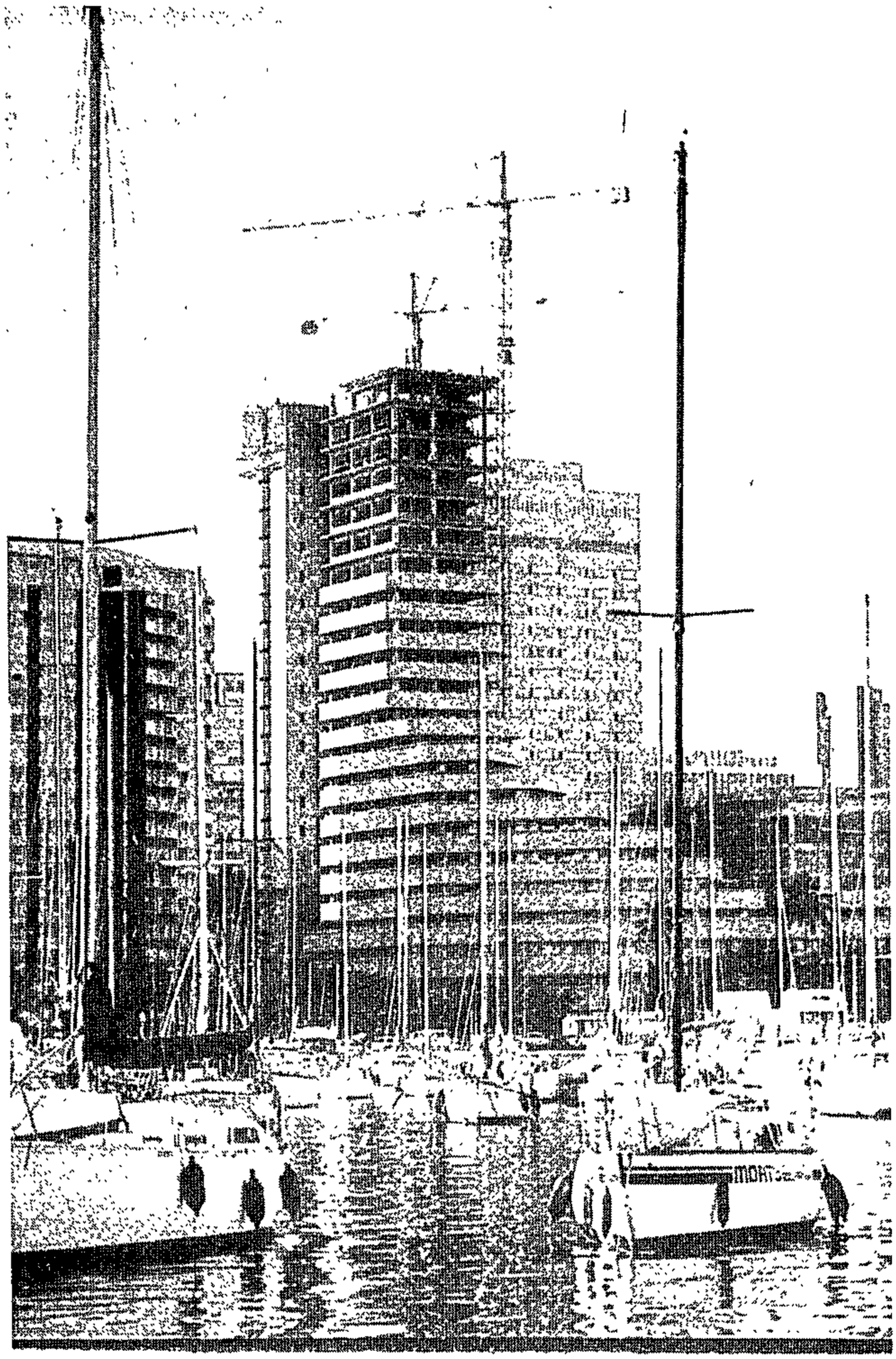
Construction hassles

Architects and the construction professions are not trained in evaluating financial performance

This article is by Stauch Vorster partner Bryan Prisgrove. Trained as an architect in the United Kingdom, Prisgrove emigrated here in 1967 and joined Stauch Vorster's practice in Windhoek. Since last year he has run the Johannesburg office.



The Marine, Durban ... a construction management success

The development of premises intended to be let in SA is funded primarily by the life insurers, with a leavening of funds from banks and private investors. The purpose of such investment is profit, although the views taken of the nature of such profit can vary. Life insurers invest as a hedge against inflation. They look primarily to the future and not for short-term capital gains. Development budgets based upon relative rates of return on investment are a standard measure of the financial performance of new building projects.

The construction professions in general, and architects in particular, are not trained in the valuation of financial performance. Only a limited number of skilled quantity surveyors have such capabilities in SA.

Furthermore, it is almost inevitable that a dichotomy of interests exists in many cases when architects and engineers are appointed to undertake projects for property developers. Architects have a well-earned reputation for building monuments to themselves at the expense of others, which leak. Engineers have been justly accused on many occasions of overdesigning without real cause and of disregarding the reality of the issues of maintenance of systems. Quantity surveyors are often said to have been more concerned with costs than value.

The sum of all of these problems is one of limited capabilities of many practitioners in the construction disciplines, leaving the property developer in a position of significant risk. The provision of an adequate professional service to an institutional developer is not possible, unless in the smallest and simplest of schemes, other than by a practice of several partners, each of whom is assumed to have varying skills covering the whole spectrum of those necessary to provide a full service.

Probably the most important decision that the developer has to take in setting about a new project is that of selecting a team of professionals who he can rely on to carry out his intentions. If the developer chooses the wrong professionals he is probably going to make a bad investment, not only in the short-term performance of their services but in the longer and much more serious results in terms of unsuitable buildings, lower rentals and higher maintenance costs.

There is an element of insularity in the thinking of many professionals in SA. Their profound resentment when overseas professionals are employed to work in this country is proof of this. This seems to be mere sour grapes and unrealistic.

Overseas professionals are brought to SA

PROJECT PROTECTION

What does the owner do if the glass panes fall off his building? Or if specially designed window frames, unusable on other buildings, have been grossly over-ordered? Or if the concrete panelling on a building cracked and the building had to be demolished?

Obviously the owner sues. But who must shoulder the blame? The architect, the quantity surveyor, the engineers, the materials manufacturer or the main or specialist contractor? What happens if the precise cause of failure is uncertain?

Design and construction problems are not unknown in SA. But concern for professional reputations and fear that litigation would set a precedent for other cases of this nature have tended to keep the question out of court and the public eye.

Old Mutual believes that a good way to tackle design and building failures on a project is to introduce to SA project liability insurance. Under a single professional indemnity policy on each development project, the architect and all other professional consultants would enjoy indemnity against the owner or principal for liability arising out of their errors, omissions or negligent acts.

Faulty design, incorrect materials or specifications, inadequate supervision or incorrect costing are some of the examples which can cause liability to devolve on the professional firm. Another unique feature of these policies is that the principal would be insured for vicarious liability to third parties as a result of the consultants' negligent acts — for example, nuisance or damage to an adjoining building.

Risk consultant David Cowburn, who, with PI Insurance Brokers MD Bernard Story, designed this scheme for Old Mutual, lists a number of advantages for the principal and professional consultant:

☐ Certainty for the principal that adequate professional indemnity cover and indemnity limits will exist for the project's duration and for a specified period afterwards. The period could be three years or longer;

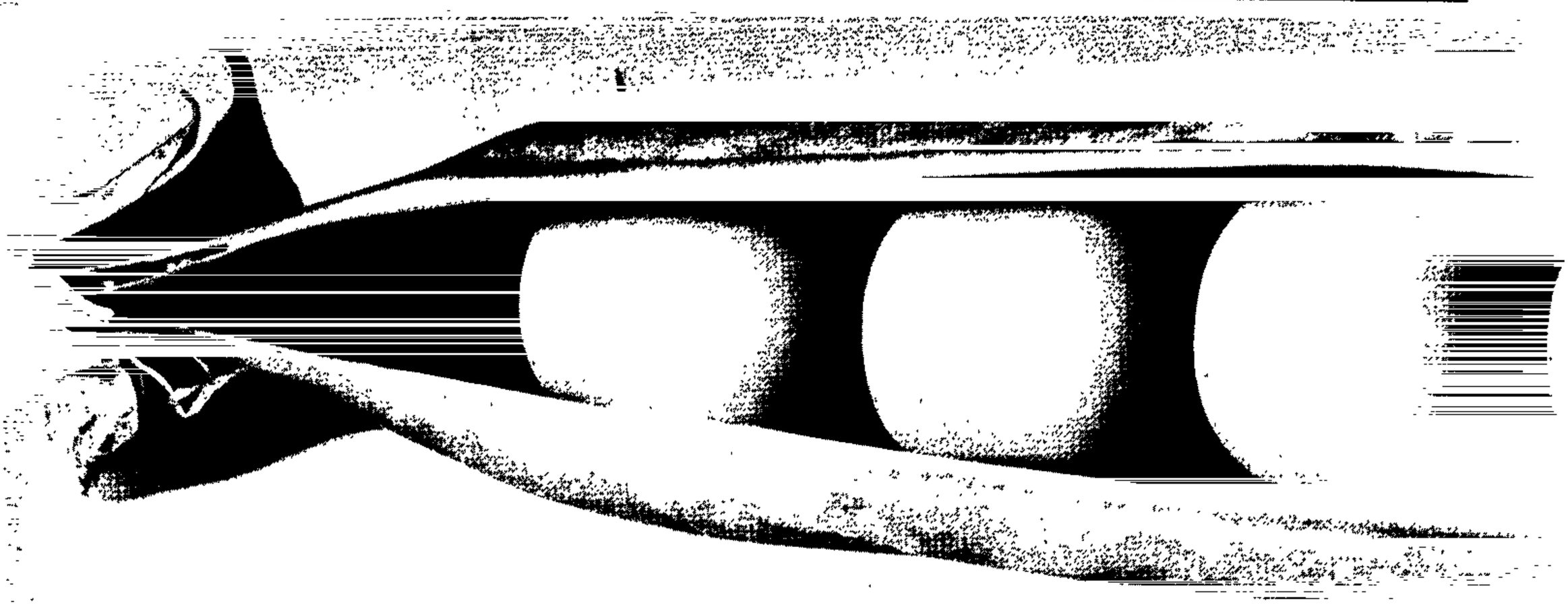
☐ Avoidance of insurance difficulties if consultants are changed when the development is under way, as the insurance would relate to professional indemnity on the *project*, not the person;

☐ More rapid processing of claims as only one underwriter need be involved; and

☐ Less controversy among the professionals because no "witch-hunt" need be mounted to apportion responsibility to those who erred.

Under an "equitable formula," Cowburn claims that professionals who take such cover could save financially. Premiums payable, he says, could be less than the savings achieved by excluding projects on which such indemnity exists from the professional's own insurance.

Project liability insurance in the US, introduced by a Washington DC firm of brokers, is also a recent innovation. Cowburn claims it has already been marketed there successfully. With Old Mutual keen on project insurance, at any rate on complex developments, it looks as if project liability schemes will become part of the SA insurance scene — if necessary, through Lloyds of London.



because many a developer realises he cannot obtain what he requires here. A case in point is the arrival of Murphy Jahn Associates on the SA scene with two buildings currently under way for Anglo American. The differences in attitudes and approach of such an architect have much to offer the professional willing to learn and, having learnt, to out-perform his mentor.

The personalities of developers significantly colour their approach to the kinds of buildings and the aspects of risk that are involved in speculative work.

It is relatively uncommon for developers to make bold decisions to invest significant funds in as yet unproven markets such as for industrial park projects. It is more usual for the institutions to follow tracks pioneered by others and with demonstrable statistics that indicate the likely return on investment.

As an architect there is almost always an implicit conflict in working for a developer client in that, because of inflation and the high cost of money, one is compelled to design and document within extremely short periods. This inevitably prevents the amount of time that would otherwise have been spent in careful study and comparative analysis from being used. The developer must look realistically at the trade-off between long-term excellence in the end solution and short-term advantage in getting into the market with his premises as soon as possible.

A significant aspect of the rapid design, documentation and construction of projects is keeping teams of professionals and contractors together who are thoroughly bedded down and have a real understanding of each others' capabilities and skills. Probably 85% of the total mental energy deployed in construction is spent in learning how to tackle each particular project in detail.

This is usually referred to as the learning curve. A great part of that learning involves learning how to work with the others involved.

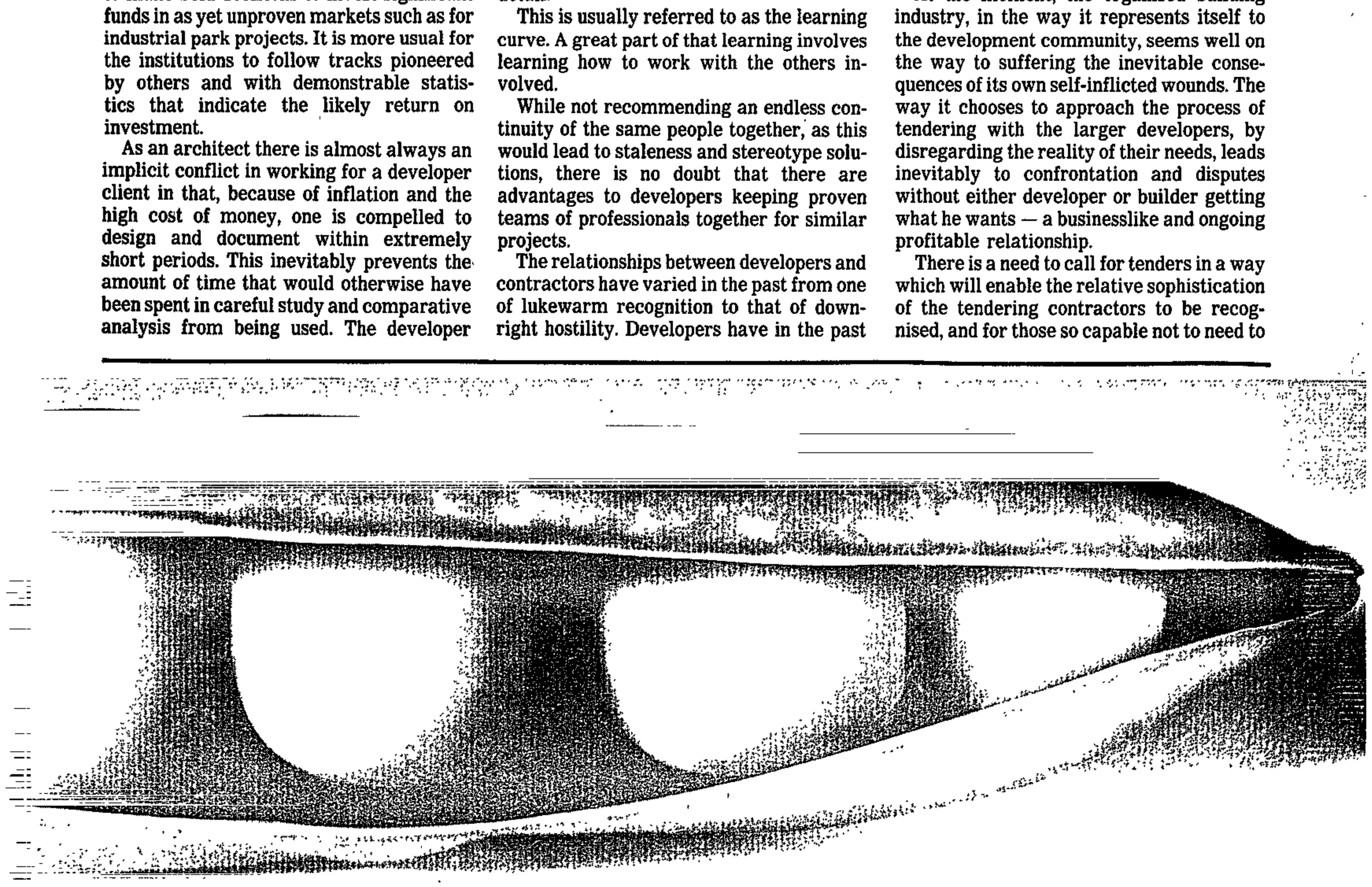
While not recommending an endless continuity of the same people together, as this would lead to staleness and stereotype solutions, there is no doubt that there are advantages to developers keeping proven teams of professionals together for similar projects.

The relationships between developers and contractors have varied in the past from one of lukewarm recognition to that of downright hostility. Developers have in the past done much to harm themselves in attempting to fob off on to contractors the risks that are implicit in development. For example, in attempting to construct a large project lasting, say, three years for a fixed price. Such a project could well be to the contractor what the jet engine was to Rolls-Royce some years ago — a recipe for insolvency.

The essence of property development is the management of risk. It does not sit well when such management is, in effect, passing all risks to others rather than exercising sound judgment in a business risk and investment situation.

At the moment, the organised building industry, in the way it represents itself to the development community, seems well on the way to suffering the inevitable consequences of its own self-inflicted wounds. The way it chooses to approach the process of tendering with the larger developers, by disregarding the reality of their needs, leads inevitably to confrontation and disputes without either developer or builder getting what he wants — a businesslike and ongoing profitable relationship.

There is a need to call for tenders in a way which will enable the relative sophistication of the tendering contractors to be recognised, and for those so capable not to need to



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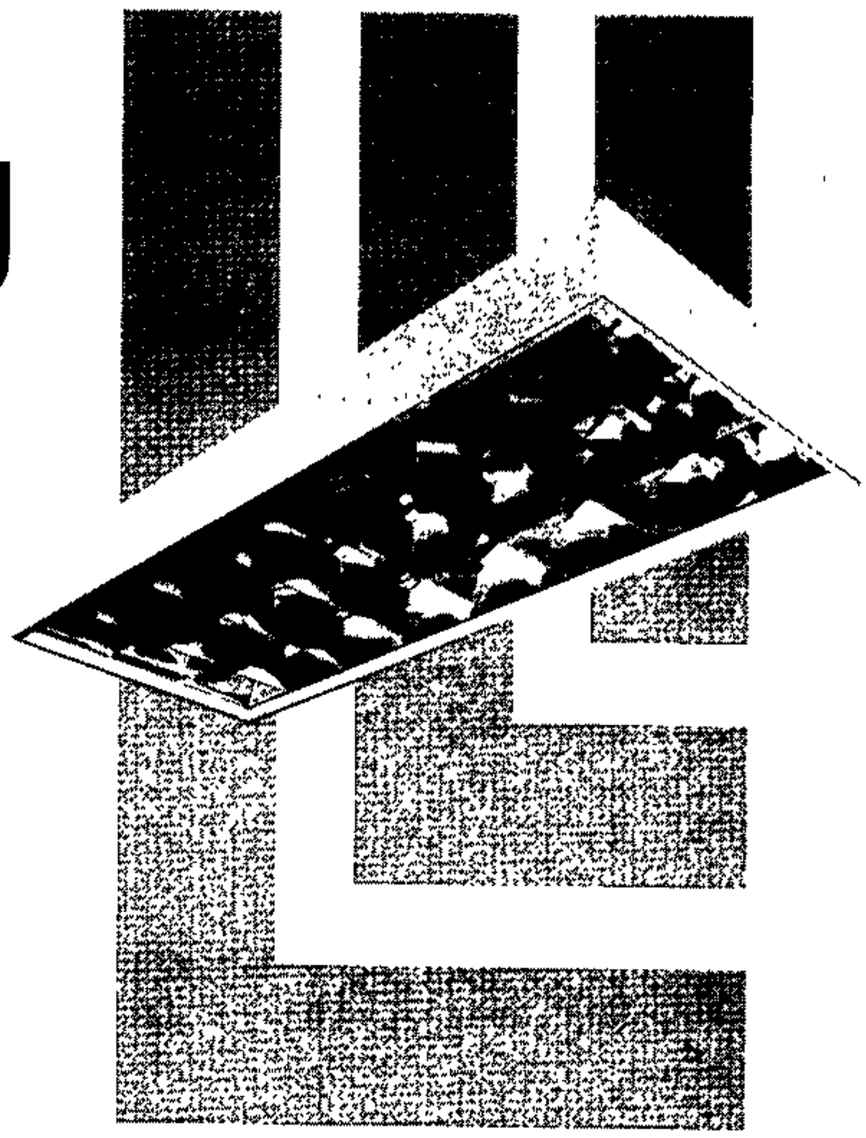

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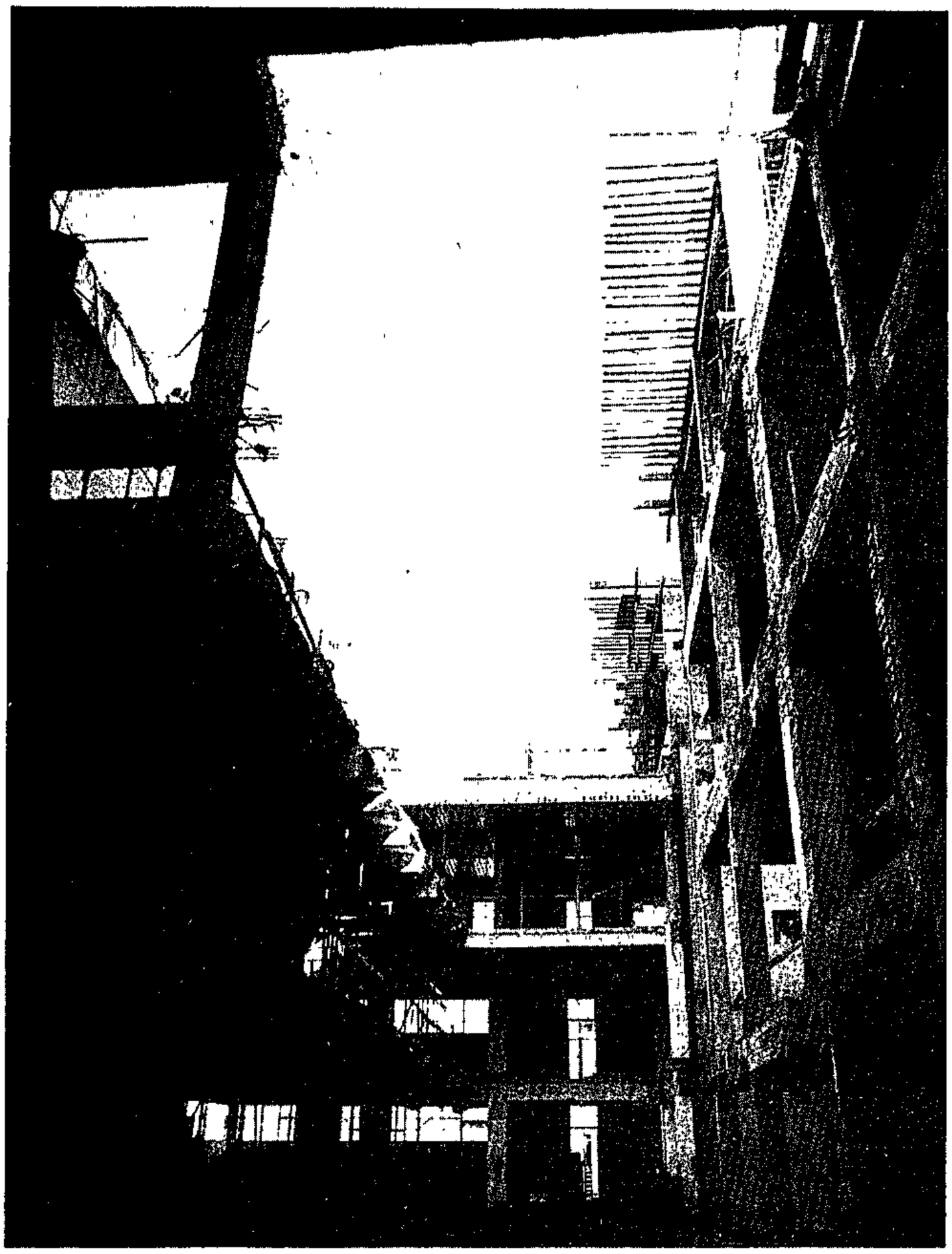
be compelled by their inflexible tender rules to submit only on the Master Builder Association (MBA) tender "sticker" conditions. Further, the MBAs insult the professions by "excluding" the builder from any design responsibility when architects and engineers have done the design work and claim the responsibility.

The master builders associations' by-laws seem designed to take care of the incompetent and illiterate rather than to provide a framework for the able and skilled to formulate a sound basis of contracting with a developer.

Hopefully, some of the trade union attitudes evinced by some of the industry's representatives will be influenced in due course by the reality of the self-interest of the industry which they represent, rather than by alienating all around them, so that little or no contact exists.

A touch of class

Old Mutual has under construction two shopping and office developments with customer appeal and of smart design



The Eloff Street redevelopment ... before

Shopping centre developments have never been in vogue to the same extent as commercial or industrial projects. Retail development, explains investments manager Derek Stuart-Findlay, is high-risk and in management terms is difficult to control.

Two years later, for example, someone could put up a bigger or better centre down the road. Growth returns, moreover, are not so impressive compared with office and industrial space. Certainty of income is also more fickle as retailers are particularly subject to recessionary influences and frequently close down or move to cheaper or better premises.

Neither is it always easy to control the cleanliness of the centre or the quality of its tenants. And the "anchor technique" of leasing a large amount of space at a favourable rental to a household name such as Checkers, OK Bazaars or Pick 'n Pay is not necessarily financially sound. Very often the smaller tenant cannot or will not pay a higher rental for the smaller space that he occupies.

Old Mutual, therefore, develops shops in co-operation with a client in the retail field. This way, it benefits from the client's retailing expertise and reduces the uncertainties of speculative development as it is guaranteed at least a minimum rental. To boost earning capacity, Old Mutual favours building offices over the shopping area. At present, two retail/office developments are underway: R45m extensions to the Menlyn hyperama in Pretoria and the R36,5m Eloff Street redevelopment in the heart of Johannesburg on the site of the old John Orrs department store.

After its completion in October, the Menlyn shopping centre will be, with the hyperama, the third largest retail complex in SA after Sandton City and Eastgate. The extensions of 35 600 m² will bring total retail space to some 65 000 m² and will add 5 000 m² of office space. To obviate the use of ramps, the shopping additions are on one level and a huge glass roof will link the hyperama with the new centre.

The hyperama has been enlarged to house one of the OK's house and home stores. Plants and waterfalls will foster visual appeal, imported German tiles will be laid on the floors and tenants have been invited to

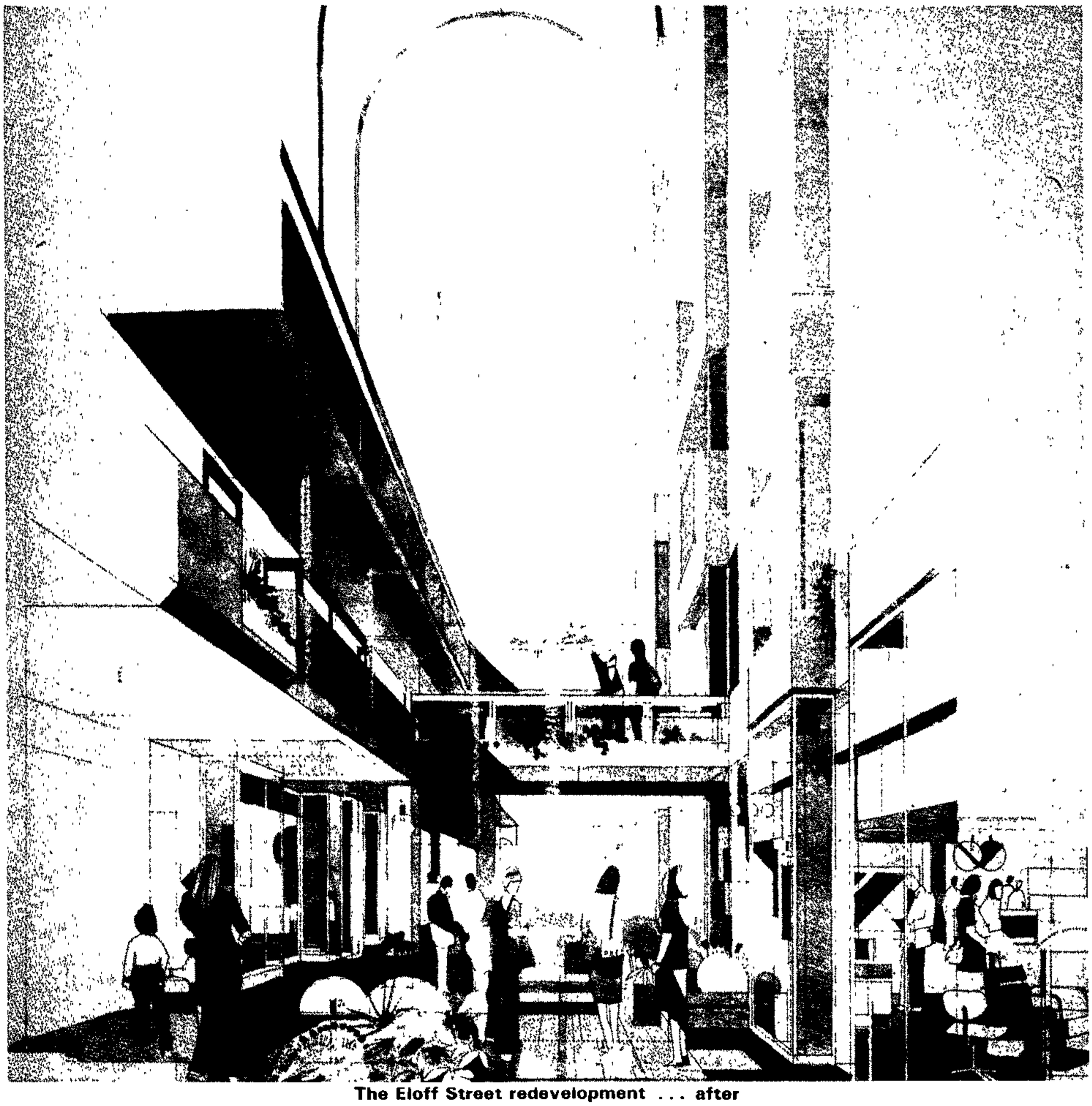
finish their own shop fronts to add an individualistic and high quality finish to the interior design.

It was OK Bazaars which took the initiative in the redevelopment. The success of an earlier hyperama project with OK at Roodepoort and the initial Menlyn development, encouraged the division to finance the project. The deal involved OK Bazaars selling its remaining rights in the site to give Old Mutual unfettered freehold.

Old Mutual is to get 10,5% a year, as a rental, on the R45m it has put up for the extensions, which are being built under the OK's control. It will also get an annual rental escalation and a share of the shopping centre's operating profit. OK will take a headlease on the centre, which will also involve letting and managing the office space — at a fee.

In Johannesburg, Old Mutual is among those who are confident of the future of the CBD. Structural changes in city centre retailing have meant that shops must now cater more for the middle or lower income groups. Johannesburg regional property manager Mike Raggett compares the purchasing power of this market with a "sleeping giant," which, he notes, is less likely than the upper-end of the retail market to be affected by computer shopping.

The Edgars group, which is especially strong in the city centre and which, with its Jet, Sales House and Ackerman's stores, has evolved a marketing strategy to cater for the CBD's increasingly dominant cash market, was a natural for the Old Mutual to team up with. The first three floors of the Eloff Street redevelopment will be space



The Eloff Street redevelopment ... after

for an enlarged, modern Jet store. The next five will be offices of some 12 000 m² in total.

The development itself consists of four buildings which are, says supervising architect Bryan Prisgrove, "hideously ugly." The design, therefore, will create "a simple effect externally and turn it into a jewel box internally." Outside, the buildings will be covered with marmoran (brown stone chipping) to create "a common vernacular of material."

Internally, the building will contain three atriums or light wells, of complex shapes, sunk from the top of the building to the level above the Jet store. The roofing over the atriums will be semi-transparent, consisting of alternate strips of tinted glass and solids. The atrium's floors are to be landscaped and roof-high plam-trees will be hauled in by crane to create verdant indoor scenery, which will provide fine views for office tenants.

As the office floors are a "shamble of levels," a more interesting interior design, with little up and down flights of stairs has been possible. Bridges will run at different angles across the atriums. The theme, says Prisgrove, is to create "organised chaos to break the monotonous pattern of what would otherwise be repetitive floors."

Once the Jet development is opened on August 25th, a modern 10 000 m² spanking new store will add to life to the CBD. On Eloff Street, it is positioned, says Edgars' public affairs director Gavin Barnett, "in the number one retailing spot in southern Africa."

The store has been extensively redesigned: elevators are positioned away from the street to draw customers through the shopping area, floors were rebuilt and ceramic tiles laid down. Modern devices such as double pelmeting and low brightness reflectors, to promote the lighting of displays, will be installed, as will high impact, shatter-proof glass that will remain intact in the event of an explosion.

Merchandise sold will include clothing and footwear for the family and textiles for home and fashion accessories. In line with current retail thinking, displays will be organised on a lifestyle shopping basis, that is, clustered around specific market themes, such as teenager clothing or infant and baby-wear.

Raggett enthuses about this new acquisition to his domain. "A building's exterior does not have to be pretty," he says, "but it must be a building that people will enjoy working and shopping in."

The second billion

SA's largest private landlord has confidence in the future and by 1987 aims to have assets of R2 billion

Old Mutual took 138 years to acquire R1 billion worth of property. Manager Martin Buss believes the next billion can be invested in just four years. "We have a massive role to play," he avers, "our top management is going to focus all its resources on the second billion."

Of this second billion, Buss expects 60% to be invested in the PWV region, 20% in Durban and the balance between the eastern and western Cape. By sector, Buss foresees a roughly equal distribution between office, shop and industrial/warehousing investment. Old Mutual will use much of this money to build its own stock.

Will there be a massive undersupply of office accommodation on the Rand? Buss doubts it. Johannesburg, he thinks, decentralised too much, too soon. (Old Mutual stayed out of Sandton). Many companies, he claims, will need to stay in town as infrastructure in the decentralised areas cannot support the transport of large numbers of staff. Buss sees the oversupply of office space on Johannesburg's periphery as likely to continue for the next 10 years.

Johannesburg property manager Mike Raggett says it is typical for large cities to decentralise about 15%-20% of their space and in Johannesburg, "we are probably pretty close to that figure now." He reckons that future expansion of the Rand's centralised and decentralised areas will operate more in tandem, while computerised offices will only slow, but not halt, growth in office accommodation. Johannesburg's CBD will lie at the centre of this vast growth circle.

In the CBD, severe office space shortages could well occur. How will rentals go? Old Mutual will not say but behind a curtain of discretion, they convey the impression that they expect rentals to soar in 1985/6. What of future Old Mutual property developments on the Rand? Raggett is not very specific. He confines himself to saying that in Rosebank, Old Mutual will retain the "captured village atmosphere." Any new buildings, such as a mooted parking garage, will be constructed within building height restrictions that exist already.

In Durban, Buss talks of an even spread of growth. "A major uilding there, badly timed, could be in trouble" he says. Regional property manager Malcolm Gruneberg expects office demand to grow by 20 000 m² a year. It is a market which Old Mutual is set to capture with the Marine and Field Street developments. Since July 1980, office rentals in Durban have climbed from R4/m² to R12,50/m² and Gruneberg believes that they will touch R17/m²-R18/m² in the next two years. "Rentals will lag behind Johannesburg" he predicts, "but the gap is closing."

As certain types of industrial land are readily availabl·· ıround Durban, Gruneberg doubts tha· there will be any steep climb in rentals.

Government demand in Pretoria has tended to insulate that office market from the recessionary winds that blow elsewhere in the country. From 1966-80, says Pretoria regional property manager Freddie Blake, Pretoria recorded annual compound growth of 5% in office supply, the highest expansion rate in any of SA's CBDs. This trend will continue, he forecasts, with expected growth of at least 4,5%-4,75% in each of the next five years.

Blake estimates that about 130 000 m² of office space will come onto the Pretoria market in the next 12-18 months, of which only 30 000 m² will be directed at the private market. As the Pretoria office considers the private sector's accommodation needs in Pretoria to have been neglected in the past, it plans a special campaign to cater for the private tenant, over and above its resolute pursuit of government custom.

Industrial land in Pretoria is scarce, rentals are greater even than in Johannesburg and the success of the Pretoria industrial park would seem assured. Blake believes that the Menlyn shopping centre will prove to be a great attraction and it will serve as the focal point for retail development in eastern Pretoria. Future shopping facilities, however, will be more dispersed as present zoning regulations do not allow further development of Menlyn itself.

Cape Town is the victim of its relative decline as an economic growth area when compared with the PWV region or Natal. Says Buss of the western Cape, "we would be interested in a R3m-R5m development but only for specific clients." Old Mutual has no major project on line there, other than a R4m shopping mall development, the Sun Gallery.

The mall will run beneath the Southern

Rosebank's Admirals Court . . . property is people

Sun hotel now under construction and will interlink with Sanlam's Golden Acre, the City Council's underground mall and the existing Old Mutual arcade to create a vast warren of shops under Strand Street. Administrative manager Vic Gunning, who is responsible for the Cape Town regional office, notes that a surplus of office space exists at present and that long-term growth will be slow. Industrial property is also plentiful and rentals are unlikely to rise until the 1984 upturn.

With R100m invested each year in leaseback financing, the division is keen to expand leaseback work. Says investments manager Derek Stuart-Findlay, "it makes a lot of sense for us. We can expand the volume of our investment considerably without increasing administrative costs." Stuart-Findlay argues that the advantage of leaseback financing for the industrialist is its injection of money, which would otherwise be locked in fixed assets, into the business.

Property unit trust investment, which at end-June stood at R75m, is also popular as it provides good returns at low costs. And in a new departue for Old Mutual, it is participating in the Sage-organised consortium to finance the building of Johannesburg's new R100m Southern Sun hotel in von Brandis square.

In the future, Raggett and Blake predict, industrial parks will grow in popularity. "The second generation will be business parks," suggests Blake, "located in the residential areas close to the homes of employers and employees." To integrate with residential surroundings, the parks would have to evolve more into office and high technology centres, a process which would reflect growth in the number of white collar workers and the capital intensive nature of industry today. Raggett and Blake expect labour intensive industry to move closer to the homelands where larger tracts of land are available.

Old Mutual's property division looks to the future with confidence. Buildings remain to be built, new tenants to be won, higher yields to be brought home to policyholders. People need accommodation. Concrete, plaster, aluminium, steel and glass need to be moulded into the tangible, functional shapes that are the surroundings and settings of our lives.

The division provides the capital and ingenuity literally to create this reality out of nothing. It helps build the heart in which SA's economic life throbs.

Fittingly, the final word comes from one-time Old Mutual chairman Christian Silberbauer, who at the 1927 annual general meeting rousingly told the policyholders: "The South African Mutual must continue to grow with the growing needs of the country, and our imagination can set no limit to the sphere of usefulness it may yet be destined to fill."

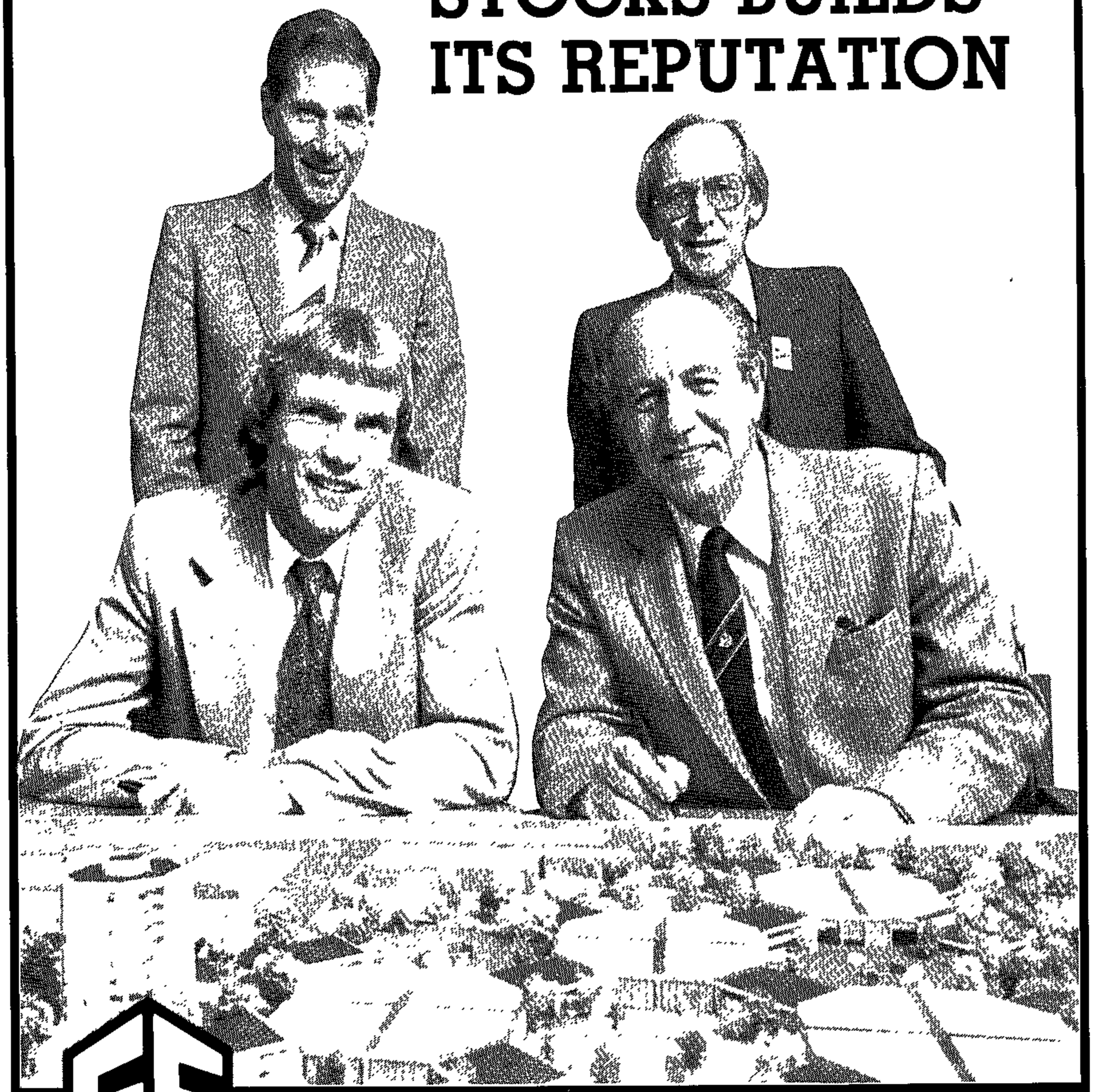
BIGGER AND BIGGER

Fixed property investment by the financial institutions as a percentage of total assets

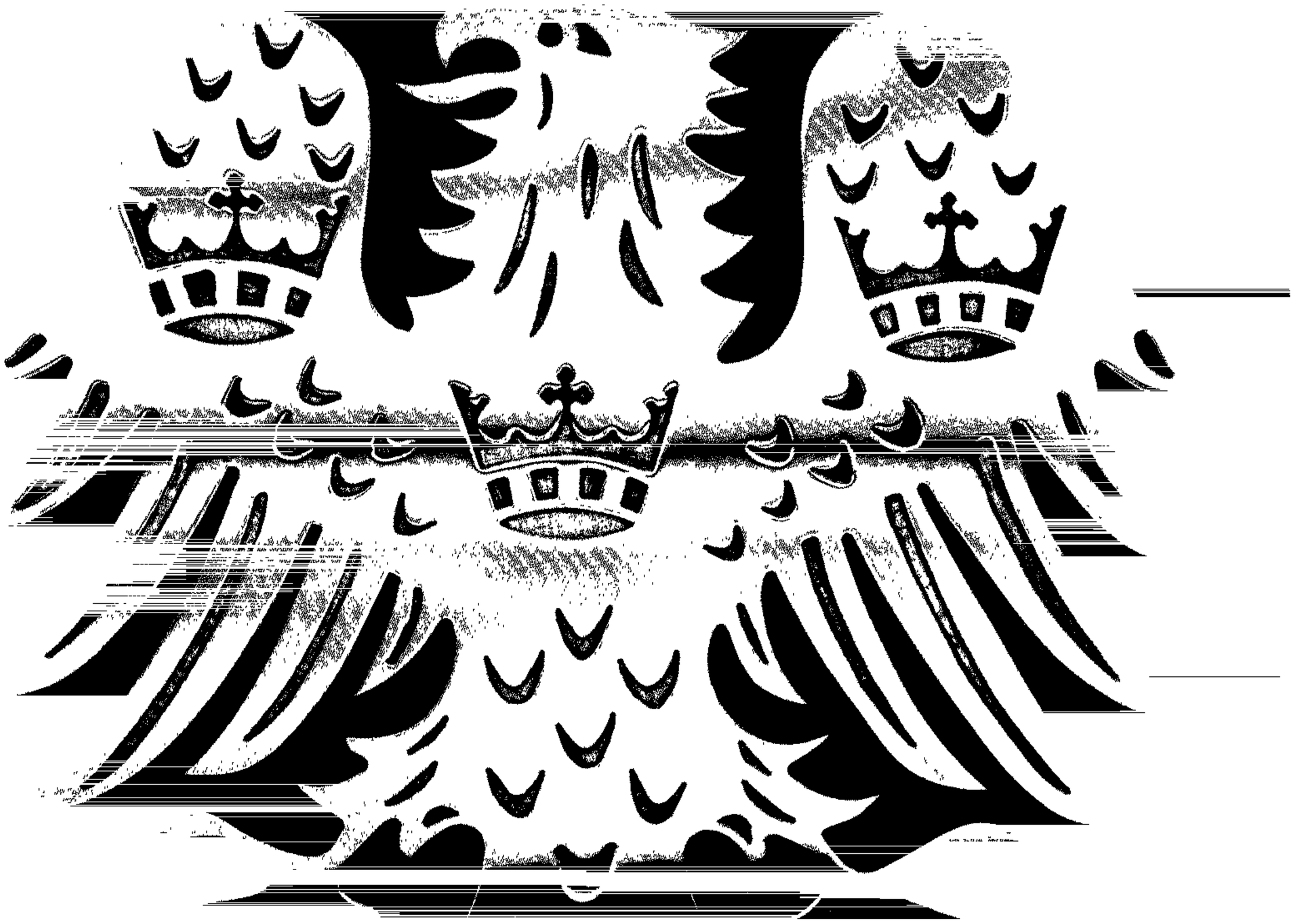
	Life offices			Private pension funds		
	Fixed property Rm	Total assets Rm	%	Fixed property Rm	Total assets Rm	%
1961	78	1 042	7,5	8	596	1,3
1965	131	1 477	8,9	19	994	1,9
1970	253	2 536	10,0	51	1 889	2,7
1975	793	4 808	16,5	151	3 743	4,0
1980	1 792	12 027	14,9	494	9 183	5,4
1982 (estimate)	2 986	18 028	16,0	1 000	12 500	7,5
1987 (projection)	7 911	39 556	20,0	2 680	29 779	9,0

Source: OM Properties

STOCKS BUILDS ITS REPUTATION



Stocks Rand is the main contractor on the Old Mutual Business Park complex in Isando Extension 3. Its another example of Stocks Group policy of working closely with the country's leading developers on major property ventures. Old Mutual Business Park will be a pace setter in every sense. Stocks is privileged to be involved. The Stocks Group. We Build our reputation.



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Bank closure riles

EAST LONDON — Indwe farmers and businessmen are disgruntled because the Standard Bank branch in the town is going to stop operating on a full time basis.

The Standard Bank branch is the only bank operating full time there. Another bank runs a part time agency in the town.

Mr Derek Ashall, the bank's operations manager for the Border area, said it was not profitable operating full time in the town as many customers had been lost when farmlands were incorporated into the Transkei

He said the branch would be downgraded to an agency level, opening mornings only three times a week, from October 14.

Mr Ashall said most of the present branch's staff would be transferred to the bank's Dordrecht branch.

Indwe's mayor, Mr Neil Hillhouse, said the bank's decision was "a blow to farmers and businessmen in the area

"We will not take this lying down and will go further if we can," said Mr Hillhouse, who has asked the bank to reconsider its decision

Farmer Mr Bill Burgess said he would have to drive an extra 30 km to do his banking in Dordrecht on days when he needed to bank when the proposed agency was closed

"That's out," declared Mr Burgess, "we cannot do our business in Dordrecht"

Garage owner Mr Johnny Fields said he would be "greatly inconvenienced" by the bank's decision

...vated for petty political advantage

...teachers' association was making political attacks on ...

...to return to Peking after a two-month tour. — UPI.

...ition on Tuesday.

Threat to US bank loans in SA

By SIMON BARBER

WASHINGTON. — Legislation that would force United States subsidiaries in South Africa to abide by the Sullivan principles and outlaw further US bank loans to the Republic has crossed an important hurdle in Congress.

The measure, tacked on to the Export Administration Act as an amendment, was accepted by the House Foreign Affairs Committee and then referred to the House Banking Committee because of its loan provisions.

In a surprise move, the banking committee has now waived its right to study the rider, effectively readying it for a vote on the House floor

Administration officials, who oppose the measure on the grounds that it will seriously hamper their efforts to become constructively engaged in South Africa, had hoped it would meet tougher opposition in the banking committee

The banking committee decision was made after several major US banks refused to testify before its subcommittee about their activities in the Republic

While the Export Administration Act as a whole will be open to new amendments when its reaches the floor, the language of the proposed anti-SA amendment is expected to remain unchanged

The Act also contains a rider that would re-impose the tight controls on US exports to South Africa which the Reagan administration has eased.

State Department sources now fully expect the House to accept both the amendments, and are hoping as one put it, that "the Senate will pull the fat from the fire"

Aussi 'racisr raises a stor

By MARSHALL

MELBOURNE. — ...nent member of ...bourne Chinese ... ity was refused p... to speak during a ... immigration at ... rian Returned ... men's League ... ference in M... yesterday

Mr Wellington Lee, ...gate for the S... thorn sub-branch, ... ted to contest ... motions raised ... the week urging ... tralian federal ... ment to prevent ... colony" from ... by increasing ... immigrant numbe... decreasing thos... Asian countries.

But in an unpre... move delegates v... to allow Mr Lee ... because his view... personal and not ... tative of his sub-...

Mr Lee said later: "... people in there w... sympathetic to ... they just went ... the crowd"

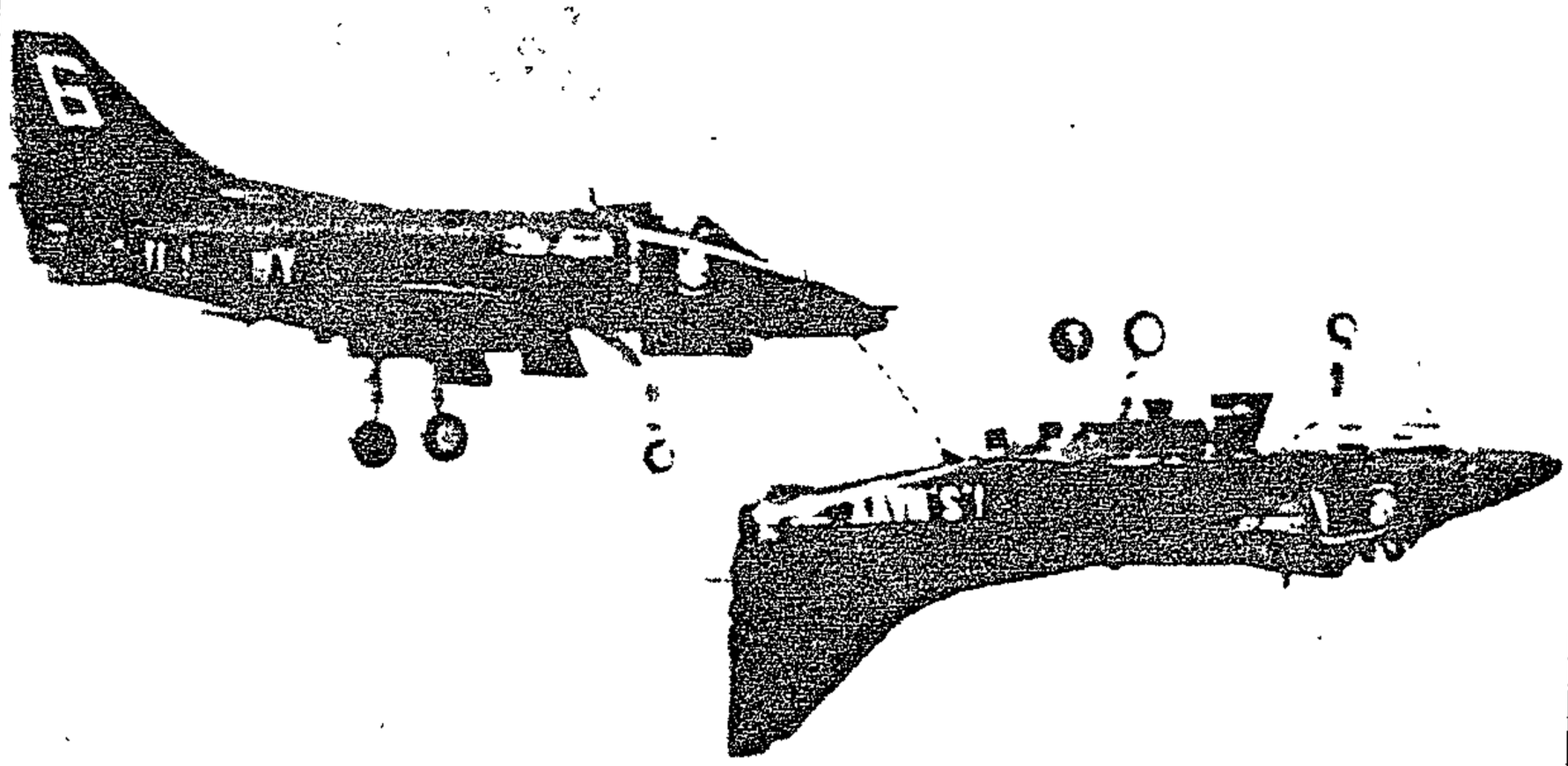
He said he believed ... ignorant" elements ... chestrated the dem... rights to be hear... issue which was ... emotive.

"It is a sad day for A... when a responsib... like the RSL shoul... one of its memb... democratic rig... speak," Mr Lee sa...

Later two Labour sta... ernment backbenc... Giovani Sgro and ... Sidiropoulos, blam... RSL president, Mr ... Ruxton, for foment... ism in Australia

"The RSL and its p... are totally out of ... with the social chan... has occurred in A... in the postwar p... they said. Multi-cul... was now a reality ... tralia and the proc... irreversible

"While the attacks ... state conference ... RSL appear to be ... at Asian immigr... there is little doubt ... target is much wid... comprises other ... groups as well," ... statement added.



The US Navy's flying team performs a tricky stunt during celebrations of the 50th anniversary of the Sunnyvale Airfield in California. The stunt involves two planes in a midair "hook-up" operation.

Actress who sued, beaten to death

LOS ANGELES. — A former actress who claimed a multi-millionaire adviser of President Ronald Reagan had promised to support her for life, had cash problems when she was beaten to death yesterday, say police

Miss Vicki Morgan, who unsuccessfully sued Mr Alfred Bloomingdale and his wife Betsy for R10 800 000, had claimed a 12-year relationship with the heir to the department store fortune.

She once claimed she had received cheques for up to R19 500 a month from Mr Bloomingdale, who died last July. But police said they had heard she could no longer afford her rent of R1 086 a month.

Her body was found in her tree-shaded home after her boyfriend, Mr Marvin Pancoast, walked into a police station and blurted out, "I just killed someone."

Detectives at her apartment found a blood-stained baseball bat beside her bed. — Sapa-Reuter.

Whites dispute black ban

DURBAN. — A group of whites has challenged a decision to ban local black golfers from playing at the Port Shepstone Country Club by demanded a special general meeting of the club

And more than 70 white scholars, in a letter to a local newspaper, have described the ban as "insensitive and bigoted".

The club last month barred a well-known visiting Indian golfer from Maritzburg, Mr Reggie Naidoo, from playing a round with other members of the Maritzburg Country Club.

Until recently local "non-white" golfers — mostly Indians — have been allowed to play at certain times of the day, but at the club's annual meeting 77 members voted in favour of a ban, with only two against.

One of the dissenting votes was that of Mr Bill Redpath, a professional man who this week wrote to the club's executive committee complaining about the "highly irregular" way the matter was raised at the annual meeting — under the general category with no forewarning to members.

Mr Redpath has sent a petition, signed by more than the required 10 members, asking that a special meeting be called.

"Anyone who wants to take away facilities from black players, or indeed to give them more, must put the proposals in writing for circulation to all members so they can prepare themselves to talk on the subject," he said yesterday

"The Port Shepstone ban has repercussions far beyond the town's boundaries and far beyond the borders of our country. It makes the task of top sports administrators such as Dr Danie Craven and Joe Pamensky a hell of a lot more difficult when they try to convince people overseas that we are becoming more enlightened."

The local white pupils, in their letter to the South Coast Herald, said: "We want to assure the victims of this injustice that we are as embarrassed about the banning as they are humiliated, and that this decision in no way reflects the opinion of all whites along the coast."

R1 600 000 paid for antique cabinet

LONDON — A French king's ebony cabinet broke the world auction record for a piece of furniture yesterday

A "magnificent ebony and lacquer cabinet", once in the private study of King Louis XVI at Versailles, was sold to an American collector for R1 600 000, said an official of auctioneers Sotheby Parke Bernet.

The price topped the previous auction record for any piece of furniture — R1 400 000 paid four years ago for a Louis XV corner cabinet.

The ebony cabinet, inlaid with mother of pearl, was discovered by Sotheby's experts in a private collection. It was made for Louis XVI in about 1784, a few years before the French Revolution.

The king took it with him on his last journey to the Tuileries Palace, where ... held before his execut... guillotine in 1793.

Sotheby's said its ... and decoration ... are ... work of Adam Weis... who made several pie... lacquer furniture for ... Marie Antionette. — U...

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Have-nots hard on the heels of the haves

The capitalists without capital

W/C Argus 9/7/83 (58)

By DAVID BLEAZARD
Weekend Argus Reporter

BLACK businessmen had only just begun on the long road towards economic self-determination, Dr Sam Motsuenyane, president of the National African Federated Chamber of Commerce (Nafcoc), said in an interview during the organisation's 19th annual conference this week.

"Nafcoc has always been a positively inclined organisation," he said.

"We have seen the problems, but we never felt that because of them we should confine our operations to complaining

"We feel we should register progress And we have registered a great many positive steps in spite of the handicaps we have had

African Bank

"For example, we created the African Bank at a time when it was not even legal for black people in urban areas to form a company or locate it in a white area"

Dr Motsuenyane said institutions like the African Bank and the retailing Black Chain created on the initiative of Nafcoc were only a beginning.

"We have to find out where needs exist and set up viable businesses, instead of allowing the increasing buying power of black people to be dissipated entirely in white areas."

The continued existence of the free enterprise system depended on the share of this increased buying power the black man had for himself.

"The gap between the haves and the have-nots needs to be minimised."

Capitalists

Dr Motsuenyane said black businessmen could be described as "capitalists without capital"

"Emerging black businesses do not have capital. They can't be classified with the giants who have been in business in a big way in the past"

Many of the major retailing chains were interested in setting up in black townships, but were restraining themselves because they did not want to move in against the wishes of the blacks

White business areas should first be opened up to blacks, and a period of protection allowed before white businesses were allowed into black areas

Privileged

"Whites don't need that protection They have been operating in privileged circumstances and are less threatened by the encroachment of small black businesses"

People took a different attitude towards things they achieved themselves and things which belonged to others, he said

"The feeling that 'this belongs to us' will save a lot of property in times of crisis in our areas

"Until we have a significant presence in free enterprise, the whole system is in danger of being destroyed

The only solution lies in sharing more, giving blacks greater opportunity and a visible stake in the system

"This whole process must be accelerated. The laws that impede the involvement of blacks must be nullified

"There must also be an education programme geared to giving blacks the skills and expertise to survive in this aggressive and competitive system

"The more delay there is, the greater is the danger of the system itself becoming disenchanting to black people"

Dr Sam Motsuenyane . . only the beginning.

ENGAGEMENT

MR R J DRAKE **MISS R H BLOCH**

Stanley and Leila Bloch have much pleasure in announcing the engagement of their younger daughter Renée Hilary to Robert Joseph, son of Erica and the late Henry Drake of Scarsdale, New York.

Beau's bummer!

Weekend Argus

Taking in each other's washing

That's the story with Standard and UBS

Finance Reporter

STANDARD Bank and the United Building Society are giving each other a powerful helping hand, despite Pretoria's refusal earlier this year to sanction a merger between the UBS and the Standard Building Society.

Without fanfare, the UBS and Standard Bank last week became agents for each other's non-competing services.

It is now possible to buy UBS tax-free shares or apply for a UBS mortgage through a branch of Standard Bank. As a senior Standard man puts it: "We're taking in each other's washing."

UBS senior managing director Piet Bandenhorst is now on Standard Bank of South Africa's board, while Stanbic managing director Henri de Villiers has been appointed a UBS director.

According to one insider, UBS men even attend meetings these days of Standard's finance committee.

The two groups, whose combined assets total more than R15 billion, appear to have found a way round their original plan for the UBS to take over the small Standard Building Society (SBS). SBS is quietly being allowed to die and the UBS is tightening its links with Standard Bank.

"We're going to push into the UBS whatever we pushed into Standard Building Society," says the Standard man.

Although there are no plans yet for a formal merger of the two groups either in name or organisation, closer co-operation is a foregone conclusion.

UBS and Standard (as well as Volkskas) have installed similar automated tellers. Before long, it should be possible to transact UBS business at a Standard autobank and to draw money from a Standard account at a UBS Help-U machine.

The UBS took its main bank account away from Barclays earlier this year, giving it to Standard. The two companies insist that there was no behind-the-scenes deal and that the business went to Standard because it submitted the most competitive tender.

Interestingly, two UBS directors also sit on the Barclays board.

One of the unanswered questions in recent events is the role of the insurance giant, Liberty Life, and its chairman Donald Gordon, who also sits on the Stanbic and UBS boards.

Gordon is widely believed to be the mastermind behind a plan to create South Africa's most powerful financial grouping, consisting of Liberty, Stanbic and the UBS, with close ties to Anglo American.

Stanbic already owns 25 percent of Liberty Life and De Villiers is deputy chairman of the insurance company.

Tribune Finance learns that Liberty is quietly picking up Stanbic shares.

It has increased its stake in the banking group from around 6,5 percent to 7 percent in the past few months, while the interest of its rival, Old Mutual, has dipped slightly.

While Old Mutual remains a larger shareholder (with about 20 percent), Liberty's ties are closer in other ways.

In any case, Old Mutual is the largest single shareholder of Nedbank which appears to be its favourite banking son.

Stanbic's controlling shareholder is Standard Chartered Bank of Britain. Standard Chartered is unlikely to want to sell its entire 58 percent stake in Stanbic, which last year contributed more than a quarter of its income.

But would it sell some of its shares to Liberty if the price was right?

Why money is suddenly so costly

more costly

Financial Reporter

MANY people find it difficult to understand why there has been a sharp increase in short-term interest rates, including the prime lending rate of commercial banks, according to Volkskas in its July Economic Spotlight.

The bank says it was generally accepted that the decline in interest rates which started towards the end of 1982 and acquired new momentum in February and early in March this year would be sustained for a while.

Suddenly, however, "we find ourselves in a situation where interest rates have bounced back to considerably higher levels".

It asks: "What were, or are, the reasons for this development? Can the rise in interest rates be attributed to stricter implementation of monetary policy?"

The survey suggests the sharp decline in sales early this year was caused by various factors.

● The net gold and foreign exchange reserves, which rose by more than R1 700-million in the last half of 1982, increased by R700-million in January because of the inflow of foreign private-sector capital.

This substantially boosted the funds available to the banks and building societies for financing.

● The demand-supply situation in the financial sector became much more favourable for lower interest rates.

The decline in interest rates which followed was accelerated by market expectations.

● It was generally believed that the price of gold would remain high, that the rand would continue to appreciate against the dollar and other currencies and that foreign capital would continue to flow into SA in these circumstances.

All these factors, Volkskas says, favoured lower interest rates. They explain the decline in rates that occurred at the time.

Then came the turnaround.

In the light of the high inflation rate and the need for sustained financial discipline, the sharp decline in interest rates was not compatible with the objective of promoting economic stability.

The banks says the financial situation has changed radically since March, however.

On February 22 the gold price was still at the relatively high level of $503. Subsequently it dropped to below $400 and later stabilised.

Suddenly the expectation of a sustained appreciation of the rand also disappeared. Another factor affected this expectation.

Estimates indicate that the drought will have a net negative effect — smaller exports and larger imports of agricultural produce — of about R1 000-million on SA's foreign goods and services account.

These changing circumstances caused the net inflow of foreign capital to dry up.

In fact, at times more funds left SA than were brought in. This is probably still the case.

In any event, the net result of these developments in the balance of payments over which South Africa has no control is that the domestic money supply is no longer fed by the balance of payments to the extent that it was earlier in the year and liquidity is being drained further.

Volkskas says the Reserve Bank is not prepared, rightly, to compensate for the loss of liquidity (money in the hands of the private sector in the form of directly withdrawable and short-term deposits with the banks) by creating more credit.

It is the responsibility of the monetary authoities to maintain financial discipline. Monetary policy should be faulted from a different point of view.

Policy has been too accommodating, as reflected in the exceptionally high growth in the money supply.

Volkskas comments: "We have to face facts. There is a very real danger that South Africa may become enmeshed in a vicious circle of inflation and depreciation of the rand.

"Once such a circle has built up momentum, it is very difficult indeed to escape from it. We don't have to look far around the world for proof of this. There are also many examples of the consequences of such an eventuality."

The choice is clear, according to Volkskas.

"Either we take the popular way out by diluting financial discipline in order to accelerate economic recovery through lower interest rates and freely available bank credt, or we persist with financial discipline even if it should imply high interest rate levels for some time to come.

"We cannot but support the policy of financial discipline.

"This does not mean that we are calling for stricter monetary and fiscal measures.

"What it does mean, however, is that the policy applied should not nudge things in a direction different from that demanded by the discipline of the balance of payments and the struggle against inflation.

"We simply have to accept that South Africa has indeed been made poorer by the bad agricultural crops and the drawn-out worldwide recession.

"Like any good businessman, a country must also apply the right strategy in these circumstances in order to derive the maximum benefit when conditions become more favourable.

"We will simply have to wait for more favourable times."

Bank earmarks R850 000 for community projects

JOHANNESBURG—The Standard Bank Group will commit at least R500 000 to the support of universities, technikons and special community projects through to 1985 and a further R350 000 to national and regional projects in 1983 alone, says Group Public Relations Manager, Mr John Pank

'Special donations in 1983 include a contribution to the University of the Western Cape's PLATO matriculation programme for schools, a community centre at Chatsworth, Natal, under the auspices of the University of Durban-Westville, a course of video-tapes to promote learning readiness in primary and pre-primary school-children being made by the Institute of Child and Parent Guidance at the Rand Afrikaans University and the compilation of a patient disease profile in the community by the Community Paediatrics Department at Medunsa.' — (Sapa)

5 Times 12/7/83

Coffee scheme: Experts cautious on quick returns

By SYLVIA VOLLENHOVEN

INVESTMENT experts have reacted with caution to a coffee-growing company's scheme which offers a quick money-making return from coffee plantations.

The Pretoria-based company, Coffee Corporation of South Africa (Cofcor), has launched a widespread advertising campaign which tells potential investors: "Make money out of coffee now!"

Dr Danie Craven, president of the SA Rugby Board, is a member of the board of Cofcor.

Cofcor's publicity blurb claims that "with every sunrise your dividend grows".

But experts warned this week that the fledgling coffee company could be dishing out "unrealistic" promises to investors.

Cofcor denies this and says that the coffee industry in South Africa could be developed into a very lucrative venture

Cofcor recently registered as a public company. It has been selling coffee trees or rights to investors since it was launched two years ago.

Cofcor says these rights were being converted into shares in the company which owns coffee plantations in the Lowveld.

For a minimum R21 investment, Cofcor offers interest rates of between 25 and 40 percent in three years.

Cofcor advertising says the company has initiated "a unique investment plan" which makes it possible for individuals to invest in coffee in the form of an easy monthly saving.

The managing director of Cofcor, Mr Elias Olivier, told the Sunday Times the company would eventually be able to compete with the South African coffee giants — Nestlé and T W Beckett.

"We are the dumping grounds for the world's worst coffee. The importers are importing the cheapest coffee they can get," said Mr Olivier.

He said Cofcor would not only grow its own coffee, but would also roast, package and market it.

He said South Africans had been "brainwashed" into drinking inferior coffee.

The Cofcor coffee would be of superior quality and competitive pricewise, says Mr Olivier.

But investment experts approached this week say there could be many a slip between investing and reaping the rich rewards offered by Cofcor.

No problems

"With that kind of interest

vestment they are really looking at the lower end of the market.

"But you must look at how realistic their assumptions appear," he said.

Mr Derek Varnals, chairman of the South African Tea, Coffee and Chicory Association (SATCCA), said the Cofcor crop yield and price predictions were "considered to be unrealistic".

"In terms of the prices projected by them it could still be cheaper to import coffee. We think they are being too optimistic."

Mr Varnals explained that the local coffee industry used mostly the robusta type bean because it was particularly suitable for instant coffee extraction.

But only the arabica bean — there is a relatively small demand for it — was being grown commercially in South Africa.

"The roasters are worried that there could be excessive planting (of the arabica bean) in relation to the demand," said Mr Varnals.

Dr DANIE CRAVEN

Mr Olivier denied that the Cofcor crop yield and price predictions were unrealistic or that it was a very high-risk investment.

He said people who bought rights to Cofcor coffee trees could already make a profit of "over 100 percent on capital growth".

The Cofcor advertisements state that the crops are insured and in addition, the "value of (the) investment is insured by means of an endowment policy endorsed by a large insurance company".

Mr Olivier declined to name the insurance company. He said that although [illegible] had permission to do so

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No problems

"With that kind of interest rates they should have no problems getting investors.

"But why are they going to the man in the street to raise money?" asked a Barclays Bank investment adviser.

The adviser, who did not want to be named for professional reasons, said any organisation that had a potentially valuable business proposal could normally get capital backing quite easily.

A director of a firm of stockbrokers said agriculture-related investments normally carried a high risk.

"The climatic risks make the outcome very uncertain. People have to ask themselves is it feasible and is it attainable," said the stockbroker.

"With a R21 minimum investment they are really looking at the lower end of the market.

"But you must look at how realistic their assumptions appear," he said.

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Mr Olivier declined to name the insurance company. He said that although they had permission to do so it was "not company policy".

Dr Craven told me he had every faith that Cofcor was a profitable venture.

"The climate is right, the water is there and the soil is fertile. What's more we have experts at the helm.

"We import so much coffee, we can do with a local product. It will be superior quality and people will be willing to pay more for a better product," said Dr Craven.

Contact

He had invested "a considerable amount" with Cofcor.

Asked about Dr Craven's position on the three-person board of directors, a spokesman for Cofcor in Cape Town, Mr Walter Scott, said:

"He is a contact director. He is not a fundi on coffee or a businessman of any repute, but he knows all the Cabinet Ministers by first name.

"If we want to talk to the Minister of Commerce and Tourism we get Danie Craven to pick up the phone."

Insurance bonus for terrorism victims

THE State President's Fund established by the Government last month to assist terrorism victims and their dependants will pay additional compensation in the case of victims who have insurance cover on their lives or property.

By Julian Kraft

The fund, established in the wake of the Pretoria and Bloemfontein bomb blasts, will follow the same principles applied in the Disaster Relief Fund for victims of the 1981 Laingsburg floods, Arthur Barnard, secretary of the fund board, tells Business Times.

This means that terrorism victims having insurance cover will be in line for bonus payments by the fund of 10% of the amounts of their insurance for their foresight in getting insurance cover in the first place.

Taking the Laingsburg formula as an example, a person who lost a R40 000 house in the flood who had his house insured and needed R60 000 to replace it would be paid out R64 000 — the fund providing the R20 000 difference needed for replacement plus R4 000, being 10% of the insurance.

■ ■ ■

By contrast, in the case of a victim owning a house which was not insured, the fund would cover the cost of replacement only.

The 10%-bonus principle would similarly apply in the case of life assurance and ancillary accident and disablement benefits — the area where many claims over terrorism incidents are likely to occur.

Mr Barnard, whose remarks were endorsed by the chairman of the State President's Fund, Dr Hilgard Muller, pointed out, however, that the fund's purpose was only to provide financial relief to terrorism victims.

"It is not a means for self-enrichment nor is it in competition with insurance," he said.

Consequently, payments were not made for deaths but only to provide relief for dependants of dead victims. Permanently disabled victims would also receive relief if their injuries resulted in financial loss or their earning capacity was impaired.

Other provisos are the availability of funds and the fact that each case will be judged on its merits.

Dick Geary Cooke, executive director of the Life Offices Association (LOA), representing life-insurance companies, welcomed Mr Barnard's disclosures.

"I am pleased that the fund is in no way a disincentive to people to buy insurance. The 10%-bonus provision is due recognition of the person who is provident," he said.

But the lack of adequate ancillary cover offered by life-assurance companies for victims of terrorism could complicate the picture now that the fund has been established.

In practically all cases terrorism is one of the exclusions from ancillary benefits on life policies. Most companies, however, are willing to make ex gratia payments at present.

But life companies are likely to reassess their position now that the State President's Fund has filled the breach.

One company, AA Mutual Life, has taken the step of formally providing ancillary accident and disablement cover for terrorism victims, with only participation in such activities being excluded.

HOUSING

'Millions' set aside to aid black home-owners

ARGUS 14/7/83

Argus Correspondent

JOHANNESBURG. — The building society movement has confirmed that tens of millions of rands have been set aside to ensure the success of the Government scheme to sell 500 000 State-owned houses to low-income families of all races.

The "super-sale" of homes has begun. Mr Tim Hart, executive director of the Association of Building Societies, said that all the major societies had volunteered to contribute to the vast cash pool, which will allow black families in particular to take advantage of discounts that can slash as much as 40 percent from the prices of homes on offer if cash or mortgages can be arranged.

The UBS alone has earmarked R100-million to help tenants to go ahead with purchases.

"We are satisfied that the houses, though austere, are perfectly acceptable as security," said Mr Philip Sceales, chairman of the society.

The cash reservoir was disclosed as the first sales were confirmed in the programme to sell 350 000 houses in the black townships and 150 000 more State-owned houses occupied by low-income whites, coloured and Indians

Wages limit

The super-sale, being run by the Departments of Community Development and Co-operation and Development, is open to all families with incomes under R800 a month.

Sales in Soweto, where many of the first 40 000 houses in the scheme will be offered at about R1 400, are expected to start next week.

The Association of Chambers of Commerce has alerted its 20 000 company members throughout the country to stand by to assist employees where possible.

Mr Vincent Brett, secretary of Assocom's manpower committee, said he would meet Mr Johan Kruger, the Department of Community Development co-ordinator of the selling programme, in the next few days to be briefed on final details

Mrs Freda Gowie, secretary of the manpower committee at the Federated Chamber of Industries, said the FCI was scheduled to be briefed by Mr Kruger on August 2 on how the private sector was invited to assist.

"Many firms do not want to move in on building societies' territory by offering to finance house-buying by employees," she said, "but there may well be scope for bigger companies to offer guarantees so that home purchases can go ahead"

However, the full launch of the supersale is being hampered by the vast amount of paperwork required.

At least 1 000 local authorities and 312 black community councils will be involved in the sale of houses

Statistics

So far only between 100 and 150 local authorities have submitted statistics of homes available for sale in their areas

Of roughly 350 000 black houses that will be available for sale about half have been or are in the process of being surveyed.

A spokesman for the Central Transvaal Administration Board said after a meeting in Pretoria: "We have had a lot of problems with this housing sale, but it seems we might be seeing some light following a meeting earlier this week"

The survey of Pretoria's black townships of Mamelodi and Atteridgeville may take long as two years to complete. Mr Thys Wilsnach, director of the Johannesburg City Council's housing division, said that Johannesburg had 450 white houses and about 3 000 coloured houses for sale. In the first seven days of July, 29 coloured houses were sold.

A council member of the SA Institute of Land Surveyors said that 52 surveyors were surveying 52 000 stands in four of the biggest East Rand townships. All Pretoria township stands and 10 000 in the Orange-Vaal area had also been contracted for surveying.

Altogether, about 100 000 erven in black areas countrywide are under contract to be surveyed

State backs R7,7bn in loans to 1995

By HAROLD FRIDJHON

THE Government is exposed to more than R7 790-million up to 1995 in guarantees, indemnities or securities given to creditors abroad on behalf of public-sector borrowers like Escom, SA Transport Services and Posts and Telecommunications.

Total capital commitments amount to R6 050-million, the difference of R1 740-million being interest due.

To the end of this year the Government's exposure is R882-million. It will rise to R1 165-million in 1984. In the next two years the liability will be heavy, but it will taper off to 1995 when the last tranches in French francs have to be paid.

The French franc debts exceed R1 430-million and from the extended period of payment it appears that much of this indebtedness has been incurred in the financing of the Koeberg nuclear power station.

The biggest currency exposure is in dollars — R2 375-million. This does not necessarily mean that the purchases or loans were made in the United States. On the contrary the US has no heavy involvement in SA.

The funds were probably raised in the Eurodollar market and payments must be made in dollars.

German mark borrowings of R2 136-million and Swiss franc borrowings of R1 168-million were raised in the Eurocurrency markets and the amounts outstanding do not reflect trade or financial dealings in either Germany or Switzerland.

The amount in sterling is small in relation to the other European exposures. It amounts to R531-million and the amount designated in yen is only R150-million.

The Treasury says that the statistics have been computed on the basis that where the borrower has a multi-currency option on renewal of a drawing, the currency shown is that which had been denominated at March 31, 1983.

Where the loans are not subject to a predetermined rate of interest — loans with a floating rate of interest — the interest rates ruling on March 31, 1983, have been applied for the duration of the loans.

Some may be roll-over loans and may not be paid but will be reinstated when they mature. This means that the debt could be extended several years.

As things are, payment of the loans should not cause too heavy a drain on the balance of payments. These appear to be debts which the reserves can handle with ease.

The private sector of the economy has borrowed much more extensively abroad than the public sector. The Financial Mail reports that the offshore liabilities of South African banks exceed R7 600-million, of which R6 000-million are off balance sheets.

Reprieve for Lenasia residents

Star 19/7/83

By Yussuf Nazeer

58

Hundreds of householders in South-East Lenasia Extensions 8 to 11 will continue to have electricity for 12 more days following the decision by the Transvaal Peri-Urban Board to postpone yesterday's cut-off deadline until July 31

The reprieve came after the South-East Lenasia Consultative Committee met board officials in Pretoria to discuss the plight of residents who could not meet their bills

The five-man consultative committee, led by chairman Mr W Dinky Pillay and his deputy, Mr M S Shah, also got the board to reduce the service charges from R8,65 to R7 for each home. Power will be turned off on August 1 if bills are still unpaid. There are 2 500 homes under the Peri-Urban Board's control in South-East Lenasia's Extensions 8 to 11.

The consultative committee has drawn up a memorandum of residents' grievances to present to the Administrator and the Director of Local Government when the committee has its inaugural meeting with the Peri-Urban Board on August 3.

Among the grievances will be a request to institute one local authority to control all Lenasia, and to hold an election to have one management committee for the entire township

At the moment Lenasia Extensions 1 to 7 are represented by the Lenasia Management Committee while Extensions 8 to 11 are represented by the nominated consultative committee. Parts of Lenasia are also controlled by the Johannesburg City Council, the Peri-Urban Board and the Department of Community Development.

Bank puts up interest rate on home loans

ARGUS 19/7/83 5-8

Financial Editor

BARCLAYS Bank is to increase the rate of interest on its home loans by 1,5 percent from July 25

This will increase the monthly repayment on a 20-year home loan by more than R1 a month for every R1 000 borrowed. On a 30-year bond the increase will be slightly less.

However, Mr Mike Smythe, executive director of Barclays Real Estate, said increased monthly payments were not being insisted on at this stage.

Interest rates on loans below R40 000 will go up from 15 to 16,5 percent.

This will increase the monthly repayment for each R1 000 borrowed on a 20-year loan from about R13,20 to R14,30.

The rate on loans above R40 000 will go up from 16 to 17,5 percent, increasing the monthly repayment from about R16.05 to about R17,20 a month for every R1 000 borrowed.

When Barclays started making home loans in September last year it was charging 17 percent on loans of R20 000 and less, 18 percent on loans between R20 000 and R40 000 and 19 percent for loans over R40 000

Since then the rates had been reduced three times.

Mr Smythe said the increase in rates was unavoidable in view of the upward pressure on interest rates

Barclays says the demand for loans remains heavy. It is granting some 120 loans worth about R5-million each day and has committed almost R600-million for home loans so far.

Strike goes on despite talks

LIBERTY LIFE Insurance Company and their striking workers remained deadlocked yesterday even after two senior representatives of management had held talks with the workers.

By PHIL MTIMKULU

About 140 workers from Liberty Life went on strike last Thursday afternoon when their management refused to meet representatives of their union — the Insurance Assurance Workers Union

When refusing to meet representatives of their union, Liberty Life had pointed out that, as a multi-racial company, they could not recognise or hold discussions with a black union. They had also expressed the hope that the workers would return to work soon to avoid any inconveniences.

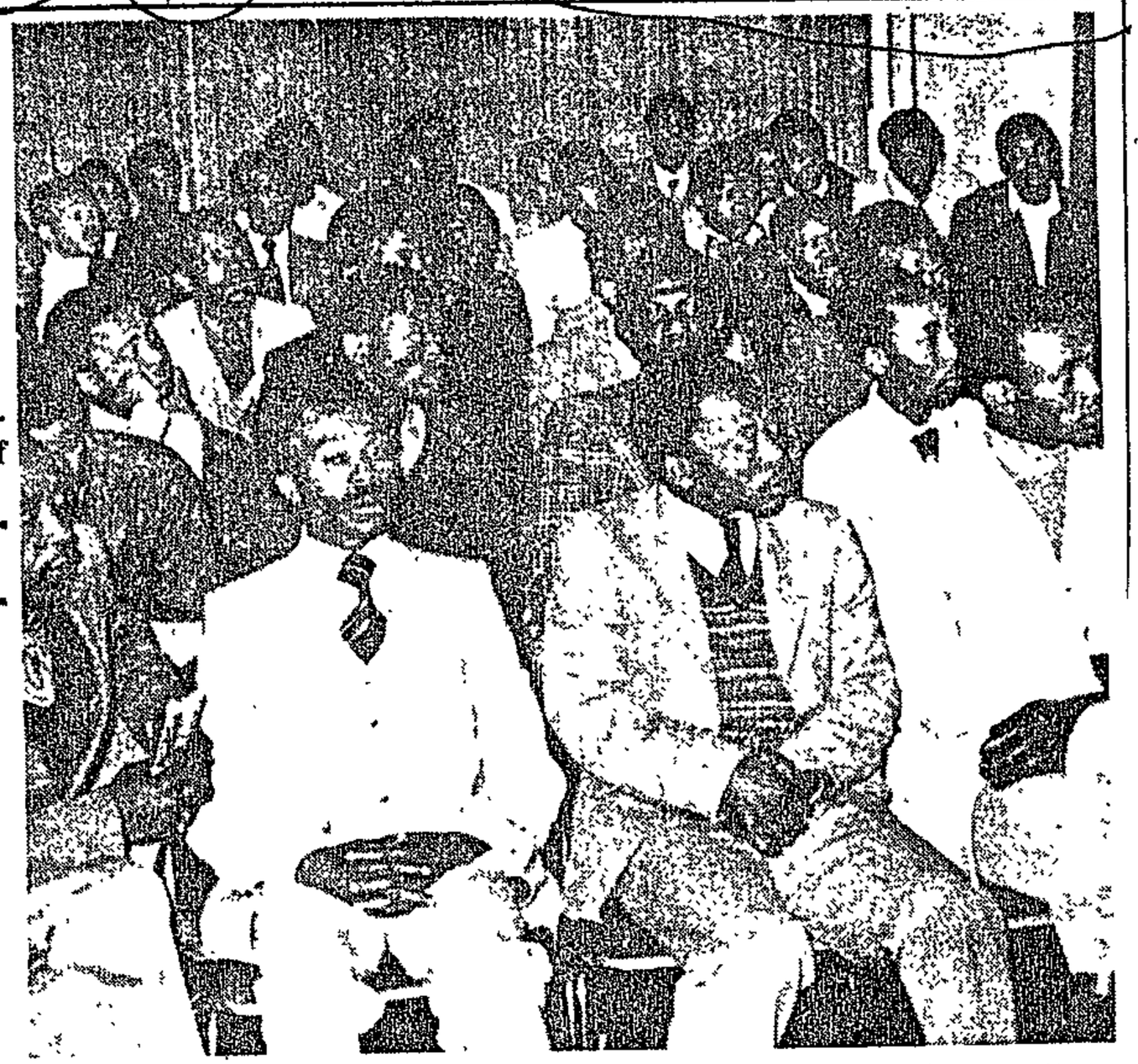
But yesterday the workers, who are mostly white collar workers, again stayed out on strike. In a bid to resolve the impasse two senior officials of Liberty Life, Mr Mark Winterton, the executive director, and the managing director, Mr M I Hikowitz, went to face the striking workers. However, after a 45 minute meeting both the workers and management reported that things remained basically the same with neither side prepared to compromise.

Mr Winterton said they were, however, clearer about what the problem was — union recognition. This was the crux of the matter as the worker did not air any other grievances.. He said the company prided itself on their fair employment practices and they were prepared to talk to individuals or representatives of the workers if they had grievances. But the representatives should be from the company.

"We are not prepared to temper or destroy our multi-racial practice by talking to a black union which does not represent the majority of the staff," Mr Winterton said.

On Friday Liberty Life had issued a circular in which they warned the workers that they were in breach of their conditions of employment and that they would not be paid for the period that they were on strike and that they risked losing their jobs.

In addition to pressurising for the recognition of their union the workers said they were not happy with their recent salary increases and wanted the union to discuss this with management.



WORKERS: From Liberty Life Insurance Company after they held a meeting with senior officials.

Mr Johan van Dyk, Cape manager of NBS Developments, inspects some of the new NBS homes in Brackenfell.

NBS Developments build 180 homes in Western Cape

Cape Times 19/7/83 58

MORE than 180 new homes are being built in the Western Cape by NBS Developments in the 1983-84 financial year.

This covers developments at Colorado, Northpine, Durbanville and Brackenfell, a total investment value of R9,4m.

The manager of NBS Developments (Cape), Mr Johan van Dyk, said that NBS realised that large scale housing developments were urgently needed to help alleviate the serious shortage of homes.

"Our mission is to provide affordable, socially acceptable homes to the lower to middle income groups for all communities," he said.

"The average price of the homes are R48 000 with an almost 50-50 coloured to white spread.

"There has been a tremendous demand with the units at Brackenfell and Colorado already sold out and long waiting lists for Northpine and Durbanville."

A breakdown of the four developments is as follows.

Brackenfell — 43 units in the R60 000 range. Three bedrooms, double garages and twin bathrooms. Plots of 750 m².

Colorado — 48 units in the R44 000 to R47 000 range. Three bedrooms and fully fitted kitchens. Plots from 500 m² to 600 m².

Northpine — 34 units in the R38 000 to R45 000 bracket. Plots of approximately 500 m².

Durbanville — 62 group units in the R54 000 range. Three bedrooms twin bathrooms and enclosed leisure areas Plots of 500 m².

Mr Van Dyk said that these four developments, totalling 187 homes, were value for money success stories and were being scooped up as soon as they were available.

"We have tremendous faith in the Western Cape as a development and investment area and are the first society to open a regional development office here We are looking to expand our base but are being hampered by the lack of suitable land and escalating property prices"

British

Interest on home loans up

CAPE TIMES 20/7/82

Staff Reporter

INTEREST rates on Barclays home loans were to be increased from July 25 by 1½ percent across the board, Barclays Real Estate announced yesterday.

The interest rates on loans below R40 000 will go up from 15 to 16,5 percent and those above R40 000 from 16 to 17,5 percent, according to the announcement.

Surprisingly, it comes only a day after the Reserve Bank reduced banks' liquid asset requirements to 48 percent for short-term liabilities and 28 percent for those of medium term, freeing about R1 000-million in liquid assets. Some of this money could become available for home loans.

At the inception of its scheme in September last year, Barclays undertook to hold a ceiling on interest rates for one year at not more than 17 percent for loans up to R20 000, 18 percent for those between R20 000 and R40 000 and 19 percent those for over R40 000.

The new increased rates are well within the declared maximum.

Mr Mike Smythe, executive director of Barclays Real Estate, said the increase in rates was unavoidable in view of upward pressure on rates, but pointed out that increased monthly payments were not being insisted on at this stage.

"We are receiving an average of 15,54 percent on home loans, which is well below the prime overdraft rate of 16 percent. We will review our home loan rates as soon as there is any further significant change in interest rates generally," he said.

Barclays says demand for loans remains heavy. It is granting some 120 loans — worth about R5-million in total — each day, and has committed almost R600-million for home loans to date.

High demand

"Demand for loans has considerably exceeded our expectations, and if it continues at this level, we may have to review the amount that can be made available," Mr Smythe said.

Building societies were short of lendable funds at present, he said.

The societies have not reacted publicly. The executive director of the Association of Building Societies, Mr Tim Hart, said yesterday that they would "decide what to do in relation to what their money is costing them."

● **Higher bond rates forecast, page 12**

Home loans tighter as mortgages rise

ARGUS 20/7/83 58

By TOM HOOD
Property Editor

THREE important sources of home loans are raising their mortgage rates and others are certain to follow as funds dry up.

Natal Building Society's top rates go up next month by one percent to 16 percent for all loans over R60 000.

United Building Society, the country's largest, raised its top rate to new borrowers by one percent to 17 percent this month.

Barclays Bank yesterday pushed up all its bond rates by 1,5 percent, with a top rate of 17,5 percent for loans over R40 000.

Others are sure to follow so they can increase their savings rates and attract more funds for an insatiable demand for housing finance.

Deposits

Many societies are also tightening up on loans by insisting the borrower or his family or employer deposit finance for up to three years.

To get a R40 000 bond, for example, a borrower may be forced to deposit R10 000 to R15 000.

House prices are beginning to stabilise after a year of frantic rises, say Cape estate agents.

But there is no sign of higher mortgage rates forcing a collapse in the property market.

There is even a scarcity of houses to sell and the property boom is still attracting record numbers of estate agents into the business.

Cash deals

Many house or flat-buyers are able to pay cash and most of the others have subsidies from employers which cushion the blow of any rise in bond costs.

The arrival of about 40 000 immigrants a year is also putting pressure on house-builders.

"As soon as home loans get expensive or scarce, prices begin to stabilise," said Mr Hadden Steer, chairman of the Cape and Western branch of the Institute of Estate Agents.

"Buyers are becoming choosier, especially with houses above R200 000.

"We had an epidemic of people asking ridiculous prices in the hope of quick profits — and often getting them."

Insurance workers end 3-day strike

THE three-day strike at Liberty Life Insurance Company is over.

According to the company's executive director, Mr M Winterton, the workers informed them on Monday afternoon that they would report for work the following day. The basis of their coming back was that there would be no victimisation.

The issue of recognition for their trade union, Insurance Assurance Workers Union, seems to have fizzled out as, according to Mr Winterton, they said they would present their grievances themselves but at a later stage.

Mr Winterton said the strikers would not be paid for the days they were on strike. He repeated the company's standpoint that it did not recognise the all-black independent insurance worker's union, and added that grievances would be investigated.

But, according to a spokesman of the union the workers went back with a demand that they should be paid for the days on strike and that the company should also allow the union to negotiate on their behalf.

A letter has been written by the union to Liberty Life giving them seven days to comply with their request failing which the union will apply to the Conciliation Board with the view of declaring a dispute

Meanwhile a spokesman for Barlows which last week fired 450 workers, said the company was hiring extra staff which would be kept on when the week-old dispute at the plant ends. He said the jobs of all the strikers had been guaranteed, and a small number of them have already been rehired.

Talks between the Chamber of Mines and the National Union of Mineworkers which were deadlocked after a union request for a meeting with the Chamber's full executive was turned down will continue today.

(58)

Union slams Liberty Life

Sowetan 22/7/83

BLACK workers at Liberty Life Insurance Company have unique problems compared to those of their white colleagues and as such they cannot belong to a multi-racial union.

This is the view of the workers' union, the Insurance Assurance Workers' Union, who have been battling to gain recognition from Liberty Life. One of the reasons the union is unacceptable to management is that it is an all-black union.

Mr Jeff Lengane, the national organiser of the union, said they rejected Liberty Life's policy of multi-racialism as it did not apply to the black workers. "Our members are definately not regarded as equal to their white counterparts", he said.

Mr Lengane said it was precisely because their members were discriminated against that they went on strike. "If our members were part of the multi-racial policy of Liberty Life they would not have had grievances," he said.

At a workers report back meeting held on Wednesday, management's claim that they met with union officials and that the workers agreed to submit a list of grievances were refuted. The workers reiterated that the union should negotiate on their behalf.

The union has however written a letter to Liberty Life informing them that if they do not respond to the demands of the workers within seven days a dispute will be declared.

JOHANNESBURG SATURDAY JULY 23 1983

Kerzner out, Goss out, and

Two of the top men in South African Breweries have quit.

● Out goes managing director, Mr Dick Goss

● Out goes Mr Sol Kerzner, managing director of Southern Sun.

● And in a meteoric rise to take over one of the biggest jobs in South African business, in comes Mr Meyer Kahn to take over the position being vacated by Mr Goss.

The R2 100 million group is today reeling under the double blow dealt it yesterday afternoon when two of its stars announced their impending departure.

Mr Goss and Mr Kerzner are generally acknowledged as having been instrumental in the giant group's sparkling performance in recent years.

Mr Goss is taking "early retirement".

Mr Kerzner, on the other hand, has indicated a wish to participate financially to a greater extent in SAB's Southern Sun group and says he has resigned from SAB to avoid a clash of interests.

Rumours abounded on the stock exchange yesterday that the two men would embark on a joint operation.

Mr Meyer Kahn was elevated to the No 2 spot at SAB only months ago after a highly successful spell as head of OK Bazaars.

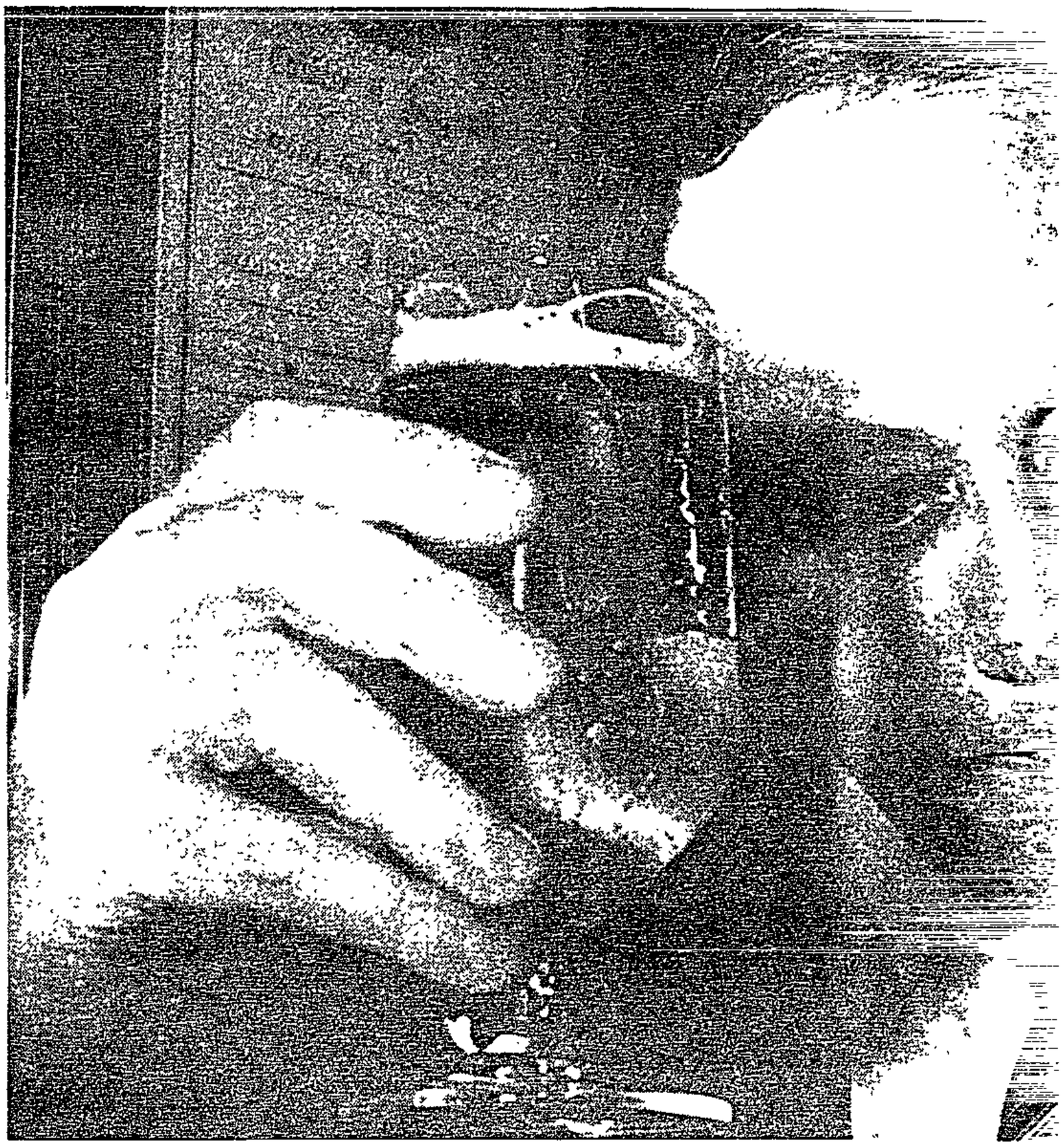
SAB has agreed to enter into negotiations with Mr Kerzner. As is customary in such situations, the SAB shares have been suspended on the Johannesburg Stock Exchange.

Mr Goss's departure is not unexpected after the complicated deal in June which left Premier Milling a 34 percent shareholder of SAB. At that time it was widely known that Mr Goss was unhappy about the deal and the way it was handled.

It appeared then that Mr Goss and certain of his senior directors were prepared to resign.

An uneasy truce followed with the intervention by Anglo American chairman, Mr Gavin Relly, who took the reins as chairman of a revamped Premier with Mr Tony Bloom (from the Premier group) and Mr Goss as joint managing directors.

It has also been said that Mr Kerzner was unhappy after his attempted foray into the lucrative American hotel and gambling industry was scuppered.



Cheers! SA Breweries' boss Meyer Kahn tastes what its like at the top.

Why SAB's i

Mr Dick Goss's departure from South African Breweries was on the cards from the moment he chose to publicly clash with the men who put together the R350 million deal which gave effective control of SAB to the Premier Group.

By his definition and by that of others, one detail was overlooked — neither he as chief executive of SAB nor any of his executives had been consulted.

Mr Goss was furious and made no bones about it.

This reaction from a man who spent 17 years building up one of the most formidable forces in South African business produced red faces and public embarrassment for those against whom his anger was directed.

A diplomatic retreat was hastily organised but the damage was done.

To believe that the relationship between Mr Goss and people like Mr Gavin Relly, of Anglo American, Mr Tony Bloom of Premier and Mr Donald Gordon of Liberty Life could have reverted to normal would have been naive.

The question now is what ... next ... one of South ... most talented ... managers?

The same ... director's ... when Mr ... Barclays Bank ... ly let ... chair ... when Mr Adrian Bellamy ... out of Edgars equally suddenly.

Mr Goss has spent his ... working life at SAB.

"I have no immediate ... he told The Star last night.

"Any decision to inv...

Stories by John von Ahlefeldt, Trevor Wal... er and Duncan Callings, The Star's Finance Department

ical after

Couple i... on murd...

Goss out, and in comes . . .

er Kahn tastes what its like at the top.

Picture Philip Littleton

A boykie from Brits

Mr Meyer Kahn (43), who describes himself as "the boykie from Brits", was bubbling over yesterday following his appointment as chief executive of South African Breweries.

Recently moved from heading OK Bazaars to become deputy managing director at SAB, he said: "This is the best day of my life. I thought I might get there in a year or two, but hey, what about this — not bad for a boy from Brits!"

Mr Kahn, who has established a reputation as a strong hard-nosed marketer, now heads a huge conglomerate from the panelled walls of the SAB head office at 2 Jan Smuts Avenue

He joined the OK as a management trainee in 1966. In 1974 he was appointed managing director of Amrel.

Before becoming managing director of OK Bazaars in 1977, he was chief executive of the group and a director of Afcol.

In 1978 he said he wanted to make OK Bazaars "the biggest and profitable retailing operation in SA" and he predicted R50 million pre-tax profit within five years. He did it in three.

Mr Kahn is married and has two daughters. His recreations are sport and reading.

y SAB's in a froth

Stories by John von Ahlefeldt, Trevor Walker and Duncan Callings, The Star's Finance Department

South African business produced red faces and public embarrassment for those against whom his anger was directed.

A diplomatic retreat was hastily organised but the damage was done.

To believe that the relation ship between Mr Goss and people like Mr Gavin Relly, of Anglo American, Mr Tony Bloom of Premier and Mr Donald Gordon of Liberty Life could have reverted to normal would have been naive.

The question now is what happens next to one of South Africa's most talented professional managers?

The same question was asked when Mr Bob Aldworth suddenly left the managing director's chair at Barclays Bank and when Mr Adrian Bellamy opted out of Edgars equally suddenly.

Mr Goss has spent his entire working life at SAB.

"I have no immediate plans," he told The Star last night.

"Any decision to invest in Southern Sun is mere speculation at present.

"I am now a free agent and there are so many areas of business that I know well and that I could consider getting into.

"I will be severing all ties with SAB. There is room for only one chief executive."

Mr Goss was 37 when he took over from the ebullient Ted Sceales as SAB chief and had none of the easy Sceales style. Only those close to him gave him any chance of success.

Seventeen years later he still has a low profile, perhaps lacking in style, but is rated one of the finest business leaders South Africa has produced.

And close associates refer glowingly to his sincerity and to his insistence on standing by his principles.

"They may have cost him his position but that would never have influenced the man," one colleague said.

Mr Sol Kerzner has also made no bones about wanting to acquire a bigger slice of the company synonymous with his name.

"I would obviously be foolish to negotiate with SAB to increase my 10 percent in Southern Sun if I had not arranged the finance," he said last night.

"It will not affect my previous view that there is still scope for growth in this country but that the real thrust will come from overseas developments."

● To Page 2, column 1.

Couple in court on murder charge

Why SAB's in a froth

om Page 1.

The directors of Southern Sun ive a choice. The future with erzner, or the future without e man who has put the group here it is.

This means someone will ive to give up part of their lding That would make sense nly if it was felt that Mr erzner was essential for the ntinued resounding success of uthern Sun

The story of Mr Sol Kerzner, telier extraordinary, is the ry of South Africa's hotel in- stry storming into the most etic growth period of its his- y

The stocky little accountant th the giant ambition and ir to match, took the industry the scruff of its neck, shook it d and rearranged the pieces a totally different way.

Mr Kerzner is razzle-dazzle the way, from his suspicious- ly Chicago-like accent to the sheer scale of a seemingly endless stream of imported international stars brought out to Sun City.

Brash, yes. Difficult, undoubtedly. But he is today internationally rated as one of the finest hoteliers in the world (and has a string of international invitations to leave South Africa and link up with major international groups to prove it).

It was, in fact, widely believed that, with the collapse of the Camelot casino project in Atlantic City, USA, Mr Kerzner would opt out of SA Breweries on the grounds that the Premier deal would put paid to any meaningful, forthcoming support for his international ambitions.

Southern Sun controls a chain of 34 hotels, casinos and entertainment centres throughout South Africa, the surrounding national states and Mauritius, where Mr Kerzner helped pioneer the tourist industry.

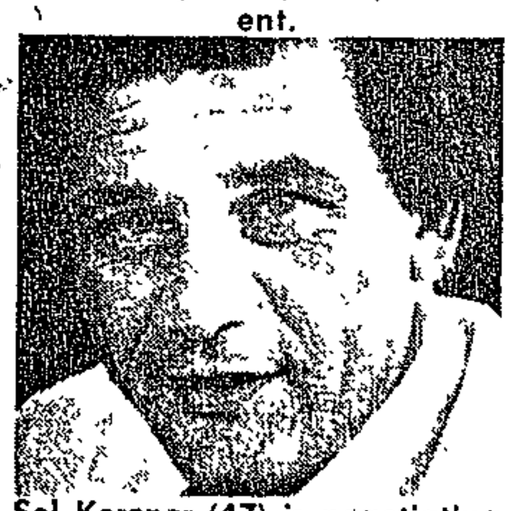
Since 1979 profits have soared by more than 300 percent to nearly R32 million. Those who back the man believe that with the irascible, flamboyant Kerzner at the helm the trend will continue.

Mr Meyer Kahn (43) has been described as the finest of the younger generation of South African traders. His performance as head of OK Bazaars has proved that conclusively.

He too has natural leadership qualities but, as important, he may be the man to heal the rift that has existed since the Premier deal.

His friendship with Mr Tony Bloom must prove an asset, for example.

Mr Dick Goss (54), who has spent his whole business career at SAB, is now aiming for something completely different.



Sol Kerzner (47) is negotiating with SA Breweries to increase his R35 million stake in the hotel group.

Portrait of a giant

South Africa Breweries is truly a giant of the South African economy, worth R2 100 million and with interests which touch every South African, every day.

Under the now departing Mr Dick Goss, its shareholders have seen their income from dividends rise in the last five years from 12 cents a share to 35 cents.

Interests span a mind-boggling range. Beverages, retailing, hotels and manufacturing all fall within its preserves.

It has always had close ties with the mammoth Anglo American group — ties which are now closer than ever following a complicated share transaction which left the Premier Milling group the largest shareholder in SAB.

Prior to the deal, the Old Mutual was the biggest shareholder.

Often accused of monoplistic practices in its beer interests, the group has effectively dealt with any opposition.

Also in SAB's beverage division is the Solly Kramers liquor retailing chain, the Cape-based Appletiser fruit juice empire. Cape Wine and Distillers gives the group a toe-hold in the wine and spirit industry.

In its retail division is South Africa's biggest group — OK Bazaars. The Edgars group and Amalgamated Retail complete the line-up.

Through its 71 percent interest in the Southern Suns group it has an interest in 34 hotels, casinos and entertainment centres throughout South Africa and Mauritius.

Manufacturing division interests range from the furniture business, through Afcol, and footwear through SA Footwear holdings.

Sol is fighting to stay at the top

□ From Page 1

In the past, Mr Kerzner's 10 percent stake — making him a multi-millionaire in money terms but insufficient to give him much personal leverage in the boardroom — posed few problems to his independence, since he enjoyed a close relationship with Mr Goss.

Mr Goss, like Mr Kerzner, long believed that Southern Sun was one of SAB's chief growth areas, and had no hesitation in committing hundreds of millions to it.

He had the vision to follow the inventive Mr Kerzner into apparently risky ventures such as Sun City and the $250-million Camelot casino in Atlantic City in the US, which fell through.

Unafraid

Mr Kerzner retains ambitious plans for expansion in South Africa and abroad. To implement them in the absence of Mr Goss, he feels he needs the protection of a shareholding of at least 25 percent.

Nevertheless, as close as he may be to his remaining colleagues on the SAB board, Mr Kerzner's relationship is not as close with Anglo American, Liberty Life and Premier Group, which recently acquired 34 percent of SAB.

SAB's new MD, Mr Kahn, is himself unafraid of risk. As MD of OK Bazaars, he opened two new hyperamas when OK's first two hyperstores were losing R5-million a year — and later turned them into one of SAB's most lucrative profit areas.

After this week's appointment of the equally talented and strong-willed Mr Tony Bloom of Premier and Mr Michael Rapp of Liberty Life to the SAB board as its representatives, the consortium has board power to match its stake and a potential veto over anything Mr Kerzner might try to do.

On the face of it, with 70,8 percent of Southern Sun in hand, SAB is the stronger party in the negotiations, especially now that Southern Sun has a management structure under Mr Peter Bacon that would ensure life without Sol.

At the same time, however, SAB, Anglo Liberty and Premier would hate to see Mr Kerzner set up in opposition, conceivably in league with archrival Holiday Inns.

Southern Sun is valued by the stock market at R350-million. For Mr Kerzner to increase his stake to 25 percent, he will have to find at least R51,6-million at the current market price. A deal would obviously be clinched at a far higher price.

Financial observers say SAB is unlikely to part with control, and that the most Mr Kerzner can aim for is 50 percent. To reach that he would need R137,6-million.

SAB and Mr Kerzner could also pool their combined 81 percent shareholding in a pyramid and take 50 percent each of the top company.

Many speculate that Old Mutual will back Mr Kerzner, but many bankers would be eager to help.

Mr Goss insists that he left SAB because he believes "15 years is enough for a chief executive and now is the right time".

He intimated that he wished to scale down his activities when he appointed Mr Kahn deputy MD shortly before Premier, Liberty Life and Anglo pounced.

The new deal merely accelerated his withdrawal. He was furious about not being consulted, but says he was satisfied with the restructuring.

Gleeful

Still, he was not totally appeased, for he has always been unused to asking for permission to do anything.

At 55 he intends to remain active, and admits he may remain involved with Mr Kerzner.

If SAB has been dominant in all its fields, it intends to be even more dominant in future, says Mr Kahn.

"We're gonna wind it like wild men," he promises.

Mr Kahn, who gleefully describes himself as the "Boykie from Brits", is a lawyer who couldn't stand law and went into his father's stores.

58

Call for Ciskei National Development Bank

D. Dispatch 25/7/83

"... the Republic of Ciskei should give serious consideration to converting the Ciskeian National Development Corporation into the Ciskeian National Development Bank. Much detailed thought will have to be directed at the structure of such a conversion, but I believe it to be the best way to generate maximum participation by the private sector."

So reads the report of Mr F. S. Meisenholl, chief executive of CNDC.

The report was released at a function in the Amatola Sun Hotel, attended by a contingent of representatives from the national financial press.

I liked the "touch of class" given the occasion by CNDC. The speeches by Minister Malefane from Ciskei Finance and Frans Meisenholl were short and to the point and ample opportunity was given for asking questions. The operation was smooth and slick and rounded off by a satisfactory dinner party given by host Dave Hayson of Amatola Sun.

Closer look

But let's have a closer look at that Ciskeian National Development Bank. Mr Meisenholl links it with much greater participation by the private sector towards the development of the country. He suggests, if I understand him correctly, that in the same way as the Southern African Development Bank hopefully will attract national and international investment by the private sector, so also will the Ciskeian National Development Bank attract its own share of private sector investments.

The concept as expressed in the report is vague and I trust Mr Meisenholl will soon be announcing working detail for scrutiny by the private sector.

The corporation's equity increased by R11 million while borrowings increased by R21 million to give a new figure of R90,5 million.

In his statement the chairman says "total investment in Ciskei generated through the efforts of CNDC, now amounts to R186 million".

This figure does not emerge from the accounts presented and I can only assume that total investments by CNDC and the private sector together since 1976 are worth R186 million, presumably inclusive of infrastructure.

Bombing effects

About 60 grown-up boys, and a brace of girls, were invited by Mike Stent of Mekelek and John Mackenzie of SA General Electric to watch a demonstration of the effect of "typical terrorist bombs" and different shapes and sizes of bullets on various glazing materials.

Proximity

I learned much. For instance, it is not so much the size of the charge that causes the effective damage but the proximity of the target and the degree of "confinement".

The shockwave pressure is the most important thing and it does not double with size of charge; but try to set the charge off at half the distance and see the difference.

Bullets and shotgun slugs were fired into a 33 mm thick sheet but it did not break or buckle and nothing emerged from the other side.

The Pretoria bomb was about 40 kg in weight, set at some 10 metres from the target, creating a shockwave of about 5 bars. A 4 kg bomb at 3 metres produces a wave of 3 bars.

The lessons are:

(1) Consult experts

(2) Keep the bombers at a distance of more than say 20 metres.

(3) Use different grades of glass toughening for different degrees of exposure. (No need for the heavy armour on the third floor, for instance.)

Ordinary 3 mm glass costs about R20 per square metre. 10 mm costs R72. 5 mm armoured costs R72 and the really tough stuff, polycarbonate, costs R300 for a square metre — or thereabouts.

If you want to know more, phone me at 55339.

Producing the oil

Who rates in the oil producing stakes? I am still not sure but after studying a number of statistical reviews and adjusting for temporary abnormalities such as Iraq and Iran at this time, I get this approximate answer for crude oil expressed in millions of barrels per day.

USA	10,3
Saudia Arabia	8,5
Iran	6,0
Venezuela	3,4
Iraq	2,8
Kuwait	2,5
Nigeria	2,1
Libya	2,0
Mexico	2,0
Canada	1,8
UK	1,8
Abu Dhabi	1,4
Algeria	1,0
Quatar	0,5
Oman	0,3
	46.4
Soviet bloc	14.0
	60,4

I know there are other small producers such as Australia and Argentina but they are not mentioned in the statistical tables

SOUTHERN SUN AFFAIR

Throwing down the gauntlet

Control of Southern Sun hangs in the balance as Sol Kerzner bids to acquire a greater stake from SAB This could be another aspect of a larger corporate battle.

It is difficult to believe that SA Breweries would be shortsighted enough to relinquish control of Southern Sun It would be even more incredulous if the decision were taken to accommodate the susceptibility of some directors smarting at the Premier deal

There have been some hasty decisions taken by those involved in the SAB power struggle in recent months. A great deal of money has been involved At some stage commercial logic must prevail and the flavour of a soap opera be washed away.

The very idea that SAB should contemplate selling control of its thriving hotel group to Sol Kerzner borders on the ludicrous It erodes the logic behind the Premier deal, predicated as it is on the acquisition of productive assets rather than cash Yet, given some of the surprising decisions of late, it cannot be ruled out

Fact is that, but for a last-minute rethink, the deal could well have been a *fait accompli* before Kerzner's resignation last week and that of SAB's MD Dick Goss The whisper is of reluctance at 44 Main Street to face a confrontation over the matter.

Apart from contributing some R210m of SAB's R4,3 billion turnover last year, Southern Sun (SS) accounted for around 17% of SAB's R213m net income. Clearly, SS is not an asset that those with the interests of SAB and Premier at heart would like to see go.

There is, however, some commercial logic in allowing Kerzner to increase his personal stake in SS from the present 12% — worth around R40m — to, say, 25%. He has been the powerhouse behind the group's success But would even this be sufficient to satisfy him?

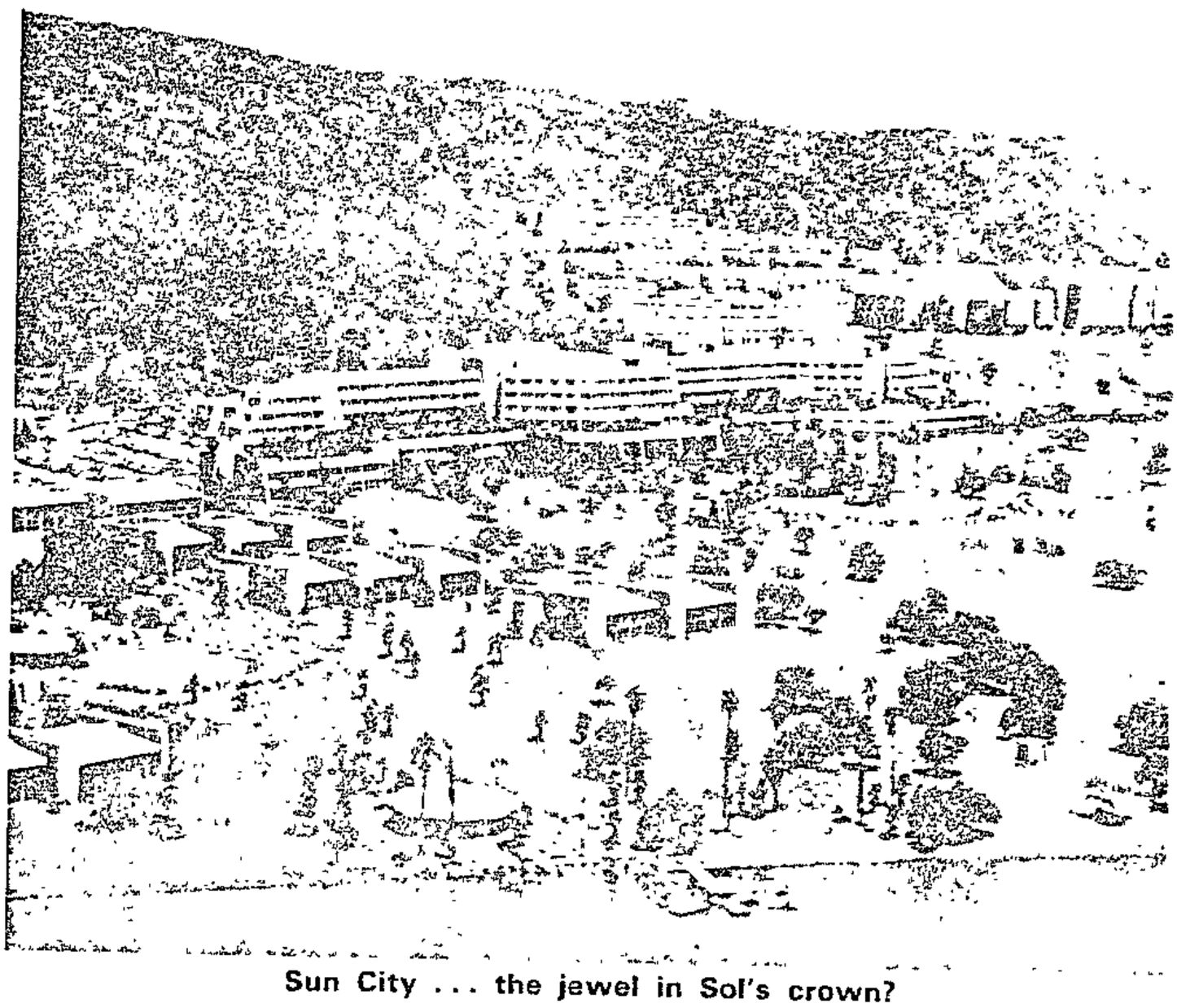
Kerzner is obviously a businessman who needs the motivation of personal profits; his eye for the gap in SAB's recent internal upheaval over being catapulted into the Premier camp bears this out. For someone who thrives on the cut and thrust of a fiercely competitive business, a personal controlling stake in a company the size of SS must be highly prized.

Of course, Kerzner's contribution to SS cannot be underestimated. But the hotel group is today an asset that will continue to grow without Kerzner, even though in his absence momentum may be less.

Kerzner resigned from the SAB board apparently because he decided there would have been a conflict of interests if he sat on both sides of the fence. Curiously, conflict did seem to figure in the previous day's discussions. However, if Old Mutual is behind Kerzner, this raises the question of the positions of Jan van der Horst, Frans Davin, Mike Rosholt and Frans Cronjé as SAB directors It would appear that there is a clear conflict of interests if, as is suspected, Old Mutual, or groups connected to it, are providing Kerzner with the resources to buy SS.

Sources of finance available to Kerzner for a deal of this size — over R200m — are limited But by a process of elimination all pointers suggest that the Old Mutual Nedbank camp is Kerzner's likely backer First, Nedbank is Southern Sun's traditional bank, and the others are unlikely to lend a sympathetic ear Second Barclays is too closely tied to Anglo, with Gordon Waddell Tony Bloom Nicky Oppenheimer and Julian Ogilvie-Thompson on the board Third, Standard apart from having Relly himself and Rosholt on the board, is close to Liberty with Donald Gordon as a director.

After the first nifty coup the



Sun City ... the jewel in Sol's crown?

INTERWOVEN INTERESTS

SA BREWERIES
F J C Cronjé
***R J Goss**
J M Kahn
R Cohen
***S Kerzner**
W MacFarlane
L van der Watt
K Williams
C Carrington
F J Davin
D Gordon
P K Hoogendyk
A M Rosholt
D M Stevenson
J G van der Horst
G H Waddell

SOUTHERN SUN
R J Goss
S Kerzner
P D Bacon
E N Joannides
W S MacFarlane
M de Wilton Marsh
K A Rosevear
H L Shill
M Stabinsky

OLD MUTUAL
J G van der Horst
M de Wilton Marsh
I G Halliday
D G Malan
F J C Cronjé
L G Abrahamse
G S Muller
J C Pijper
A Louw
D V Benade
R G Ross
G N G Brown
J J Kitshoff
D C Smith
A M Rosholt
F J Davin

NEDBANK
F J C Cronjé
G S Muller
L G Abrahamse
R J N Abrahamsen
J L Nel
R J Goss
P K Hoogendyk
J C Pijper
J G van der Horst

* Resigned as of July 22 1983
Bold designates cross directorships

Fm 29/1/83

GOSS'S OPTIONS

Former SAB MD Dick Goss says he will not lose out financially through his separation from SAB. He has exercised the stock options available to him under the executive share scheme and repaid the SAB loan that was originally used to finance the purchase of the shares. These shares were sold, he says, after his departure from SAB.

It is difficult to work out exactly how many shares Goss bought in this manner, but we estimate he acquired some 175 000. At the current market price of R7,50 a share, they are worth more than R1,3m. After repaying the amount outstanding on the SAB loan, Goss is understood to have netted a cool R1m

Goss says this is no reflection on his expectations of the future investment potential of SAB. He has additional SAB shares, worth between R750 000 and R800 000, which he acquired on his own account during his years working at SAB.

Anglo/JCI/Liberty consortium must be wondering what has backfired. It is clear their initial steps in reshuffling their respective SAB holdings were hardly calculated to produce the developments that have subsequently taken place.

The consortium's soft pedalling — through the formation of a holding company for its Premier and SAB stakes and the appointment of Goss as a joint deputy chairman — was obviously designed to smooth ruffled feathers. But having given in once, the inevitable has happened: it is now facing demands for more.

Goss says that he had for some months been considering retiring from SAB and looking for a new challenge. But the presence of the Anglo-led consortium as a major shareholder certainly speeded up his decision-making process. He adds that the formation of a holding company, to prevent a conflict of interests between the two trading companies, rectified the situation to the satisfaction of the SAB board. But, reading between the lines, it plainly didn't suit him.

Goss will not be drawn on his future intentions, but at only 55 he is obviously not contemplating resting on his laurels. It is widely recognised that he enjoys a healthy working relationship with Kerzner. And should Kerzner's bid to gain control of SS succeed, the experience and influence of Goss could be of enormous benefit. His strategic thinking and sound profit achievement over many years at SAB would be invaluable.

Backing Kerzner

If Old Mutual and Nedbank are backing Kerzner's attempt to control SS, it will be interesting to see how the recent acquisition by OM of roughly 75% of Rennies will fit into the longer-term plans of SA's largest insurer. Several months ago talks between Rennies' wholly-owned subsidiary, Holiday Inns, and SS, which were aimed at identifying areas of possible rationalisation, broke down. However, should OM end up with effective control of both, these talks will surely be resuscitated.

In the past OM has not played an active role in the management of companies in which it has investments. There have been signs that this attitude is changing. The SAB affair could speed up the process. One future development may be the creation of an industrial holding company that would play a more active role in the management of OM subsidiaries. If this were to emerge, who better to head it than Goss?

There is no lack of financial muscle at Anglo American. Why, therefore, did it almost allow Kerzner to snatch SS over the negotiating table last week? Some might conclude that the answer is that it has been staggered by OM's reaction to having been left in the dark over the Premier deal. Van der Horst's resignation from AA's board and willingness to pay over the odds for Rennies was a swift and sharp retaliation. There may be some truth in this.

Apparently, however, Anglo American chairman Gavin Relly has all along played the role of peacemaker and attempted to maintain an arm's length relationship. Anglo sees itself fulfilling the role of financier rather than negotiator.

On the other hand, by selling SS to an OM-financed Kerzner, Anglo would have effectively got the Mutual out of its hair. It may be a costly way of severing ties, but one result of the deal could be the removal of the four OM directors currently *in situ* on the SAB board.

Peter Farley

fore the court, it seems likely the court will have the task of defining more precisely what "representative" means. Is a union representative in a company if it has the majority support of a section of the workforce who belong to a particular race group? Or should the union be representative of employees of all race groups who basically do the same kind of work?

Answers to questions such as these could obviously have a profound effect on the thorny issue of union recognition in many other industries and sectors

UNIONS

Arguing about race

Important questions in labour law are being raised in a recognition dispute between Liberty Life and the Insurance and Assurance Workers' Union of SA (Iawusa).

Iawusa is trying to represent black workers in the insurance industry. About 100 of its members employed by Liberty Life were recently involved in a two-day strike over wages. They demanded that the company recognise and negotiate with the union, which claims to represent a majority of black workers at the company's head office in Johannesburg

The union has since made a formal demand for recognition and says it will officially declare a dispute with the company if this is not granted. Should the dispute not be resolved at a conciliation board, the union says it will take action through the Industrial Court to have the company's refusal to recognise it declared an "unfair labour practice."

Liberty Life is willing to recognise and negotiate with unions. However, the company is extremely reluctant to recognise a racially-based union and prefers to negotiate with a multiracial union.

This impasse raises a number of interesting questions. Trade unions which restrict their membership to a particular race group are, of course, common in SA. This is partly the result of government policies which until fairly recently discouraged unions from being multiracial.

Although these policies have been revised, racially-based unions continue to exist because workers of different races perceive themselves to have different needs, interests and priorities. This has especially been the case in industries where there is a wide skills and pay gap between the races.

What makes the impasse between Liberty Life and Iawusa so interesting is that the company says that most of its black employees are clerical workers, who receive the same pay and enjoy the same conditions of employment as their white counterparts Therefore, it can be argued that in the workplace the different race groups do not have differing needs.

Liberty Life says it is proud to be an equal opportunity employer and is opposed to anything which could cause divisions and tensions between employees of different race groups Not surprisingly, the company fears that recognition of a black union could do just that

The union, however, has a different view. It says the company cannot define how black workers should exercise their right to freedom of association It questions the company's claim to be an equal opportunity employer and argues that black workers' needs and problems are different from those of whites and that it is impossible to have "a unity of unequals."

The union is also committed to the development of black leadership — something it believes is hampered by multiracial unionism. The union emphasises that it is opposed to wildcat strike action and claims to have played a moderating role in persuading the company's employees not to strike earlier this year

The dispute is looming at a time when the Industrial Court is moving increasingly towards the view that an employer does have the obligation to bargain in good faith with a representative union (*Current Affairs* July 22). Should the dispute go before the court, it seems likely the court will have the task of defining more precisely what "representative" means. Is a union representative in a company if it has the majority support of a section of the workforce who belong to a particular race group? Or should the union be representative of employees of all race groups who basically do the same kind of work?

Answers to questions such as these could obviously have a profound effect on the thorny issue of union recognition in many other industries and sectors

MEYER KAHN

FM 29/7/83 (58)

Shooting from the hip, boykie

No one who has met the new SA Breweries chief executive Meyer Kahn can fail to like him. His geniality is infectious. No one who watched him steady OK Bazaars' wobbly profits and return them to a rising trend can doubt his talents as a chain store manager.

He has, partly fortuitously, been promoted now into one of the key industrial jobs in the country. He follows in the footsteps of men whose business achievements were enormous and foresight quite formidable.

Ted Sceales was very much the creator of SA Breweries. Its growth, which has been quite phenomenal, and strategic spread of investments has been the achievement over the past 17 years of Dick Goss, who has been rated by some of his peers as the finest manager of a major industrial undertaking in this country.

Perhaps Mr Kahn will forgive our dismay at reading on Saturday his remarks on taking office only days after Goss's departure. "This is the best day of my life. I thought I might get there in a year or two, but hey, what about this — not bad for a boy from Brits."

Quite so. But a word or two about the achievements of his distinguished predecessor might have shown a more endearing sense of modesty. Some reference to the honour of being chosen to follow in their footsteps might have indicated some awareness of the formidable task he is taking on.

Then on Sunday, in the midst of delicate negotiations over Sol Kerzner's offer to buy Southern Sun, an especially important asset in SA Breweries, he was quoted as saying: "I'd rather have 50% of a first-rate operation with a highly motivated chief executive than 100% of something more sluggish." That can hardly be counted as a model of discretion.

Goss has shown a great capacity to choose talented and creative managers to support his efforts. Colin Hall defeated the onslaught of Louis Luyt in the beer market. Sol Kerzner's talents as a hotelier and impresario have been remarkable. Kahn himself has shown a rare ability to compete successfully in the very competitive retail sector.

Hopefully, Goss's choice of a successor will prove to be as inspired. Frankly, there are going to be those in the business community who will wonder after all this shooting from the hip talk about the "boykie from Brits." The man taking on the managing directorship of a R2 billion industrial group is going to have to foster more confidence than is expected from a platteland shopkeeper.

Goss may not have been especially articulate. He was not the darling of trendy television producers and social reporters. He did not need to be. His modesty was reassuring and served to underline his achievements.

58 FM 29/7/83

Cowetan

Firm wants facts

29/7/83

IN THEIR response to a letter from the Insurance Assurance Workers Union which had given them seven days to meet their workers' demands, Liberty Life has in turn also asked for information from the union, though this will not change their attitude to their demand for recognition.

The communication between Liberty Life and the workers union follows a strike which occurred three weeks ago. On ending their two day strike, the workers had demanded that their management should recognise and speak to their union on their grievances. Subsequently the union had written a letter to Liberty Life threatening to take them to the Conciliation Board if they did not meet their workers' demands.

In their letter to the union, Liberty Life reiterated that the workers would not be paid for their period of absence and neither would they be victimised. Liberty Life also repeats that it had understood from representatives of their employees that they would submit a list of grievances to the company.

The letter also requests the union to provide Liberty Life with the following information:

- An up to date copy of their constitution with all amendments,
- the date of formation of their union,
- the total number of their members in the insurance industry and the names of employees of Liberty Life who are amongst such list of members,
- whether the reference to black staff in their letter is intended to include a reference to coloured and Asian staff employed by the company and whether whites may join the union,
- the basis for their claim that their union is representative of a majority of the black staff employed by the company Braamfontein,
- the basis for their claim that the majority of black staff (assuming they refer to those employed in Braamfontein) wish them to represent them specifically for the purpose of negotiating the July salary increment,
- the nature of the conduct which they attribute to the company as constituting an unfair labour practice and in respect of which they propose to seek a conciliation board.

The executive of the union met on Wednesday evening to consider an appropriate response.

'Aid schemes earned the Magician R1m'

EVIDENCE: BLACKS WERE FINCHES TO BE PLUCKED

By MARTIN WELZ

A PRETORIA Supreme Court action is threatening to blow the lid off the controversial black 'aid society' empire of Johannesburg millionaire Mr Sarel van Biljon.

Last year Mr van Biljon, his father-in-law Mr Jan Burger and various members of their families were the centre of Press, police and Insolvency Court investigations into a vast network of seemingly unrelated fly-by-night 'black aid' and funeral insurance businesses.

Mr van Biljon is known to business colleagues as 'die towenaar' — 'the magician'. Last year he promoted a course for country businessmen which he called: 'Think and Grow Rich'.

Mr van Biljon claimed last year that he was no longer active in the black 'aid society' market. His major company, Golden Aid (Pty), which had operated 16 branches throughout the country, closed down in 1980.

A new series of companies launched by Mr van Biljon, called Golden Consultants, had all been sold to former employees and he no longer had any interest in them, he said.

One of these former employees has, however, now alleged in evidence to the Supreme Court that the sale of the Golden Consultants companies was a fraudulent ploy to foil investigations into Mr van Biljon's business activities, while he retained indirect control of the lucrative business.

He has also claimed that Mr van Biljon's business was conducted with the sole purpose of defrauding the black public.

In a court action that started in December last year, Mr van Biljon is claiming R414 000 from Mr Eddie Bekker, former manager of the Pretoria branch of Golden Aid.

Earlier this year Mr van Biljon applied for summary judgment against Mr Bekker, claiming he had no valid defence to the claim. On the strength of a replying affidavit by Mr Bekker, Mr Justice W J Human dismissed the application and the case will now proceed to trial, probably later this year.

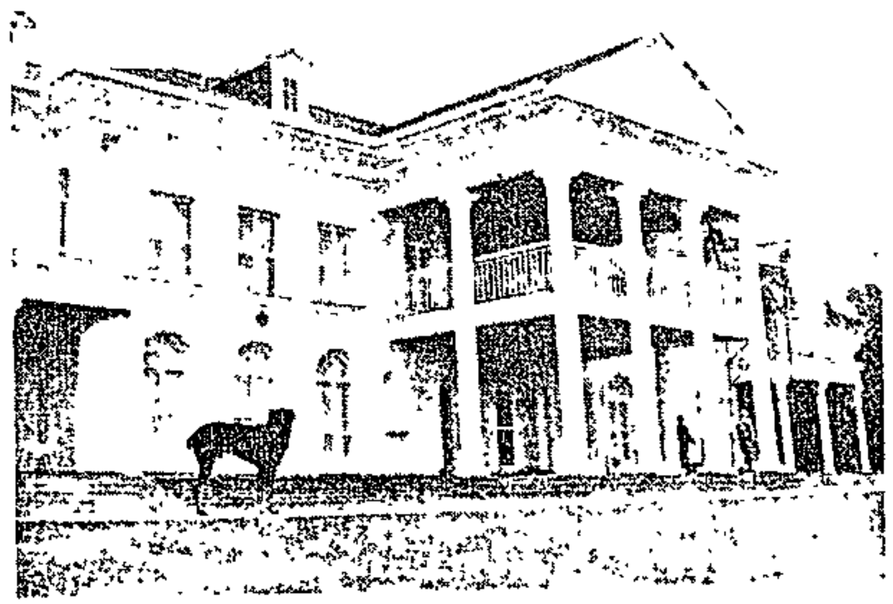
In his affidavit Mr Bekker told the court that Golden Aid had posed as an 'aid society' for the black community, promising its members funeral insurance, personal loans and help in acquiring homes, cars and legal assistance.

"In fact the intention was literally not to fulfil a single promise held out to the black public," Mr Bekker said.

Golden Aid's sole purpose was to 'suck' as much money out of the black community as possible. This, he said, was confirmed by Mr van Biljon's frequent description of the tens of thousands of poor and illiterate black 'members' of Golden Aid as 'finches to be plucked'.

Mr Bekker said that while Mr van Biljon's Golden Aid business had ostensibly closed down in 1980, he had in fact succeeded in retaining indirect control of the lucrative 'black aid' market empire by a means of 'a series of fraudulent deals.

Mr van Biljon's claim against him was based on one such deal.



● Mr Sarel Van Biljon's luxury house in the plush Sandton suburb of Morningside.

Setting out the history of the deal, Mr Bekker said that from 1979, when he was employed to run the Pretoria branch, until 1980 Golden Aid had collected possibly more than R1-million from its members.

In 1980 the 16 branches of Golden Aid had closed and in their place Mr van Biljon had established 16 separate new companies, called Golden Consultants, Pretoria, or Witbank or Ermelo or whatever, which effectively took over the business of the branches.

As Golden Aid's 'dishonest' activities increasingly became a troublesome issue, Mr van Biljon launched a scheme whereby he would sell all the shares in each of these new companies to former branch managers.

Former branch managers signed purchase agreements in which the 16 companies were priced at up to R500 000 each. This was to be paid in monthly instalments out of the monthly profits.

The business was to be run according to methods laid down by Mr van Biljon.

Mr Bekker bought the Pretoria branch for R480 000 in July 1980, hoping, he said, to put the business on an honest basis.

"However, the police had launched an intensive investigation and the Press gave extensive publicity to these malpractices, resulting in a drastic decline in business," he said.

Last year he was persuaded by Mr van Biljon to sign an acknowledgment of debt for the outstanding amount

Only later had he realised, Mr Bekker said, that the deal was illegal. Mr van Biljon had simply moved the assets of Golden Aid to Golden Consultants to avoid inquiries from the Receiver of Revenue. By selling the Golden Consultants companies to his managers at an average price of nearly R500 000, he was simply disguising the fact that he was still obtaining a large regular income from the business.

When another former branch manager successfully challenged the legality of this contract, Mr van Biljon asked the buyers to replace the sale contract with an acknowledgment of debt to hide the illegal origins of the deal, Mr Bekker said.

● Mr van Biljon — known to business colleagues as 'The Magician'

● Until earlier this year directors of several of the Golden Consultants companies met regularly with Mr van Biljon and his brother, Mr Fanie van Biljon every Wednesday at Golden Consultants in Johannesburg to co-ordinate policy and "exchange ideas", Mr Guillaume van der Spuy, owner of Golden Consultants, Rustenburg, told the Sunday Express this week.

van van van Mr van der Spuy said he had resigned as chairman of the weekly meetings in December.

Argus 3/8/83

R30-million building boost

Tygerberg Bureau

INSURANCE giant Sanlam is financing major developments this year in the Tygerberg area.

A shop and office complex costing R23-million, with a Pick 'n Pay supermarket and a 12-storey office block as the main features, is expected to be completed by September next year.

The complex will occupy a 5 000 sq m site in Bellville now used by the Burger Fair Drive-in Restaurant.

Tower block

Sanlam built the major portion of the street block bounded by Strand Road, Mazzur Street and Old Paarl Road some years ago. The tower block with its prime office space totalling 14 100 sq m will near completion in December 1984

Construction has already started on Sanlam's industrial park in Parow.

The R5-million venture will cater for small to medium-sized, attractive industrial, warehouse and semi-commercial factories at Fritz Spilhaus Avenue

The first stage of development is taking place on three erven of 29 949 sq m

The factory site will comprise 27 single storey units, with mezzanine storage above the offices Each is planned with self-contained offices with kitchenette and ablution facilities.

Road system

The sole letting agents, David Newham Property Management Company, reports keen rental interest in the range of R5 to R6 a square metre.

Parow City Council is at present upgrading the existing road system to the area

Bellville has also been chosen for the new site of a "furniture city" store on a site about 4 000-sq m with an estimated cost of R2-million This is to be complete by April 1984

It will be Amalgamated Retail Group's first venture into the Western Cape. Similar super furniture shops have already been established in the Transvaal and Natal.

Stanbic produces impressive results

CAPE TIMES 3/8/83

By HAROLD FRIDJHON

JOHANNESBURG. — Standard Bank Investment Corporation (Stanbic) has produced impressive results for the six months ended June 30, 1983.

Attributable profit — before retained earnings of associated companies — rose by 26,6 percent to R41 357 000 on total assets which increased by 14 percent to R10 905m. With the retained earnings, the profit is R43 013 000.

The interim dividend has been raised from 12c from earnings of 53c to 15c from earnings of 68c a share. A final of 35c a share has been forecast "subject to current estimates being realized". This would make a total of 50c for the year against 44c last year.

Tax factor

Group operating profit rose by R7 531 000m to R57 150 000. Tax was about R1m lower at R13 624 000 but the tax factor varies from year to year according to the volume transacted of big ticket and other leasing.

Shareholders funds have increased from R452 619 000 to R558 311 000, growth of 23,4 percent.

Deposits were 12,8 percent up at R9 730m and advances were 23,4 percent higher at R8 023m.

On an annualized basis, attributable profit is 20,4 percent on total shareholders' funds.

The figures show solid all-round growth in spite of the difficult conditions which arose in the second quarter with the abandonment of Roco, the bankers' agreement, and the introduction of interest on current account.

Group profits

The directors say that the favourable trading conditions experienced in the second half of 1982 continued in the first quarter of the current year.

"The commercial bank performed strongly but business conditions deteriorated in the second quarter causing margins to narrow. The introduction of interest payments on current accounts also impacted profitability.

"Standard Credit Corporation (Stannic) which operated at a loss last year is again making a meaningful contribution to group profits and has been transacting business in excess of budget.

"Standard Merchant Bank (SMB) produced the same amount of net income as in the corresponding period of last year."

In April, the bank had said that because of the payment of interest on current acccount, the Stanbic profit for this year would be lower than in 1982. The directors now say that although these costs will remain a negative factor, it is now apparent that they will not be as significant as originally anticipated.

Stannic profits surge again

STANDARD Credit Corporation (Stannic) which operated at a loss last year, was again making a meaningful contribution to group profits and had been transacting new business in excess of budget.

Mr Henri de Villiers said yesterday that business had been particularly brisk in the first quarter and that this had to some extent compensated for the slower second quarter.

The first quarter had been a carry over from the second half of the last financial year when R50m net was earned against R35m in the first half.

Turnaround

Asked to quantify the turnaround in Stannic, Mr de Villiers said that the contribution made by Stannic "was approaching 25 percent of the group's post tax profits".

Current trading conditions were very difficult because of the volatility of interest rates.

Two years ago a reasonable forecast of interest rates was possible, nowadays this was impossible. This made forecasting the results for the year very difficult "but estimates now indicate an improvement in real terms of the results achieved in 1982".

The increase in the interim dividend reflects the restoring of the relationship between the interim and the final which moved out of kilter last year.

Mr de Villiers said that last year the bank was able to restore dividend cover to three times and it was the group's intention to maintain this ratio so that there was a sufficient margin to provide for money growth and inflation.

Excess capital

At present the bank's excess capital was more than R100m so that there was plenty of room for growth.

Comment: This interim report paints a completely different picture from the halfway report last year when earnings rose by only 3,3 percent on an asset growth of 23,4 percent.

Then Stanbic was weighed down by Stannic's losses, the costs of the new premises and heavy expenditure on electronic equipment. It would seem that with Stannic forging ahead and the burden of the capital expenditure programme probably drawing to a close, the bank is poised to go ahead again.

The directors say that bad debt provisions have been increased in anticipation of losses "which are inherent in a recessionary period".

This indicates that the profits for the half year have been conservatively produced and that the second half should not produce any real surprises.

Confidence

Indeed the fact that the directors have forecast dividends for the year implies a measure of confidence in the final outcome.

Assuming dividends of 50c for the year, at last night's price Stanbic is showing a potential yield of 5,4 percent. This suggests that there will be a re-rating of the shares today.

The market had originally reacted adversely when Barclays, Standard and Volkskas had to follow the market and pay interest on current account.

Both Barclays and Standard have shown an extra-ordinary flexibility in handling changed conditions.

No doubt Volkskas, too, will show similar adaptability.

Workers to decide action

AFTER being briefed by a legal representative, workers of Liberty Life Insurance Company are to meet on Saturday to decide on the course of action to take in their fight against their employers.

The workers who are members of the Insurance Assurance Workers' Union of South Africa, met yesterday at lunchtime to discuss the response management had given to a letter from their union. In their letter the union had threatened to take Liberty Life to the Conciliation Board if it did not recognise their union and allow it to represent their employees.

STRIKE

The Liberty Life workers who staged a two-day strike last month will have to decide whether they are going to take their employers to the Conciliation Board or to the industrial court or whether they prefer mediation. Their legal representative explained the differences between the three actions and their implications.

However, whatever decision they take will have to make allowance for an anticipated response from management. On receiving the first letter from the union threatening action, management had asked for certain information pertaining to the union. The union has responded to management's letter, and is now awaiting response.

Management has already informed the union on numerous occasions that they will not accept an exclusively black union. They prefer a multi-racial union.

CAPE TIMES 4/11/83 (58)

Building societies — banks clash looms

By ROBERT GREIG

BUILDING SOCIETIES would compete with banks in an increasingly active money market, a director of National Acceptances Ltd, Mr W J "Tiny" Jones, warned bankers yesterday.

He was speaking about trends in the South African money market at a financial seminar held by the Institute of Bankers' Cape Town branch.

Mr Jones predicted that the emphasis of the societies' money-raising would change.

"I predict they will be allowed to issue NCDs (negotiable certificates of deposit) of small denominations."

He warned the bankers that their own NCDs might suffer initially. However, a developing market would be the ultimate effect of the building societies' entry.

Previous attempts by the building societies to compete with banks in marketplace had been characterized by "lack of expertise", but this would change.

Other trends

Mr Jones noted four other trends:

- The importance of direct lending between clients (what had been known as "the grey market";
- The increasing number of kinds of negotiable assets and their growing market;
- Volatile interest rates; and
- The intervention of the authorities in the market.

Sharp variations in interest rates, Mr Jones predicted, would remain for "many years to come". One factor in this was the interval between events in the United States economy and the South African.

Speaking of State intervention in the market, Mr Jones said that the economy was slowing down; sentiment was it would get worse, unless the gold price rose; and the government would continue using money supply to control inflation.

"They do not intend to let the economy take off; they do intend to keep interest rates above inflation."

The effect of all these factors would be a "more active, volatile money market" — a "difficult time" for banks.

The Star/BUSINESS

"That money is mine," he said with a chuckle, "and what I do with it is my business." — Sol Kerzner on the R7,24 million cash part of the deal.

Mr Sol Kerzner — will now have more time for overseas opportunities.

Mr Dick Goss — has been asked to become Newco's first chairman.

Mr Meyer Kahn — "we are going along for the ride with Sol."

Sol becomes the Sun king

By Trevor Walker and Malcolm Fothergill

Mr Sol Kerzner made R7,24 million on Wednesday, and that's not bad by any standards for a hard day's work.

When he threw financial journalists out of Southern Sun's headquarters on Wednesday night it was speculated that he could not have been getting the deal he wanted with Breweries.

But details released yesterday at the conclusion of negotiations show it must have been nervousness — that an undoubted major coup for him might slip away at the 11th hour.

Sol Kerzner has firmly established himself as this country's best hotelier and innovator. By giving him the deal they have, SA Breweries must believe him to be the best in the world. As SAB's new MD, Mr Meyer Kahn, put it: "We are going along for the ride with Sol."

Mr Kerzner told The Star last night the R7,24 million cash component of the deal was not tied in any way. "That money is mine", he said with a chuckle, "and what I do with it is my business."

In terms of the deal the giant Southern Sun hotel group has agreed to split in two.

Mr Kerzner, responsible for building Southern Sun up over the past 14 years from small beginnings to the biggest hotel group in the country, takes control of its casino and resort interests in Bophuthatswana, Ciskei and Mauritius, while Mr Peter Bacon, the group's director of hotel operations, will direct the South African hotels.

Mr Kerzner's holding company, called Newco for the time being, which will be formed on October 1, will maintain close links with Mr Bacon's Southern Sun Hotel Holdings, especially in marketing.

Under the deal, announced at a news conference in Johannesburg last night, Mr Kerzner exchanges his 10 percent holding in Southern Sun for control over its interests beyond the country's borders.

He will buy 51 percent of the share capital of Newco from Southern Sun for R30,16 million in cash.

Southern Sun will hold the balance of 49 percent, but Mr Kerzner will have the option to buy a further nine percent on April 1 1984 for R5,32 million.

Mr Kerzner gets the money for his 51 percent stake in Newco by selling his 5,5 million ordinary shares in Southern Sun to its controlling company, South African Breweries, for R34,65 million. Mr Kerzner and the new SAB chief, Mr Meyer Kahn, said they were delighted with the deal.

Mr Kerzner said: "It will give me far more time to concentrate on developments in the neighbouring states as well as look at overseas possibilities — and I do believe there are great possibilities overseas.".

He had asked Mr Dick Goss, who resigned as managing director of SAB recently (after Premier gained control), to act as chairman of Newco and "he indicated he would probably accept", he said.

"I would like to see Dick take part, on very much the relationship we have enjoyed at Southern Sun up to now."

Other aspects of the deal are restraints on Mr Kerzner and an offer to minority shareholders in Southern Sun.

The restraints are that:

- While Southern Sun holds not less than 10 percent of Newco, Mr Kerzner will not be interested or engaged in any hotel or casino business anywhere in Southern Africa other than through Newco or in partnership with Southern Sun pro rata to their respective shareholdings.
- He and Southern Sun will co-operate on the same basis regarding international expansion in the hotel business.
- Until March 31 1985 Mr Kerzner will not take part in any hotel or casino business in the Republic of South Africa.

For accepting the restraints, Mr Kerzner will get R2,75 million from SAB on October 1 when Newco is formed.

The offer to shareholders is that they may dispose of their Southern Sun shares at 630c in cash — the price just before the shares were suspended on July 22, and what Mr Kerzner's shares were valued at.

Shareholders are being offered 80 ordinary shares in SAB for every 100 they hold in Southern Sun. If they wish, they may renounce the SAB shares to which they are entitled for 787,5c in cash.

The SAB and Southern Sun boards said they believed the casino and hotel operations involved in the deal were riskier than Southern Sun's other operations and had potentially more volatile earnings.

"The agreement ... will enable SAB and Southern Sun Hotel Holdings to continue to derive benefit from the skills and flair of Mr Kerzner with a reduction in exposure to the uncertainties associated with the gaming industry," said a joint statement.

The Johannesburg Stock Exchange reinstated the listing of Southern Sun shares today.

It's all getting curiouser and curiouser at SAB

By Trevor Walker

Within six months, SA Breweries has been practically stood on its head. Last night's announcement that the sparkle — also the higher risk side of Southern Sun Hotel Holdings — has been sold to Mr Sol Kerzner for R30,16 million, makes SAB's progress this year curiouser and curiouser.

Edgars chairman and MD Mr Adrian Bellamy left the group after it reported the first profit drop since 1977.

Edgars' outlook for its financial year ending March 1984 is not promising. Ackermans, which in its first full year in the group recorded an operating loss of R1,7 million, is unlikely to sweeten 1984 results.

Then came the oddly managed Premier/Associated British Foods/Anglo American deal which led to the resignation of MD Mr Dick Goss, who in 16 years took group taxed profit from R5 million to R200 million. Mr Kerzner, who made Southern Sun the biggest hotel chain in the country in as little time, resigned and has taken with him an important link of the chain.

Mr Meyer Kahn, a retailer by trade and nature, is now MD after only six weeks at group headquarters as deputy MD. His first task has been to sell off a share of one of the group's exceptional profit performers.

So within six months we have seen the appointments of a new chairman of a new overall holding company (Mr Gavin Relly), a new SAB MD (Mr Meyer Kahn) a new Edgars MD (Mr Vic Hammond), a new MD of Southern Sun (Mr Peter Bacon) and a new MD of OK Bazaars (Mr G Hood).

While all the new operating MDs have well proven track records, new responsibilities invariably bring new challenges. How these are met has yet to be seen.

Minorities in Southern Sun need to consider carefully the option to sell their shares for 630c cash or move out of Southern Sun into SA Brews on the basis of 80 SAB shares for every 100 Southern Sun.

Southern Sun's expansion programme in this country has been slowed by delays in Cape Town and Sandton. Construction of Johannesburg Sun has yet to start. Then there is the new hotel at Sun City which should keep management pretty busy for the next two years.

It is not likely there will be anything pedestrian about "Newco", a name which is happily temporary.

Mr Kerzner said last night: "The deal gives me a concentrated vehicle with which to motor." While there was a lot of potential for growth internationally, he would be concentrating on the Southern African operations in the immediate future.

"I would not be surprised if we see some significant new developments in the near future." He would discuss with Mr Peter Bacon how best to split the management team between Southern Sun and Newco.

Mr Kerzner said he had always believed in letting top executives benefit from share incentives. "We will see the early fruits of the new management in projects in the developing states before any overseas moves."

Capt Times 5/8/83 58

Commercial Union profits up 77,5%

By HAROLD FRIDJHON

JOHANNESBURG. — An impressive turnaround in the short-term underwriting profit enabled Commercial Union to produce a 77,7 percent increase in its taxed profit for the half-year ended June 30, 1983.

The interim dividend was raised 2c to 12c a share from earnings of 59c. Earnings at the half-way stage last year were 33,3c a share and for the full year 69,8c from which dividends of 28c were paid.

The underwriting profits for the six months was R3 723 000 against a loss of R398 000 for the comparable period of last year.

Premiums

The chairman, Mr John Birkinshaw, said that the improvement flowed from a tighter control of net business and by increasing premiums on motor and domestic risks.

Although fire and other disasters were big risks much was laid off with re-insurers but the company carried a fair proportion itself. The experience of the first half, however, was no indication of the outcome for the rest of the year when the last three months were usually the critical period.

Net premiums received rose by 21,9 percent to R38 749 000. Mr Birkinshaw said that all of the increase did not arise from new business written. Some of the additional income was derived from increased premiums on existing business as people raised the value of their policies to keep abreast of inflation.

Investment income was 25,5 percent higher at R3 656 000.

The bottom line profit figure was R4 733 000 compared with R2 663 000 at last year's interim stage and R5 581 000 for the full year.

The reason why the net profit did not grow in line with the increase in both underwriting profit and investment income is that underwriting profits are subject to the full company tax rate of 46,2 percent.

Good growth

The life and pension department also showed good growth. Premium income rose by 10,3 percent to R28 758 000 (R49 797 000 for the full year) and the investment income was R16 846 000, 21,8 percent higher.

In 12 months the life fund has grown by 27 2 percent to R292 255 000.

Net assets have shown a pleasing growth. At 557c a share, they have improved by 65,7 percent on the position in June 1982 and 18,4 percent on the year-end figure

Comment: Mr Birkinshaw would not be drawn on forecasting the outcome at the end of the year because of the uncertain nature of general insurance business. He said that the hazardous season lay ahead.

But an examination of the interim figure suggest that the final dividend could be in excess of the 18c paid last year. The earnings for the first six months were 59c a share.

Total earnings

If the second half of this year produces a result equal to that of the first half when an underwriting loss was made, total earnings would be 92,3c a share.

Last year's dividend payments were 2,5 times covered. If the same rate of cover is maintained, payout for the year would be about 36,92c, rounded down to 36c This would suggest a final of 24c.

At the ruling price of Cusaf shares, 36c would give a yield of six percent — if one could buy the shares.

problems for the Bank of Portugal earlier this year. — Reuter

year will earn R15m for exports of synthetic yarns, and the company recently received a Safto award for exports.

$ still soaring

LONDON. — The United States dollar soared to new records yesterday but fell back slightly when eight State banks intervened on foreign exchanges.

The dollar still closed the week at all-time highs against the beleaguered French franc and Italian lira, and was at nine-year peaks against the West German mark and the Dutch guilder.

Foreign exchange specialists said the Central Banks of Austria, Belgium, France, Italy, Japan, West Germany, the Netherlands and Switzerland were selling dollars throughout the day in an attempt to halt the currency's inexorable rise.

There was no indication, however, that the Federal Reserve system was in the market as it was on Monday and Tuesday.

Nor was there any sign that the Bank of England made other than token sales of dollars to bolster the British pound which eased further against the dollar but rallied against European currencies.

Cape Times 6/8/83

The Board buys stake in UK investment house

THE BOARD of EXECUTORS has taken a major step towards enhancing its international investment capabilities by acquiring a stake in the newly-formed, London-based Global Investment Management Co.

Its partner in this venture is a well-established international investment management house, with many billions of dollars under its management.

Global presently offers its investment management expertise to UK and European pension funds and institutions who see South Africa as an attractive investment area.

Furthermore, if exchange control relaxation permits South Africans to make investments in international equities, Global will be in an ideal position to manage these funds.

The managing director of The Board of Executors, Mr Bill McAdam, has been appointed chairman of Global, while the London-based chief executive is Mr Robert van Maasdijk, formerly the managing director of Ivory & Sime, one of Scotland's top performing international investment management houses.

Mr Ronald Armist of The Board of Executors investment division has been seconded to London as Global's investment manager.

Global has recently been appointed investment adviser to First Southern Investment Co Ltd, which has assets of $40m comprising investment in South African industrial shares. It has also secured management contracts for other specialist South African equity funds which will materially increase its assets under administration

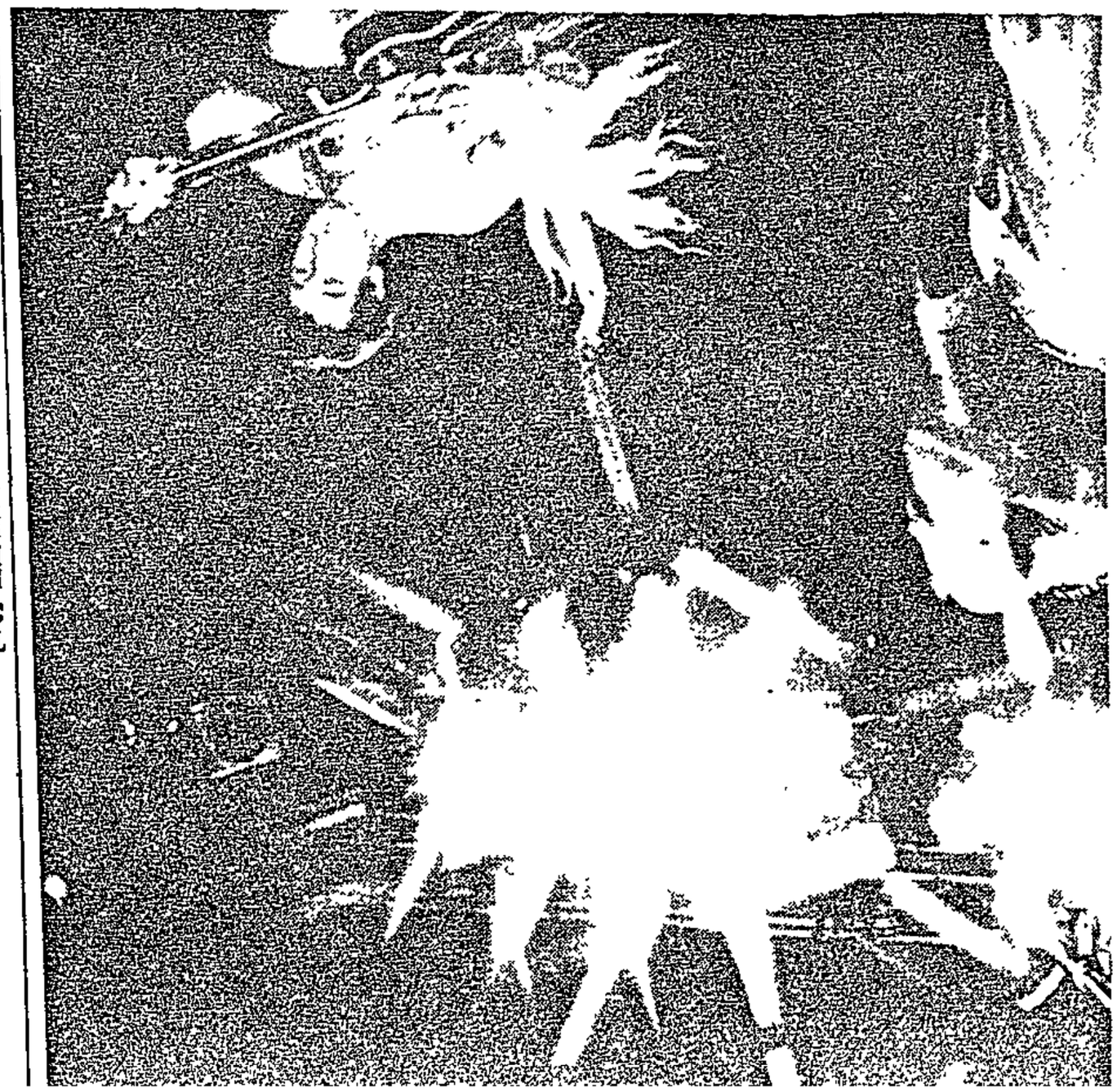
Commenting on the development, Mr McAdam said: "This is an exciting step for The Board. Since exchange control was relaxed for non-residents we have seen some major disinvestments from South Africa. However, international fund managers will continue to recognize the longer-term merits of investment in South Africa. An added plus in their eyes is the increased flexibility which has occurred due to the abolition of the financial rand.

"Global is in a unique position to provide the necessary research for these investors and to assess the relative attractions of South African equities vis-à-vis other international shares.

"Although we do not anticipate an imminent relaxation of exchange control which will allow South African investors to move funds abroad for equity investment, The Board of Executors, through Global, will be well placed if this does come about."

Portfolio management is a major service offered by The Board. At its year-end in March it managed assets of R350m at historical values with market values well in excess of this figure.

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes.



Board bans July 15 Scope

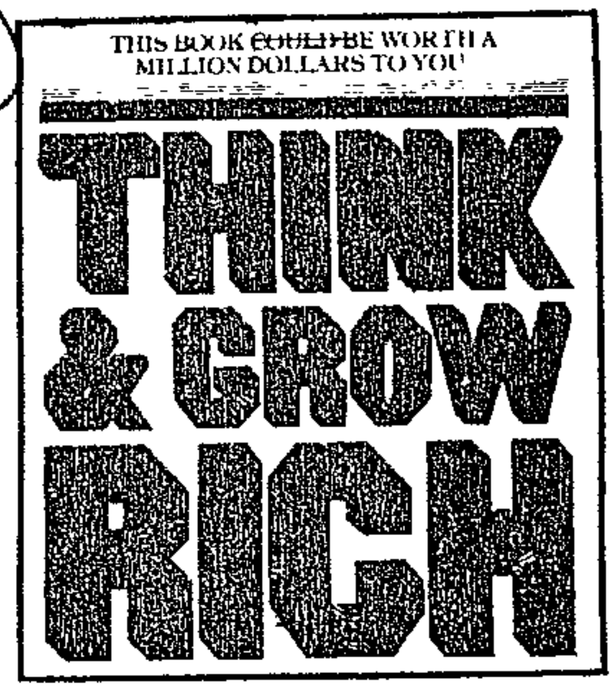
THE July 15 edition of Scope, published by Republican Press, Durban, has been banned by the Publications Appeal Board.

The Directorate of Publications announced in Cape Town yesterday that the board had ruled this edition undesirable and had set aside a committee decision that it was not undesirable.

A committee had on review decided that "The Front Runner", by Patricia Nell Warren and "The Attorney", by Harold Q Masur, were not undesirable.

The Publications Appeal Board had set

EXPRESSCOPE LOOKS AT GET-RICH RACKET

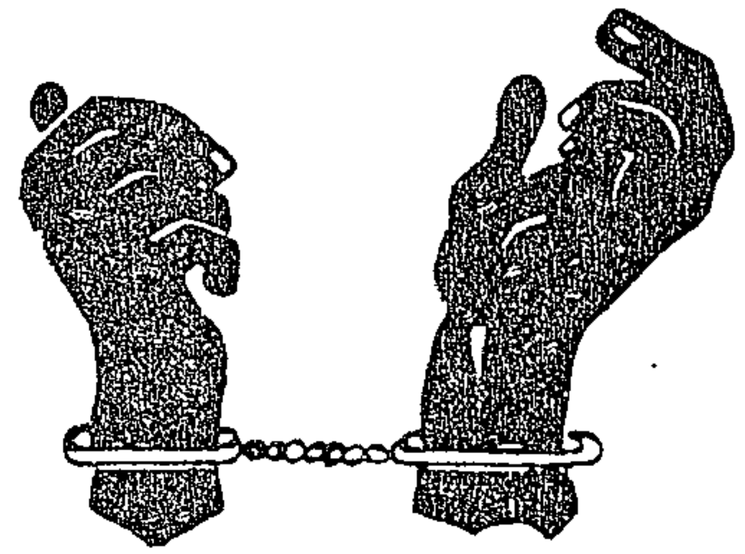


● Mr van Biljon supplied each of his managers with a copy of Napoleon Hill's Think and Grow Rich, which claims on its cover 'This book could be worth a million dollars to you". Mr van Biljon ordered his managers to delete the word 'could' and to write 'is' in its place. They were also told to underline certain 'success' passages.

GOLDEN AID offered the closest thing to a poor black man's insurance against all the hazards of the big white world: the promise of help when you are arrested and need bail, or you are in arrears with the rent, or want to buy a secondhand car, or you want to be sure of a respectable burial.

All for R12 a month.

A good investment, if promises of aid are kept, but a cruel confidence trick if they are not. **MARTIN WELZ** looks at the behind-the-scenes story of how one man saw his chance to make millions and how he went about it.



'You are arrested and require bail' — from the promotion material

The Golden Flood

FOR years thousands of poor and illiterate blacks each paid R12 every month in 'membership fees' to Golden Aid, the 'Golden Institute of Management Consultants' that promised to assist and advise them in their time of need.

As quickly as each R12 was paid into any one of 16 branches of Golden Aid it was pocketed by Mr Sarel van Biljon, mastermind of the enterprise, and his managers in an amazing quest for riches pursued with constant prayer and religious zeal.

None of Mr van Biljon's managers had any training in consultancy.

But Mr van Biljon did ensure that each one had put to paper a drawing of his dream mansion, the luxury motorcar he intended to own and the spectacular bank balance he was sure to have if enough of those R12s would keep rolling in.

"When it came to the advice and services we were offering our clients, it was a pretty hit-and-miss business We were left entirely to our own devices

"Let's face it, what help we were able to give, was simply because of our white

● Mr Sarel van Biljon — quest for wealth

● A history of payments made to Golden Aid

'Our advice services were hit and miss'

bership for months and even years in advance.

Others used money paid in by clients as deposits on secondhand cars to pay the office rent.

As the clamour of disgruntled clients grew, the Press, police and Registrar of Financial Institutions began to take an interest.

Early in 1980 Mr van Biljon established a new company for each branch. He had just bought his dream house in Woodburn Road, Morningside.

When they arrived for their next "motivation" meeting in June that year, each manager found a 50-page agreement at his place at the table.

The agreement provided for each manager to become the sole director and owner of 51% of the shares in the company that now owned his branch, Golden

of cases against Golden Aid on behalf of defrauded clients, and had succeeded in having another company associated with Mr van Biljon put into liquidation.

Last year at an enquiry conducted by the Master of the Supreme Court in Pretoria Mr van Biljon said that the new Golden Consultants companies had not taken over Golden Aid's liabilities.

Golden Aid (pty) still existed, he said, but he "could not remember" at what address it might be found.

"The Press exposés that followed had a devastating impact on our businesses," Mr van der Spuy said.

In a desperate bid to save their businesses, the directors of Golden Consultants met in July last year to institute a code of ethics for their businesses.

Throughout it all Mr van Biljon has continued to collect his 25% "cut".

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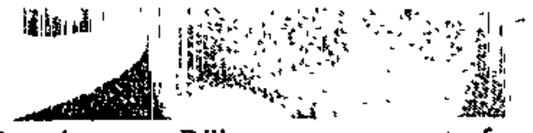
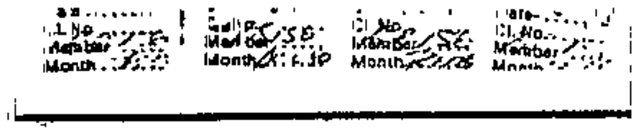
"When it came to the advice and services we were offering our clients, it was a pretty hit-and-miss business. We were left entirely to our own devices.



● Mr Sarel van Biljon — quest for wealth



● A history of payments made to Golden Aid

'Our advice services were hit and miss'

"Let's face it, what help we were able to give, was simply because of our white skins," a Golden Aid manager admitted.

Mr van Biljon would regularly summon his managers for a meeting in Johannesburg — to whip them up to new heights of fervour in pursuit of wealth and to check that they were paying his "cut" into the 16 savings accounts he controlled.

It was at one such meeting in 1979 that Mr van Biljon told his 12 managers each to draw a picture of their dream house.

At the same time Mr van Biljon proudly displayed a photograph of the house of his dreams: the Morningside mansion of housing magnate S M van Achterberg.

The "motivation" days started with breakfast together at a five-star Johannesburg hotel and continued at Golden Aid's offices in Bible House.

After prayers Mr van Biljon would launch into a 45-minute lecture on the virtue of the pursuit of wealth. His texts came from the Bible and Napoleon Hill's 'Think and Grow Rich'.

Hill's book claims on its cover "This book could be worth a million dollars to you". Each manager was ordered to delete "could" and write "is" in its place.

They underlined passages such as "Success comes to those who are success conscious" and "A millionaire's greatest asset is the ability to know that he will succeed".

"We were not allowed to discuss our business problems," a Golden Aid manager said.

"He said that would bring about a negative frame of mind, fatal to the pursuit of success."

Instead Mr van Biljon quoted to them from Romans chapter 8 verse 31: "If God is on our side, who is against us?" — and told them to repeat it 10 times.

"All he would ask us was 'How much money have you made?' " one of the managers said. "He would read out the amounts and we would clap for the man who had made the most."

Branches were expected to deposit 50% of their total daily takings in cash into a savings account nominated by Mr van Biljon. The manager was expected to take another 25% as his salary, while agents and office staff took the rest.

When some complained their takings were not large enough to pay Mr van Biljon and pay the rent, he sent them back to their Bibles to pay attention to Matthew on how faith can move mountains.

By the end of 1979 Mr van Biljon was collecting up to R80 000 a month.

"He told us he was depositing some of it in a special reserve. We could tell prospective clients that if they remained members for 15 years they would get a refund of all their membership fees," Mr Gilliaum van der Spuy, a former chairman of the manager's meetings told the Sunday Express. Other managers confirmed this.

But increasing numbers of clients were complaining or demanding their money back. In their eagerness to push up turnover some managers were persuading clients to pay their mem-

meeting in June that year, each manager found a 50-page agreement at his place at the table.

The agreement provided for each manager to become the sole director and owner of 51% of the shares in the company that now owned his branch, Golden Consultants. They were still to trade as Golden Aid.

They were to pay R6,5-million for their share in the 16 former branches of Golden Aid.

They were not daunted by the price, as they were not required to pay Mr van Biljon anything at once. They were to continue paying a proportion of their daily takings into his savings accounts as before.

Mr van Biljon had agreed to a lower proportion: 25% of daily takings, so that there was now a chance of putting the businesses on a sound financial footing.

"But the bad reputation earned in previous years was only now catching up on us, just when we were preparing to put our house in order," Mr van der Spuy claimed this week.

When the Golden Consultants gathered for their Christmas party in 1980 Mr Van Biljon announced that he was handing them his 49% of the shares as a gift. They were delighted.

But by 1981 The Legal Resources Centre in Johannesburg was pressing a number

Mr van der Spuy said.

In a desperate bid to save their businesses, the directors of Golden Consultants met in July last year to institute a code of ethics for their businesses.

Throughout it all Mr van Biljon has continued to collect his 25% "cut".

In recent months several Golden Consultants companies have been abandoned by their directors, many of them unable to meet debts.

Some of the companies are believed to have reverted to Mr van Biljon. Others have closed. Others still have declared their independence.

Now Mr Eddie Bekker, former director of Golden Consultants in Pretoria (now closed), has challenged the entire Golden Consultants deal in the Pretoria Supreme Court as a fraud perpetrated by Mr van Biljon.

Mr van Biljon this week refused to comment on any of these developments.

At stake in the case (which is likely to come to trial later this year) is not only whether Mr Bekker, who bought Golden Consultants (Pretoria) in 1980, owes Mr van Biljon R414 000.

The case could also determine whether Mr van Biljon has, throughout, remained owner of all the Golden Consultants companies — and is therefore responsible for the conduct of its business.

Union awaits bosses' reply

Sowetan 9/8/83

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By PHIL MTIMKULU

A RESPONSE to their letter will determine the kind of action that the Insurance Assurance Workers' Union of South Africa will take against Liberty Life in their battle to be recognised by the insurance company.

Early last week a legal representative explained to the union the different courses of action open to them in their fight against Liberty Life. The members then decided to meet last Saturday to consider the implications of each action.

But because Liberty Life had not as yet responded to their letter, they thought it premature to decide on positive action. However consensus was strong that they should resort to the Industrial Court.

In their letter to Liberty Life, the union gave the company certain information it had requested while refusing to divulge other information. The union enclosed its constitution, date on which it was formed and stated that it is not registered. It declined to provide Liberty Life with a head count of its members in the industry as it felt this information was irrelevant to the dispute. They also declined to provide the company with the names of their members employed at Liberty Life as they said this could be used to victimise them.

At issue here is Liberty Life's refusal to recognise an entirely black union. It prefers to deal with a multi-racial union. If the union eventually takes the case to the Industrial Court or Conciliation Board, the decision on the issue will set a precedence — whichever way it goes.

Trade unions which restrict their membership to a particular race group are common in South Africa.

Publisher claims the 'biggest scrap is yet to come'

SA giants scramble for economic control

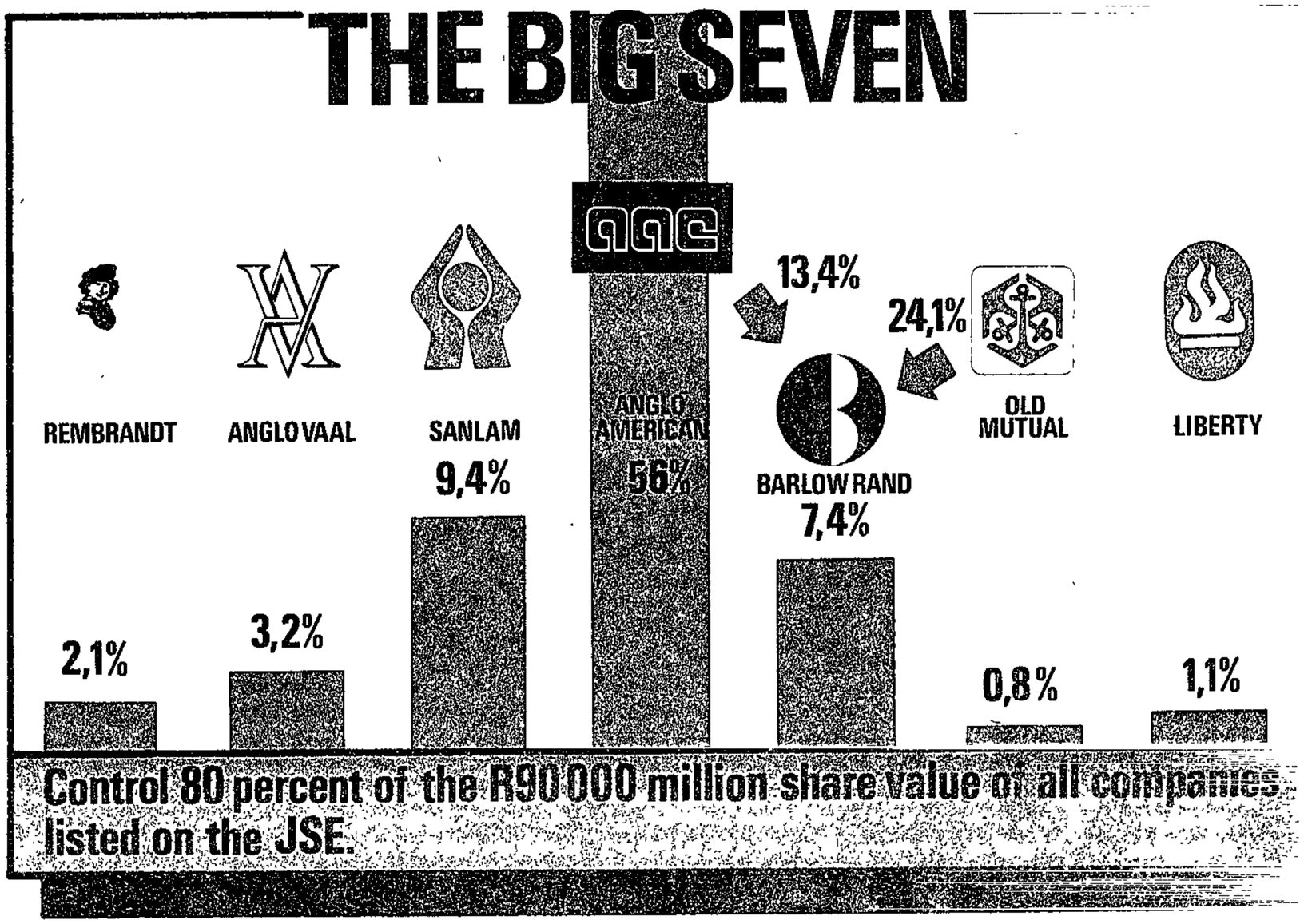
Seven giant corporations control nearly all of South Africa's vast business wealth.

A spate of takeovers and mergers has left them in control of companies that account for 80 percent of the total value of Johannesburg Stock Exchange shares.

Some experts believe it is inhibiting job creation and aiding inflation.

Dominating the power pyramid, Anglo American Corporation alone now controls a string of listed companies which between them represent no less than 56 percent of the R90 000 million value of all JSE shares.

The investment web showed insurance giant Sanlam controlling 9,4 percent of the market, Barlow Rand 7,4 percent, Anglo Vaal 3,2 percent, Dr Anton Rupert's Rembrandt group 2,1 percent, Mr Donny Gordon's Liberty insurance group 1,1 percent and Old Mutual 0,8 percent. Even the Old Mutual's relatively small share represents around R750 million.

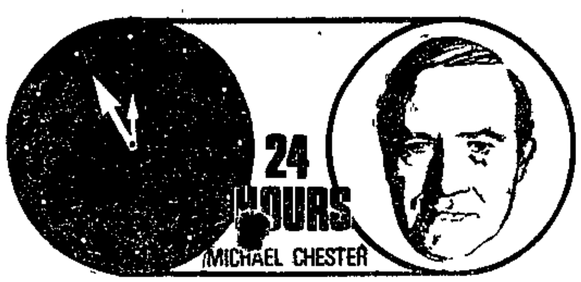


Power pattern

Mr Robin McGregor, author of "Who Owns Whom", the publication which monitors the JSE, revealed the power pattern at a Manpower and Management Foundation investment conference in Cape Town.

With only three groups — Anglo American, Sanlam and Barlow Rand — in control of almost 73 percent of the whole JSE, South Africa was now "riddled with monopolies and cartels", he said.

Nor has the run of takeover battles ended. He considered it only a question of time before fighting broke out between the titans with Anglo American and Old Mutual wrestling for control of Barlow Rand, which would be the biggest scrap yet among the giants.



It had become essential for the Minister of Industries, Commerce and Tourism, Dr Dawie de Villiers, who is in charge of the Competition Board, to take a tough and inflexible stand on monopoly issues, he said.

A Government spokesman said the big financial groups were sensitive and did not like the term monopoly applied to them. "But big companies have the seeds of their own destruction within themselves," he said. Mr McGregor believed that while the State mollycoddled the economy with trade measures ("I'm sure no country outside Russia is so over-protected"), the Government allowed monopolies and cartels to grow at an alarming rate.

An academic expert on economics says that although the Government talks of its support for private enterprise, the State holds 50 percent of the nation's fixed investment.

Mr McGregor said South Africa must now stand unique with so much economic control in so few hands.

It had become the laughing stock of most Western countries by the way the authorities had allowed and even encouraged the trend.

"All this is happening while our Cabinet spends most of its time shuffling blacks around the country — to every thinking person's embarrassment, seemingly to no one's advantage and at enormous expense.

"It's way past time that the leaders of our country got their priorities right. While they get involved in petty politics among the various brethren, they seem to be unaware that their own economic backyard has become a playground for conglomerates — against all the principles of free enterprise.

"The Prime Minister had to hire the Carlton Centre in 1979 for his conference with our leaders of industry. Three months ago he could have conducted it comfortably round his dining-room table.

"He could now do it round a card table. And if takeovers continue at their present rate, he will soon be able to do it in a loveseat."

Mr McGregor saw no prospect of monopolies and cartels increasing efficiency by economies of scale. All that happened, he argued, was that huge conglomerates got bigger and became weighed down by the private sector's bureaucratic inefficiencies.

"The lines of communication between the shareholder and operator become so long that when the shareholder expects tin cans to be made he might well be financing gambling — and not even know it".

Yet public and private controls still allowed even inflated returns to shareholders because managements were able to raise prices — leaving the consum-

● To Page 2

McGregor found out who owned whom because he needed to buy

Mr Robin McGregor recalls that the real start of the exercise to launch his now well-known publication "Who Owns Whom" began in the late 1960s when he was managing director of the giant Lonrho group's Glendale Sugar Company and cast around for ways to expand.

He wanted a bigger stake in the South African sugar industry through the acquisition of C G Smith, the big sweetener now in the Barlow Rand fold.

"All my efforts were thwarted, mainly because I couldn't find out who the ultimate owners were and so didn't know with whom I needed to deal."

In 1972 he moved to Rainbow Chickens and an early task was to find a second site for operations.

He decided that a merger with Kanhym would be ideal. "But I ran into the identical problem of finding out who owned what."

In the late 1970s he became general manager of Apple Producers, of Elgin Co-op, and soon discovered the financial significance of the 3 million packaging cartons needed every year.

It was his probing into the complexities of the paper and packing business that provided the final nudge to compile the first volume of "Who Owns Whom" in March 1980.

"At first there were a number of disputes about the precise details," he says, "but by bringing in computer research, combing all the company annual reports, and digging and digging even deeper, the picture is forming in sharp perspective.

"I still want to unearth more details about the crucial role of nominee companies that are often used to confuse. But it's all coming together at last."

Mr McGregor counts among the most significant results of the tracking exercise the discovery that as much as half of the Anglo American Corporation stake in JSE investments has been secured by silent nominees with names such as Fermain, Dido, Petard and Taurus.

When he made a deeper search into the roots of shareholdings in Southvaal Holdings in 1981, for instance, he found that 55 percent of all the shares were in the hands of eight nominee companies — all of which he traced back to the head office address of Anglo American at 44 Main Street.

A further eight percent of the shares were found to be in the hands of two other nominee companies — traced back to Sanlam.

Mr McGregor bundles a thick wad of documents back into a briefcase and makes ready to drive back to his quiet retreat south-east of Worcester where he has set up home and office.

"There's fresh material to put into the computer every day," he says.

Mr Robin McGregor . . . after several of his efforts were thwarted because nobody knew who owned what, he decided to do something about it.

Anglo urged to demand black skills training that could cost R1-bn a year

The vast Anglo American Corporation was today urged to use its influence to drive a hard bargain with the Prime Minister on a radical masterplan to trigger a new approach to training thousands of black workers in basic job skills.

Mr Robin McGregor, a well-known stock market analyst, suggested at a Cape Town investment seminar that Mr Gavin Relly, chairman of Anglo American, should sit down with Mr P W Botha and ask the State to 'put its money where its mouth is" on training issues.

He considered it time to find an alternative to "pussy-footing with so-called training perks compensating industrialists for what they would have to do anyway, or even planning utility companies for training — both of which smacked of lip service or bureaucratic blueprints.

"Isn't it now time", he asked conference delegates, "for Anglo, with its enormous resources of cash, entrepreneurial and other skills, to turn our black people from 'die swart gevaar' to an almost bottomless reservoir of potential generators of wealth?

"It's no good kidding ourselves that anyone is going to train for the good of the country, because that's hogwash.

"The only way we are going to get training done on the massive scale that we need is on a free enterprise basis — to pay and pay well for measurable results."

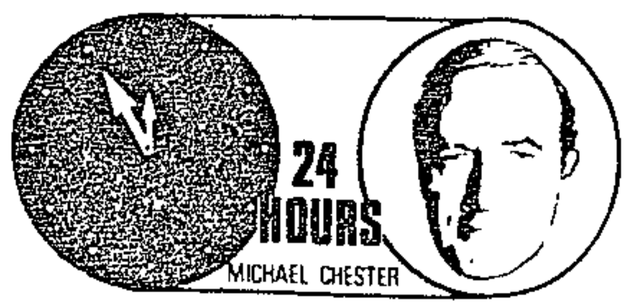
A first prerequisite was that training schemes were seen to promise good returns on capital.

The necessary funds — perhaps R1 000 million a year — could not be found from existing State revenue. But they could be found from higher taxes, a short-term loan levy or from a tax moratorium after the introduction of new skilled and semi-skilled labour into the real labour force.

"Can you imagine the tremendous ripple effect this would have on our total economy — not to mention the potential stabilising of our sociological imbalances? It could well escalate black buying power to levels not presently envisaged for decades to come."

Ultimately, however, the funds required to train more blacks before they became productive should come not from loan levies or tax moratoria but from the non-inflationary source of higher taxes from a privileged white population, he said.

Expert urges tough Govt action over monopolies



The Competition Board, created four years ago to monitor monopolies and trade restrictions, was asked yesterday to take tough action to stem the tide of company takeovers and mergers.

"Who Owns Whom" publisher Mr Robin McGregor made the appeal at a Manpower and Man agement Foundation investment conference in Cape Town.

Companies hurt by monopolies and cartels were told to give information to the Minister of Industries and Commerce, Mr Dawie de Villiers, who is in charge of board operations.

"It's no good just bemoaning one's fate when faced with an obvious case of collusion. One must document it and present it to the Minister concerned, who must ensure there is no victimisation.

"We have a Minister who has shown his courage and leadership on the rugby field. Let's now give him a chance and the ammunition to use the provisions of legislation to create the competition needed by free enterprise".

Mr McGregor said he was not too optimistic about results, judging by the failure to break liquor or biscuit industry monopolies.

Monopolies and cartels — along with inadequate labour training — were among the reasons why inflation was so high.

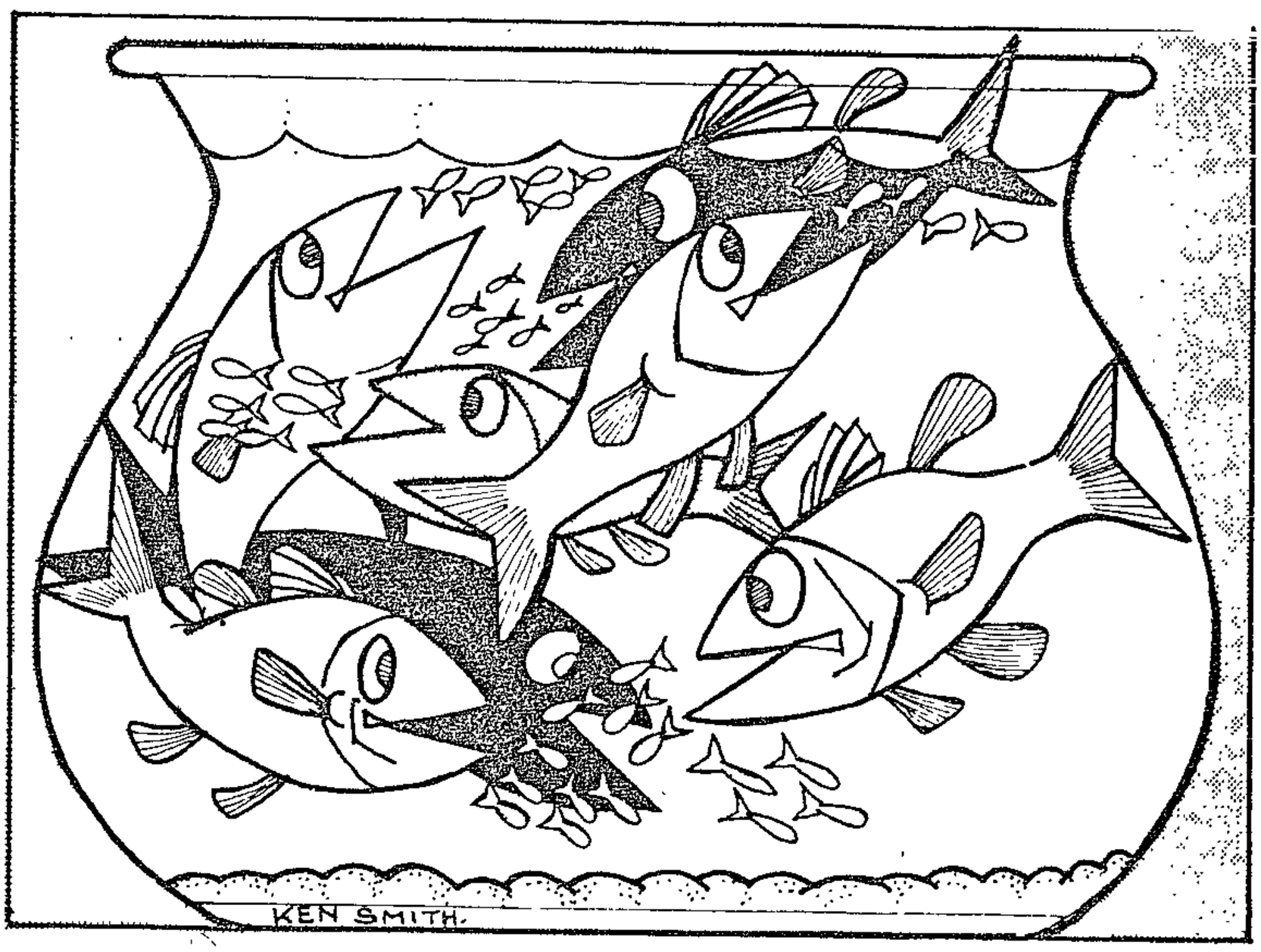
Oratory on monopolies was peppered with fiction.

SA Breweries — now taken over in the recent deal between Anglo American, Premier and Liberty Holdings — had stated it did not mind competition and in fact welcomed it.

"Why then have they bought up every bit of competition in sight during the past 10 years — Alrode, Carling, Colt, Culembourg, Drie Krone Brouerye, Heidelberg, Intercontinental and so on?

"They are now in a position that any competition would have to spend a fortune in a capital industry, as well as a fortune on promotion, to establish any kind of market share," Mr McGregor said.

"They should have been stopped years ago — before it was too late. The board should now get into that industry and insist on disinvestment for a change — particularly now it is under the control of Anglo American with its limitless funds."



"Still the big fish continue gorging themselves on smaller fish."

Tomorrow 24 Hours examines the role of both the public and private sectors in the trend towards monopolies, with a profile of the JSE giant — the Anglo American Corporation — and of how State monopolies enter the picture.

Mr McGregor said proof of the alarming rate of takeovers and mergers was exposed by statistics.

In 1971 there were only 39 company takeovers, involving a modest R334 million. A decade later, in 1981, fuelled by a boom generated by record gold prices, acquisitions swallowed 74 companies in deals valued as high as R2 806 million.

"The arguments hold no water if they are trying to compare relative economic power. What makes South Africa unique in the Western world is the sheer dimension of the proportion of the national economy held in so few hands.

"Of course, several of our titans can argue they are dwarfed in size against the asset values of scores of global corporations, such as Royal Dutch Shell, Exxon, General Motors and IBM.

facing the power concentrations in South Africa has become a danger to the whole economic system.

"A few titans will own almost the whole country unless there is a formula for sanity. It could kill the economy cold dead, with inflation going mad and productivity going to hell.

'Experience overseas has shown corporations can become so obese they simply cannot remain efficient any more. There comes a limit to how much a company can digest," Mr McGregor said.

"The shortage of enough elite talent is even more critical in South Africa — but still the business big fish go on gorging on the smaller fish.

"The US found solutions in its anti-trust laws that put the brakes on monopolies. The UK has a tough monopolies panel that monitors takeovers. South Africa must find a formula too — the sooner the better."

was the need to conserve fuel.

A nervous Chris Smith, lbw to the first ball he faced

● See Page 3

aritones ood for encore

The Star Bureau

NDON — Girls look- for a sexy boyfriend uld ask the men in ir lives to sing "Ole n River".

For, the deeper the ice, the sexier the man, ys a survey just pub- ed in Britain.

Baritones, for instance, ve a higher sex drive cause they have more the sex hormone, tes- sterone, says a report New Scientist Maga- e.

Tenors have more fe- ale sex hormones and hat makes them less at- ractive to women, say he researchers.

Apart from having a igher sex drive, men ith deep voices are, on verage, 0,4 m taller than enors.

And tenors are alleged to be "too much in love with themselves" to become involved with others.

Professor Botha

INSIDE TODAY

The 24 Hours team looks at how the conglomerates dominate the SA business scene — focusing on the Anglo American Corporation — Page 11.

TOMORROW'S FOCUS

The part played by the giant insurance companies in the scramble for economic power.

Star 11/8/83

State keeps its firm grip

The Government appears to be indifferent to monopoly control and private enterprise principles, says a leading business academic.

Professor D J J Botha, head of the Department of Economics at the University of the Witwatersrand, says that although the Government had on many occasions publicly declared its support for a private enterprise economy, it still controlled some 300 companies.

These included giants such as Iscor, Escom, Sasol and Safmarine — all enterprises that could be equally well run (or perhaps more efficiently) by the private sector, he said.

"But there is no sign the Government would be willing to surrender any of its interests to private enterprise.

"The huge transport services, for example, are run strictly on business principles, yet it has to report annually to Parliament. Why, it has been asked, is this necessary?"

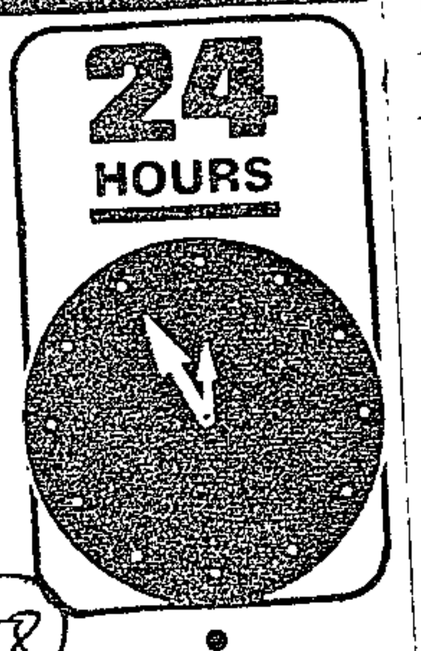
He said some 50 percent of the annual fixed investment in South Africa was in respect of the Government sector, and this occurred in an economy that openly advocated a system of private enterprise.

"The Government, it is claimed, plays far too large a role in the production process of the South African economy.

"This is not to imply that Government activity is stifling private activities On the contrary, the Government is doing much to encourage private firms, especially at growth points and with regard to exports

"Government and private enterprise are virtually in partnership in many respects which is perhaps an ideal platform to foster economic growth and development in a young country.

"But it cannot be denied that the Government in South Africa possesses very great economic power — more perhaps than is necessary to provide the framework and the climate conducive to the promotion of private enterprise," he said.



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Plea sent to lawyers

Forweten

58 11/8/83

LIBERTY Life Insurance company has sent a request they received from the Insurance Assurance Workers' Union of South Africa (IAWUSA) to their legal advisors for consideration and they will in turn respond following the advice they are given.

An executive official of the company, Mr M Winterton revealed that the union had not responded satisfactorily to information the company had requested. He said they were not clear on the issue of representation at the company. "We feel strongly on the issue of a multi-racial union and we are unlikely to change our standpoint," he said.

These three conglomerates virtually own SA's private sector – Professor

The private sector of the South African economy is virtually owned by three huge conglomerates — Sanlam, Old Mutual and Anglo American.

That is the opinion of Professor D J J Botha, head of the Department of Economics at the University of the Witwatersrand.

Together they are believed to control a staggering total of nearly 5 000 other companies in the country, he says.

"Is such a situation to be condemned outright?" he asked.

"There are two sides to this complex question. On the one hand it cannot be denied that some concentration of power is beneficial in so far as strong companies can venture into activities requiring high capital outlays more readily than smaller firms.

"A natural monopoly is a logical development in restricted markets and should be tolerated, provided its pricing and output policies are regularly subjected to scrutiny — which of course has never been done in this country.

"On the other hand a concentration of economic power which is not the result of natural monopolies could strongly inhibit the growth of private enterprise.

"Natural monopolies apart, the small firm constitutes the lifeblood of the free enterprise system, and as a group is also likely to employ the largest percentage of the workforce."

"In Western Germany no-one can join the boards of more than 10 companies. Although this does not eliminate the disadvantages of interlocking directorships completely, it does promote competition and shows that the authorities are in earnest about promoting competition. But in South Africa we must take the authorities' word for it." — Professor D J J Botha.

But there were indications that many a small firm was fighting for its existence, he said.

Small and medium-sized firms that found themselves competing with the giants could easily be put in an invidious position if they should experience a cash-flow problem at a time when a big firm manipulated the market by, for example, temporarily depressing prices in order to weaken the smaller operator.

This simple technique had often been used to take over small firms, and this had significantly contributed to the growth of big enterprises.

"It is a deplorable practice which firms indulge in with impunity.

"There is no way in which it can be stopped, for there is no legislation against take-overs, which the authorities apparently see as a means of rationalising an industry — although this often may not be the case.

"In recent years the Government has allowed monopolies to be formed following a deliberate decision of the Cabinet.

"So long as this is the view taken by the authorities, the movement towards concentration of economic power will not be stopped."

Professor Botha added: "Eventually we may arrive at a situation in which virtually the whole economy is in the hands of a few — say, half a dozen — very powerful and well-to-do private individuals.

"The line between a system of that kind and socialism is a very thin one indeed.

"Monopolies have a proud history in South Africa. During the Dutch period the monopoly of the meat and wine trades was firmly held by the Honourable Company.

"Today there is again a monopoly in the wine trade. We have added another one in beer and the situation as far as meat is concerned is so complex and rigidly regulated in the interests of a few individuals that no researchers have succeeded in unravelling it.

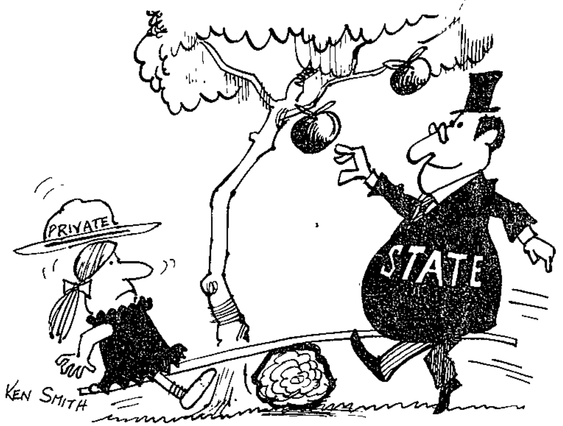
"This is one reason why the price of meat could rise by 40 percent during 1980 and no one be able to anything about it.

"The extent of monopoly power in South Africa is partly concealed by the system of interlocking directorships which binds companies together in an unobtrusive and personal manner."

It was a system that limited competition and facilitated price agreements that were not calculated to benefit the consumer, he said.

The big companies often appointed as directors people whose knowledge of business was just about nil but whose influence in certain quarters was important.

"An example is the Old Mutual which for years had as a director the Moderator of the Dutch Reformed Church — a man whose influence could be important in many ways," he said.



Giant groups pose corruption risks, board chief warns

The golden, shy colossus

[redacted]

Gold and diamonds remain the foundations of the Anglo American Corporation — a rambling, complex empire that straddles the globe.

But astronomical investments have been poured into virtually all kinds of mining operations — uranium, coal, copper, nickel, oil and gas, platinum, tin, potash, iron ore, vanadium, lead, zinc, manganese.

By Russell Gault

The mining and exploration operations continue in North and South America, Australia, the South Pacific, Fiji, New Zealand and throughout Africa.

Control — by new chairman Mr Gavin Relly with the omnipresent Mr Harry Oppenheimer in the background — stretches further to such industrial giants as Sigma Motor Corporation, one of South Africa's largest vehicle producers; African Explosives and Chemical Industries, the largest chemicals complex in Africa; Mondi Paper Mills; Highveld Steel Works; LTA Construction; Carlton Centre, South African Breweries, Johannesburg Consolidated Investments and numerous other prominent firms.

And, of course, to the great De Beers Consolidated Mines which Mr Oppenheimer still heads as chairman. De Beers holds 38 percent of the equity in Anglo while effective control is held by the Oppenheimer family through the firm of E Oppenheimer and Son.

Recent purchases have given Anglo American a big stake in the food industry.

But, as with so many of its investments, the corporation tries to disguise its interests.

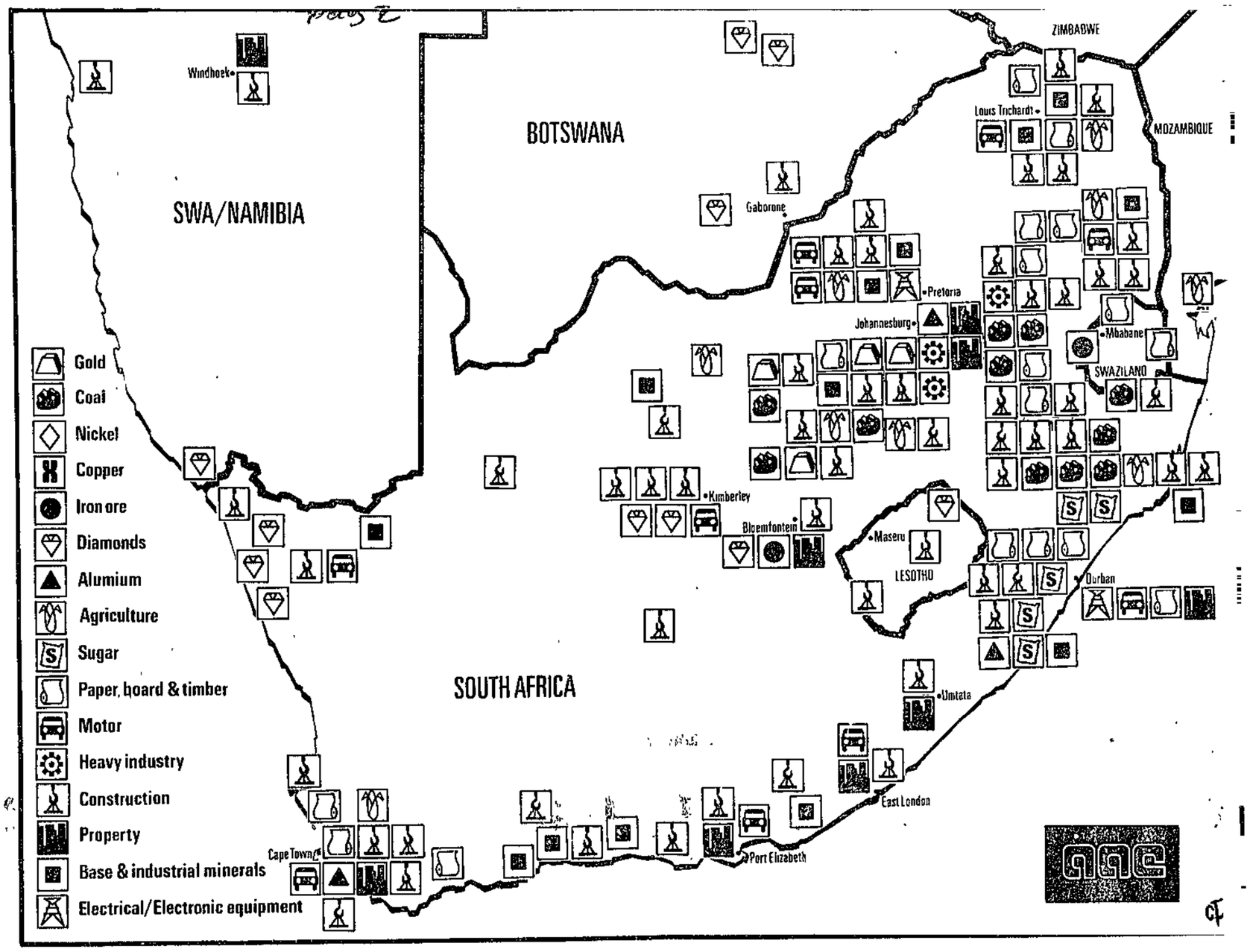
Recently, together with JCI and Liberty Life, Anglo bought 52 percent of the Premier group

Anglo said that its interest in the consortium which controlled SA Breweries and Premier would not exceed 20 percent — but the reality is different as Anglo controls JCI which has a 40 percent stake in the consortium

Elsewhere in the food industry the Tongaat-Hulett combine is controlled by Anglo as well as extensive and varied interests in food which come under another Anglo offshoot, Amic (Anglo American Industrial Corporation).

Overseas, Anglo American controls many investments through Minerals and Resources Corporation (Minorco), a Bermuda-based finance and investment company.

It has huge investments in international commodity trading, industry, copper mining, chemicals, base metals and oil exploration.



The tentacles of the Anglo American Corporation reach into almost every facet of South African life

Anglo American Corporation — South Africa's biggest group.
Direct assets — R10 700 million.
Assets of companies owned and administered by Anglo — R17 000 million.
Indirect assets — Unable to be determined.
Profit before tax — R738 million.
Profit after tax — R616 million.
Employees — 256 000.
Companies within Anglo American Corporation's sphere of influence — Unable to be accurately determined but not fewer than 2 000.
Market value of shares of 63 companies listed on the Johannesburg Stock Exchange and controlled by Anglo — R49 946 million.

24 HOURS

The team that wraps up the news

Anglo American not prepared to discuss it

The Anglo American Corporation was not prepared to discuss the subject of Who Owns South Africa.

Efforts were made to discuss the group with the empire's chief, Mr Harry Oppenheimer, the chairman, Mr Gavin Relly, and executive committee board member Mr Julian Ogilvie Thompson.

A prepared list of questions was sent to Anglo American's public relations officer, Mr Ivor Sander, in advance of an expected interview with Mr Ogilvie Thompson.

This was prepared after it was made clear that Mr Oppenheimer would not be available because, it was claimed, he was no longer the power behind Anglo, and after Mr Relly was said to be unavailable because of an overseas trip.

The Star offered to have a bureau representative in London or America interview him but was told he had no spare time.

A few days after the questions disappeared into the conglomerate's offices at 42 Marshall Street, 24 Hours was told they would not be answered in any form and that no interviews would be considered.

The Star made the point that other groups had co-operated and did not seem to be embarrassed by the questions but the public relations department insisted that Anglo American would not take part in the series.

Where Oppenheimer leads, business follows

Harry Oppenheimer is one of the most influential business leaders in the world and certainly the most powerful in South Africa.

He and his directors would be equally at home with the leaders of one party states in South America and Africa, with the Russians or the Americans and the British. Such is the extent of the group's operations.

Indeed, Mr Gordon Waddell was a guest at the Russian Ballet in Moscow a year or so ago.

The power centre of Mr Oppenheimer's vast industrial interests is De Beers Consolidated Mines, in which he has a huge shareholding. But De Beers in turn is controlled by Anglo American, in which Mr Oppenheimer also has a huge shareholding.

When he retired as chairman of Anglo American last year he re tained his chairmanship of De Beers — and his commanding position of the entire conglomerate.

As a conservative radical he has fought apartheid, used his finances to improve the conditions of all races and guided his South African-based company into a position as one of the biggest, strongest and most financially healthy in the world.

Mr Harry Oppenheimer ... retired from Anglo American, but retains his commanding position.

58

8/11/83

Takeovers and mergers must be scrutinised closely because of their inherent dangers, says the chairman of the Competition Board in Pretoria, Dr D J Mouton.

"Power corrupts and unless there is close control consolidation of industrial and commercial interests could get out of hand.

"But huge companies inevitably got untidy around the edges and began to fall victim to new, more aggressive competitors. So while we must be watchful about monopolies we must not overreact.

"I don't believe we have reached the stage where we have anything to fear.

"Imagine what would have happened during the recession if some of the big groups had not existed with their massive reserves.

"There would have been more unemployment. Many small businesses do not survive difficult times but these big companies have helped the economy weather the bad times.

"Just look at their profitability. In some cases it has not grown as it should have. There is good and bad about monopoly."

Dr Mouton said South Africa had a history of monopoly business, starting with Jan van Riebeeck and the East India Company, which lasted 200 years.

"It was not until the 1820 English settlers arrived that private enterprise got its start."

Because the nation's wealth was founded on mining and the investment even in those times was necessarily very big, industry had always been large, he added.

"But these days what does a group do with its capital reserves? They must be re-invested.

"The main concern is abuse of power. There certainly is abuse, with interlocking directorships. Directors do favour their affiliates even though they deny it and claim they hold those affiliates at arm's length.

"I hear it all the time. But these big groups are very sensitive. They don't like being called monopolists."

He said he was not unduly pessimistic about the biggest groups being whittled down to two or three and wielding enormous control and power.

"I've seen many big ones disappear and new ones come up. Take the motor industry a few years ago. Who would have thought General Motors and Ford would not have continued to dominate the industry?

"That's an example of how business is never static. It changes very quickly. Big groups have the seeds of their own destruction within them. They eventually become complacent and inefficient.

"I'm an optimist. The business world is hard. If you don't make the grade you're destroyed."

Six giants to rule SA business by 1990 — Gordon

Star 12/8/83

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By Michael Chester

Mr Donald Gordon, chairman of the huge Liberty Life insurance group, forecasts that the South African economy will be dominated by no more than six corporate giants within the next few years — "by 1990 or even sooner".

Mr Gordon, though reluctant to name the super six, hints that three will be insurance companies — Old Mutual, Sanlam and his own Liberty Holdings.

If Mr Robin McGregor, author of "Who Owns Whom", proves correct, the other three will be the Anglo American Corporation, Anglo Vaal, and Dr Anton Rupert's Rembrandt,

on trends towards increasing business power centres inside big business and the possible dangers of growing tendencies towards monopolies and cartels.

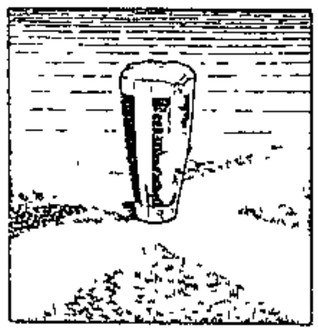
"I don't believe it is necessarily a good thing that there will be such a concentration of power inside the private business sector," he said. "But I am convinced it's inevitable. There is nothing to say the individuals in command now and in the future will not abuse their powers.

"Unhappily, in many respects, the top companies are under almost intolerable pressure to keep on growing — or face the risk of being trampled underfoot.

"Much of the blame rests on

SA BREWERIES

Back to business



"Nobody has come out of the turmoil of the last 90 days with any honour. But with that now behind us, it is time to repair relationships and start re-motivating the group."

SA Breweries has overcome disruption sufficient to have torn the heart out of many lesser corporate bodies. But recent events do not mean it is no longer a formidable force.

Strong words from SA Breweries' new MD Meyer Kahn. But the last three months have clearly been difficult for the senior executives at 2 Jan Smuts Avenue. A new controlling shareholder, a threatened walkout by certain top management and the resignation of three crucial board members have been but a few of the problems.

Coping with the depressed state of the economy and major divisional expansion programmes were, regrettably, forced to take a back seat. It is therefore a tribute to the inner strength of SA's most powerful consumer conglomerate that any damage appears to be confined to superficial wounds.

Some egos have certainly been badly bruised. Some sufficiently so to the point of forcing a showdown — or, at the very least, "speeding up individual decision-making".

Nevertheless, Kahn is confident that the "new team" will prove as respected a force as the old. And, given the firm foundations laid by his predecessors, it is no surprise to hear that no fundamental policy changes are planned. But he does say that the group now has a lot of ground to recover in certain sectors, lost as a result of senior executives' attention being diverted during the recent turmoil.

"I am extremely happy with the group's present investment focus. Our fundamental approach will be to extend the organic expansion already underway within the group," he says.

While he does not rule out further expansion through acquisition, Kahn does not see SAB as an aggressive predator in the short-term. He says that the group has a sound base in all its divisions, which in themselves provide remarkable vehicles for further expansion through increased market share.

However, he does admit that in his many years in the retailing business he has never seen such a marked downturn in consumer spending. And the possibility of SAB producing its first earnings deterioration in more than 10 years is not lost on its new chief executive. The current level of black spending — a major factor in group earnings — is providing particular cause for concern.

With OK Bazaars, large parts of Amrel and Edgars and an ever-growing percentage of beverage sales geared towards the black market, it is easy to understand the concern. However, the longer-term outlook in these areas certainly is of remarkable growth prospects and these should provide the platform for SAB's next marked earnings improvement.

The recent wrangling over the group's Southern Sun subsidiary — which resulted in MD Sol Kerzner departing with the casino operations — must have left something of a sour after-taste. But in the longer-term interests of all parties concerned it is probably the most acceptable solution. While it may be difficult for SAB's shareholders to swallow the loss of control of one of their prime assets, it may yet prove to be the best outcome.

Certainly Kerzner appears to have found a new lease of life through escaping from the SAB corporate hierachy. And if this can be translated into growth for his new company (Newco), there is no reason its future earnings cannot multiply at the same rate Southern Sun produced during its formative years.

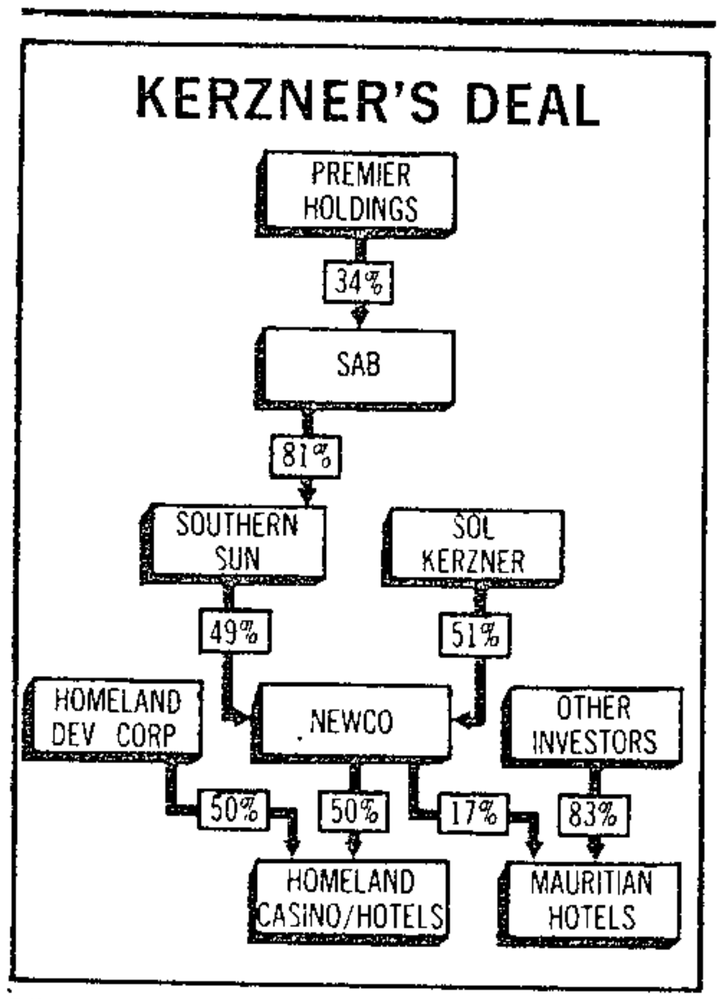
Southern Sun's MD-designate Peter Bacon says that the company's R200m domestic expansion programme — much of which is already coming to fruition — will provide the major foundation for future earnings growth. In addition, the hotel group will still have a big slice of the earnings generated by Kerzner's casino operations.

The absence of Kerzner will have a more marked impact, however, on Southern Sun's planned international expansion. Bacon says this will naturally have to take a back seat for a while as the main motivation for the company's international drive has come from Kerzner. He adds that the new management will, in any case, be busy with domestic developments.

The Cape Town and Sandton hotels are due on stream in October and January, respectively, with the big new Johannesburg Sun expected to be completed in 1986. It will not be until this latter development is well under way that foreign moves will be contemplated, Bacon says.

The timing of the opening of the first two hotels might be considered somewhat unfortunate, as room occupancy levels are generally running at levels well below those of a year ago. Bacon says, however, that Cape Town hotels are currently operating at higher levels than last year, while the inclusion of sophisticated conference facilities at Sandton should ensure that hotel's success.

Although the sale of the casino-hotels group to Kerzner is calculated to have a minimal impact on Southern Sun's earnings, it was a major cash generator. But Kahn expects the rapid success of the time-sharing schemes to more than offset the reduced income from gambling. Kahn says



SAB's Kahn . . . time to mend fences

58 18² FM 12/8/83

SOL'S GAIN . . .

It is difficult to understand why SAB paid such a hefty premium to prevent Sol Kerzner from offering the group any competition in the hotel field for the next 18 months. After all, isn't SAB a "significant minority shareholder" in Kerzner's new company?

One would therefore think that SAB would also benefit from any expansion plans Sol may have up his sleeve It is accepted that Kerzner may not have got control of the casino/hotels for as low a price as he would have liked, but R2,75m is certainly a hell of a sweetener.

Did SAB feel it even needed to give Kerzner a golden handshake? Certainly, 14 years at the head of Southern Sun deserves some reward. But did that not come in the form of realising his 10% stake in company for more than R34m — which in turn provided the money for buying his 51% holding in the casino operations?

Restraint of trade agreements have a specific place in the top echelons of business. Obviously a company does not want to be faced with a former chief executive immediately after his departure. But how much is a senior executive worth?

Consider that, by comparison, Rennies' CE Charles Fiddian-Green is receiving a paltry R1,65m — which ties him to the company for a another year and prevents him competing against Rennies for a further five. It makes you think that the rest of us are in the wrong business.

the Umhlanga project is virtually sold out and that the group is now looking for a similar response to the planned timesharing scheme at Beacon Island.

Kahn has a pragmatic approach to the controlling presence of the Liberty/Anglo/JCI/Premier consortium. "I can't choose my shareholders. But with the original deal now restructured, I am very happy with the set-up." The new arrangement, however, may well have saved SAB from some embarrassment over the negotiations with Kerzner. Early in the talks, the SAB board agreed to sell a large chunk of Southern Sun to Kerzner extremely cheaply. The intervention of the consortium was not sufficient to prevent the sale altogether, but it certainly forced the price up to a more realistic level.

Deputy chairman of the new holding company for both SAB and Premier, Tony Bloom, says a firm "no comment" on the subject. He will only be drawn to say that his role in SAB will be the same as any other board director. "SAB has a first-rate management team, which should ensure a quick return to normal trading after the disruptions of the past three months."

Bloom says the controlling stake held by the consortium will not alter the existing business relationships between Premier and SAB. "It would be commercial suicide to operate other than on an arm's-length basis."

Kahn is looking for a significant improvement in trading conditions in the second half of next year, but already sees signs that the economy has stopped deteriorating. While he expects first-half financial 1984 results to be poor, the second half should show an improvement, both over the first half and the corresponding period last year. "Early next year I expect the patient to sit up and start taking liquids."

Kahn himself has much on his plate as the group's new chief executive and although his background is in the retail sector he does not believe this will lead to any major change in the group's profile. His priority, he says, is to get a better understanding of the beer and beverages division — which is still being relied on to produce around 50% of group earnings. Thereafter he is aiming to create effective operating teams at each group division. The past three months' changes have had an inevitable effect on staff morale.

Only time will tell what impact the recent horse-trading has had on the group. There is no doubt that a company of this size — with turnover in excess of R4 billion last year — will be able to shrug off the disruptions fairly easily. But the presence of the consortium, with 34% of SAB, poses other longer-term questions. Some investors are already asking if the controlling consortium has plans to alter radically SAB's present structure. Kahn says, however, it would be immaterial if the consortium raised its stake above 50%. "When I was MD at OK Bazaars I was able to operate effectively and independently with SAB holding over 70%."

Perhaps it wouldn't matter at all if the consortium doubled its present holding — that is if it could lay its hands on the shares. In SA's current corporate climate anything is possible.

Peter Farley

CURRENCY TURMOIL

Intervention doesn't work

Currency stability will stop the international drift towards protectionist trade policies. And that can only be achieved if the US economy grows rapidly and if the Reagan administration cuts its massive budget deficit.

A lofty comment from the *Wall Street Journal* editorial served to put into perspective last week's dramatised intervention in the currency markets by the combined might of the US Federal Reserve, the Bundesbank, Bank of Japan, Banque du France and Swiss National Bank. It said: "Perhaps a little intervention now and then is useful to keep peace in the international family, but it is also useful to keep in mind the limitations and pitfalls of this kind of thing."

The limitations emerged quickly enough. And, if anything, they provoked suspicions in the market that the US, in making a token gesture towards the spirit of Williamsburg, joined in the co-ordinated intervention to demonstrate that it is akin to spitting into a gale.

The mighty quintet started by selling dollars in response to appeals from the West Germans and Japanese after a 4% surge in the US currency. That alone did not work. So they tried psychology. Journalists were summoned and told the central banks were acting. It proved briefly effective. The dollar subsided by 1% from its 2,684 D-mark nine-year high. the French franc rate shrank marginally from the politically

The Tobacco Enigma — from top to bottom

Star 13/8/83

By David Braun

Rembrandt, a giant of commerce even by global standards, is as enigmatic as its founder and master, Dr Anton Rupert.

Said to be the fourth largest cigarette manufacturer in the world, the group owns 70 factories in 30 countries, markets its products to 180 nations and has assets worth more than R9 000 million. It is one of the biggest international distillers, and it has a stake in an overseas brewing group with 10 breweries.

In South Africa — in addition to its vast tobacco and liquor operations — Rembrandt has interests in mining, insurance, banking, manufacturing, trade, chemicals, oil, clothing manufacture, coffee, tea and printing and packaging.

The entire empire is run by Dr Rupert and his minions from the group's modest head office at Stellenbosch.

The group's style has traditionally been to keep the lowest profile possible, shunning press interviews, saying only what it wants to say, and managing to produce its annual report in all of 20 pages. No illustrations. No product list.

Dr Rupert has given only one press interview about his business, to an American financial magazine two years ago. It has been suggested that the reason for his shyness is that some parts of the Rupert empire have been concealed, notably in places like Malaysia, Singapore and Jamaica, where South Africa's racial policies are anathema.

Yet if Dr Rupert and Rembrandt prefer the shadows this does not mean that their presence is not felt on the South African business scene. Dr Rupert was an Afrikaans business pioneer, albeit with substantial financial assistance from the Broederbond. He is still a local business colossus whose iron grip is felt on scores of companies.

He controls the group through a complex structure of pyramid companies, enabling him to direct operations with an effective stake of between five and eight percent of the equity. The secret of his success is his philosophy of full and equal industrial partnership.

"Industrial partnership is the only morally just principle in the business world," he once told a gathering of the group's executives in Rotterdam.

This philosophy spurred him to making the claim that Rembrandt was in fact the world's first truly multinational company — a globe-encircling partnership of industrial companies in which at least 50 percent of the shares of each separate member company were held locally by the nationals of the host country, and where the chairman and majority of the board members in each country were citizens of that country.

What is the basis of this philosphy? Dr Rupert believes that he who covets all loses all. Survival is ensured only when one is prepared to share and by realising that self-interest does not mean selfishness.

As an Afrikaner who had to break into South Africa's English-dominated business, he knew what it felt like to work for a company that was not owned by his countrymen.

By giving local people a share and full partnership there is pride of ownership and prosperity for all, he says.

True, he says, to trust is risky. But to mistrust is even riskier.

Dr Ruperts's thinking on the power of big conglomerates was revealed in his book Priorities for Coexistence, in which he said: "Large enterprises can learn good lessons from the development of smaller businesses.

"The efforts of large undertakings to diversify are often unsuccessful because: entrepreneurial talent is scarce in the large enterprise; practical experience is often lacking to steer the venture from its inception until it enters the market; there is an absence of the philo-

sophical climate inherent in the management of a small business; too much specialised knowledge is often brought in, and with it, red tape; the management style may be too formal, leading to organisational rigidity."

He believes the economy needs less control by institutions such as Sanlam and the mining houses, not more.

His battle with Sanlam last spring underscores this view. On the surface the fight between him and the giant assurer was over the manner of control of Gencor, the mining group controlled by Sanlam but in which Rembrandt had a large stake.

However, the real fight was said to be over something which ran much deeper. It is claimed that Dr Rupert's concern was to prevent the creation of a precedent which allowed a controlling company to run the controlled company in a way which was prejudicial to other shareholders.

It had to do with the limiting of power and the preservation of the rights of minorities.

It may be argued that Dr Rupert himself controls his empire through his quadruple pyramid in such a way that the minorities don't get too near the power. Ironically, Sanlam, which owns 10 percent of Rembrandt, has not been allowed a seat on the board.

Yet Dr Rupert rejects this interpretation, saying that Rembrandt is increasingly an investment trust, with the tobacco and liquor operations contributing only 45 percent of group revenue.

Even when he held 44 percent of the British-based Rothmans International (before selling half that share to Philip Morris for R385 million), no Rembrandt director was on the Rothmans board.

Rembrandt prefers to retain the full and equal partnership system, giving the local board and chairman maximum leeway.

It is difficult to determine Dr Rupert's management style. Many of his employees are psycophants who have built an impenetrable wall around him. They and the shareholders are nonetheless fanatical in their enthusiasm for him.

He once gave a lecture to the Institute for Business Administration at the University of Pretoria in which he outlined the components of a constructive leader.

His views were an excellent description of himself.

He said that in free competition it was always the most recent performance that counted.

"The constructive business leader needs a sound philosophy of life and a sound theory of the functions of business.

"He must be a man who realises that prosperity is contagious — one cannot trade with paupers.

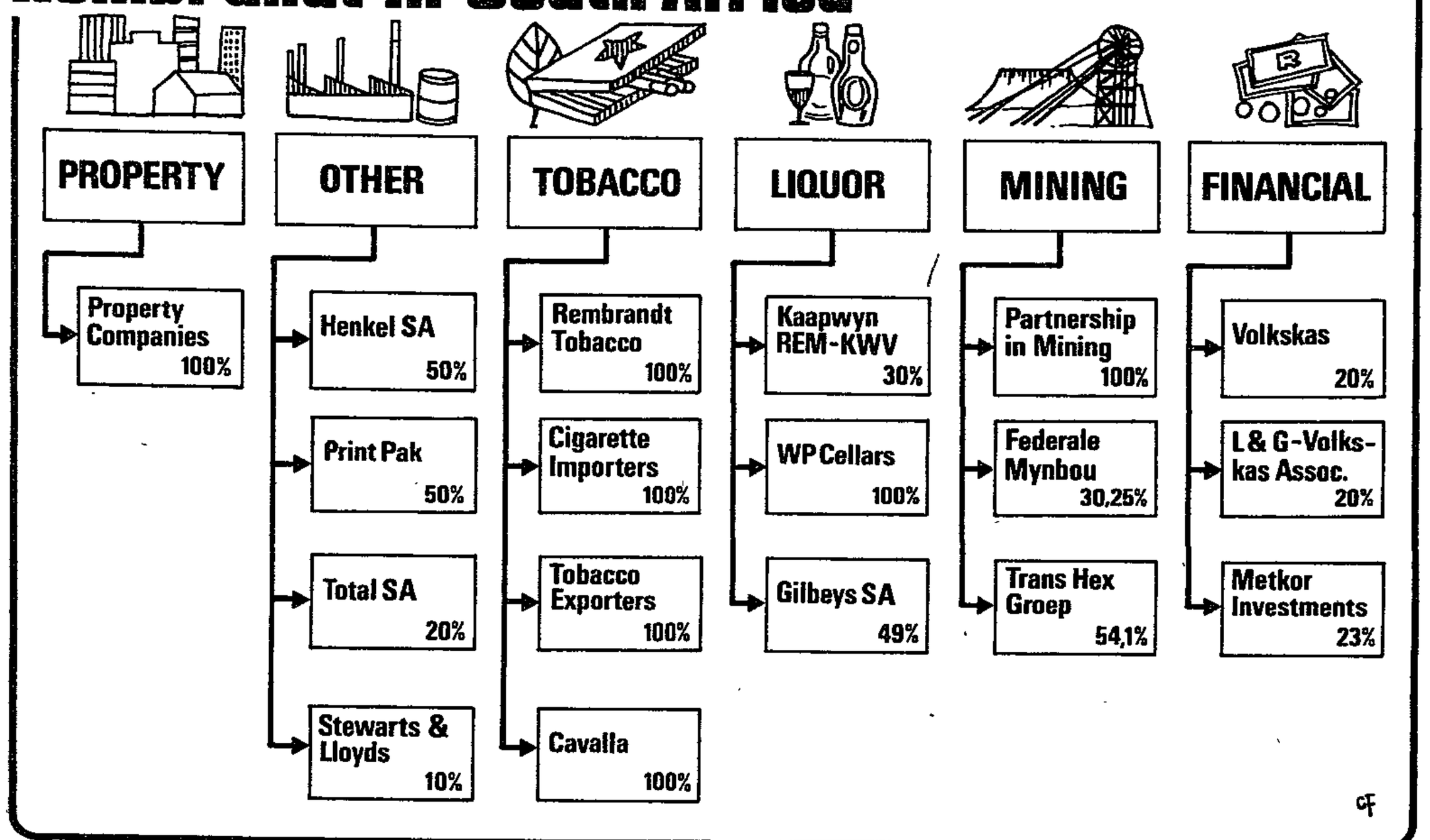
"He must strive not merely to be successful but to be a man of value. For the successful man is a person who gets more out of life than he gives, whereas the man of value gives more than he receives.

"A requirement for the constructive leader is that he should have a leitmotif, something worthwhile to strive for — a noble cause to which he is dedicated. The greater cause, the greater the man.

Dr Rupert appears to have made that the leitmotif of his life. He is a man who constantly strives for perfection. He has surrounded himself with in tensely loyal men and women He has endeavoured to put back some measure of what he has received, as evidenced by his numerous nature, art and music foundations.

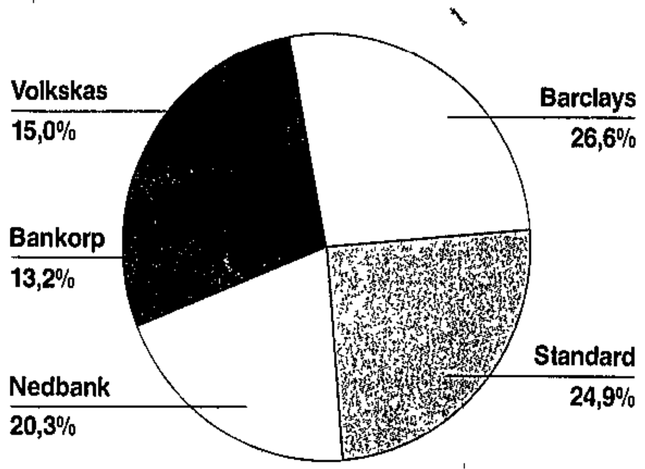
In Dr Rupert the ability the delegate, as witnessed by his philosophy of full and equal in dustrial partnership and trust, is supremely developed.

Rembrandt in South Africa



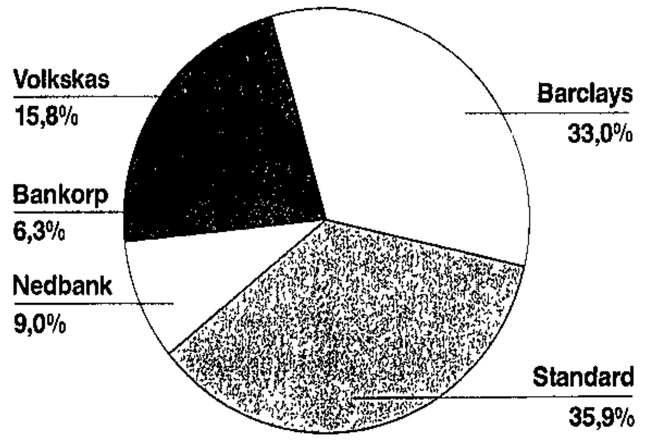
Which of Big Five

LOANS AND ADVANCES



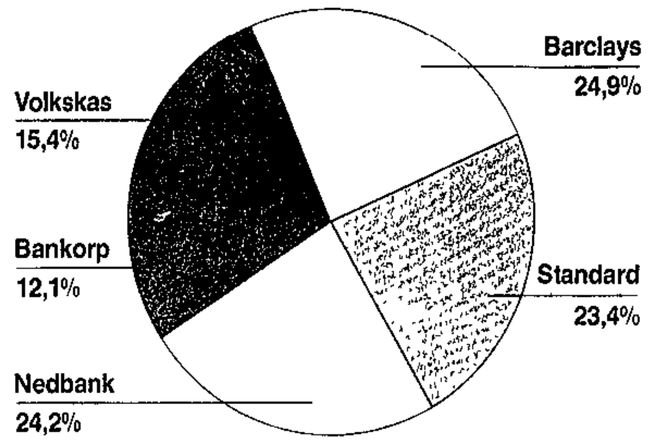
Total market is equal to R12 800 million (March 1983)

CURRENT ACCOUNTS



Total market is equal to R4 980 million (March 1983)

INVESTMENTS



Total market is equal to R10 444 million (March 1983)

would YOU choose?

IF the World's Greatest Benefactor were to offer you any one of the Big Five banks in SA on a plate, which would you take?

Would you take Barclays with nearly 1 000 branches and agencies and assets of more than R15-billion — or Nedbank with only 200 branches and agencies and total assets of just under R10-billion?

To most, the answer would be obvious — Barclays because of its enormous size and power, its landmark buildings all over the country, plus a good profit record.

But the JSE, the institution that is supposed to have the best handle on company evaluation, would not — it would choose Nedbank. And not just by a couple of bob — by no less than R377-million.

Nedbank's market capitalisation is R1 255-million, compares to Barclays' R878-million. According to the stock market, despite its size and spread, Standard, valued at R572-million, is worth not even half of Nedbank.

■■■

Nedbank is valued by the market at 12,5 times historical earnings and Barclays at 8,1 times earnings. This means the market expects Nedbank to consistently outgrow Barclays by 50% and Standard, which is six times earnings, by 100%.

Nedbank's hyper-aggressive chief executive, Rob Abrahamsen, is convinced that Nedbank is worth the huge premium.

He would justify the premium on the basis of Nedbank's superior 10-year track record and forward outlook. Abrahamsen points out that even though it has only two-thirds of the assets of Barclays, Nedbank will beat Barclays to a taxed profit of R120-million this year.

By David Carte

While Barclays' earnings were ahead by 16,5% at its half year to June, Nedbank was ahead by 35% in its six months to March. With interest rates turning sharply upwards after March and interest suddenly payable on current accounts, the banking climate turned nasty after March.

Still, Nedbank sees no reason to change its forecast of earnings of 135c for the year. This implies 35% growth for the year.

Abrahamsen is unafraid to stick his neck out. "I bet you and anyone else that using 1982 as a base, our earnings in 1984 will outgrow any of the others."

The stock market obviously accepts this type of fighting talk. It believes Abrahamsen's argument that Nedbank, after a restructuring that has taken 10 years since the merger in 1973, is due for takeoff.

It evidently accepts that Nedbank has less to lose than its rivals in paying interest on current accounts, that owning its own branches in London and New York will give it even greater market share in foreign exchange.

The way Nedbank tells it, customers are coming in from other banks in droves, an assertion that Barclays and Standard hotly contest, but no-one will be able to prove or disprove for quite a few months.

■■■

Abrahamsen is convinced he has a better motivated and qualified team than the others. "In the past 10 years our assets have increased 6,5 times, our profits 5,5 times and our workforce only 20%." If Nedbank achieves earnings growth of 35% this year, taxed profit per employee will be R14 260, whereas, if Barclays is still 16,5% ahead, Barclays' employees will produce R5 000 each.

Standard and Barclays reckon it's only natural that a wholesale bank with branches in only the main centres will achieve higher returns on assets and per employee. They maintain that gaining market share from here is going to be expensive for Nedbank. Now it is going for big clients and personal accounts, its unit costs are set to rise.

Nedbank counter argues that the opposition said this years ago but that as its market share has grown, so have returns. Abrahamsen reckons Nedbank will earn 25% on capital this year, compared to 16,4% a decade ago.

This rising trend, he reckons, is thanks to the economies of scale, which will continue working for Nedbank. Nedbank claims to have a "virtuous circle" working for it, that its high return on assets, enables greater ploughback, which causes capital to increase, which enables it to write more business and meet the growing needs of clients and this again enhances its returns on assets.

■■■

The Nedbank share price of 1 420c can easily be justified by the dividend of 67c implied by the earnings forecast of 135c. The five-year track record of 20% earnings and dividend growth makes Nedbank worth a 4% yield, so that dividend would warrant a price of 1 675c.

Barclays' five-year growth record to 1982 was better than Nedbank's and even though it has an extensive retail branch network, its return on capital last year was not far behind. Barclays appears to have been super-conservative in stating interim earnings and provided economic conditions to not deteriorate sharply, looks good for 20% earnings and dividend growth for the year.

Barclays definitely seems to have lost out recently in the market capitalisation race partly due to the Barsan debacle and the departure of Bob Aldworth. Another disadvantage it faces is the shortage of tradeable scrip. A share split would almost certainly improve Barclays' market capitalisation.

Many an analyst would argue that it too is worth a dividend yield of 4%. If so, and the total dividend for this year is 90c (75c), Barclays would be worth 2 250c, compared to the current 1 650c.

Standard could well be a dark horse in the race between the banks in the next two to five years. On taking over, Conrad Strauss is reported to have said he would be more concerned with improving systems than short term profitability.

After spending tens of millions on computerisation, Standard is ahead of Barclays in getting branches online and in automatic teller machines. It recently took the UBS account, mainly at Barclays expense, and stole the lead in total cheque deposits.

It is poised to reap considerable synergies through the link-up with the UBS. Unisec, longer term, could develop into an industrial arm and become an earnings sweetener. Strauss obviously did not bargain on the disaster that befell Stannic, the HP arm, 18 months ago, when rates took off for unprecedented levels.

But now Stannic is in the black and coming on strong, Standard could improve its position relative to the other banks radically. It certainly stole a small lead on Barclays in the six months to June on the strength of the Stannic turnaround.

Because it is under-performing and is therefore cheap, Stannic has long been a sitting duck for a takeover. Standard Chartered apparently is not interested in selling but the unified rand could make a sale more attractive to it and there is no shortage of prospective suitors. Liberty is believed to have been sniffing around.

True, an insurance company is not supposed to own a bank but when billions are at stake and the giants of SA business are at play, rules often get set aside. Nedbank, after all, is allied to Old Mutual, Trust to Sanlam and Volkskas to L&GV.

A bank is a super asset for an insurance company because it solves the problem of deploying the unending cash flood. Merely the prospect of a takeover should be worth a couple of bob on the Stanbic share price.

■■■

Volkskas has a poor return on assets but should also do relatively well when the economy turns because its highly cyclical industrial interests can only do better in the future. Last boom they were a great earnings sweetener.

Trust has not paid a dividend for years and probably will not do so until 1985. It is still into the Reserve Bank and leaning on Sanlam but a lot of bankers with a lot of nous have a high regard for Chris van Wyk and the improvements he has already wrought.

At the end of the day, Nedbank probably will do best. But the relative rating already more than takes that into account. If Rob Abrahamsen loses his bet on relative performance, so will a lot of shareholders who have paid a large premium.

As an analyst says: "The investor in banking shares does not buy return on assets. He buys the prospect of a capital gain plus a dividend stream. Even if Nedbank continues to out-perform the others on dividend, capital gains could be better in the others merely because they are currently under-performing and under-valued."

Shock rise in bank rates hits SA business activity

ARGUS 15/8/83

By DEREK TOMMEY
Finance Editor

BUSINESS conditions in South Africa have suddenly become much more difficult following the shock two percent increase in bank overdraft rates.

And the jump in the cost of other forms of short-term credit in the past seven days has also tightened the monetary screws.

The commercial banks have announced they will be increasing their prime lending rates by one percentage point today to 18 percent. This follows a one percentage point increase last Monday.

The banks' prime rate has now been increased by four percentage points since May. This has increased the average cost of bank credit by around 30 percent.

Interest rates on other forms of short-term credit have also soared in the past few days and three months' bank acceptances are now yielding almost 17 percent, which is equal to a borrowing cost of almost 19 percent.

Pave the way

The rise in the cost of credit is a direct result of steps taken by the monetary authorities to curb inflation.

In recent weeks both the Treasury and Reserve Bank have emphasised the necessity to reduce inflation so as to pave the way for a sound economic recovery.

Dr J H de Loor, the Director General Finance, is on record as saying that unless the inflation rate was brought down to single figures in the next six to 12 months, South Africa would not be able to afford a boom.

The main weapon being employed by the authorities in the fight against inflation is control of the money supply.

Curb the growth

Many economists maintain that prices fluctuate mainly in response to changes in the money supply. Therefore, it is argued, if the money supply is prevented from expanding, prices will remain stable.

To curb the growth in the South African money supply the authorities have resorted to far ranging measures this year.

These included the lifting of exchange control on non-residents, allowing banks to increase their lendings overseas, and the mopping up of other money in the economy by making special issues of Treasury bills and other Government stocks.

The authorities appear to have achieved considerable success in their bid to control of the money supply as is indicated by the jump in short-term interest rates in the past few days.

New highs

But it is possible that the recent rise in American interest rates has resulted in the squeeze in this country being tighter than the authorities originally intended.

Tight money conditions in the United States have pushed the dollar to new highs against most currencies. But its gains against the rand have been much smaller.

This indicates that the authorities have been keeping interest rates high in this country in order to support the rand against the dollar and reduce the risk of South Africa importing inflation.

Dr Chris Stals, senior deputy governor of the Reserve Bank, said last week the authorities had been supporting the rand earlier this year against the dollar.

Major impact

Professor Brian Kantor of the School of Economics at the University of Cape Town contends that the exchange rate of the rand has a major impact on the level of inflation in this country.

The present high level of interest rates in South Africa are likely to have a considerable impact on the level of business activity.

The new rates will immediately increase the cost to businessmen of carrying stocks. Businesses are thus likely to reduce orders for new stocks resulting in reduced production and lower employment in the manufacturing sector.

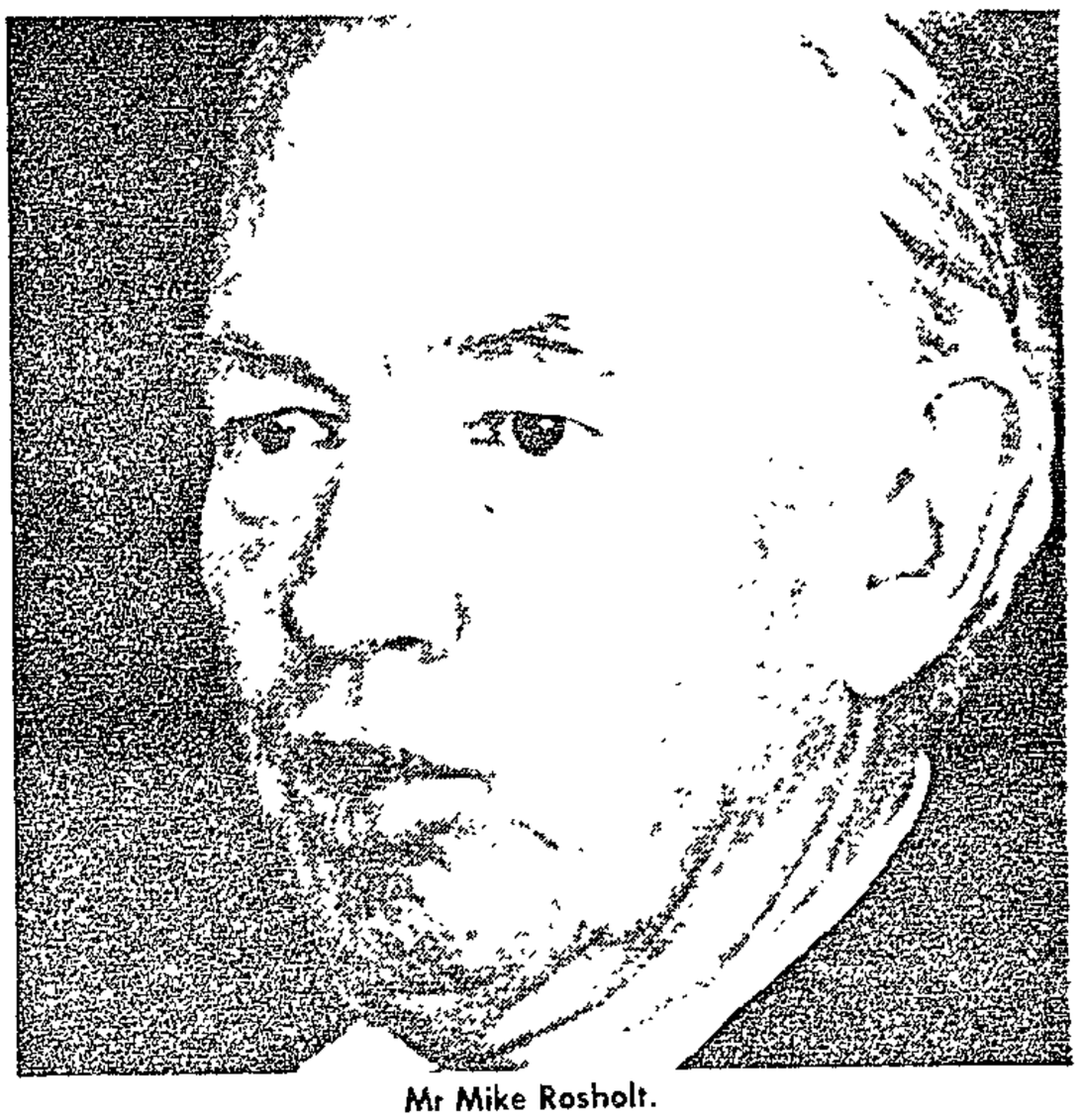
As this means fewer people will have money to spend, retailers and manufacturers will have greater difficulty in raising prices and thus in turn will help to reduce inflation.

The higher interest rates are not expected to lead to further increases in building society mortgage rates at the moment, said Mr Keith Gibbs, senior general manager of the SA Perm.

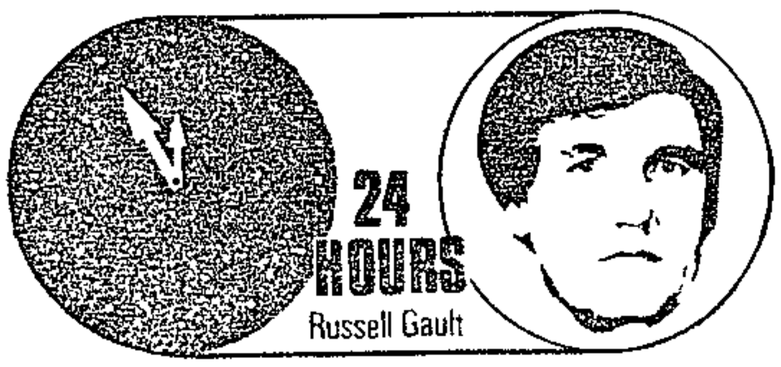
38

Mike Rosholt, top businessman and full-time achiever

Mr Mike Rosholt — whose company may be next on the corporate takeover line, according to business expert Mr Robin McGregor — tends to excel. Whether as head of Barlow Rand, now the third biggest group in South Africa, or as a sportsman, he has been an achiever He has been a top squash, cricket, hockey and baseball player and he is now a keen deep-sea fisherman and golfer. Last year he was elected chancellor of the University of the Witwatersrand. When he joined Thos Barlow in 1960 he left a senior partnership in an accountancy firm. Three years later he became a full-time executive director. Among other directorships is that of South African Breweries, recently taken over by Anglo American, which holds 13,4 percent of Barlow Rand.



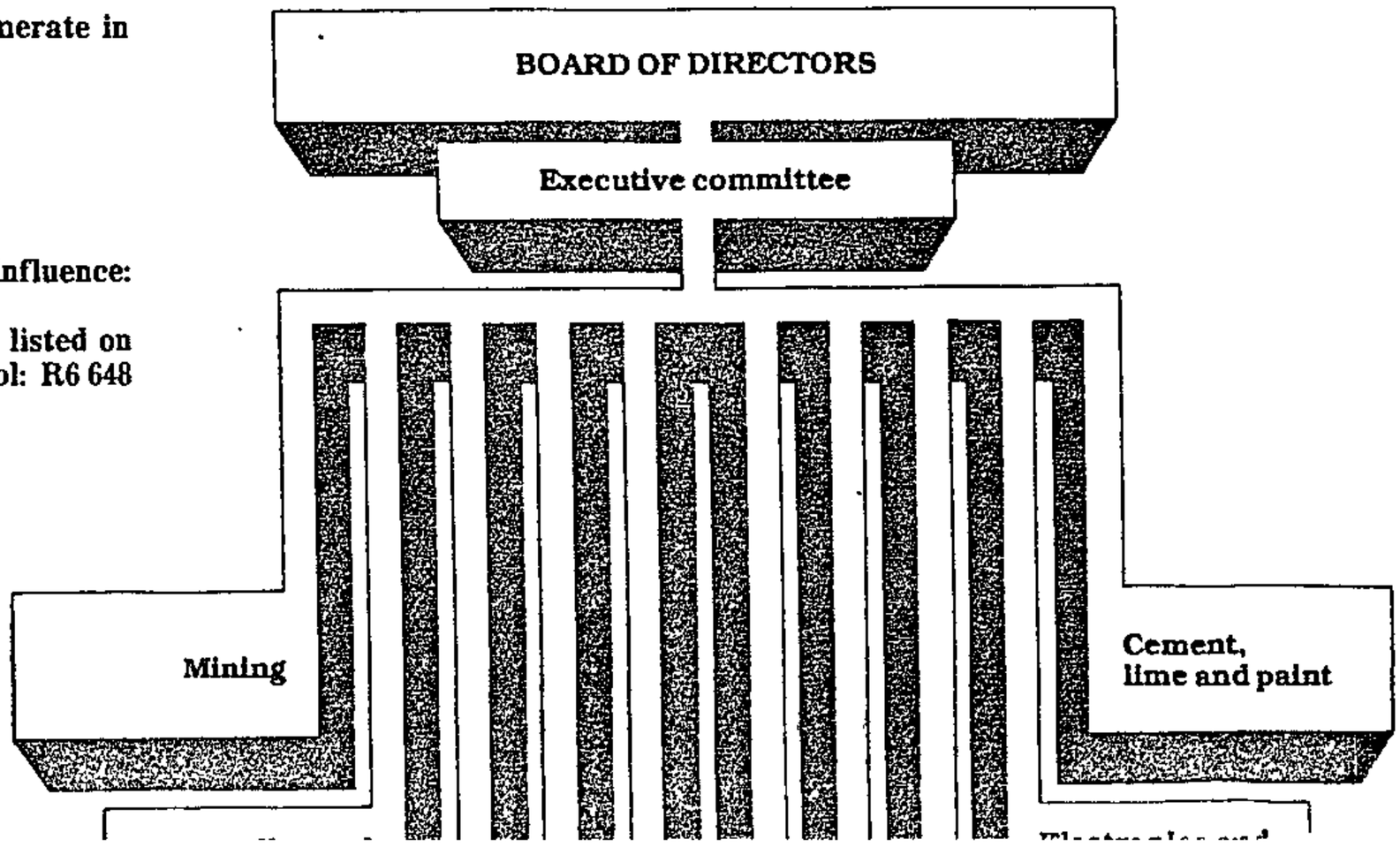
Mr Mike Rosholt.



This is the 5th in our series examining the Big Seven companies which dominate South Africa's private economy.

We don't have and don't want a clear field — Dyer

Barlow Rand: Biggest industrial conglomerate in South Africa.
Assets: R6 800 million.
Turnover: R8 800 million.
Before-tax profit: R1 130 million.
After-tax profit: R664 million.
Employees: 236 266.
Companies within Barlow's sphere of influence: About 600.
Market value of shares of 25 companies listed on the JSE over which Barlows has control: R6 648 million.



Big and getting bigger is an inevitable situation for South African corporations.

"Where else can we find growth and invest our money?" asks Barlow Rand's deputy chairman, Mr D W Dyer.

"The country's currency and exchange regulations have traditionally inhibited business

chairman, Mr D W Dyer.

"The country's currency and exchange regulations have traditionally inhibited business from investing and diversifying overseas. The result is that firms like Barlows have needed to concentrate in South Africa — and in doing so they continue to get bigger.

"But that doesn't make them a danger or a threat to the free enterprise system."

He said he thought there might be a change in the overseas investment rules by the Government which would give more flexibility to corporate reinvestment oppportunities.

He admitted that there were fewer medium-size companies available today which big groups could look at without becoming too dominant in the marketplace.

"At this stage there are three things we can do to continue growing: look for suitable acquisitions, start grass-roots operations or expand existing ones. At this stage the latter ones become the main options," he said.

"Because of the lack of incentives blacks have not been encouraged into business.

"This has meant there is a tremendous vacuum at the bottom layer of business enterprise where new businesses should be on their way up."

Barlow Rand was involved in educating and training blacks to start their own businesses and it had established a company to provide guidance to all small business people. The group also helped blacks find finance for their ventures, he said.

"The more blacks involved in business the better for the economy and for the country. We want blacks to believe in private enterprise and reap the benefits from it."

He said small business played a big part in job creation. This was one of the most important areas of development in South Africa.

"Big groups like ours spend a lot of money on development. But such expenditure doesn't provide the work that small job creation schemes can and do."

Mr Dyer scoffed at the suggestion that too much economic power was concentrated in too few hands.

"There is plenty of competition in this country and plenty of people with power. I don't accept that there is a concentration of power in the hands of just a few men."

He agreed that with cross-directorships which saw directors from competing companies sitting on the boards of one another's subsidiaries, critical observers might suspect business at the top was not as free and independent as it could be.

He added: "Yes, there was inevitably some degree of cross interests on boards of directors particularly in some of the larger groups."

He believed most directors did their job honestly and in the interests of the company and shareholders they represent.

"The directors of the big groups don't aspire to influence or control the community politically but would hope to play their part in an economic issue.

"Of course we speak our minds. We encourage that at Barlow Rand. But as for political influence I can only say we have very little.

"Economically we want to remain healthy and strong. After all we have a quarter of a million workers and a million family dependants who rely on this company for their way of life."

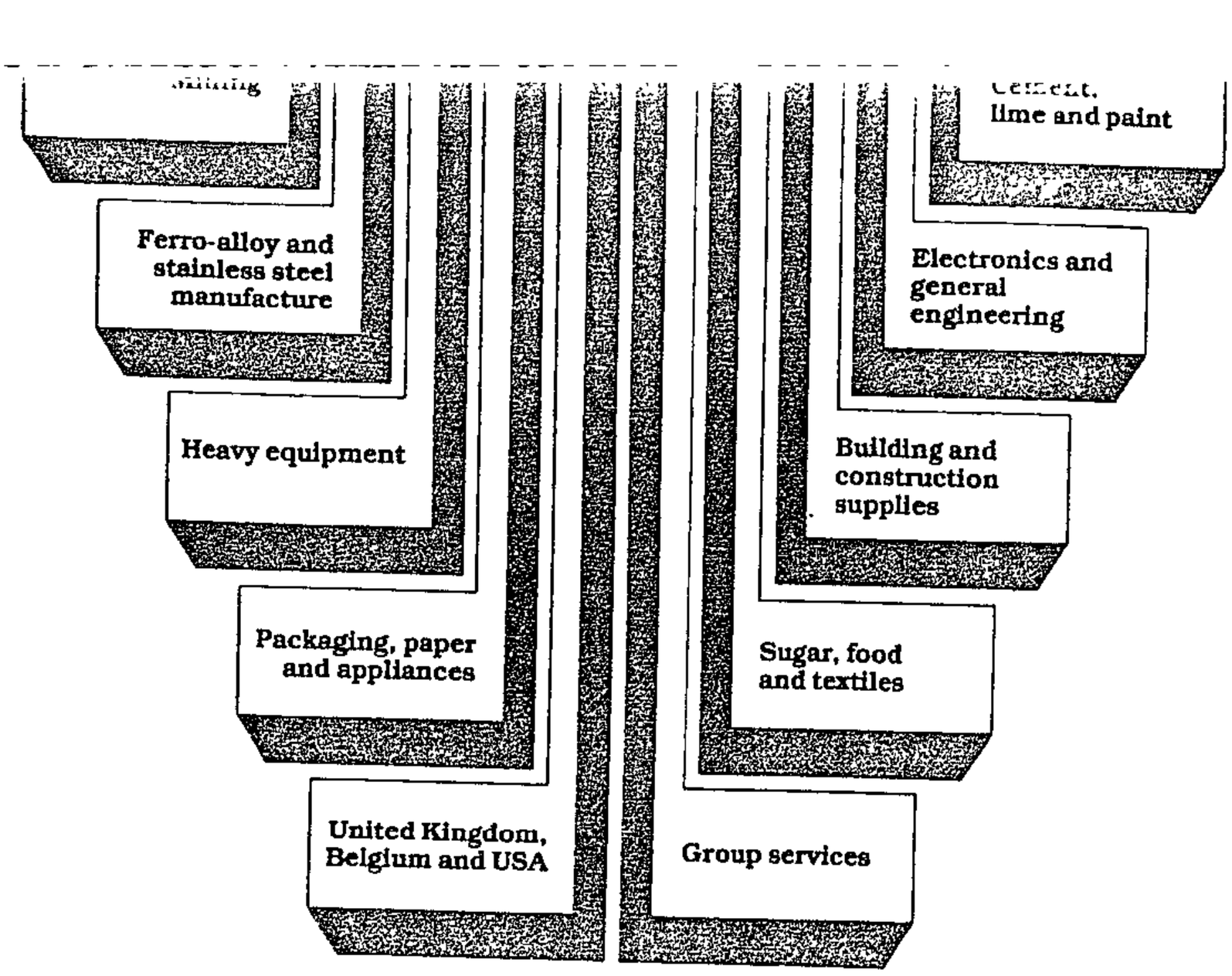
Mr Dyer claimed that every company in each of the group's eight divisions faced competition. "We don't have a clear field by any means. And we don't want a clear field."

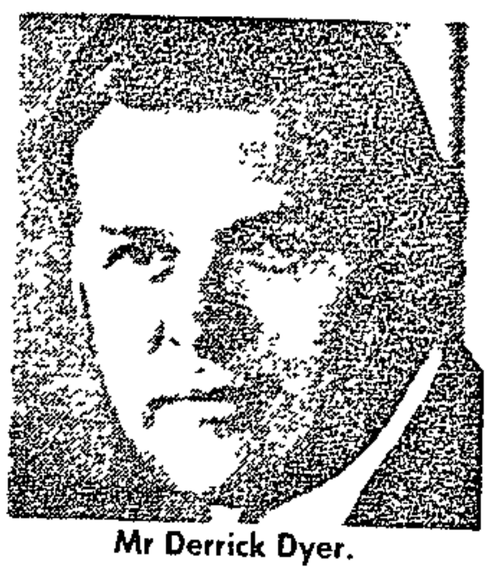
He said that while South African companies were probably big in relation to the size of the country he did not think that proportionately they were much bigger than 25 years ago.

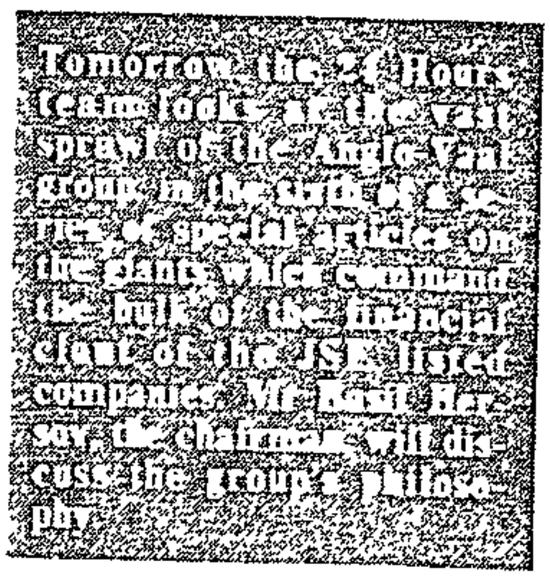
"Look at Japan where a few huge trading houses dominate the economy, and similar situations exist in some other countries. Barlow Rand doesn't even begin to be part of that league.

"There is nothing for South Africans to be afraid of as far as the size and influence of Barlow Rand are concerned.

"We are very aware of our responsibilities and at all times endeavour to do the best we can for shareholders, staff, the economy and our country," he said.




Mr Derrick Dyer.



Target for takeover?

Barlow Rand, ranking third among the Big Seven, may itself become the target of an attempted takeover, according to Mr Robin McGregor — author of "Who Owns Whom". He forecasts the bidders in the battle royal will be the Anglo American Corporation, which at present holds a 13,4 percent stake in the group, and Old Mutual, the insurance giant which owns an even bigger 24,1 percent shareholding.

Barlow Rand markets hundreds of products

With its commercial and industrial interests enmeshing the economy in a net, Barlow Rand is represented in all sectors.

It has seven divisions: mining; cement, lime and paint, electronics and general engineering; heavy equipment; building and construction supplies; packaging, paper and appliances; sugar, food and textiles.

Some of the household names that come under the Barlow Rand banner include Pretoria Portland Cement, Witbank Colliery, Telerama-Rediffusion, GEC South Africa, Fuchs Electrical Industries, Hyster Africa, C G Smith Ltd, Nampak, Tiger Oats, Dairy Maid Ice-Cream, Imperial Cold Storage, Fattis and Monis Industries, Steinbro Eggs, Premier Paper, Printpak, National Panasonic, Insulpan, Plascon-Evans Paints, Polycell Products, Natal Motor Industries.

There are hundreds more.

Barlow Rand is into mining gold, and coal and chrome production. It makes ice-cream, cars, breakfast cereals, television sets, electric kettles, computers, rope and twine, tissue paper, timber products, stoves, drugs, floorcoverings and dumptrucks.

The chances of going to the local hypermarket and buying a dozen items without purchasing something marketed by the Barlow Rand group are negligible.

Mr Basil Hersov.

Basil Hersov is seeking a better deal — for all races

Basil Hersov applies himself as energetically to fighting apartheid as he does to making a rand. This year that energy helped make more than a hundred million.

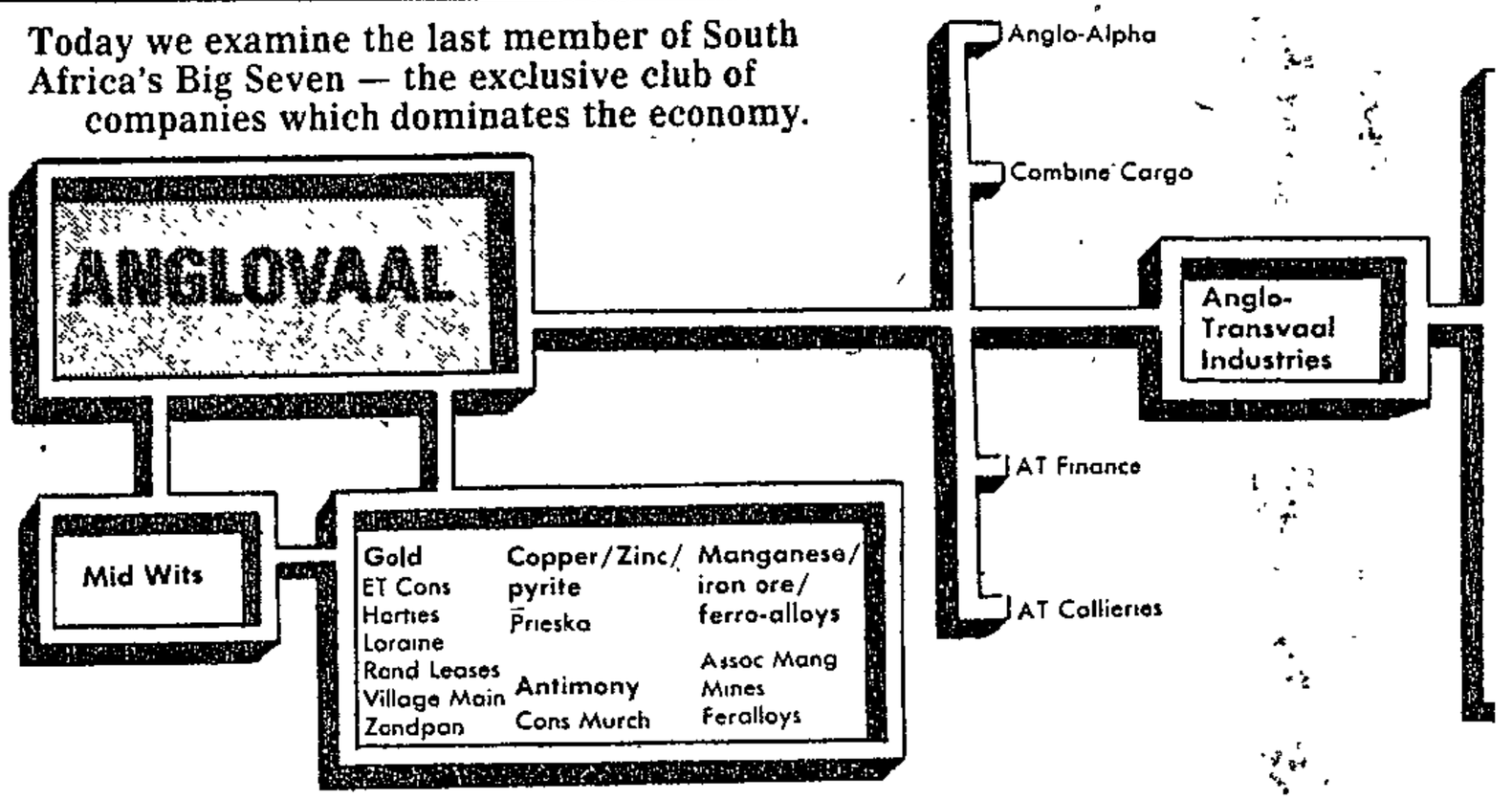
Magazines have portrayed him as something of an international playboy. But the man who has contributed so much to building up Anglovaal has always used his influence to get a better deal for all races.

He welcomed the Government's turnaround when it called for private sector involvement in black housing. He has called for the protection of Press freedom to maintain South Africa's credibility.

He said businessmen were leaders of change and were alert to the needs of the times. They had already caused change and would continue to do so.

Despite his opposition to apartheid and the labour laws the Government has awarded him South Africa's highest civilian award, the Decoration for Meritorious Service.

Today we examine the last member of South Africa's Big Seven — the exclusive club of companies which dominates the economy.



Anglovaal has steered clear of monopolistic image

Anglovaal: Third largest industrial conglomerate in SA.
Consolidated assets, direct and indirect: R1 339 million.
Profit before tax: R172 million.
Profit after tax: R118 million.
Employees: 85 000.
Companies within Anglovaal's sphere of influence: About 200.
Anglovaal also controls 24 companies listed on the JSE which among them have a market value of R2 860 million.

Anglovaal offers a less monopolistic image than its colleagues among the Big Seven.

This persists although chairman Mr Basil Hersov has a commanding influence in industrial and commercial life in South Africa through his variety of directorships.

These include the chairmanship of Barclays National Bank and membership of the Anglo American Gold Investment Company board.

In spite of its size and area of influence Anglovaal does not have the same overwhelming presence as its two mighty industrial competitors — Anglo American and Barlow Rand.

It has stayed clear of major takeover and merger controversy — apart from its recent purchase by Bakers of the Premier Group biscuit interest which in turn created a virtual monopoly in the manufacture of biscuits.

Chairman Hersov said that in this case profitability was the major reason for Premier getting rid of the subsidiary. It was a sell or close-down situation, a genuine rationalisation minimising unemployment.

Asked whether too much economic power rested in too few hands, Mr Hersov said: "I suppose it depends on what one does with that power. But really, I don't think so.

"The way is always open for entrepreneurs to come in and try to pick out the eyes of any large operation.

"It is happening all the time, even to the biggest groups. So-called monopolists are in fact extremely vulnerable and often carry the seeds of their own destruction."

Mr Hersov said growth for growth's sake was not the name of the corporate game.

"Our aim at Anglovaal is increased profits and dividends with long-term security. We have a pyramid structure where we try to keep to the same lines of business.

"We don't want business operations everywhere simply because we want investments."

He was adamant that the apparent "big is better" trend did not threaten small and medium-size businesses.

"There is always scope for people to start businesses and do well. There's a continuous process of growth," he said.

"There are many small private companies getting big and many that have become very big.

"These are private firms not quoted on the stock exchange. I often meet men who are running multimillion-rand companies that no one knows much about because they are privately owned.

"I'm only guessing but I would say they could account for about 30 percent of the value of all companies in South Africa."

Mr Hersov said Anglovaal did a lot of training of blacks in industry and supported the Urban Foundation financially, as well as other organisations dedicated to improving the education and business opportunities of blacks.

"We are planning to establish an industrial park offering all services

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for the release of trade unionists and the 10 committee members elected to negotiate with Mr Kaiser before any decision was made on the

before our wounds are healed," said Mdantsane resident Alfred Ranuka.

"We can't board those buses while we are still mourning our dead."

found him at about 5.30am.

The regional chief of the Railway Police, Colonel Johan Sydow, said it had come as complete surprise when the hospital informed [illegible] was

member of South
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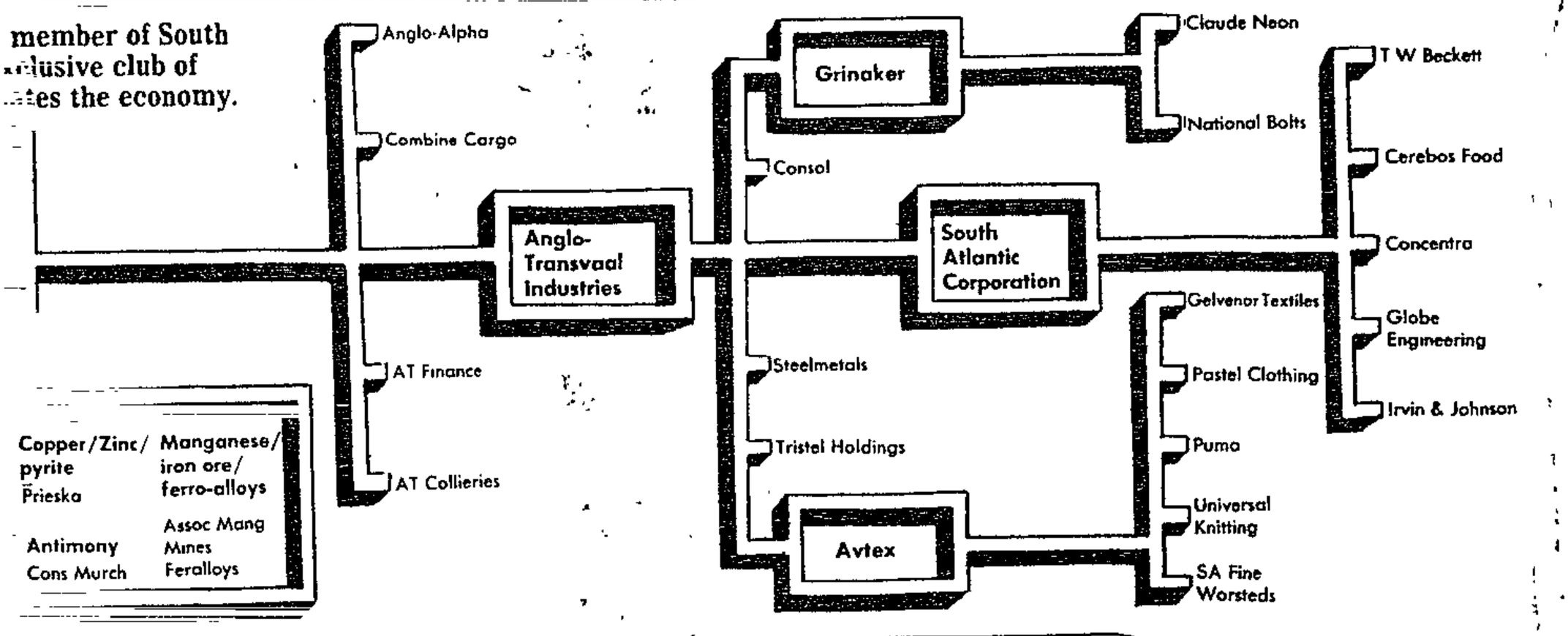
es the economy.



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Mr Hersov said Anglovaal did a lot of training of blacks in industry and supported the Urban Foundation financially, as well as other organisations dedicated to improving the education and business opportunities of blacks.

"We are planning to establish an industrial park offering all services under a single roof.

"We hope to have it in a black urban area. The park will offer sophisticated services and all types of assistance to the black wanting to get started in business."

He said socio-political or economic power was not one of his group's aims but, like other firms, "we would like more input into political decisions because they affect us so much.

"We have had little influence in the past. But there has been more liaison between the Government and industry in recent times.

"We have managed to get laws modified because of their negative effect on the economy and social order."

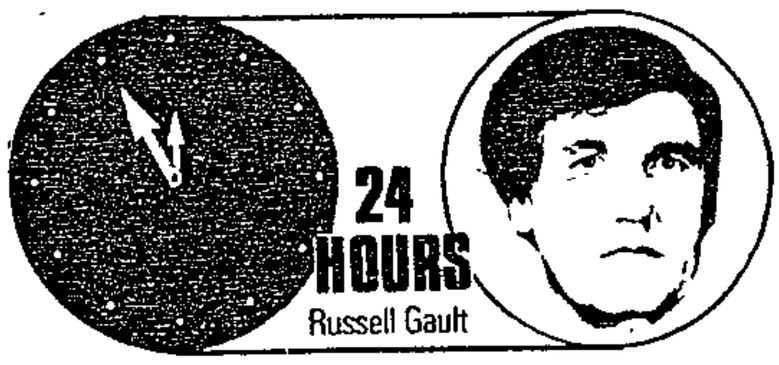
Asked to comment on why South Africa was not following the American lead and insisting on the break-up of monopolies, Mr Hersov said the Americans had apparently decided all monopolies were bad.

"There are good and bad. If South Africa had not been such a closed society there would have been more investment overseas. Money here is searching for a home."

Mr Hersov said every overseas-owned company bought out by a South African company meant a diminished interest in the country by overseas investors.

"I don't believe that's healthy. We have seen a few British firms selling up here because they are so short of cash. It may be that we should be investing in these firms in Britain in order to retain their interest in SA."

Mr Hersov said he had no partciular views on the existence of a Competition Board, but added that he was against Government involvement in commerce and industry.



Vast range of goods

Investments — listed and unlisted — held by Anglovaal cover a vast range of goods produced and services offered in South Africa.

They range from clothing and food to engineering and electronics, from finance and construction services to mining of an array of metals.

The majority of its mining activities as far as listed companies are concerned concentrate on gold production.

Anglovaal's investments include Eastern Transvaal Consolidated Mines (gold), Prieska Copper Mines, Associated Manganese Mines, Anglo Transvaal Industries, Grinaker Holdings, Claude Neon Lights, National Bolts, SA Fine Worsteds, Cerebos Food Corporation and Irvin and Johnson.

These are the tip of the Anglovaal investment iceberg — with control and influence extending to more than 200 further companies.

Liberty links with US insurer

16/8/83

By STEVE ELLIS

LIBERTY Life has joined forces with a major US insurer for the first time and the association is expected to accelerate Liberty's expansion in the British and American markets.

Lincoln National Life Insurance has acquired a 24,8% stake in TransAtlantic Insurance Holdings — the vehicle through which Liberty holds its British investments — for £30-million cash.

Lincoln, of Fort Wayne, Indiana, is a subsidiary of $10 000-million insurer Lincoln National Corporation (LNC).

To facilitate Lincoln's involvement, the capital of TransAtlantic was increased by £32 250 000 through the issue of 21 500 000 shares at 150p apiece.

Lincoln bought 20-million shares, the balance going to Liberty to enable the SA insurance group to retain a controlling 51% interest. Previously, Liberty held 66%.

TransAtlantic's issued capital now stands at 80 556 000 ordinary shares of 50p.

The effect of the transaction is not expected to have a material impact on Liberty's earnings.

The executive chairman of Liberty, Mr Donald Gordon, said the partnership with Lincoln did not necessarily mean his group had immediate intentions of breaking into the lucrative US market.

"The company we're dealing with (TransAtlantic) is a UK company and the major thrust will therefore be in the UK. That doesn't preclude joint activities in the US later."

Mr Gordon said that now the association had been formed with LNC, "hopefully we will co-operate in various ventures in the future".

The £32 250 000 raised through the share issue will be used to wipe off TransAtlantic's debt, placing the subsidiary in a net cash position with £20-million in the bank.

TransAtlantic's borrowings once reached a level which caused concern, but with the share issue and the recent £3-million sale of its 25% stake in Montreal Life, profits will be boosted by net interest receipts.

Mr Gordon said the Canadian operation was sold because the operation was "a little on the small side". However, the directors of TransAtlantic "are investigating further investment opportunities".

TransAtlantic was incorporated in June 1980 to invest in insurance, real estate and related investments, predominantly in the financial services industry.

"It is TransAtlantic's objective to seek special situations in the aforementioned fields and to limit its portfolio to a small number of strategic investments."

The group's £110-million portfolio is headed by a 24% stake in UK life assuer Sun Life Assurance Society and a 29,6% interest in property group Capital & Counties. Both are listed on the London Stock Exchange.

The Lincoln group operates in life-health insurance and annuities, property-casualty insurance and title insurance throughout North America.

In the year to last December, the latest period for which figures are available, LNC's net income totalled $122-million on revenue of R3 336-million.

COMMENT: Mr Gordon's parting comment after discussion about the transaction was: "It's quite an interesting little deal, isn't it?".

That it is.

But why, only last Tuesday, did he deny any knowledge of a deal being struck by Liberty involving overseas parties—a rumour which prompted an 11,1% advance in Liberty Holdings share price on the Johannesburg Stock Exchange.

"Interesting" the deal may be, but whether its importance warranted the secrecy which surrounded its release is debatable.

Interest rates may remain high for 6 to 9 months — Dr Cloete

Cape Times 17/8/83 58

By PAUL DOLD
Financial Editor

PRIME may have to be maintained some three percent above the inflation rate for at least six to nine months to make any appreciable impact on inflation and hopes of an early and strong recovery in 1984 will probably have to be abandoned, Barclays economist, Dr Johan Cloete, says in the bank's latest economic review.

If monetary policy is to be the sole instrument of reducing inflation there can be no half-hearted measures.

"It simply will not do for our monetary authorities to maintain the monetary squeeze and to keep up rates for a few months and in a moderate fashion and then to relax monetary policy once more for fear of causing too much damage to growth and employment. This would only result in the worst of both worlds. Inflation will remain in double figures and growth and employment would have been needlessly sacrificed."

There is some doubt among businessmen over the authorities' resolve in persisting with the present tighter monetary policy until inflation has been reduced with the inevitable spin off of higher unemployment and a deepening of the recession.

But Cloete says it is imperative that inflation should be cut to single figures over the next six to nine months or the country will be caught in a vicious inflation—depreciation spiral with very adverse consequences for growth and employment.

"In the first place, sustained economic growth from say the second half of next year onwards (under the influence of a likely recovery overseas) would be very difficult if the next business cycle upswing has to commence with the inflation rate still in double figures.

"In the second place, inflation rates in the economies of South Africa's main trading partners are now well below the 10 percent level. This means that unless the inflation differential between South Africa and these countries is substantially reduced over the next six to nine months, the rand is likely to depreciate substantially against the major currencies overseas.

"This in turn would aggravate South Africa's inflation problem thereby exerting still further downward pressure on the rand exchange rate."

Dr Cloete, however, recommends that the authorities adopt a two-tier approach to fighting inflation with monetary restraint being coupled with firm control by government over prices and wages in the public and private sectors.

He notes that the government directly controls a number of important input prices in both sectors and it can readily use moral suasion to influence price and wage formation in markets where competition is lacking.

The British Prime Minister, Mrs Thatcher, recently called for wage and price increases to be voluntarily limited to four percent in Britain for this year.

If the authorities are prepared to control administered prices and wage increases next year, monetary and fiscal policy could be more accommodating.

"In this way an uncontrolled recession can be avoided and growth and employment can be protected at least to some extent with the inflation being reduced to the desired level next year by setting increases in administered prices and wages at an appropriately lower level."

The economy's performance will depend on the economic policy adopted. If the authorities persist with the current squeeze until inflation has been reduced to single figures, substantial negative growth can be expected possibly as high as three percent this year and there would be no early economic recovery in 1984.

Inflation would, however, almost certainly be below 10 percent by mid-1984, making a strong economic upswing possible from the second half. But by this time there would be strong pressure for growth at all costs to make up for the recession.

It would be difficult to prevent boom conditions from developing with inflation once more becoming a problem and the danger of a renewal of the boom—slump business cycle of the past 10 years.

If the authorities eased their monetary policy within a few months the recession would not be as deep and the economic recovery would start towards the end of this year or early next year. Inflation, however, would remain in double figures with the next upswing being cut short.

If the third option of controlling inflation mainly through an administered price and wage policy was adopted, the recession would not be as deep, inflation could be pulled down below 10 percent in 1984 and a moderate upswing in the business cycle generated from the beginning of 1984.

ADDERLEY

CAPE Times 17/8/83

Abercom earnings slump 71%

Own Correspondent

JOHANNESBURG — Abercom has completed its asset rationalization programme, but at a cost of R5 822 000 to attributable profit for the year ended June 30.

The rationalization programme, started in mid-1981, involved the sale or closure of unprofitable divisions, and the concentration of activities in three clearly defined subsidiary companies.

Attributable profit, including the effects of discontinued operations, slumped by 71 percent to R2 438 000 for the year to June from R8 333 000 the previous year.

Turnover was 15 percent lower at R208m compared with R245m a year earlier, and taxed profit for the continuing operations — Consani, Davidson and Abertech Industries — fell by 49 percent to R8 260 000 from R16 039 000

Discontinued operations incurred a loss of R9 193 000 before interest and tax, and the position after interest of R560 000 (R1 426 000) and a tax reduction of R3 931 000 (R4 331 000) was a taxed loss of R2 438 000 (R8 333 000).

Earnings from total operations fell to 12c a share from 41c, and because of the substantially lower earnings, as well as the need to conserve balance sheet strength, the final dividend has been passed.

This leaves the total payment for the year at 16c, compared with 36c last year.

The directors — Mr Peter Herbert, chairman and chief executive, and Mr Gerald Buckley, deputy chairman — say in the preliminary statement the group's activities are now consolidated into three groups.

Consani operates in the process industry equipment sector, Davidson is in fans and air heaters, and Abertech Industries is a newly-formed subsidiary which will incorporate Abercom's components business.

The completion of the rationalization programme included the disposal of the wire-forming and foundry activities, and the sale or withdrawal from investments in Giant Safe, Leys Engineering and Almaks.

Abercom's 51 percent interest in the mining equipment operations — Taylor Winch, Hunslet Transport and MLE — was sold, while Perth Engineering and SAIG were absorbed into Consani and the SAIG works closed.

"Further losses from discontinued operations are not expected."

The directors say the intensifying recession in South Africa and the continuing low level of activity in overseas markets led to reduced margins and profit in all divisions

Abertech was severely affected by destocking in areas related to the motor industry.

Mr Herbert said yesterday the destocking process in the motor industry was now over, and with passenger car sales expected to reach 270 000 this year there is a likelihood of an improvement in demand.

This would not amount to a reversal of the destocking process, as the recovery was some way down the line.

Abercom is budgeting for an improvement in earnings from continuing operations in the year ahead, although a return to profit at around the 1981 level will have to wait for the economic recovery.

"While we expect slow and controlled increases in economic activity in the UK and America, we do not foresee any significant upturn in South Africa for at least another 12 months.

"However, with our asset rationalization programme now effectively complete, total earnings relieved of losses from this source, are likely to improve substantially in the year ahead."

An indication of how the absence of the rationalization burden will improve earnings can be gleaned from the results of continuing operations.

If continuing activities produce unchanged results for the current year the attributable profit will be about R8m, compared with R2 400 000 for the year to June.

Gas fire: Children treated

Staff Reporter

THREE children escaped with slight burns when a liquid-petroleum gas cylinder started a fire in a Langa house.

Units of the Epping Fire Station used two fog jets to extinguish the fire in the kitchen of Mr and Mrs N Mtemba, in Zone 16, Langa, last night.

A spokeman said the fire was sparked off about 9.24 pm when leaking gas from a stove flared up and ignited curtaining in the kitchen. The fire damaged the entire interior of the kitchen

The children — Bulelwa, Nomaza and Buyiswa — were discharged from hospital after being taken there by ambulance. They were reportedly in the kitchen when the fire started and were slightly burnt while escaping from the flames.

Coloured teachers for top level talks

Education Reporter

THE Union of Teachers' Associations of South Africa (Utasa), umbrella body for coloured teachers, will meet the Director of Coloured Education tomorrow to discuss salaries, conditions of service and the boycott at the Mountview Senior Secondary School.

This was confirmed today by Mr Franklin Sonn, president of Utasa and the Cape Teachers' Professional Association

He said representatives of Utasa would be arriving from the three other provinces to take part in the discussions.

High on the agenda will be the question of salaries

"When we met the Minister earlier this year, he indicated we would be given increments next year but they might not meet the average 15 percent increases we have had in past years to keep in line with the rate of inflation

"It is getting late in the year and we still have not been given any concrete indication of what we can expect

"We are considering taking this to ministerial level as we also wish to know which teachers, if any, will be affected by moves towards parity with white teachers," Mr Sonn said

He added that they wanted to hear first-hand from the department about developments at the Mountview Senior Secondary School in Hanover Park where pupils have been boycotting classes since July 25 over the expulsion of four pupils

"The national executive will then meet on Saturday to discuss their stand on this issue," he said.

Returns on property better than other investments — UCT professor

Property Editor

CITY house prices have risen by an average of 300 percent since 1979 and all South Africans who owned property over this period have become much wealthier, says Professor Brian Kantor of the School of Economics at UCT.

"The increase in the value of their homes has increased their personal wealth and strengthened their personal balance sheets to the same extent as if they they had accumulated a similar amount in a savings account or a share portfolio."

Speaking at a meeting of the SA Institute of Building in Cape Town, Professor Kantor said people not owning homes over this bonanza period have been similarly deprived.

The investment returns for owning real estate were many times better than the returns available for any other kind of investment.

"Property-owning South Africans are saving less because they are wealthier. Non-property-owning South Africans are putting much more of their discretionary income into paying the mortgage.

"They are investing in housing rather than saving in other ways and I would be the last to censure them for this.

"What households do with their income is very much their business and that of the institutions willing to lend to them

"The monetary authorities, however, have taken umbrage at what they regard as 'unhealthy speculation', which of course reflects unfavourably on the authorities' ability to bring down inflation.

Professor Kantor

"Their track record does not justify anything but scepticism about the prospects for lower inflation — and they should be the last to blame householders for seeking protection."

Professor Kantor said that considering the recent increase in house prices, borrowing from building societies or banks at 17 or 18 percent has been "very cheap indeed".

It did not follow that housing would always prove as good an investment. This depended on property prices rising faster than the cost of borrowing, of which there was no certainty.

● Interest rates on most building society and bank home loans have risen in the past few weeks to the levels prevailing at the beginning of the year At the same time savers are being offered higher returns in the scramble to attract more investment money.

Mortgage rates of different building societies may vary slightly Most have increased by 0,5 percent and are on these lines:

Up to R20 000 .....15 %.
Up to R40 000 .....15,5 %
Up to R60 000 .....16 %.
Over R60 000 .....17 %

Barclays rates are

Up to R40 000 .....18 %.
Over R40 000 .....19 %.

OSKAVA
GENUINE SHEEP SKIN SEAT COVERS at
R9,90

Carlicks

Cavendish Square
Fabulous fashion

Govt plans get more support from Afrikaans academics

Political Correspondent

A CAMPAIGN to have Afrikaans academics record their support for the Government's constitutional proposals is escalating.

All the rectors of Afrikaans universities have now joined the 19 academics who last week issued a memorandum in support of the proposals.

The last one to do so was Professor D Joubert of the University of Pretoria.

The deans of several

Especially in the north, the CP has influential support in academic and church circles.

One of the notable Afrikaans academics who has not joined the original 19 is Professor S P Cilliers of the University of Stellenbosch.

He has attacked what he described as gaps in their arguments, among other things that parliamentary rights for groups other than whites are being extended for the first time since 1910.

Professor Terreblanche has replied that political rights to groups other than whites have in fact not been extended since 1910

MPs first to in Tygerberg

Tygerberg Bureau

MEMBERS of Parliament in the Tygerberg area have bought the first tickets in a win-the-car competition to adver-

The Star

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Two giant hotel groups strike deal

Kerzner controls all casinos in Southern Africa

By Trevor Walker

Mr Sol Kerzner, in a deal with the Old Mutual subsidiary Rennies Consolidated, has gained control of all the casinos in Southern Africa and by early 1985 could well take over all Holiday Inns operation in South Africa.

If a Sun-Holiday Inns company were floated on the stock market, Mr Kerzner would within 18 months have left this country's biggest hotel group, Southern Sun, for an even bigger operation.

Mr Kerzner told The Star early today that under the 18-month restraint of trade clause with SA Breweries he would be free to conduct hotel operations in South Africa again after this period.

He said it was still too soon to comment on the proposed kwaNdedele casino that Holiday Inns was proposing to build, or how soon the advertising and promotional campaign for the new hotel-casino chain would begin.

He said a news conference today would provide further details of the merger of Southern Sun and Holiday Inns casino and hotel resorts outside South Africa.

Under the latest deal Newco, which was formed on August 4 and bought 51 percent of the Southern Sun hotel-resort interests in Bophuthatswana, Ciskei and Mauritius, has now acquired the hotel interests of Holiday Innss in Botswana, Lesotho, Mauritius, Swaziland, Transkei and Venda.

Safmarine — one of the orginal investors in Southern Sun — will subscribe in cash for shares equivalent to 49,9 percent of the 37,5 percent which the Kerzner group will have in the now expanded Newco.

After the exercise in April next year of the nine percent option that the Kerzner group had in Newco, the final breakdown of this company will be: Safmarine and Kerzner group 37,5 percent, Rennies 37,5 percent and Southern Sun 25 percent.

Safmarine and the Kerzner group and Rennies will hold their combined 75 percent interest through a joint company, SunRennie.

The merger will bring together the considerable resources of Rennies, Holiday Inns, Safmarine, Southern Sun and Mr Kerzner, significantly benefiting the country's tourist industry.

Mr Kerzner said he had an agreement with SA Breweries for the use of "Sun" in the title of the new operating company.

Mr Marmion Marsh, chief executive of Safmarine, told The Star the company had a long interest in international tourism and its shipping and airline interests would fit well with new operations now envisaged.

Mr Kerzner said Safmarine had a long association with Southern Sun in this country and it was natural for it to play a leading role in the new operation.

Mr Dick Goss, former MD of SA Breweries, will be chairman of the new company, Mr Charles Fiddian-Green, chief executive of Rennies, deputy chairman and Mr Kerzner chief executive. Mr Kerzner will enter a service contact with Newco.

Other initial board members will be Mr Peter Bacon, Mr Selwyn MacFarlane, Mr Marmion Marsh, Mr Nigel Matthews and Mr Ted Steyn.

The transaction will increase Safmarine earnings by 3c to June 30 1984, but will not affect net asset value. The deal will have no appreciable impact on current earnings of Southern Sun and Rennies.

58

Scramble for funds

From Page 1.

to R15 000 are attracting 10,2 percent interest and those from R200 to R10 000 are at 7 percent.

Mr Brian Short, general manager of the NBS, said the society believed "considerable sums" were available for investment at the top end of the market.

With the present uncertainty over interest rates, people were expected to invest short-term rather than going long.

The United Building Society and the SA Perm have followed the NBS and increased their top special savings bracket.

Mr Peter Richardson, managing director of the UBS, said the top rate had seemed "the most vulnerable" at the moment.

Capitalised

UBS rates are 10 percent up to R10 000, 10,2 percent from R10 001 to R15 000 and now 11,4 percent from R15 001 to R25 000.

These are on daily balance, capitalised monthly, and the effective rates are slightly higher. The effective rate of 11,4 over a year would be 12 percent.

The Perm now offers 11,4 percent interest on deposits between R20 001 and R25 000, also capitalised monthly and effectively 12 percent.

Nominal rates for other categories are: 6,75 percent for R200 to R5 000; 7,25 percent for R5 001 to R10 000; 9,75 percent from R10 001 to R15 000; and 10,3 percent from R15 001 to R20 000.

Mr Keith Gibbs, senior general manager of the Perm, said adjustments to these rates would depend on the reaction of banks on the investment side to the new prime rate.

There appeared to be no agreement between bankers on whether the prime rate had peaked or not.

The recent rise might be temporary, but if not it could be expected to affect all interest rates.

"With the tremendous competition for savings, nobody can afford to lag behind," he said.

Mr Alan Tindall, executive director of the Allied Building Society, said its special savings rates had not been altered since the prime rate increase.

Its rates, on daily balance and capitalised monthly, are: 6,75 percent up to R10 000; 9,75 percent from R10 001 to R15 000; and 10,3 percent from R15 001 to R25 000.

Effective rates would be slightly higher, with the top rate effectively about 11 percent.

Mr Tindall said increasing rates prematurely could place a society in an unprofitable position.

Savings up

Reflecting the trend to higher rates, savings with the banking sector rose significantly in the second quarter, for the first time in many months, an analysis by Nedfin Bank shows.

Savings with banks were up 5,4 percent in the three months compared with the 1,8 percent rise in the first quarter.

Savings totalled R4 806-million at the end of June, against R4 559,5-million at the end of March.

Mr Ron Rundle, Nedfin's managing director, said the 14,9 percent rise in savings in the past year almost matched the inflation rate. This was the first time in nine months that a "real" increase in savings with the banks had been recorded.

Institutions raise interest rates in scramble for funds

w/c ARGUS 20/8/82 (S)

By AUDREY d'ANGELO and DAVID BLEAZARD

BANKS, building societies and trust funds are "scratching for funds and the situation is growing worse by the day," says a director of a Cape Town trust fund.

To attract more money these institutions are paying more interest, which means a much better deal for investors than three or four months ago, and this seems likely to continue for several weeks at least.

Mr D James, a director of Owen Wiggins Trust, said it had raised the rate of interest it paid on participation bonds to 16,5 percent and this would go up to 18,25 percent on October 1.

He said in the present state of the economy competition for funds was intense and was likely to get worse as the end of the month approached.

"We find there is tremendous competition, not only in the short-term market but in the medium-term market in which we operate."

Borrowers, on the other hand, were queueing up because the trust was lending money at 17,84 percent, which was below the banks' prime rate.

"The situation is changing very quickly these days and may be quite different soon, but I think the tendency for the next two months will be upwards."

17 percent

Syfrets, whose interest rate on participation bonds is 14 percent this month, will raise it to 17 percent in October.

This will make it necessary to charge borrowers more and the bond rate will go up to 18,37 percent in October.

Mr Stuart Gallow, managing director of Syfrets Participation Bond Company, said: "The higher rates will be applicable to all new borrowers and investors with immediate effect.

"We at Syfrets noticed a steep fall-off in money coming in for investment and consequently we took this step of raising our investment rates a full 2 percent."

Competition

Investors Technical and Executors Bank (Investec) is now paying 16 percent interest under a special scheme in which money is invested for a minimum period of 12 months.

Under this scheme the interest rate floats at 2 percent below the commercial banks' prime rate.

Last March and April, when the banks reduced their prime rates, Investec's interest rate fell to 11 percent.

The Board of Executors has increased its participation bond interest rates from 15 percent to 17 percent from October 1 for new investors, and from December 1 for existing investors.

The rate borrowers have to pay will increase from 16,21 percent to 18,37 percent.

Societies

Meanwhile, building societies have reacted cautiously to the increase in the banks' prime rate and seem to be awaiting a move from the banks to raise their deposit rates.

Those that have already changed their deposit rates have increased only the top rate — typically for deposits between R20 000 and R25 000.

The Natal Building Society was the first to move. It created a new special savings category, from R20 001 to R25 000, paying 12 percent a year on daily balance, capitalised annually.

Previously investors in this range would have received 10,5 percent, which now still applies to deposits from R15 001 to R20 000.

Deposits from R10 001

To Page 2

Congratulations

CHANGING STRATEGIES OF UNIONS AND MANAGEMENT:
EVALUATION OF FOUR INDUSTRIALIZED COUNTRIES

This paper reviews and evaluates strategic responses of unions and management in four economi[illegible] to changes in the world economic environment si[illegible]ted worker needs and expectations at the w[illegible]ttempts by unions and management to modif[illegible]stitutions for decision-making in changes in organization and/or ing with one another or obtain e other forms of activity such as n schemes in managerial decisions. the result of recent economic ized procedures for rule-making ems viewed on a national basis.

nsiderably from country to country industrialization advances ntralizing organizations and remains to be decided at micro- shop as the rule-making process on overnment agencies or central or separately. The tendency toward ld accelerate when a nation is

50-79/Sec.IV/5

Bankers: Pinch to ease by 1984

Cape Times 20/8/83 58

By GORDON KLING

SPIRALLING interest rates on everything from overdrafts to hire-purchase agreements and building society mortgage bonds are likely to rise still further in coming months, but bankers believe the squeeze will ease from the year-end.

Estate agents yesterday said the property market had now fallen victim to the rising cost of money. Activity was dull and prices were beginning to stabilize after nine months of boom.

"The market is stone dead," pronounced a leading agent in Hout Bay who cited difficulties in raising bonds and finding new stock as additional factors.

A spokesman for Barclays National Bank said yesterday that the man-in-the-street could now expect to pay anything up to a staggering 24 percent on overdrafts and HP purchases.

The 20-percent rise to 18 percent in the banks' prime rate charged blue-chip clients in the past two months has taken the maximum charge to smaller customers to 20 percent for amounts over R5 000, 22 percent on amounts between R2 000 and R5 000 and 24 percent on loans below R2 000.

Speculation remains high that prime will rise to 19 percent in the near future.

HP rates are 24 percent for amounts under R10 000 and about 22 percent for higher figures.

"Wesbank is charging about 21 perent for HP," said a spokesman, "but rates vary with the deal and ancillary business flowing from it."

The mortgage manager at the Board of Executors, Mr J B Plimsoll, said he did not think it would be necessary to follow steep rate increases in participation bond schemes announced yesterday with further rises in the near future, but a rise by the building societies appeared innevitable.

Money market sources believed that building society rates to depositers were low and a necessary rise would mean a corresponding boost in bond rates in spite of rises between 1,5 and 0,5 percent in recent weeks.

The rocketing cost of borrowing has been set off by renewed tight money policies adopted by the authorities in a redoubled effort to combat inflation, expected to average about 13 percent this year, against less than four percent in Britain.

The apparent paradox of higher interest rates to reduce prices is explained by economists who point out that tighter money and the higher interest rates this causes could be expected to reduce expenditure by consumers, which in turn should dampen demand in general and reduce the frequency and magnitude of price rises

Barclays' spokesman expected the decline to set in from the end of the year, but agreed that further rises before then were probable.

SUNDAY TIMES SCOOP

Deal with Sol gives the Government a stake in gambling, then Minister orders an urgent inquiry

By BRIAN POTTINGER, DAVID FORBET and DOUGLAS GORDON

THE Government has been taken to find itself with a major stake in Mr Sol Kerzner's new gambling empire.

It has ordered an urgent inquiry into this week's Kerzner-Holiday deal.

Through its interest in Safmarine, the State has become in effect a partner in a deal which will put all but one of the casino resorts in Southern Africa under one umbrella.

Yesterday, the Minister of Industry and Commerce, Dr Dawie de Villiers, said: "It has implications about which I am not happy."

A "surprised" Mr Kerzner declined to comment on the Minister's statement.

Disquiet

Safmarine, shipping arm of the Government-controlled Industrial Development Corporation, has taken a share of about 18 percent in Mr Sol Kerzner's new group which will control all the casinos of Southern Sun and Rennies' Holiday Inns.

The major Afrikaans churches and right-wing politicians were quick to express disquiet at the State's involvement with gambling and indicated pressure would be brought to bear on the Government.

The Cabinet, sensitive to opposition among its supporters towards anything which smacks of gambling, appears to have been taken by surprise by its sudden participation in roulette and blackjack.

As it is, Ministers have faced bruising criticism from churches and political groups over the Bonus Bond scheme.

The casino deal, announced with much fanfare on Friday, has been put together as follows.

Safmarine (in which the IDC holds a stake of at least 50 percent) will, in a joint venture with casino king Mr Kerzner, acquire a 37,5 percent interest in Newco, which will operate 13 casino resorts in neighbouring states and Mauritius.

Rennies Consolidated Holdings, controlling company of Holiday Inns SA, will also acquire 37,5 percent, while Southern Sun, controlled by SA Breweries, will have a 25 percent interest.

Mr Kerzner, with 50,1 percent, will control the Safmarine-Kerzner holding and, as chief executive of Newco, will be effective boss of the casino chain.

SOL'S GOLDEN CHAIN: Page 2

Implications

The gambling group expects to make profits of between R25-million and R30-million in its first year on a turnover more than R150-million.

In a statement issued yesterday, Dr de Villiers, an ordained NGK minister, said the Safmarine interest was "a purely business transaction and was not submitted to the Government or the board of the IDC for approval".

He added: "Safmarine operates as an independent public company and the interests of the IDC in this group are represented by two directors.

"The details which have thus far come to me through Press reports have implications about which I am not happy.

"The involvement in casino activities of a group in which the IDC has a substantial interest cannot nearly be accepted.

"I have therefore urgently called for the details and am giving the matter my urgent attention."

Mr Kerzner said from Cape Town yesterday he had no comment on the decisions of the Safmarine board.

He was surprised by the Minister's statement as he saw the deal as a major stimulus for the Southern African tourism industry.

But Mr Kerzner had no comment on the text when it was read to him.

"The deal we concluded this week — which I see as an exciting grouping of hotels for the future — represents a

□ To Page 2

g mecca

Southern Sun since the latter's inception 14 years ago, and it was only natural, say Messrs Marsh and Kerzner, that they should act together now. Hotels and ships belong side by side.

The parties to this week's deal were anxious to play down talk of monopoly, but with the Hilton Hotel's Maseru casino the only one south of the Limpopo not in the stable, that is what they have.

■■■

The parties did not consult the Competition Board because all the casinos are outside SA, and they say the board therefore has no jurisdiction.

"We don't have the monopoly," says Mr Fiddian Green, "the governments do."

But the homeland governments that do not yet have casinos, such as KwaZulu and KwaNdebele, will now have only one strong suitor for the right to operate in their territories.

It is probable that any casino in KwaNdebele will now be smaller than might have been the case had it been competing directly against Sun City.

Negotiations for the pooling of Newco and Rennies casino interests took only six days. This required a lot of trust and complete faith in accounting between the parties.

Newco and Holiday Inns pooled their assets and took shares in the merged operation according to the profits generated by the respective assets.

Newco is 25 percent owned by Southern Sun and 75 percent by Sun Rennie. Sun Rennie is owned 50 percent by Rennies and Holiday Inns, and 50 percent by Mr Kerzner and Safmarine. Mr Kerzner is chief executive and Mr Dick Goss, former chief executive of SA Breweries, chairman.

Mr Fiddian Green is deputy chairman. The other directors are Mr Peter Bacon, managing director of Southern Sun, Mr Selwyn MacFarlane, of SAB, Mr Marsh, Mr Nigel Matthews, MD of Holiday Inns, and Mr Ted Steyn, of Rennies.

□ From Page 1

strong thrust into the overseas market.

"It pools the major resources involved in tourism — which would have the capacity to make a significant impact in the international marketplace, thus stimulating foreign exchange earnings," he said.

The present annual turnover from overseas tourism in Southern Africa was roughly R500-million, said Mr Kerzner.

A substantial force, properly directed at the international market, should yield returns of around the R2-billion mark by the end of this decade, he added.

The intention of the Newco group's recent moves in the Southern African market was to develop the entire tourism industry, of which the gaming aspect was merely a part, he said.

At a Press conference on Friday, Mr Marmion Marsh, chief executive of Safmarine, said he could see nothing contradictory about his company's participation in gambling.

Gambling

"There was gambling on the Union Castle liners we took over years ago and no-one made any fuss," he said.

"If we have to provide gambling facilities to attract tourists, we provide to meet the demand."

Influential leaders of the three major Afrikaans churches yesterday reiterated their total opposition to gambling and said they would look into the implications of the latest deal.

"It is possible that we may make representations to the Government if we are unhappy with the situation," said Professor Bart Oberholzer, chairman of the General Assembly of the Nederduitsch Hervormde Kerk (NHK).

"Generally speaking we are quite perturbed at the growth of casinos on our borders," he added.

The Rev Kobus Potgieter, chairman of the Plenary Executive of the Nederduitse Gereformeerde Kerke (NGK), said if the Government was in any way involved in the deal, the church's repeated condemnation of gambling would be valid.

Fireworks not likely from UN's Mr Plod

By BRIAN POTTINGER in Cape Town and MICHAEL LITTLEJOHNS in New York

SOUTH AFRICA is gearing itself for the first visit of a United Nations Secretary-General in 10 years with hopes of some new impetus for the SWA/Namibia negotiations, but no major breakthrough is expected.

Dr Javier Perez de Cuellar, UN Secretary-General, and an 11-man entourage left New York last night for a whistle-stop tour that will take in South Africa, SWA and Angola.

Mr PIK BOTHA
Easier to talk to

They arrive in Cape Town on Monday.

Five years ago the Security Council unanimously approved a Western-drafted plan to lead SWA to statehood but the scheme remains unimplemented.

On May 31 the council directed Dr Perez de Cuellar to try to break the deadlock and he must report back on his efforts by August 31.

Unlike his predecessor, Dr Kurt Waldheim, who missed few opportunities to lambast South Africa's internal and SWA policies, Dr Perez de Cuellar has made few criticisms, apparently in the belief that it is not the Secretary-General's function to damn member states.

Secretary-General's visit was in the balance because of queries over the agenda facing him when he arrived. Clarifications from the South African side apparently smoothed the path.

It is expected discussions between Dr Perez de Cuellar and the South African Government will focus mainly on the outstanding issues concerning the United Nations Transitional Assistance Group (UNTAG) and the proposed electoral procedures for a post-independence constituent assembly.

Impartiality

The possibility of some further movement on the com-

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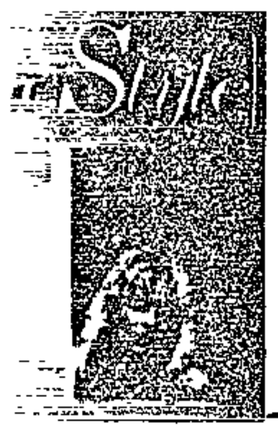

...Mr Plod

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Unlike his predecessor, Dr Kurt Waldheim, who missed few opportunities to lambast South Africa's internal and SWA policies, Dr Perez de Cuellar has made few criticisms, apparently in the belief that it is not the Secretary-General's function to damn member states.

Officials said this quieter approach would make it easier to talk to the Prime Minister, Mr P W Botha and the Foreign Minister, Mr Pik Botha.

After 20 months in office, Dr Perez de Cuellar badly needs a diplomatic success, UN observers said.

The United States, Britain, France, Canada and West Germany, which together drew up the settlement terms, are especially eager for it and have been pressing South Africa to be as accommodating as possible.

Unless there is significant progress, diplomats said, it was inevitable that the black African states, backed by a large body of UN members, would demand that the Security Council impose a long list of economic sanctions as well as the current arms embargo.

Mr PIK BOTHA
Easier to talk to

DR ANDRIES TREURNICHT
Could gain poll support

forward motions calling on the South African Government to include white Southwesters in the coming referendum on the proposed South African constitution.

Observers reckon that if whites are included in the referendum it could add several thousand "no" votes to the voice of the CP.

Speculation that the SWA NP was set to throw its weight behind Dr Treurnicht heightened when a low-key speech given by Mr Pretorius in the white Legislative Assembly on Wednesday was splashed across the front page of the weekly NP mouthpiece, Die Suidwester.

In the speech, Mr Pretorius directly accused "every member of the South African Cabinet and Member of Parliament" of a breach of trust in their handling of the Namibian question.

He said the Botha Government had shifted from a "juridically correct" path in its handling of SWA, and had yielded to pressure from the United Nations and the Western Five.

In a separate interview with the Sunday Times on Thursday, Mr Pretorius accused the UN of being "terrorists", and said if the Secretary General of the UN, Dr Javier Perez de Cuellar, arrived in Windhoek with a "UN attitude", then he too would be a "terrorist", and not just a "tourist".

Realistic

Asked about pessimistic reports on the prospects for the visit, the UN Press secretary, Mr Francois Giuliani, said there were always anonymous officials ready to make such comments but his chief himself was "realistic".

Mr Giuliani indicated that Dr Perez de Cuellar would not be going to Cape Town if he believed he would return empty-handed. He recalled the Secretary-General's remark to that effect after the May resolution.

South Africa has welcomed the mission and Pretoria has apparently gone out if its way to ensure that no obstacles should sabotage the visit of the Secretary-General.

Earlier in the week the Secretary-General's visit was in the balance because of queries over the agenda facing him when he arrived. Clarifications from the South African side apparently smoothed the path.

It is expected discussions between Dr Perez de Cuellar and the South African Government will focus mainly on the outstanding issues concerning the United Nations Transitional Assistance Group (UNTAG) and the proposed electoral procedures for a post-independence constituent assembly.

Impartiality

The possibility of some further movement on the composition of the UNTAG forces as a result of the visit is not ruled out.

Another relevant topic which may be raised involves UN impartiality. Although South Africa has accepted the principle of UN non-partisanship in the settlement process it might want to discuss practical implementation of that impartiality.

But the key question from South Africa's side and ostensibly the last major stumbling block to implementation of Resolution 435 — the withdrawal of Cuban forces from Angola — seems destined to remain outside the ambit of discussions.

The Secretary-General's mandate from the UN General Assembly does not include the Cuban issue which is held to be a matter of bilateral discussion between the United States and the Angolan Government.

Similiarly, possibilities of some form of coalition between the MPLA Government and Dr Jonas Savimbi's Unita forces is held to be outside the Secretary-General's brief.

Dr Perez de Cuellar leaves on Thursday for Windhoek for an "orientation" visit which will most likely include talks with South Africa's Administrator General, Dr Willem van Niekerk. He might also meet internal party leaders.

The Secretary-General's visit comes amid a background of dramatically increased warfare in south and east Angola in which Unita forces have claimed substantial victories and the Angolan Government has accused South Africa of participation.

...ly a part, he said.

At a Press conference on Friday, Mr Marmion Marsh, chief executive of Safmarine, said he could see nothing contradictory about his company's participation in gambling.

Gambling

"There was gambling on the Union Castle liners we took over years ago and no-one made any fuss," he said.

"If we have to provide gambling facilities to attract tourists, we provide to meet the demand."

Influential leaders of the three major Afrikaans churches yesterday reiterated their total opposition to gambling and said they would look into the implications of the latest deal.

"It is possible that we may make representations to the Government if we are unhappy with the situation," said Professor Bart Oberholzer, chairman of the General Assembly of the Nederduitsch Hervormde Kerk (NHK).

"Generally speaking we are quite perturbed at the growth of casinos on our borders," he added.

The Rev Kobus Potgieter, chairman of the Plenary Executive of the Nederduitse Gereformeerde Kerke (NGK), said if the Government was in any way involved in the deal, the church's repeated condemnation of gambling would be valid.

"We cannot excuse anybody," he said. "The Government is aware of our deep concern and the warnings we have repeatedly given on the dangers of gambling, which can lead to the downfall of our people."

Opposed

Dr Chris Malan, chairman of the Gereformeerde Kerk's Government Liaison Commission, said the matter would be discussed at its next meeting.

"We are opposed to any form of lottery or gambling, no matter who initiates it," he said.

Mr Jaap Marais, leader of the Herstigte Nasionale Party, also condemned the deal.

He said in Port Elizabeth that the Government's involvement was the "most disgusting manifestation of double standards".

The most outspoken criticism came from Mr Eddie van Zyl, director of Aksie Morele Standaarde.

He said there would be a "cry of protest" if a semi-government body was involved in the casino deal.

Mr van Zyl, whose organisation claims to represent more than 60 000 members, said: "The mission fields of our churches are being developed into gambling dens.

"We piously state we are a Christian country and yet we are prepared to help destroy the values and morals of another nation.

"All this plastic and lights and feathers and glitter they put in places where people are living in utmost poverty. We must rather use our resources to build industries."

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	High/Low	High/Low
Cape Town	0210/0824	1435/2038
Mossel Bay	0232/0848	1459/2064
Knysna	0253/0902	1516/2110
Port Elizabeth	0230/0843	1500/2053
East London	0241/0851	1504/2100
Durban	0242/0855	1509/2109
Walvis Bay	0213/0810	1433/2030

S. Times 21/8/83

Sol is set to build a gambling mecca

LAS VEGAS, Atlantic City, Monte Carlo, Southern Africa ... these will be the world's gambling meccas, not necessarily in that order, if Mr Sol Kerzner's dreams for his new monopoly in gambling come true

After the merger between Mr Kerzner's Newco casinos, including Sun City and those of Holiday Inns — also the Wild Coast Inn — SA gaming has hit the international big time.

The new company, provisionally named Newco, will have half shares with governments in casino resorts in BophuthaTswana, Botswana, Ciskei, Lesotho, Mauritius, Swaziland, Transkei and Venda

It will have initial revenues of R150-million, and taxed profit of R30-million, making it worth about R300-million.

Mr Kerzner aims to make it grow at the 30-percent plus per annum achieved by Southern Sun under his stewardship.

Mr Kerzner and Mr Fiddian Green, chairman of Rennies, told the Sunday Times that Newco would almost definitely be listed on the Johannesburg Stock Exchange in the next 18 months.

They maintain one of the main reasons they decided to work together rather than against one another, was to pool international marketing strengths.

"The tiny share of international tourism South Africa has today is scandalous," says Mr Kerzner. "We attract fewer European tourists than Australia."

He is confident the new gaming giant in association with its partners, Southern Sun and Safmarine, can launch an unprecedented marketing effort abroad.

■■■

Multimillion rand "spectaculars", such as the boxing, golf, tennis and entertainment seen in recent years at Sun City, could become even more frequent and audacious in future as the new, stronger group attempts to grab world attention.

The new company will be able to

By DAVID CARTE **Editor, Business Times**

offer globe-trotting gamblers a large variety of casinos on land and at sea, in the bushveld and at the coast, balmy weather, beautiful scenery plus first rate accommodation — at bargain prices.

One reason why it will be so competitive is the cheapness of the rand. Already it is possible for Americans to have a two-week, five-star holiday in South Africa for as little as R1 500.

If Mr Kerzner and his team have their way, they will communicate this bargain in tourism internationally, and they hope SA will soon lead the field.

Safmarine has already started looking for a passenger liner, "a five-star hotel on water", which will include a casino and, says its chief executive, Mr Marmion Marsh, expects to start a service between Europe and South Africa within the next six to nine months.

Another service, cruising the subtropical seas of Southern Africa towards Mauritius, is also on the cards.

"Let's face it, we'll be catering for the affluent," says Mr Marsh, "and there's no question that these passenger ships will pay."

He admits travelling on these liners will be expensive, "but not so expensive if you take an air fare and add 14 days in five-star comfort."

Mr Marsh sees nothing contradictory about Safmarine being a major party in gambling, while the State, which officially frowns on gambling, is still a major shareholder in Safmarine.

"There was gambling on the Union Castle liners we took over years ago and no one made any fuss."

Safmarine has been a shareholder in Southern Sun since the latter's inception 14 years ago, and it was only natural, say Messrs Marsh and Kerzner, that they should act together now. Hotels and ships belong side by side.

The parties to this week's deal were anxious to play down talk of monopoly, but with the Hilton Hotel's Maseru casino the only one south of the Limpopo not in the stable, that is what they have.

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The parties did not consult the Competition Board because all the casinos are outside SA, and they say the board therefore has no jurisdiction.

"We don't have the monopoly," says Mr Fiddian Green, "the governments do."

But the homeland governments that do not yet have casinos, such as KwaZulu and KwaNdebele, will now have only one strong suitor for the right to operate in their territories.

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Delegates slam new constitution at UDF rally

THE United Democratic Front was launched yesterday on a wave of enthusiasm at a mass rally in Cape Town which attracted between five and 6 000 people of all races from throughout the country.

The rally, one of the largest nonracial anti-Government congresses in years, heralds the beginning of a major campaign to smash the Government's constitutional proposals.

More than 600 delegates, representing 400 organisations, adopted a series of resolutions condemning the proposed new constitution, the "Koornhof Bills", "imperial-

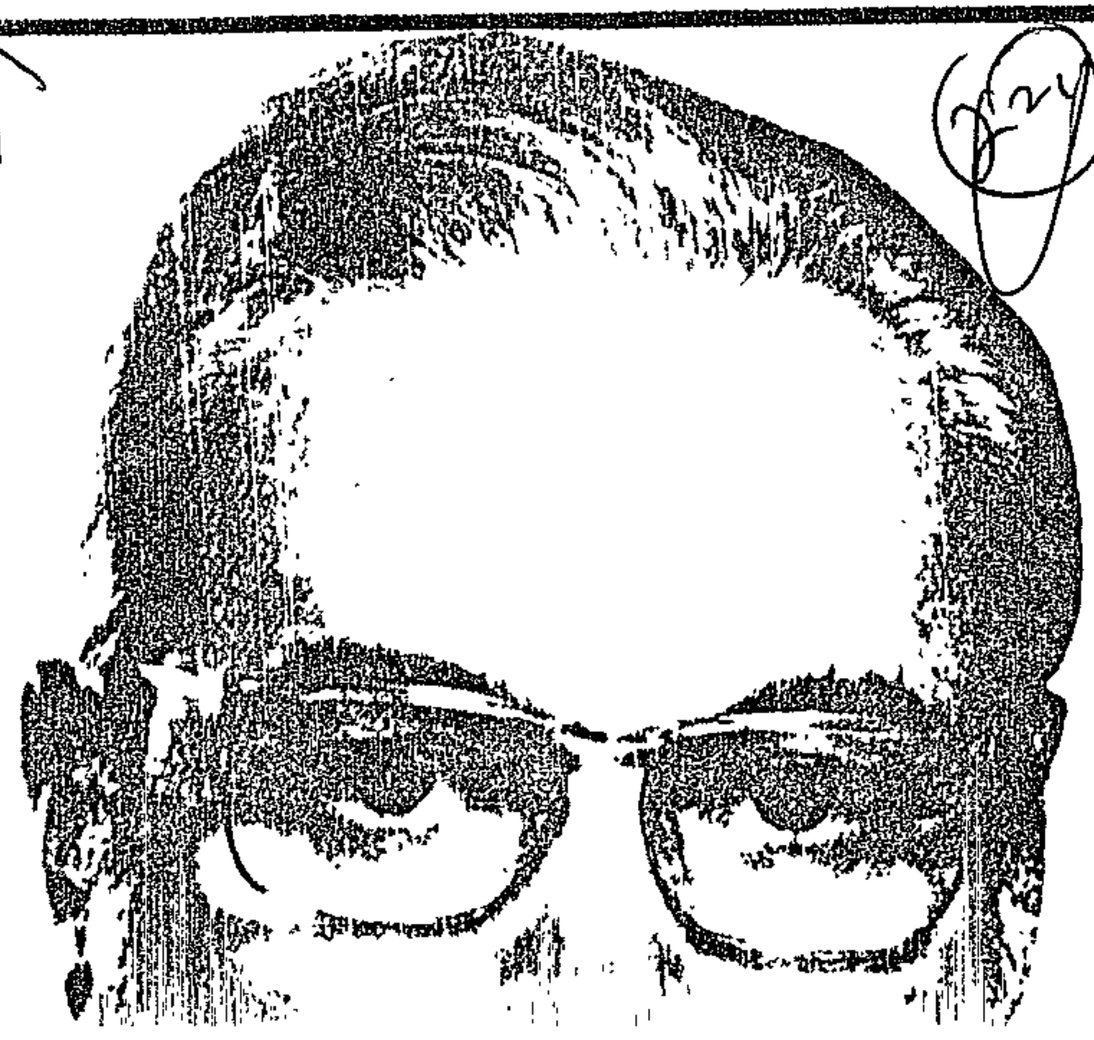
By BRIAN POTTINGER and SYLVIA VOLLENHOVEN

banner, and to educate people about the dangers in the constitution.

Other resolutions slammed cornerstones of the apartheid society such as group areas and removals. One resolution attacked the alleged continu[illegible] force by the Government and Swapo were also read out at the meeting.

In a well-received keynote speech at the rally after the closed session, Dr Alan Boesak, president of the World Council of Reform Churches, said the historic meeting was telling South Africa and the world: "We are struggling for our human dignity and for the future of our children — we shall never give up."

"In a sense the formation



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By BRIAN POTTINGER in Cape Town

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By DAVID CARTE — Editor, Business Times

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But the homeland governments that do not yet have casinos, such as KwaZulu and KwaNdebele, will now have only one strong suitor for the right to operate in their territories.

It is probable that any casino in KwaNdebele will now be smaller than might have been the case had it been competing directly against Sun City.

Negotiations for the pooling of Newco and Rennies casino interests took only six days. This required a lot of trust and complete faith in accounting between the parties.

Newco and Holiday Inns pooled their assets and took shares in the merged operation according to the profits generated by the respective assets.

Newco is 25 percent owned by Southern Sun and 75 percent by Sun Rennie. Sun Rennie is owned 50 percent by Rennies and Holiday Inns, and 50 percent by Mr Kerzner and Safmarine. Mr Kerzner is chief executive and Mr Dick Goss, former chief executive of SA Breweries, chairman.

Mr Fiddian Green is deputy chairman. The other directors are Mr Peter Bacon, managing director of Southern Sun, Mr Selwyn MacFarlane, of SAB, Mr Marsh, Mr Nigel Matthews, MD of Holiday Inns, and Mr Ted Steyn, of Rennies

gates slam new constitution at UDF rally

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By BRIAN POTTINGER and SYLVIA VOLLENHOVEN

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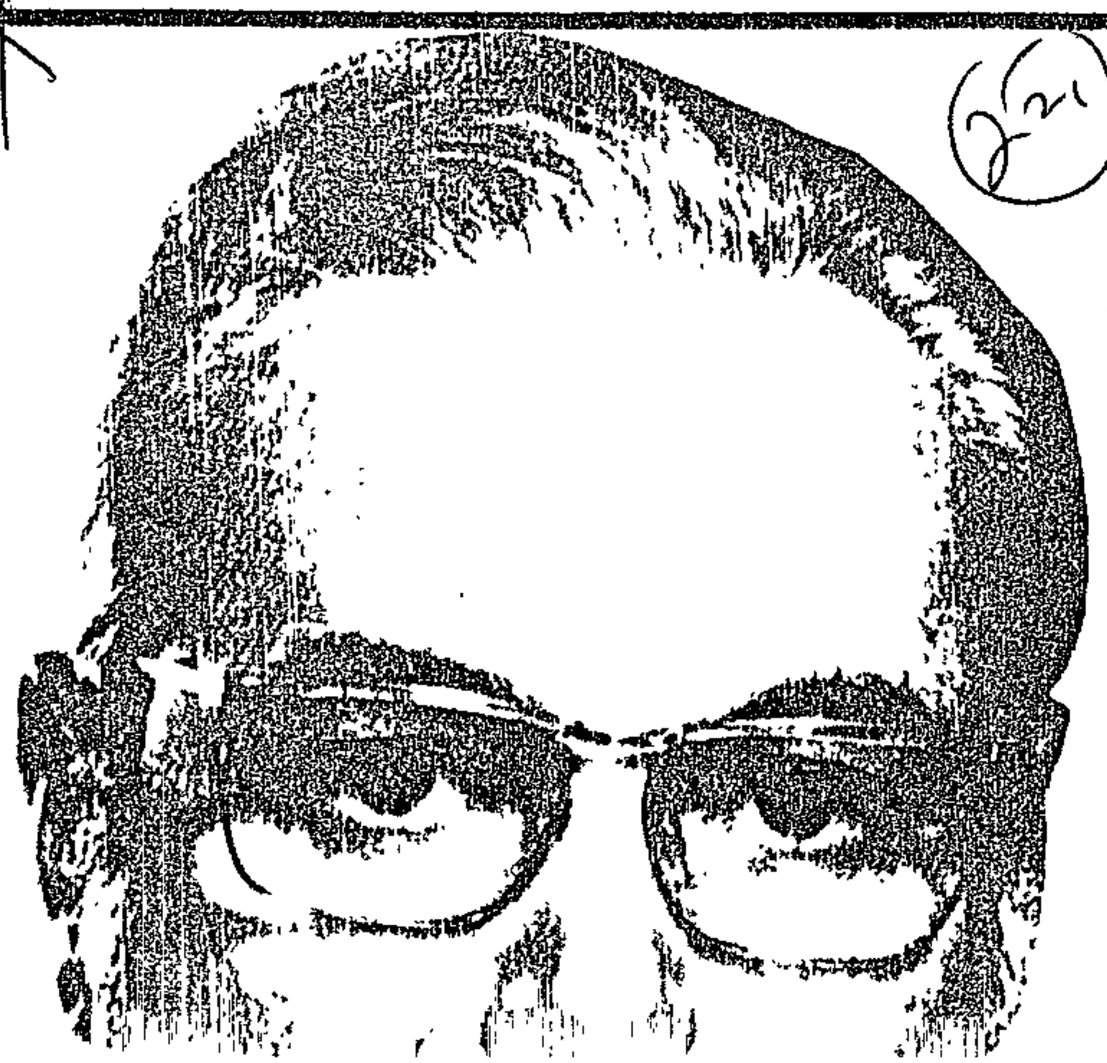
"In a sense, the formation of the UDF both highlights



Fireworks not likely from UN's Mr Plod

S Times 21/8/83

By BRIAN POTTINGER in Cape Town and MICHAEL LITTLEJOHN in New York

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LONDON — Gold closed at $425,00-$425,75 an ounce, down from an afternoon fix of $426,40 and compared with an opening $425,90-$426,40 and a close on Monday of $424,25-$425,00.

Dealers said gold retreated from its highs on profit-taking after the gains of Monday and yesterday.

Closing prices

(In $ an ounce)
LONDON:
425,00-425,75
Fixing am: 425,75
Fixing pm: 426,40
ZURICH:
426,00-429,00
(421,00-424,00)

Trust Bank profits up 28%

By HAROLD FRIDJHON

JOHANNESBURG — Trust Bank has produced an excellent result for the year to June 1983 with net income of R37 326 000 and the attributable profit, after provision for prefence dividends, of R31 771 000 which is 28 percent higher than the previous year's R24 786 000.

All but R71 000 of this profit has been transferred to disclosed reserves in order to strengthen the capital base of the bank which now stands at R180 137 000

The managing director, Dr Chris van Wyk, described this transfer to disclosed reserves as the largest capital injection for the bank adding that the capital base was now more than adequate for budgeted future growth.

He disclosed yesterday that the group operating profit before tax and transfers to contingency reserves had increased by 53 percent but he would not be drawn on the actual figures. He added, however, that the return on average assets compared favourably with the best returns in the South African banking sector.

In five years the bank's profit has grown from R3 211 000 in 1979 to the current R31 771 000

Group assets totalled R3 777m which is an increase of just under 14 percent compared with the previous year's 29,4 percent. Assets have grown by a compound rate of 27 percent over the past five years

The reason for last year's slower asset growth rate, according to Dr van Wyk, was that the bank concentrated on a strategy of profitability at a time of intense pressure on gross profit margins rather than on asset growth

Higher earnings came from commissions and fees not only from better management of the assets

Gross interest margins were under pressure for the major portion of the financial year

Liabilities which have shown a compound growth rate of 29 percent over the past five years have grown from R1 390m in 1979 to R3 597m in 1983.

The earnings a share rose from 47,98c in 1982 to 61 43c last year but there is to be no relaxation of the bank's policy not to pay a dividend before 1985. If the capital reserves are to continue to grow at current rates for the next two years, Trust Bank will have a capital base which will be a force in the market

Dr van Wyk said that the restraining effect of the property exposure on the operating results of the bank was diminishing and the negotiated schedule with the Reserve Bank should be in the clear by 1985.

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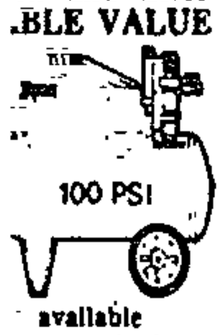

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...Beers Consolidated ...es Limited

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...embers for the half-year ended 30th June 1983 and ...on of interim dividend.

...half-year ended for the half-year ...ber 1982		Year ended 31.12.82
...d ...6.82		R millions
...108,5		287,5
91,3		149,0
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152,3		240,0
—		10,8
1,2		1,0
376,5		737,8
25,5		59,0
7,0		15,7
48,6		94,8
—		2,2
81,1		171,7
295,4		566,1
37,8		89,0
—		—

Note
It should not be assumed that the results for the half-year ended 30th June will be repeated in the half-year ending 31st December, since income does not necessarily accrue evenly throughout the year.

Borrowings
At 30th June 1983 short and medium term borrowings were R532 million and other net current assets R447 million, compared with R531 million and R321 million respectively at 30th June 1982 and R564 million and R392 million at 31st December 1982 Long term borrowings were R34 million at 30th June 1983 compared with R59 million at 30th June 1982 and R53 million at 31st December 1982.

These figures exclude R200 million redeemable preference shares issued by subsidiary companies subsequent to 30th June 1982 and dividends of R6 million accrued thereon, compared with R200 million and R7 million respectively at 31st December 1982

INTERIM DIVIDEND
Declaration of Dividend No. 127 on the Deferred Shares

An interim dividend in respect of the year ending 31st December 1983 being dividend No 127 of 12,5 cents per share (1982 12,5 cents) has been declared payable to the holders of deferred shares registered in the books of the Company at the close of business on 30th September 1983 and to persons

I & J profits dip

By ROBERT GREIG

IRVIN & JOHNSON'S after-tax profits for 1983 were slightly down to R9 720 (R10 393 in 1982) but they declared an interim dividend of 17c a share, the same as last year's.

However, earnings per share dropped from 37,5c to 34,5c, or 3,6c, the effect, the directors say in their year-end statement released yesterday, of changing the basis of valuing inventory from the average

Company dashes union's hopes

Sowetan 25/8/83

58

WHATEVER hopes the Insurance Assurance Workers Union of South Africa may have had of Liberty Life insurance company having a change of heart and accepting their union have been dashed by a response they received from the company which insists that the union should be "representative of all our staff."

The insurance union (IAWUSA) and Liberty Life have been locked in a battle for recognition since the workers went on a two-day strike last month. Liberty Life has rejected the union's application for recognition because it is open to black members only.

Since the strike the union and management have been communicating through letters. The union was the first to write to the insurance company after the strike when in it they formally applied for recognition. Management responded by asking questions about the union. The union responded to some of the questions. Management's response to that letter was received last-week.

In their latest letter the company says the union has not answered many of the substantive questions and the company declines to reply to any allegations contained in the letter except for point four. Point four in the union's letter dealt with an alleged incident of victimisation by the company of a union member.

However the company said it reserved the right to respond to and refute the contents at any future time.

Liberty Life categorically denied victimising Mr S Govender and maintains that Mr Govender resigned on his own volition.

between.

Recently, many practices have preferred to move into low-cost mass housing which involves the total environment

Such barefoot architects — not a perjorative term for pop-architects — are beginning to get such commissions from which they were often excluded in the past.

The commission aspect, however, serves only to highlight the by-now familiar problem of centralised control of the professions — both statutory and voluntary? Why do architects, like so many other professionals, continue to shelter behind a tariff book? Why should they not advertise their services?

The usual reply, of course, is that such controls are needed to maintain standards in the public interest But, accepting that minimum qualifications are necessary, there should be nothing thereafter to stop architects or anyone else from openly competing on service and price and letting the market sort the good from the bad

After all, a little more entrepreneurship could well prove profitable And who in the professions would object to that?

RENNIES/KERZNER/SAFMARINE

Casino royale

The effective merger of the southern African casino interests of Holiday Inn and Southern Sun, under the auspices of Sol Kerzner's Newco, provides the platform for a major drive to attract foreign tourists and for a concerted assault on overseas markets.

In addition, the presence of Safmarine in the controlling consortium gives the new group a further dimension, which should further enhance its existing activities. Kerzner obviously has ambitious plans for Newco, which extend far further than just being content with developing the assets now under his control.

The southern African casino resorts have effectively been put under the control of one man. Will he be able to reproduce the growth he generated at Southern Sun?

While some details will be made public in the next couple of weeks, there are, however, unlikely to be any major developments for the next year. Kerzner says that the group needs time to consolidate before new ventures are undertaken. And he admits that it will take him a while to get to know the operations of the Holiday Inns now under his control.

This may be one of the biggest hurdles. Although Newco — to be renamed in the near future — will have a strong corporate identity, distinct from both Holiday Inn and Southern Sun, it will have the problem of running two virtually separate hotel chains. Under licensing agreements with Holiday Inn International, the hotels in Swaziland, Transkei, Venda and Lesotho will have to maintain the Holiday Inn name — at least until the existing agreements expire. The first due for renewal is that in Swaziland, and this not for another six years.

Kerzner, however, does not see this as a problem. "We will develop a strong corporate umbrella that will prevent any confusion arising from the different names." He points out that Southern Sun faced a similar situation during its formative years.

The next step will be to co-ordinate developments and expansions at the various group hotels. The green light has just been given for a R25m expansion at Sun City which will greatly increase room capacity at the group's flagship resort, while plans are in hand to build a similar extension at the Wild Coast Holiday Inn in Transkei.

Although specific details of the latter plan are under wraps, a logical step would be to include a large entertainment centre. Kerzner says that he envisages contracting international entertainers and sportsmen to perform on one tour at several of Newco's resorts Apart from increasing the earnings return on these visits, Kerzner says it will also enhance the group's bargaining power when looking for potential attractions.

The link with Safmarine will provide other benefits than just the financial muscle which has so far been used. The shipping group intends to re-introduce a passenger liner service to southern Africa which could also be linked to a more regular route servicing the group's hotels on Mauritius.

In addition, Safmarine's air transport

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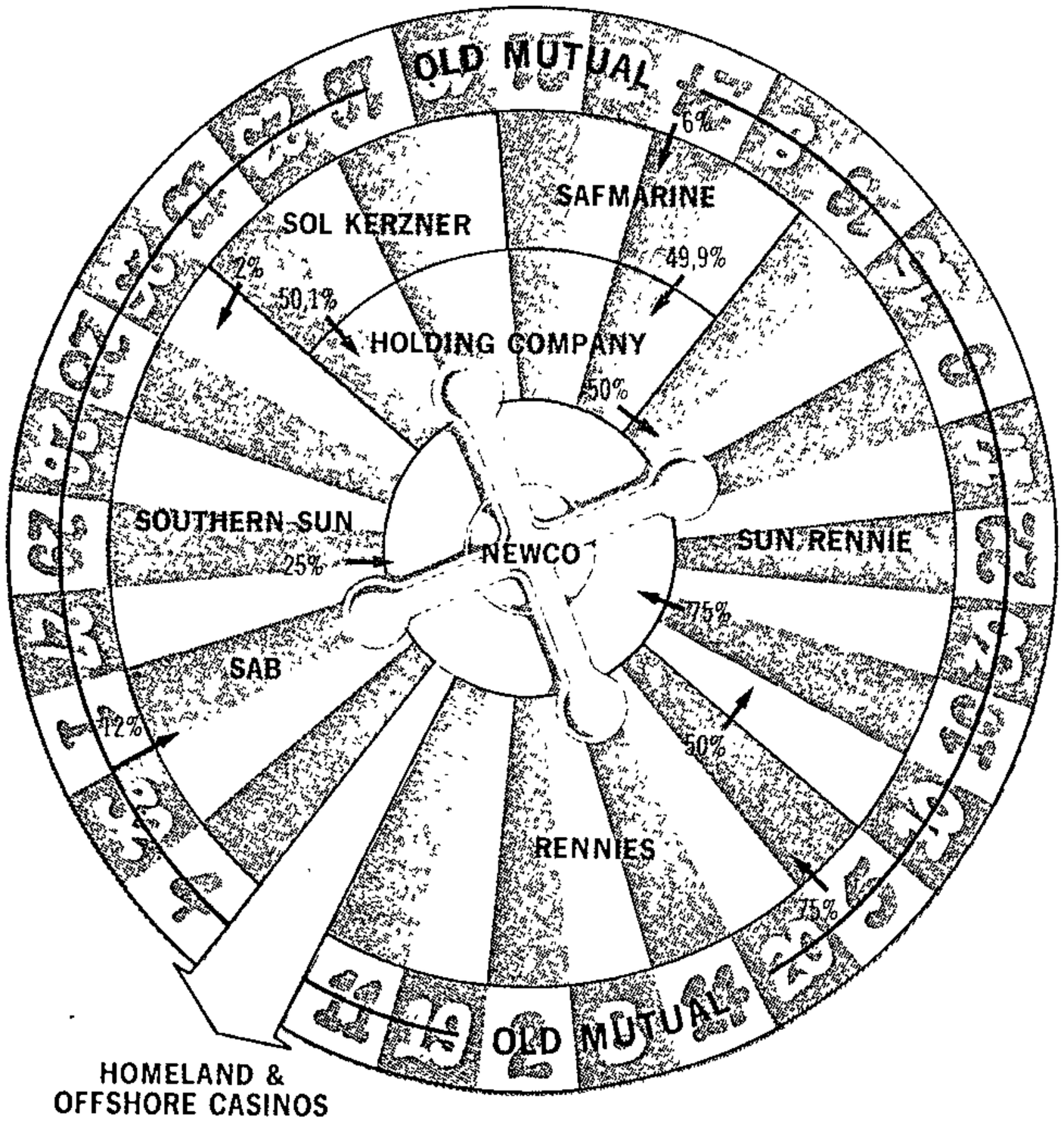

side is currently under-utilised and could be further developed to provide links between the resort and SA's main cities The air interests range from CapeAir and NamibAir (passenger) to Safair (transport) An international air charter service should also not be ruled out. Many of the major international hotel groups already have strong links with airlines — such as Westin with United and Hilton with TWA.

This is, perhaps, the most exciting potential development for the new group. The added pulling power of being linked with a shipping and airline group could dramatically improve the group's chances of attracting international travellers to this part of the world.

But what about the domestic ramifications of a virtual monopoly on this form of resort? Kerzner obviously does not see this as being detrimental, either to the potential vistors or to the independent countries and homelands which depend on the resorts for much of their revenues. He says that two companies competing for the same market in two neighbouring homelands would find themselves both worse off, as would the governments of the respective homelands.

But with control now in one pair of hands, Kerzner says, development can be controlled and allowed to take place in an orderly fashion. It is almost certain that it was this scenario — over the proposed Holiday Inn in KwaNdebele close to Sun City — that prompted the first round of rationalisation talks between Holiday Inn and Southern Sun earlier this year. Kerzner says that under the new set-up any development at KwaNdebele can now be designed not to conflict with Sun City. "If we build something completely different, we will re-educate the potential market and also create completely new markets."

He is more guarded on the possibility of international expansion by Newco. This is scarcely surprising since the failure of the foray into Atlantic City and the snub received in Queensland while he was chief executive at Southern Sun. "It is certainly an area we would like to get into, but I do not expect any development on this side for at least a year." The lessons learnt in Atlantic City have been studied and the same mistakes are unlikely to be repeated.

One possibility, to circumvent some of the opposition voiced over South African links in the US, could be to headquarter the new group in one of the countries in which the group is now operating. Under his restraint of trade clause with SAB and Southern Sun, Kerzner is, in any case, prohibited from operating in SA for the next 18 months.

So what about a listing for Newco? Kerzner says that all the parties concerned are working towards that objective, but that nothing will be done for at least 18 months. While Newco could immediately produce a five-year track record to satisfy JSE requirements, by putting together the historic numbers from its various operations, Kerzner feels that one full year's operation is desirable before a listing is contemplated.

One aspect of the new set-up which Kerzner may find a little difficult to swallow, however, is the loss of the independence which he set out to achieve when he broke away from SAB/Southern Sun. Rennies is now the biggest single shareholder in Newco, with an effective 37,5%. Kerzner has an effective 18,75%, with Safmarine also holding 18,75% and Southern Sun the 25% balance This "minority status" is, however, more apparent than real The holding company through which the Kerzner/Safmarine 50% of Sun Rennie is held is controlled as to 50.1% by Kerzner (Safmarine has 49,9%), so he effectively has the same voting power in Sun Rennie, and hence in Newco as Rennies (see diagram).

Kerzner says he left Southern Sun because he did not like being a minority shareholder with one large majority owner. In Newco, although he still has only a minority stake, he says he is happier with the rest of the shareholding being spread fairly evenly among many more hands. What is noticeable, however, is that Southern Sun now has a distinctly smaller slice of Newco, though in a bigger operation and despite having board representation.

This begs the question: why did Kerzner need to leave Southern Sun in the first place? From his point of view, the ramifications of the Premier deal were probably too much to come to terms with. However, why did Southern Sun not just re-open the earlier rationalisation talks with Holiday Inn and come to some sort of agreement along the lines now concluded? A link up with a transportation company, such as Safmarine, could also then have been examined.

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Peter Farley

PICBEL GROUP

Speculative interest

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At first glance, an investment in the Picbel group of companies does not look attractive. Right through the conglomerate, profits are being cut by the recession; further losses are soon to be reported by Union Wine; financial structures, while much improved on a few years back, remain uncomfortable in relation to cash flow; and restructuring over the past couple of years has left the group's operations located apparently haphazardly through the various holding companies.

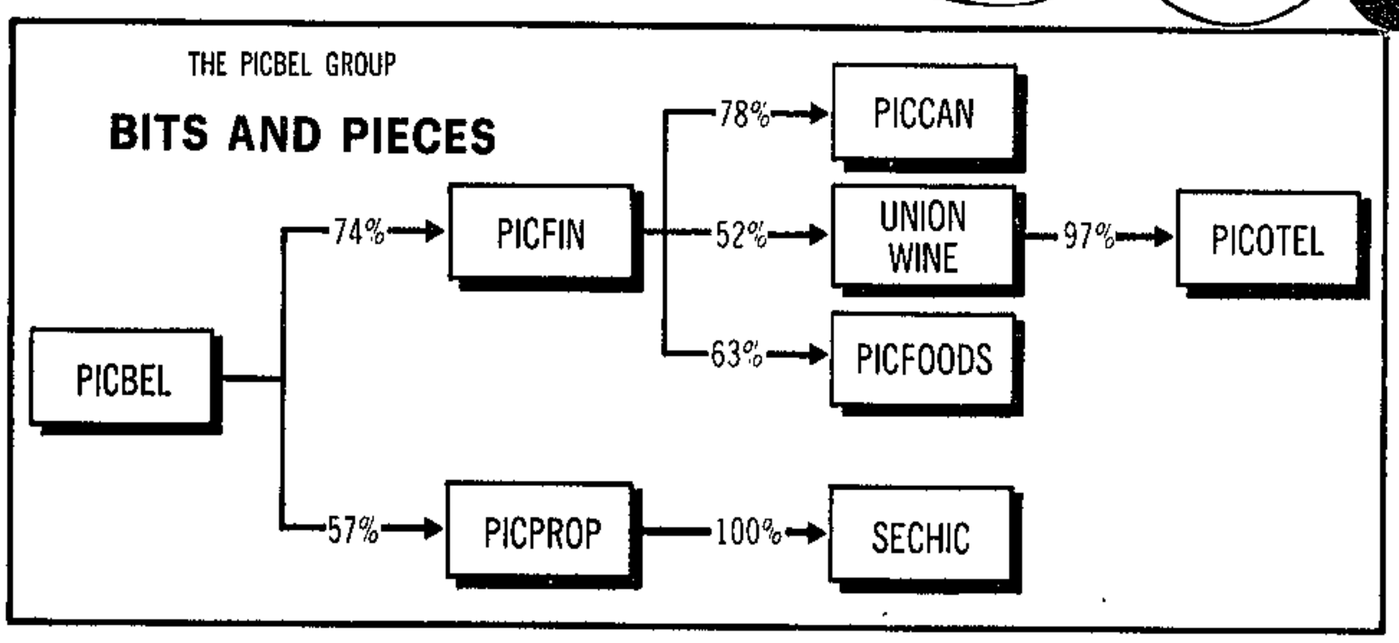
Yet strong demand for the shares has been evident over the past few months, pushing dividend yields well below the market average. Little scrip is available and whenever shares do come on offer, they are quickly snapped up.

Most of the interest, of course, is being generated by the cash option hangover from the Kanhym deal with Gencor. By the end of this year, as is well known, Picbel management will have to decide whether to hang on to its effective 2,1m shares in Kanhym or to sell them to Gencor at an agreed basic price of R14,40 each. The sale of shares, which are held in a private company through Picfoods, would raise at least R40m for the group as the price Gencor is to pay attracts interest payable at prime-related rates.

Kanhym shares currently trade at R10,50 each and offer a yield at this level of 5,7%. This year's earnings are likely to be lower than last and on short-term considerations it would seem logical for Picbel to take the money and find an alternative investment. Furthermore, Gencor is unlikely to want to keep the minority stake outstanding and presumably will do all it can to persuade chairman Jan Pickard to sell out.

There is just a chance that he will hang on, of course, hoping to extract an even better price from Gencor — or even on the grounds that it is a good investment — but at the moment it seems probable that the cash option will look most attractive at year's end.

As a result, Picfoods' shares are all but unobtainable in the market at present and the yield has been pushed down to only 3,1%. There are only 5,8m ord shares in issue; one major broker is known to have bought up 1m some time ago; and Picfin holds a further 3,6m, or 63%, so there are precious few shares left out in the open.



Consequently, investor interest has turned to holding company Picfin but, again, trade is very slow. The yield is rather more acceptable, 6,1% at 575c, but the return is largely academic because of the tight holdings. The slightly more tradeable Picbel has moved up as a result and yields only 4% at 500c. New lines are readily absorbed by the market.

Just what Picbel would do with the money is another matter. The rapidly shrinking SA corporate market will curb the range of targets for a sum of this size and the group may be limited to taking further investment stakes in unrelated companies.

This could create problems for management. Ultimately, says GM Gideon Nel, Picbel would like to be in a position where it could step in and sort out problems arising in an investment. This might not be possible if the holding were to be in an area in which group management is not experienced.

Given the present structure of the group and management's view of growth prospects, Picbel would presumably prefer the investment to be in the fields of household accessories, sports goods and other retail operations. Since the reshuffle in the group's holdings in the Asokor, Karoo and Kanhym meat combines and the sale of its canning operations to Langeberg, Picbel has purchased household appliance distributor Katz, sports goods chain Logans and Art Potteries, sharply changing the trading emphasis of the group.

In addition to the Kanhym holding, other major investment stakes were taken, notably 458 700 shares in Cape Town transporter Tollgate, 626 700 shares in Boland Bank and 316 360 shares in the Kirsh group's pyramid Coki, indicating that management would not be opposed to taking further investment stakes with the cash.

Piccan, former holding company of the group's unprofitable canning operations, currently holds the group's stake in Logans and in Katz. Through Katz, the group manufactures a range of refrigerators under the name Palfridge and has recently completed expansion of its production lines in Mandini, KwaZulu.

Nel believes the group's appliances have been gaining market share and this is likely to be a growth area for the group in future, though there is currently local overcapacity.

Management sees Picprop as a well-positioned company at present and another sound earnings source. Ironically, though the Logans sports chain is centered in Piccan, the franchise for the manufacture and distribution of Adidas sports clothes is held by Picprop, which also owns a number of commercial properties.

Included in the property portfolio is the Strand Street Parkade, which is currently linking up to the new Southern Sun hotel in Cape Town and will provide parking for the complex. This will enhance earnings.

Nel sees Picprop as having a useful balance between steady earnings from Adidas and a hefty asset base in the properties. The better earnings growth has been on the property side over the past year or so because of rapid rental escalations. In financial 1982, property rentals accounted for 71% (38%) of taxed profit of R600 000 (R440 000). This may be expected to steady from now on, though continued hikes in building costs indicate that the group's properties should continue to yield well.

The balance sheet does not put a value on the property portfolio but the company's net asset value of 70c a share would presumably be considerably higher if the properties were to be revalued at current rates.

Union Wine is another kettle of fish. The company operated at a loss in the first six months of the last financial year and is unlikely to have emerged from the red by year's end on June 30. The liquor market has been badly hit by the recession and Union Wine's exposed position *vis-à-vis* Cape Wine makes it particularly vulnerable. It has become apparent that Cape Wine's dominance of the market makes it extremely difficult for these smaller operators to carry on business. A merger or sell-off to someone like Rennies, though management might pooh-pooh the idea, looks logical.

Though Union Wine is able to make use of its Picotel outlets, Nel believes this does not give it any significant market edge. Consumers still wish to see market-leading products in bottle stores and owning the strategic outlets makes little difference to profitability. The re-organisation of the Kirsh group, which holds 37% of Union Wine, could change this if it allows Union Wine to use the Metcash outlets as liquor distributors. Then there is the question of licences.

The other major reason for strong investor interest in the shares, of course, is the ever-present possibility of a takeover and some type of asset-stripping exercise. Even an offer of R10 a share for Picbel — a near-30% premium on last year's net asset value of 770c a share (at market value of investments) and double the current share price — could be recouped by stripping the cash out of Picfoods.

Possible predators

There are a number of groups into which Picbel, as it stands, would fit — most notably, perhaps, Rennies. This Old Mutual-held group has bags of cash at present and would comfortably be able to afford the purchase. Union Wine would slot easily into Douglas Green — and Coki probably would not be averse to selling its 30% holding, given current market conditions and its need for cash; Picotel would add to the Holiday Inns chain; the domestic appliance side could form a vehicle for the listing of Rennies' light manufacturing interests, as has already been indicated; and R40m-odd in cash would round out the picture nicely.

Group earnings this year are certain to be lower as income from investments eases — from Kanhym, Tollgate and Coki in particular — and the trading divisions come under pressure. Nel says the group would probably be unwilling to reduce cover further from last year's 3,6 times so a repeat of the 20c 1982 dividend could be at risk.

On this basis, the shares do not look attractive. But there has been some smart money going into the counters and on speculative grounds a buy could be rewarding. Nevertheless, investors shouldn't expect too much.

Chris Wilson

PICBEL'S PROFIT MAKE-UP
Divisional contributions to taxed profit

	1981		1982	
	Rm	%	Rm	%
Household appliances	4,7	63,5	2,4	45,3
Investments	2,2	29,7	2,3	43,3
Liquor and hotels	0,6	8,1	0,1	1,9
Sports goods	0,2	2,7	0,3	5,7
Property	0,1	1,4	0,2	3,8
Canning	(0,4)	(5,4)	—	—
Total	7,4	100	5,3	100

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side is currently under-utilised and could be further developed to provide links between the resort and SA's main cities. The air interests range from CapeAir and NamibAir (passenger) to Safair (transport). An international air charter service should also not be ruled out. Many of the major international hotel groups already have strong links with airlines — such as Westin with United and Hilton with TWA.

This is, perhaps, the most exciting potential development for the new group. The added pulling power of being linked with a shipping and airline group could dramatically improve the group's chances of attracting international travellers to this part of the world.

But what about the domestic ramifications of a virtual monopoly on this form of resort? Kerzner obviously does not see this as being detrimental, either to the potential vistors or to the independent countries and homelands which depend on the resorts for much of their revenues. He says that two companies competing for the same market in two neighbouring homelands would find themselves both worse off, as would the governments of the respective homelands.

But with control now in one pair of hands, Kerzner says, development can be controlled and allowed to take place in an orderly fashion. It is almost certain that it was this scenario — over the proposed Holiday Inn in KwaNdebele close to Sun City — that prompted the first round of rationalisation talks between Holiday Inn and Southern Sun earlier this year. Kerzner says that under the new set-up any development at KwaNdebele can now be designed not to conflict with Sun City. "If we build something completely different, we will re-educate the potential market and also create completely new markets."

He is more guarded on the possibility of international expansion by Newco. This is scarcely surprising since the failure of the foray into Atlantic City and the snub received in Queensland while he was chief executive at Southern Sun. "It is certainly an area we would like to get into, but I do not expect any development on this side for at least a year." The lessons learnt in Atlantic City have been studied and the same mistakes are unlikely to be repeated.

One possibility, to circumvent some of the opposition voiced over South African links in the US, could be to headquarter the new group in one of the countries in which the group is now operating. Under his restraint of trade clause with SAB and Southern Sun, Kerzner is, in any case, prohibited from operating in SA for the next 18 months.

So what about a listing for Newco? Kerzner says that all the parties concerned are working towards that objective, but that nothing will be done for at least 18 months. While Newco could immediately produce a five-year track record to satisfy JSE requirements, by putting together the historic numbers from its various operations, Kerzner feels that one full year's operation is desirable before a listing is contemplated.

One aspect of the new set-up which Kerzner may find a little difficult to swallow, however, is the loss of the independence which he set out to achieve when he broke away from SAB/Southern Sun. Rennies is now the biggest single shareholder in Newco, with an effective 37,5%. Kerzner has an effective 18,75%, with Safmarine also holding 18,75% and Southern Sun the 25% balance. This "minority status" is, however, more apparent than real. The holding company through which the Kerzner/Safmarine 50% of Sun Rennie is held is controlled as to 50,1% by Kerzner (Safmarine has 49,9%), so he effectively has the same voting power in Sun Rennie, and hence in Newco as Rennies (see diagram).

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R1 300m leaves South Africa in disinvestments

Own Correspondent

JOHANNESBURG — There was a total disinvestment in the South African economy of R1 300m by foreign investors in the first half of 1983.

A report by Johannesburg Stock Exchange broking firm Davis, Borkum, Hare has estimated that net foreign sales of mining equities amounted to about R720m in the six months to end-June

The purchase by South African institutions of controlling interests in companies such as Rennies and Premier made up the balance of the disinvestment, the report says.

The report estimates there was net selling in South African gold mine shares of R235 030 000, net selling in mining house shares of R348 830 000 and a net selling in De Beers shares of R144 200 000

The only shares to gain were platinums in which there was net foreign buying of R7 330 000

London investors in platinum shares substantially reduced their holdings but United States investors increased their holdings by R30m

On June 30 foreign shareholders held 31,87 percent of the market capitalization of South African mining shares compared with 33,68 percent at the end of 1982

Breaking this down the report finds that United States ownership of South African mining shares at June 30 was 19,51 percent (December 31 1982: 18,27 percent), European ownership was 3,21 percent (2,9 percent) and London ownership was 10,96 percent (10,7 percent).

Stanbic buys joint control of Liberty Life Group

By JOHN MULCAHY and HAROLD FRIDJHON

JOHANNESBURG. — Stanbic (Standard Bank Investment Corporation) has bought joint control of the Liberty Life Group which has assets of more than R3 000m for R84 500 000.

Payment for the deal which is effective from July 1, 1983 will be effected by the issue of 6 700 000 ordinary Stanbic shares at R9 a share and R24 200 000 in cash.

Control of Liberty Life Association is held by Liberty Holdings which owns 81 percent of the ordinary issued capital. Control of Liberty Holdings is held by a private company, Liblife Controlling Corporation, which has 52 percent of the shares.

The shareholders of Liblife are DGI Holdings (controlled by Mr Donald Gordon's family trust and a charitable foundation), Annexe Investments (Mr Michael Rapp's family interests) which together hold 75 percent of Liblife, and Stanbic with a 25 percent holding.

Voting rights

Stanbic is buying a further 25 percent holding in Liblife from DGI Holdings and Annexe. Although DGI will hold 33,3 percent of Liblife and Annexe 16,7 percent, the 50 percent voting rights of the two companies will be vested in Mr Donald Gordon's company.

The issue of the Stanbic shares will result in DGI and Annexe owning 9,87 percent of the increased ordinary share capital of Stanbic which will amount to 67 885 000 shares.

The effect of the deal will be to dilute Stanbic's earnings and net tangible asset value. If the 50 percent interest in Liblife had been held by Stanbic for the entire financial year ended December 31 1982, after adjustments for the cash consideration, the Stanbic earnings would have been decreased from 135,3c a share to 121,8c. And the tangible asset value would have dropped from 780c to 720c.

This takes no account of any goodwill on the Liberty Life Groups insurance business or its inner reserves attributable to shareholders.

There will be no change in the control of Liberty Holdings and

Mr Henri de Villiers

Mr Donald Gordon

the Liberty Life Group will continue to be operated independently of Stanbic with Mr Donald Gordon continuing as chairman of the group with with no alterations in the executive management.

Stanbic has held its interest in Liblife ever since Mr Donald Gordon bought out the large interest which Royal Guardian of London held in the South African company. Indeed that transaction was only made possible by the assistance which Standard gave to him some years ago.

Directors

Since then the two groups have been moving closer together with Mr Henri de Villiers, managing director of Stanbic, being appointed a deputy chairman of Liberty Life Association, and Mr Donald Gordon, Liberty's chairman being appointed to the Stanbic board. It is understood that in the future both companies will appoint further directors to each other's boards.

The bonding of the companies suggest that there will be further synergy between the two groups as insurance companies and banks have found in the United States where there is a trend of banks aligning themselves with insurance companies.

The issue of the 6 700 000 Stanbic shares which have the effect of diluting the interest of Standard and Charter of London in the Stanbic group. Stancha's share of its South African subsidiary will fall from 58,11 percent to 52,4 percent which brings it closer into line with the maximum proportion which the authorities would like foreign banks to hold in their South African interests.

At present Old Mutual holds about 21 percent of Stanbic. This holding will be reduced to 19 percent and the Liberty Group's investment holding will decline to 7,6 percent from 7,8 percent.

The Standard Bank Group has been widening its financial interests beyond banking. It has moved close to United Building Society after having decided to run down Standard Building Society. Now the link with Liberty means that a very powerful capital base is being forged which can transact business in every aspect of finance, assurance and insurance.

Mr Henri de Villiers, managing director of Stanbic, said last night that the two groups had been drawing very closely together. In buying the 25 percent of Liblife, Stanbic was exercising rights which were inherent in the original agreements. He did not reveal who approached whom.

When told that the market saw, as part of the Liberty-Stanbic synergy, some developments between Unisec and Fugit, he replied that that sort of move was a very long way down the road. Unisec and Fugit were totally different animals. Fugit was essentially an investment trust but Unisec was much more an operating and dealing company..

Mr Donald Gordon said thst the deal would have significant rationalization benefits down the line but otherwise he would not comment.

Comment: Understandably Stanbic appears to have paid a premium for its joint control share of Liberty Holdings, based on market prices.

Liblife holds 23 322 817 of the 44 851 572 issued shares in Liberty Holdings which are worth around R300m. This means that a 25 percent share is worth about R75m for which Stanbic is paying a little over R84m. This is not a substantial premium over market price bearing in mind the assets and the goodwill which is being acquired.

The market has reacted to the deal by moving Stanbic ahead to R10,50 from R10,40 on Thursday, and some analysts believe closer involvement by Mr Gordon could be cause to re-rate Stanbic.

Market view

There is a market view that Stanbic is a little staid in comparison to some of its more dynamic competitors, and although Mr Gordon is already on the board he now has a personal stake and is not known to be a wallflower in the boardrooms he graces.

For both groups there are obvious synergies, both in the protection afforded by size and in marketing of complete financial packages.

Liberty and the Gordon-/Rapp interests now have a stake in Stanbic that is nudging Old Mutual's 19 percent.

Although an insurance company may hold 30 percent of a bank in terms of the Banks Act any other company may hold only 10 percent, which could have been a factor in arriving at the split of shares and cash.

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New Ciskei bank cuts interest

THE Ciskei National Development Corporation is to be known as the Ciskei Peoples Development Bank from September 1, the President Lennox Sebe of Ciskei announced yesterday.

President Sebe and the managing director of the corporation, Mr Frans Meisenholl, also announced that certain interest rates on housing loans to Ciskeians were to be lowered by 3,25% from September 1.

The interest rates concession applies to housing loans of up to R10 000 at the time of approval, providing the borrower does not earn more than R400 per month. The interest rate decreases from 12,25% to 9%. The reduction applies to existing loans and future loans.

"The task of the Ciskei Peoples Development Bank will remain the economic development of Ciskei, but with greater emphasis on the improvement of the plight of the ordinary Ciskeian in the street," the statement said.

The directors of the new Ciskei Peoples Development Bank who were on the board of CNDC, are: Dr P K Hoogendyk (chairman), Mr F S Meisenholl (managing director), Mr J L Allen, Mr W M Boqwana, Mr B J Kenyon, Prof C H T Lalendle, Mr G N Serrurier and Professor J H Smith. New members are Chief J Mabandla and Mr N Ferreira. — Sapa

At this week's meeting to discuss the new wharfage charge system were (from the left) Mr NEELS HUBINGER, SATS (assistant director responsible for marketing services); Mr RAY WICKS, general manager (SA Coast), Unicorn Lines; Mr PIETER DE BRUIN, SATS (assistant general manager, harbours); Mr MIKE GROVES, deputy managing director, Unicorn Lines; and Mr DAN DALTON, branch manager, Grindrod Shipping

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Stanbic news rocks market

27/8/83

Shares report by Chris Wilson

AMID an increasingly concerned debate about the concentration of economic power in South Africa, Standard Bank rocked the market yesterday with the announcement that it is to take over joint control of Liberty Life, the country's third largest insurance group.

Standard's management says the deal will "strengthen its existing association with Liberty and facilitate the establishment of a broader-based financial services capability covering all aspects of banking, investment and insurance business."

Curiously, neither Stanbic's nor Liberty's shares were suspended on the Johannesburg Stock Exchange, despite the fact that negotiations had obviously been in progress for some time. The deal is effective from July 1.

The market may, however, have had an early whiff that something was in the air, when investors marked Liberty's shares up to around 1 400c — which is equivalent to the acquisition striking price — at the start of last month.

Liberty was trading at 1 325c and Stanbic at 1 050c when the official announcement of the acquisition hit the market on Friday morning.

Stanbic currently has a 25% stake in Liberty's holding company, while the balance of the shares are controlled by family trusts of Liberty's chairman Donald Gordon and the holding company's chairman Michael Rapp.

Some additional equity is held by a charitable foundation. An announcement by the companies involved says a "realignment" of shareholdings will result in Liberty's holding company being 50% controlled by Stanbic, with the remaining 50% held by two unlisted companies, DGI Holdings and Annex Investments, in a two-to-one ratio.

Explanations have not yet been forthcoming from the parties involved in the acquisition or, more importantly, from the JSE Committee, as to why no notice was posted warning shareholders to exercise caution in dealing in the shares.

Ironically, Liberty itself was one of the prime movers in the Anglo-led takeover of SA Breweries. One variation of the early market rumours was that Stanbic, not Liberty, was the target company.

With this and other events, the market has had plenty to mull over in the past week. The price of gold has continued to edge upwards, closing in London at $423,25 in London on Thursday afternoon.

While local gold bugs are predictably hopping with enthusiasm, a more conservative view in the market is that gold has yet to prove that it can sustain a bull run.

Gold counters had already discounted the latest advance in the bullion price and the JSE Actuaries all gold index hardly budged over the week from the 880-point level.

INVESTMENT by Derek Tommey

Insurance groups could help back new ventures

A MOVE is afoot to make South Africa's insurance companies, and possibly pension funds, play a bigger role in the development of new businesses in this country.

Many people have expressed concern recently at the small number of new enterprises being established and the retarding effect this is having on the growth in employment.

Only by creating new companies and industries will this country have any hope of solving its pressing unemployment problems.

There is also concern that the lack of new businesses is leading to distortions in the share prices as the institutional investors who are steadily amassing the public's savings can do little with this money other than invest it in fewer and fewer shares.

Conglomerates

Dr Anton Rupert, head of the Rembrandt group, is among the people to express concern at the limited number of few new enterprises coming on stream in the economy.

He said this week the big comglomerates were not investing in new businesses. They were chasing too few assets of existing concerns, driving up share prices and becoming bigger and bigger.

He suggested that one way of changing this situation would be to find ways to get the large insurance companies, which are now having to invest about R10-million a day, to use part of these funds to start new enterprises.

The idea of making the insurance companies play a larger entrepreneurial role is not new. After all they have the what the entrepreneur often needs most — ample cash.

Consequently, they are almost automatically regarded as the natural source of new enterprises.

But in the past the insurance companies have not taken kindly to the idea. They have argued with some justice that they have a responsibility to their policyholders to invest their funds prudently, and investing policyholders' funds in risky new businesses could thus not be justified.

New avenues

However, while this argument may have been valid in the past it holds less water today.

Without new avenues for investment the insurance groups and pension funds are likely to run into increasing difficulty in investing their funds efficiently. Thus it can be argued that without the establishment of new industries these institutions could find themselves in difficulties.

Furthermore, it can be claimed that one of the main reasons for the small number of new businesses starting up in this country has been the great success of the insurance and pension fund industry.

The fact is that because of the strength of the pension and insurance industry many of the incentives that drove people to establish their own businesses in the past are no longer around.

Old age

The probable prospect of an impoverished old age has induced many people in the past to take a chance and start their own business. They had, after all, little to lose. But in today's affluent society conditions are vastly different.

The go-ahead person, who would normally be the budding entrepreneur, these days will often find by the time he is in his mid-thirties that he has too much at stake to take the risk of starting his own business.

He probably already has a reasonable salary, a fairly assured job future and the prospects of an excellent pension. He could quite well also have share options to give a little capital.

Therefore for people in this situation the idea of starting their own business can look an extremely retrogade step

More difficult

On top of this is the fact that starting a new business is becoming more and more difficult.

Much more capital is needed because operating and overhead costs are much higher these days than in the past.

In this situation the small man has the odds stacked against him if he wants to become an entrepreneur. Hence the growth of the idea that the pension and insurance funds should play a bigger role in the development of new enterprises.

One percent

Dr Rupert has suggested that each of them should put aside one percent of their funds for the creation of new businesses and hire talented men to put this money to work.

The problem is how to induce the institutions to do this.

Perhaps part of the answer would be to get them to report annually not just the growth in their assets, but the growth in the underlying value of their assets and the number of people these assets had provided work for.

This would help identify the willing from the unwilling.

TAKEOVERS

Who's next?

The recent spate of corporate takeover activity on the JSE has revived the favourite old pastime of spotting the next target. Although there has again been much fuss about SA industry falling into fewer hands — there are still a great number of listed "independents."

In fact, there are almost 100 quoted companies where control is either in the hands of the directors or family interests. There are another 20 or so with control firmly held overseas. While these represent a relatively small percentage of total market capitalisation, some of these companies offer significant opportunities for larger SA corporations and institutions to expand their power bases.

The recent strength of the market, and more particularly the industrial counters, has been almost solely due to the weight of institutional buying. While some expect this phenomenon to provide less of an underpin in the coming months, it is unlikely to be completely diluted until there is a major revision of existing foreign exchange control regulations.

From the investor's point of view, therefore, the trick is to anticipate which will be the next company to come under the hammer. Recently, Tedelex was snapped up at premium by Gencor; Toncoro minorities were made an offer by controlling shareholder Tongaat; B & S Steel was bought out by unlisted Gundle; Xactics moved into the Kohler/Gencor stable; and SA Druggists was fully integrated into the Fed Volks group.

Going back further, control of Rennies was bought at a surprising premium by Old Mutual, Metal Box was merged with Nampak, control of Premier was returned to SA and a virtual flat glass monopoly was established by the merger of Pilkington and parts of Plate Glass.

Although many analysts are expecting the pace to slacken, it is unlikely there will be any immediate end to the current hunting season for bargain-basement acquisitions. Already there have been warning notices posted regarding Alderson & Flitton — which may affect the share price — and Tucker's Land — which could conceivably result in an offer for the company.

So what are the criteria for the discerning/speculative investor seeking a quick profit through an offer to minorities? In trying to analyse this, many paradoxes quickly emerge. It could be a successful company with an apparently firmly entrenched foreign parent. It could be an ailing local concern that has a wide spread of shareholders but no obvious control. It could even be a family company with no apparent heir, or a chief executive who wants out.

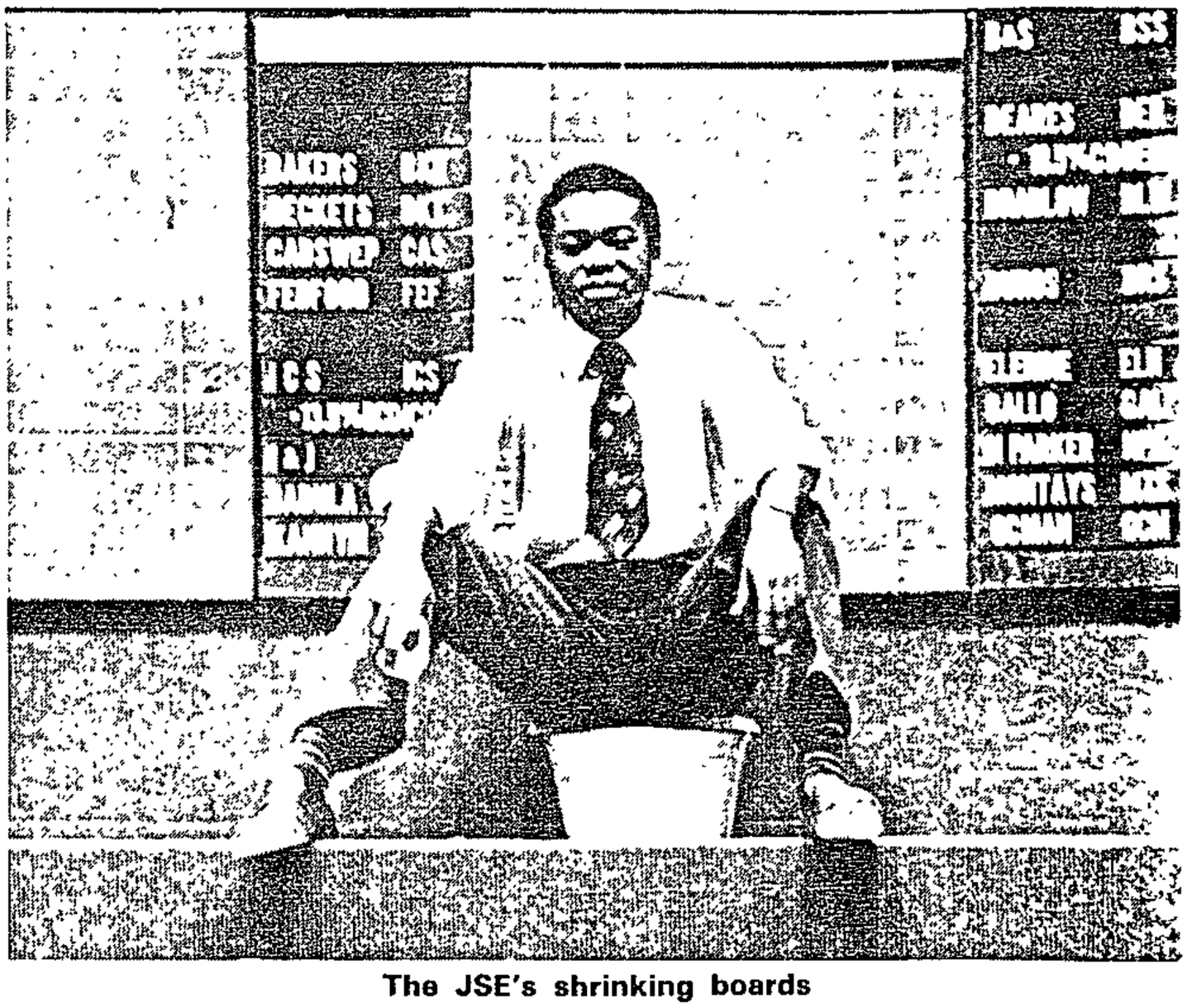
Nevertheless, at the top of many analysts' lists is engineering company Abercom. Sanlam already has over 23% of the equity and may be considering increasing its investment. And, at current prices, it would cost the insurance company only R17m to raise its stake to over 50%. Apart from Sanlam, the shares are fairly widely held and Sanlam would have no real difficulty in increasing its stake — should it so wish — at a relatively small premium.

Another possibility, in the same sector, is NEI. Seemingly oblivious to a recession which has left pock-marks on many of its competitors, NEI is going from strength to strength. A 62,5% stake held by the company's UK parent is obviously not easily up for grabs. But circumstances can change quickly if the price is right — Jardine, Matheson, which sold Rennies in a rush, will certainly vouch for that.

However, NEI is currently priced at over 2 000c, which is hardly in the bracket of the small investor looking for a bargain. Down the scale a little, National Veneer has caused more than passing comment in recent months. Though tightly held by the Pearlman family — over 70% — the shares are only 55c each. Returns are not spectacular at the current 2,7% dividend yield, but a link-up with one of the building companies, which are seemingly impervious to the current economic downturn, should not be ruled out.

The packaging sector is an area where virtually all independents have already moved closer to the giants. But there is an exception: Metal Closures sticks out like a sore thumb. Currently priced at 950c and on an historic 5,8% dividend yield, it is placed on the fence of investors opinion. Its products — bottletops, crudely speaking — are hardly likely to suffer a heavy demand knock and the concentration of influence in this field means it should never be short of suitors. A reasonable premium should be sufficient to persuade the UK parent to part with its 77% holding in the SA subsidiary.

For a real flyer, investors might be tempted to have a bite at the Messina cherry. Pitched in the middle of the range at 630c on a 6% yield, it is not unattractive. African Finance holds the balance of power through a 26% stake — but there also is a significant Anglo American shareholding. The group's profile has changed markedly in recent years, with the contribution from the Datsun/Nissan franchise far outstripping the flagging copper income. Anglo's major motor investment — Sigma — has hardly lived up to expectations and there would be potentially enormous cost-saving and marketing benefits to be gained from a



The JSE's shrinking boards

merger between the two operations.

The market is in the balance — few will deny it. Those who base their judgment on fundamentals alone are surprised the indices are not at least 20% below their current level. But since the institutions have been the prime movers in pushing prices to their recent highs, it is in their interests that the industrial market remains firm.

The "weight of funds" theory has become hackneyed, and is plainly not the only reason behind the market's strength. But it is an important impetus and one that could carry the value of scrip even higher in the near future.

The companies cited above are examples of many in the same category, though they may not experience a change of control in the very near future. The fact they are named, however, is symptomatic of the disease which is currently infecting sound investment judgment. And that may spread to claim many more victims before an effective cure is discovered. *Peter Farley*

GENCOR/TUCKER'S LAND

Questionable actions

What is the rationale behind Gencor's option to buy Tucker's Land at 750c a share? The answer must be left dangling. But a number of facts suggest that the option price bandied about by Tucker's chairman Hymie Tucker is so high it is probably bumping against the boundaries of Cloud Cuckoo Land.

Of course, no one has any idea of the true value of Tucker's. The company's financial statements have been heavily qualified by its auditors for several years. And last year, the auditors reported a "material irregularity" in the accounts — something which was taken up by the Public Accountants & Auditors Board and subsequently by the Attorney General. A police investigation into the company's affairs has since been ordered.

Tucker, who is no stranger to police probes into his companies' affairs, has gone blithely ahead with his plans to do a deal with Gencor. Both Rand Mines Properties and building company Bester recently walked away from Tucker's options at half the Gencor price (Bester was scared off by an alarmingly high deferred tax situation). So Gencor's option at 750c, which values Tucker's at roughly R50m, is very hard to understand.

And it is particularly curious in light of the fact that Gencor has twice rejected previous approaches by Tucker's at prices well below the current option. Stranger, perhaps, is the fact that scarcely 16 months ago Tucker's was embroiled in litigation with a group of township creditors, some of whom threatened to liquidate the company if their legitimate claims were not settled. Tucker's was rescued by the intervention of Mercabank, which guaranteed the company's repayment to its township creditors to the tune of R7m.

Further clouding the issue is the fact that both Mercabank and Gencor are ultimately controlled by Sanlam This gives rise to the odd situation where one Sanlam-controlled company is considering a R50m option to buy a firm of dubious worth which was bailed out only 16 months earlier by a sister company (Mercabank) in the Sanlam stable.

Despite Mercabank's long association with Tucker's — its MD Charles Ferreira has been on Tucker's board for several years — the bank has not been called upon by Gencor to help evaluate Tucker's land and property portfolio. Ferreira says he valued the company "at the crisis time" in April 1982 "at an approximate takeover value of 300c per Tucker's share."

Says Ferreira: "I also thought that anyone who bought at the time had better have another R30m to develop the properties." This suggests that Gencor could be committed to heavy development expenditure if it decides to buy Tucker's. And, any future profits to be turned after the takeover would obviously be a long way down the line.

Meanwhile, Gencor is paying R5 000 a day to Tucker's (in terms of the option) while it attempts to value the properties contained in the portfolio. The option has been extended from the original expiry date of September 2 to September 30. So Tucker's will end up with a tidy sum at the end of the period, even if there is no offer by Gencor. The mining house's shareholders may well question that arrangement, particularly since the decision to take up the option was not approved in advance by Gencor's board. Gencor's directors were instead simply told that the option had been taken out.

Then there is the role of the JSE. Despite the auditors' repeated qualification of Tucker's accounts (and the current police investigation), the JSE has stubbornly declined to suspend the share. Furthermore, when Tucker's posted a cautionary notice on June 2 announcing it had granted a purchase option at 750c a share, there was still no talk of suspension The result was predictable. the share price, which was languishing at 240c at end-May, climbed steadily to a high of 450c in heavy volumes as speculators piled in It is currently trading at 400c.

It was hardly a desirable reaction, but JSE listings manager Doug Gair argues that suspending the share "would have locked in shareholders who did not necessarily want to be there." Similar logic has long been used to justify the continued listing of Tucker's, even though it is probably the country's most disreputable quoted company.

Gencor is under no obligation to exercise its expensive option over Tucker's. If it does not, the price of the share will undoubtedly plunge. One hopes, however, that by the end of September there will be some coherent explanation of why Gencor chose to act as it did, and that a true value for Tucker's will finally emerge.

Chris Wilson

SAGE HOLDINGS

Can it continue?

Shareholders can be satisfied with Sage's first-half results and the much higher dividend payout. However, directors seem to imply that second-half earnings growth

Tucker ... banking on Gencor

(58)

Registrar could attend. The function will be held in Durban on September 29.

Kharsany says he is pleased with the IC's performance to date. It is taking in around R50 000/month from the Muslim community and its funds are being invested in Krugerrands, industry, trading, small businesses and property. As Islamic law forbids investors from accepting interest, dividends are paid on a rate that depends on the profitability of its investments.

Says Kharsany: "There's no guaranteed minimum rate." The IC has an authorised share capital of R2m, of which 200 000 R1 shares have been issued. Kharsany says he is hoping to issue a further 300 000 shares by early next year.

To all intents and purposes, the IC is a bank, but for its name. It has been given exemption from Section 2(i) and 2(i)(a) of the Companies Act to allow it to receive investments from the public — provided funds are placed for five years or longer and that investors are Muslims.

According to Kharsany, the Registrar has put his foot down because he feels there are sufficient small banks and that the community is well served by the wide variety of banking services available. But he insists that Muslims have a special case. "We are not aiming at being another ethnic bank," he says. "With the religious considerations, there is a real need for an Islamic bank in SA."

HIRE PURCHASE

Bearing up

Recession has taken less of a toll of the hire purchase market than both general bankers and Pretoria expected, although growth levels are well below last year's, according to Nedfin's James Devereux. HP receivables held by the banking sector in June stood at R6,5 billion compared to R5 7 billion in June 1982, an increase of 14%.

The latest figures show little change in the market share held by the banks. Barclays with HP receivables totalling R2,4 billion retains its lead position with a 24% market share of the HP business. Leasing continues to grow at the expense of the HP sector with increases over the previous quarter of 4,5% respectively.

Due to the lack of industria the demand for corporate credi while the demand that exists is placement business, says a spo Santam. This is confirmed by Att Engelbrecht of Volkskas wh the shift away from industrial has led to a drop in fixe investment.

According to Stannic's Mike the two sectors where demand strong are private consumers ate fleets, while demand in the and plant and machinery sect down. Confidence among con mains strong and HP sales, whi significantly during the last rec

TICKING OVER

Hire Purchase, Leasing and Savings

	Hire Purchase Rm	Change %*	Total instalments Rm	Change %	Savings Rm
Nedbank	433 3	−1 63	965 6	11	679 7
Barclays	2 435 3	24	3 540 3	25	1 369.4
Stanbic	1 235.8	15	2 417.8	19	1 425.0
Bankorp	1 503.5	7	2 123.5	9	443.6
Volkskas	562.3	2	844.0	3	624.2
Other	347.7	20	563.1	23	214.3
Total	6 517.9	14	10 454.3	17	4 756.2

* Change calculated between June 1983 and June 1982.

BANKING

Money Mecca

(58) Fm 16/9/83

The Islamic Corporation (IC) has not given up hope of becoming a fully-fledged Islamic bank, despite the Registrar of Financial Institutions' seemingly firm stand against the idea. Corporation MD Ebrahim Kharsany says negotiations with the Registrar are continuing and he is hopeful that they will be able to persuade him to change his mind.

The IC's public relations campaign has begun in earnest. It purposely delayed its formal opening by almost six months so the

Govt inquiry doesn't worry OM

By HAROLD FRIDJHON

OLD MUTUAL, one of South Africa's financial giants which is adding about R1 178-million to its resources every year, is not concerned about the proposed inquiry into conglomerates and the concentration of economic power in South Africa.

Mr Frans Davin, Old Mutual's managing director, told a Johannesburg Press conference yesterday he saw no reason for concern. He did not believe a concentration of power necessarily caused monopolistic conditions.

"I do not believe that we can tolerate monopolies in this country. It is not in the best interests of the people. But if groups were operating under monopolistic conditions to the disadvantage of the public, then action should be taken to stop it. But I do not believe that it is happening."

Reacting to the suggestion that the concentration of power led to "tied" business, Mr Davin denied that the Nedbank Group did a large part of Old Mutual's banking business because the assurance group held a large share in the banking group.

There was no question of this being "tied" business. Some years back, Standard Bank was the Old Mutual's main banker.

At that time, Nedbank had a small percentage of the total. It was then decided to spread the banking business around and it was split almost equally between Standard, Barclays and Nedbank, with Volkskas getting a small share.

Nedbank had only about 35% of Old Mutual's banking, which was a fair proportion.

Questioned about the large holding in Rennies, Mr Davin said this represented no change in management policy, in spite of the fact that Old Mutual held 75% of the equity. He emphasised that although 75% was control, a holding of 30% was *de facto* control.

Giants' feud rekindled

By Alec Hogg

18/4/93 58 5 Times

THE fierce big-business feud between the Old Mutual and Liberty Life reared its head again this week.

It caused the shock suspension of trading in the shares of the Standard Bank group (Stanbic), which is the first time such an action has been taken by one of the big four South African banks

It could lead to the scotching of a deal which drew no criticism at all from the financial authorities until nearly three weeks after the initial announcement.

OM, Liberty wrangle over Stanbic deal

Standard Chartered Bank sources in London confirmed this week that the reason behind the Stanbic suspension was "a technicality in the deal with the Liberty group".

In terms of the deal, Stanbic is to increase its stake in Liberty Controlling Corporation — which, through a series of pyramids, controls Liberty Life — from 25% to 50%

The technicality which may block the deal concerns proposed amendments to the Insurance Act

Insurers are at present being asked to comment on draft legislation which recommends that, once the amendments are promulgated, in future no financial institution such as a bank may hold more than 25% of an insurance company

It is being argued that the Liberty/Stanbic deal is a deliberate attempt to achieve this before the draft legislation becomes effective.

Business Times understands that top-level discussions were held between the Registrar, Stanbic chief Henri de Villiers and Liberty chairman Donny Gordon at the Standard Bank Centre in Johannesburg this week .

According to market sources, the Registrar's involvement was prompted by protests on the deal from the Old Mutual, which is still smarting from the treatment it received when Liberty, together with an Anglo American JCI consortium, took control of Premier and with it 34% of SA Breweries.

At the time of the initial deal Stanbic and Liberty did not approach the Registrar for approval

It was not deemed necessary Not only is the proposed amendment to the Insurance Act still in the draft stage, but the bank is acquiring a joint controlling position — not in Liberty itself but in its ultimate controlling company

Stanbic's effective stake in Liberty is only 22%, and as such is below the 25% limit which will be prescribed if the draft legislation is approved.

According to informed sources, the Registrar is now arguing that, although the effective stake will be below the limit, the deal was not undertaken in the spirit of the proposed legislation

Shrewd market analysts have noted, however, that it took 18 days for the Registrar to make this view known to both Stanbic and Liberty.

As an amazing coincidence, on the day that trading in Stanbic shares was suspended the Old Mutual released excellent results for the year to end-June, giving the market value of assets (a stunning R9 300-million) for the first time.

Traditionally, the Old Mutual's results are released at least two weeks later, and often only in early October.

Analysts also note that the Old Mutual has a stake of 21% in Stanbic, which will be watered down to 19% if the deal with Liberty is concluded.

On the other hand, if the deal is scotched it will be a severe slap in the face for Mr Gordon, who personally stands to gain substantially if the deal is concluded.

He and Liberty managing director Michael Rapp will receive 6,7-million Stanbic shares in addition to R24,2-million in cash from the deal.

That the shares were issued at R9 compared with the pre-suspension market price of R11,50 is an added bonus (of R16,8-million) provided the deal still goes through

Locally, Standard Bank executives were reluctant to comment on the suspension. They confirmed, however, that the shares would be relisted tomorrow

owledged the crowds at Jan Smuts Airport
un City next weekend and plans to appear in

Bid to prevent Standard Bank merger thwarted

By JOHN MULCAHY
Deputy Financial Editor

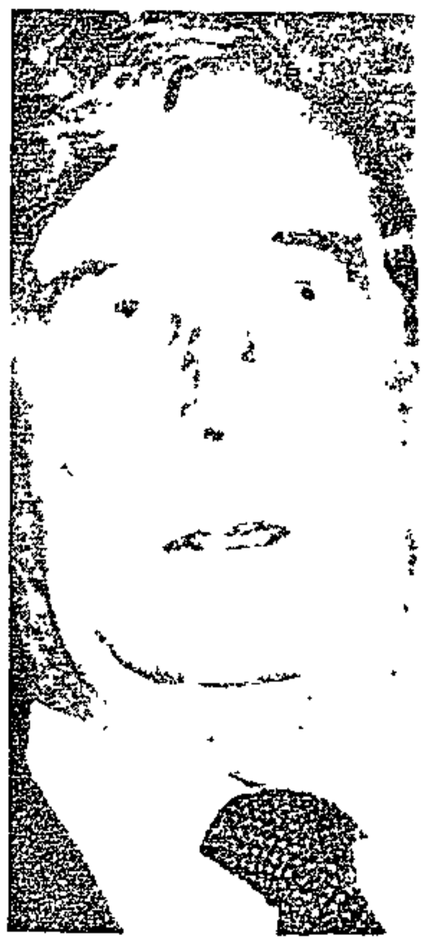
AN astonishing new round in the battle between South Africa's business giants has been won by the Standard Bank/Liberty Life alliance, which has thwarted moves by Old Mutual to scupper the planned merger of the bank and the assurer.

The proposed deal between Standard Bank Investment Corporation and the Liberty group, originally announced on August 25, had a curious sequel last Thursday, when Stanbic requested a two-day suspension of the listing of its ordinary and preference shares on the Johannesburg Stock Exchange.

The merger proposals, which have now been given the go-ahead by the Minister of Finance and the Registrar of Financial Institutions, provide for the purchase by Stanbic of additional shares in Liblife Controlling Corporation which is the ultimate controlling company in the Liberty group.

Stanbic's stake in Liblife will be increased to 50% from 25%, and effectively the bank will have joint control of the giant insurance group, until now controlled by Mr Donald Gordon, Liberty's chairman, Mr Michael Rapp, Liberty's deputy chairman, and their respective family interests.

It has now emerged that the request for a suspension stemmed from the fact that the Registrar of Financial Institutions, Dr Robert Burton, questioned the validity of the transaction in terms of the Banks Act.



MR OWEN HORWOOD
Satisfied

The transaction was discussed in full during talks after the suspension between the Minister of Finance, Mr Owen Horwood, the Registrar of Financial Institutions, and representatives of the relevant companies, believed to include Mr Donald Gordon, chairman of Liberty and Mr Henri de Villiers, managing director of Stanbic.

In a statement issued in Pretoria last night Mr Horwood said he was satisfied with the bona fides of the parties involved.

"However doubt does exist as to whether the restructuring of shareholding in various companies could not, in general, give rise to situations where the intention of the legislature in regard to Section 21A (2) of the Banks Act, 1965, may be defeated.

"This problem is now being investigated thoroughly with a view to a possible early amendment to the legislation."

Merchant banking sources said last night the belated reaction of the Registrar of Financial Institutions definitely pointed to the intervention of an outside party after the deal was originally announced.

"One must assume that the Registrar of Financial Institutions did give his tacit consent to the deal at the initial stage, and the fact that he three weeks later expressed doubts suggests that in the interim somebody complained."

There was consensus in business circles at the weekend that Old Mutual was the disaffected party.

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The London Sunday Telegraph reported yesterday that the British aircraft carriers Hermes and Illustrious and support vessels had gathered in the English Channel to steam to the Eastern Mediterranean for Nato manoeuvres.

The newspaper speculated that one of the ships might be diverted to Lebanon because of the fighting there. But official spokesmen said the carrier movements did not relate to the deteriorating situation in Lebanon.

Meanwhile, Lebanon President, Mr Amin Gemayel, yesterday lashed out at Lebanon's "occupiers" — Israel and Syria — saying they were fast smashing hopes of independence and sovereignty for the tiny nation.

The Lebanese Government "Now controls only 10 to 20% of the country," Mr Gemayel said.

Lebanon's "hopes for independence and sovereignty are in contradiction with the aims and ambitions of the occupiers, the Syrians and the Israelis," he said.

CHRIS BALL

FM 23/9/83

58

Defending Barclays' view

Chris Ball is deputy MD of Barclays National Bank. He is also an economist with many years' experience as a merchant banker.

The *FM*'s leading article last week, "Manifestos are a myth," was a prime manifestation of the muddled thinking the *FM* attributes to others.

There is no question but that a strict monetary policy has a crucial role to play in reducing inflation in our country at this time. But to suggest, as the *FM* seems to, that it should be the *sole* cure and that those who advocate otherwise are stupid, is both arrogant and irresponsible.

Barclays' current economic standpoint is set out in our August Business Brief and can be summarised as follows:

☐ The need to reduce inflation in SA is imperative;

☐ Inflation can be brought down by a monetary policy that is sufficiently strict and applied long enough;

☐ But, monetary policy is a blunt and indiscriminate measure and, if used in isolation, requires that growth and unemployment objectives be abandoned in the short term;

☐ Our authorities need not rely solely on monetary policy to reduce inflation. The government can use the control that it has over regulated prices to help reduce the rate of increase in the general price level. Increases in input prices are directly and indirectly responsible for the greater part of the escalation in the price level;

☐ If government is prepared to exercise the appropriate control, then a monetary and fiscal policy can be more accommodating and applied in contracyclical fashion; and

☐ We therefore need to have an integrated approach, using a mix of economic measures to bring down inflation, but at the same time reduce the negative impact of the deflationary process.

The *FM* last week asserted that Barclays Bank was arguing that — "inflation can be reduced by prices and incomes control while allowing some economic growth that is financed through a rising money supply." This is simply hogwash and it is totally unrelated to what we said. We have no interest in prices and incomes control across the board and the concept of a formal incomes policy is archaic.

What we are suggesting is a mix of economic measures, including pressure from the authorities for restraint on administered prices. What we actually said was: "It seems it should be possible for the government to use the control it has over the prices and wages administered by large undertakings and firms, both in the public and private sectors of the economy, to help push the inflation rate down to the required level."

The *FM* appears to feel that we should not be unduly concerned about administered prices. We must disagree. Demand for a large number of products which are price-administered is not particularly elastic (electricity, for example) and if the full impact of a purist form of monetary policy were to fall on the private sector only, the consequence would be doubly harsh on that sector in the short term.

Do we wish to kill the goose that lays the golden egg? I think not.

The *FM* quoted President Ronald Reagan and Prime Minister Margaret Thatcher in support of its views. Its interpretations of both the American and British strategies were fallacious. Thatcher certainly used monetary policy, and her principal technique in restraining the money supply was to act viciously on the public sector borrowing requirement (PSBR). But she also intervened more directly in the wage bargaining area than any previous Prime Minister in the UK. She used a mix of direct measures and the contribution of Lord Richardson, Governor of the Bank of England, was but a part of the overall effort.

In the case of Reagan, monetarism as applied by Federal Reserve Chairman Paul Volcker has been anything but rigid. He has been pragmatic, to say the least.

We believe that our own central bank, under Gerhard de Kock, is doing a great job and that he needs a little help from his friends, and I have made my views known in Pretoria.

I am not naïve as to what can be achieved by direct suasion but I think that we need to state targets for the inflation rate for the near term towards which the economy can work.

I am delighted to see from the weekend press that the Prime Minister agrees with me! By doing this, at the same time that we have our dose of Thatcherism, we may be able to minimise the hurt.

There is one area where I do not profess to know the answers: the extent of union pressure may be so severe that attempts to restrain wage levels may be wishful thinking.

However, the lower we get the price levels, the lower will be the relative impact of wage pressures.

To sum up, Barclays would like to see prices down as fast as possible with minimum loss of growth and jobs, and we are for concerted action to achieve that quickly.

We believe that in addition to its monetary policy, the government should use the intervention points that it already has. We believe we should also support any initiatives developed directly by the Prime Minister.

The difference between the *FM*'s views and ours is that the *FM* seems to want to beat the animal with a blunt instrument.

Our preference is to administer the right dosage of unpleasant midicine to render it submissive, but capable of being nursed back to good health as quickly as possible.

underlining, emphasis or for diagrams, for which pencil may also be used.

3. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book(s) are used.

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3. No part of an answer book is to be torn out.
4. All answer books must be handed to the commissioner or to an invigilator before leaving the examination.

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

Made in South Africa R.A. LTD. Vervaardig in Suid-Afrika

Old Mutual develops new corporate image

58 C-Times 23/9/83

SOUTH AFRICA's largest insurance group — The Old Mutual — will soon be stepping into the marketplace with a new corporate image aimed at increasing market share over the next decade which could have far reaching repercussions across the life industry.

By PAUL DOLD
Financial Editor

Without fanfare the insurance giant with assets of R9 billion has been gearing for a considerable leap in growth which is anticipated during the rest of the eighties and early 1990's.

At Mutualpark Pinelands a significantly increased emphasis is being placed on marketing which includes corporate relations and public relations.

While high exposure marketing has been the hallmark of some of the Mutual's competitors particularly arch rivals Liberty Life, the highly conservative Mutual in the past has tended to be somewhat less visible.

Key staff involved in the Mutual's new strategy include Garth Griffin assistant general manager marketing, Harold Groom, Corporate relations manager and Gerrit Boonstra who recently joined the group from Rembrandt as the new manager (media) public relations.

And its noteworthy that managing director Frans Davin for the first time held press conferences in Johannesburg and Cape Town when the Mutual released its results recently. Mutual is well pleased with the early results — saturation coverage of the results in both the morning and afternoon press.

It is no concidence that the Mutual is adopting a modern logo although still based on the three anchors visualized by Charles D Bell in 1870. The new design by San Francisco consultants Landor Associates took some 18 months to complete.

Managing Director Mr Frans Davin says the new logo highlights " those aspects of Old Mutual that we intend to state more directly with the new system — dynamic leader in the field of financial services with a proud history of tradition in serviing its policyholders.

Assistant general manager (marketing) Garth Griffin told Mutual staff recently that the new logo and the complete system of corporate graphics which it incorporates is a conserable step in modernising the corporate identity of Old Mutual.

"In the business world of today successful corporations are finding it increasingly necessary to emphasise visual elements and packaging to portray their desired corporate identity to their publics.

"We believe it is vital that Old Mutual should have a modern presentable and unified corporate image which creates in time a unique style and identity for our brand of insurance and related services."

Previously their were some 30 different versions of corporate graphics potrayed to Old Mutual clients.

$16,50 drop from Friday's close

Gold plunges through $400 level in London

CAPE TIMES 4/10/83

Own Correspondent

JOHANNESBURG — Gold crashed comprehensively through $400 an ounce in London yesterday for the first time in almost a year.

There were no new factors in the market yesterday, and the fall was a continuation of last week's easier trend which resulted in New York testing $400 on Friday, and the price breaking below that level in Hong Kong earlier yesterday.

The last time gold fell below $400 an ounce in London was October 5, 1982, when gold was fixed at $390,25 an ounce.

In London gold was fixed at $393,50 yesterday morning and slid further to an afternoon fix of $389 an ounce, before rallying slightly to close at $391/$391,75

Selling

Friday's second fixing was $405 and gold closed at $406,75/$407,25 in London on Friday.

Heavy technically-prompted selling outweighed the influence of an easier dollar, which under normal circumstances would have boosted the gold price.

Overshadowing the market has also been a variety of poor fundamentals, ranging from a potential oversupply situation caused by heavy selling from South American countries to the perceived diminution of gold's role as an inflation hedge.

The Johannesburg Stock Exchange was the scene of frantic selling of gold shares, with offers flooding in from everywhere and no bidders.

Other reaction to the gold slump was the dramatic last-minute postponement by Escom of a R100m loan issue.

Lists for the issue were to have opened today, but a spokesman for Standard Merchant Bank, the lead bank with Senbank, said the decision to postpone the issue had been taken because the sharp drop in the gold price would cause uncertainty in financial markets.

In an interview with **NEIL BEHRMANN** in Washington after the International Monetary Fund meetings Dr Chris Stals, senior deputy governor of the Reserve Bank, said the Bank would support the rand if gold cracked $400.

He said the Reserve Bank would sell large quantities of dollars to support the rand rate if gold dropped below $400, and the intervention would keep the rand from sliding too far.

Dr Stals predicted then that in the event of gold falling below $400 it would soon recover, as physical demand improved at lower prices.

He stressed that the exchange rate was not entirely dependent on gold, as there were other exports and the bank could raise short-term credits.

While the main reason behind gold's slump was seen as technical reaction to last week's sharp declines, an easier silver price was also a major factor.

The declining trend in London followed price falls in New York and the Far East, where gold closed in Hong Kong at a bid price of 397,50 dollars.

Trading was active in all the bullion markets yesterday, with heavy liquidation and stop-loss selling triggered by the move below the chart support area around $400.

Weakness

Gold's weakness had been established in New York and Hong Kong at the weekend, and the failure in Hong Kong early yesterday to sustain a brief rally above $400, triggered heavy stop-loss selling in early trading in London.

There was some short-covering in morning trading in London as operators waited for New York's reaction.

After the Comex opening, where futures dropped to their lowest level since February, further liquidations hit the London market and the price dropped below $387 briefly before recovering slightly to the afternoon fix of $389

The gold slump followed Friday's news of a $2,3 billion jump in the United States M-1 money supply, high Federal Fund levels and an increase in one big United Sates bank's broker loan rate.

In spite of some bullish factors recently, gold has resisted breaching the established $420 ceiling, and selling was encouraged by the large United Sates M-1 money supply increase, with downward momentum increasing as the price broke below $400.

Gold reserves

Seeking reasons for the metal's decline, some dealers cited rumours that heavily indebted developing countries — such as Brazil — might eventually sell gold reserves, but most agreed there was no evidence that such sales were in the offing

Some dealers were surprised by the weakness of gold at a time when the counter-attractions of the dollar were not so obvious.

The dollar was generally weaker yesterday after running into some profit-taking on signs that the United Sates economic recovery might be slowing.

The consensus among dealers was that the gold price could edge lower by up to $20 over the next couple of weeks before rallying back to $400.

"We are really teetering on the knife's edge," explained one dealer.

Closing gold prices

(In $ an ounce)
LONDON:
391,00-391,75
Fixing am: 393,50
Fixing pm: 389,00
ZURICH:
390,00-393,00
— Reuter

Shares plunge as gold drops

CAPT Times 4/10/83 58

Own Correspondent

JOHANNESBURG. — Hundreds of millions of rands were wiped off the value of shares on the Johannesburg Stock Exchange yesterday as gold fell below 400 dollars for the first time in a year.

However, Mr Owen Horwood, Minister of Finance, and his chief South African financial policy-makers remain confident that the gold depression will prove only temporary

If the gold price setback should worsen and this should prove lasting, it would almost certainly delay the country's economic recovery.

Interest rates could also come under further upward pressures.

Yesterday was the third Stock Exchange "Black Monday" this year.

The financial rand was abolished on February 7 and heavy profit-taking and selling by overseas investors forced share prices down.

On February 28, the gold price fell from $464,75 to $408,50, again forcing share values down

The Rand Daily Mail gold share index plummeted to 748,1 yesterday from 973 three weeks ago.

● **Full report, page 18**

Growth Fund buys into foods

Own Correspondent

JOHANNESBURG. — Guardian Bankers Growth Fund (Guardbank) acquired 250 000 C G Smith Foods shares in the quarter to September 30, and sold 420 000 Beares.

The addition of C G Smith Foods to the portfolio takes the food element in Guardbank to 6,63 percent of the fund, of which the 200 000 shares in Premier account for 4,88 percent

The purchase of C G Smith and the sales of Beares were the only changes in the equity portfolio in the quarter, while cash resources rose to R21,780m at September 30 from R20,380m at the end of June.

The total market value of Guardbank at the end of September was R102,562m, slightly lower than the total R102,757m at at the end of June.

Between June 30 and September 30, the Rand Daily Mail 100 index of industrial shares slipped by 1,5 percent.

The gold price, after closing at $416 at the end of June, rallied briefly in July to $429,75, but then drifted back to between $400 and $420 for much of the quarter before dropping to $405 on September 30.

In these circumstances the Guardbank portfolio, which is a microcosm of the Johannesburg Stock Exchange with investments in coal, gold, mining houses and the full gamut of industrials, was static.

Guardbank's selling price at the end of September was 556,8c a unit, compared with the ex-distribution price of 556,4c at the end of June and the ex-distribution selling price of 453,2c at the end of December last year

If you buy a house, you must have it insured

By LIN MENGE
Homefront Reporter

HOME FRONT

PEOPLE who buy their rented houses during the Big Sale must ensure they take out insurance cover as soon as they have title to the property.

In the case of blacks, this will be when they receive the Certificate of Right of Leasehold.

If the house is built with a building society loan, the society will arrange insurance cover because the society must protect its security until the mortgage bond is repaid.

If a house-buyer has a loan from his administration board, either for buying or improving his house, the board will arrange the insurance cover until the loan is repaid.

All rented houses are covered by insurance arranged by the administration board. This usually includes fire, accident and storm damage, as well as special riot insurance, and because it is a bulk scheme, costs the tenant only a few cents a month.

But once you buy your house, insurance is your own affair, like insuring a car, and will cost you a good deal more.

What you need to do is to insure the house not for the discount price at which you bought it in the Big Sale, but for the replacement value — because if it does burn down, you will want to be paid out enough to rebuild the house at today's high building costs.

It will be up to you to say how much you want to insure the house for — which means that you should find out the replacement value of your house when you buy it from the administration board. The board officials should be able to tell you this, because they based the sale price of your house on both the original cost and the replacement value.

Replacement value is calculated by the Department of Community Development on a Building Price Index (BPI) factor for the year in which the house was erected. The BPI factor is multiplied by the original cost of the house. Example: the BPI factor is 7,7 for houses built in 1950, or earlier, so the replacement value of a house built for R1 000 in 1949 would be R1 000 X 7,7 = R7 700.

HOMEFRONT published the index on June 3, but we do so again now that readers need the information for insurance purposes. The table is taken from the Urban Foundation's "Employers' Guide to the Mass Housing

Once you know what your house is worth, you need to add on the value of any outbuildings, gates or fences.

Then you must decide what cover you want, and how you will pay the premiums.

Bowring Barclays Insurance Brokers gave HOMEFRONT some general pointers:

- A basic home combined policy (excluding contents, for which you need a separate policy) should cover damage by fire, explosion, storm, earthquake, accidental impact (by vehicle, tree, animal, perhaps even the collapse of a TV aerial), damage caused by burst or overflowing pipes, and non-political riot cover.
- Political riot cover is essential but requires a separate coupon from the SA Special Risks Association which will cost you 25c for every R1 000 for which you are taking out insurance.
- Which insurance company do you go to? If you have a bank account, consult your bank. Otherwise your employer may put you in touch with his insurers. Your company may be prepared to consider group insurance for all its employees, but this could lead to problems if you changed jobs.
- The premium may be very low — 15c to 20c per R1 000 on your house, but you will still have to pay the insurance company's minimum premium which will be not less than R20 a year. This is because the costs of handling insurance continue to rise, says Bowring Barclays.
- For the same reason, don't expect refunds when you sell your house, even though the buyer will have to take out fresh insurance.
- If you have a small policy, pay the premium in one lump sum annually. Don't try to pay it off monthly, because the minimum premium will be at least R5.
- Details of cover, and the cost of premiums and claim procedures will vary from one company to another.
- In the event of damage to your house, report it to the insurance company immediately. Then obtain two or three quotes for repairing the damage from builders, plumbers etc. You must submit details of your claim within 30 days of the damage. The quicker you set about claiming, the quicker the insurers will pay out.
- Depending on the nature of the damage and the size of the claim, the insurers may send out their own experts to assess the position.
- On your death, the house and the insurance cover will automatically be transferred to the trustee of your estate until the estate is wound up and ownership of the house passes to, say, your children.
- Don't under-insure to save a few rands in premium — that way you can lose hundreds or thousands of rands on a claim.
- And don't say: "It will never happen to me!" It may.

YEAR	FACTOR	YEAR	FACTOR
1950	7.7	1967	5.0
1951	6.7	1968	5.0
1952	7.0	1969	4.7
1953	7.7	1970	4.0
1954	7.5	1971	3.5
1955	7.5	1972	3.7
1956	7.5	1973	3.3
1957	7.0	1974	2.8
1958	7.0	1975	2.5
1959	7.3	1976	2.5
1960	7.4	1977	2.0
1961	7.4	1978	2.0
1962	7.0	1979	1.9
1963	7.0	1980	1.5
1964	6.0	1981	1.0
1965	5.8	1982	1.0
1966	5.5	1983	1.0

Use this table to work out how much it would cost to replace your house if disaster struck.

5/10/83

UBS denies restrictions aimed at blacks

58

Mail Reporter

THE United Building Society has denied the new restrictions imposed on Help-U card accounts were designed to whittle down the number of its black customers.

The UBS' general manager, Mr Martin Keyser, said yesterday the UBS would launch a full investigation into allegations that one of its former clients was told by a teller that the society intended getting rid of two-thirds of its black Help-U card customers.

"This is absolute nonsense. We do not practice racial discrimination We will investigate the matter," Mr Keyser said

The former client said she had closed her Help-U card account at a Krugersdorp branch because of the new restrictions

The former client, who asked not to be named, said "The teller told me the restrictions had been imposed because the UBS wanted to get rid of its black clients who left virtually no money in their accounts.

'The teller said black clients made withdrawals of R1, R2 or R3, complicating the administrative system, and left only R20 in their accounts"

Mr Keyser said. "The Help-U measures were a purely commercial decision and certainly not aimed at ridding ourselves of any particular group of people"

Sharp rise in US bank loans to SA

Cape Times 6/10/83

58

By NEIL BEHRMANN

NEW YORK. — United States bank loans to South Africa have been rising sharply in spite of attempts by anti-apartheid groups to discourage lending.

The rise in United States lending follows a sharp downturn at the beginning of the 1980s.

United States bank credit to the South Africa dipped from $2 200m in 1978 to a low point of $1 400m in 1980.

But United States lending recovered in 1981 and then soared in 1982.

The bulk of the loans were granted by the major United States banks, including Citibank, Chase Manhatten, Morgan Guaranty, Bank of America and Manufacturers Hanover.

Short-term credits

Most of the loans are, however, short-term credits.

This partly reflects a general pattern of international bank lending.

But it also indicates concern in the United States about South Africa's political position.

"We are willing to lend to South Africa on an ad hoc basis," says a New York banking executive, "but as far as longer-term credits are concerned we are worried that there is lack of progress in dismantling apartheid.

"Banks are becoming more worried about this."

This senior executive adds: "Free of these political issues South Africa would be a top credit rating, similar to Australia, probably even better.

Risk factor

"As the years go by, however, the political risk factor increases.

"That is why we are willing to lend on a short-term basis but shy away from 10 to 12 year loans."

Latest statistics of the United States Federal Reserve Board show that total United States bank loans to South Africa jumped from $1 800m outstanding in June 1981 to nearly $3 700m in December last year.

Interviews over the past week with South African Treasury and Reserve Bank chiefs and also private South African bankers in Washington and New York indicate that lending from the United States continues to be brisk.

But of the loans totalling $3 700m some $2 300m were in the form of "interbank" loans — credits used to finance exports and imports and other short term requirements.

Aside from that, loans to the private sector at the end of last year totalled $1 100m, while public sector borrowings amounted to only $285m.

Bank decisions

"Internal political risk studies, rather than protests of pressure groups, have influenced banks decisions about loans to South Africa," says Mr David Hauck, head of Investor Responsibility Research (IRR), a non-political organization funded by about 160 United States banks, insurance companies, pension funds, universities and other institutions.

IRR does "objective research" for shareholders about social issues.

Anti-apartheid groups did force banks to re-examine their South African lending policies, says Mr Hauck.

The "Solarz" amendment to the United States Export Administration Act is causing concern, even though bankers believe that the United States Senate will eventually reject it.

This amendment proposes that United States banks cannot lend to the South African Government or para-statal bodies unless projects are open to all races and in areas without racial restrictions.

United States bankers I have spoken to believe that the Congressional ammendment will be eventually a compromise.

United States banking regulators have also announced a five point programme to strengthen supervisory practices banks must avoid excessive concentrations of foreign country credit in future.

The five elements of the plan include:

- Strengthening the existing programme of country risk examination and evaluation.
- Increased disclosure of banks' country exposure and the introduction of a special reserve system for loans to countries with severe and protracted debt servicing programmes.

Bankers here insist, however, that from an economic point of view South Africa is an excellent credit risk.

KIRSH GROUP

Reshuffling the pack

As befits the scale of the problem, the restructuring of the Kirsh group's trading interests around Checkers is far-reaching. As expected, Checkers, for all its past problems, has been chosen as the main vehicle for the housing of the group's retailing and wholesaling operations. The enlarged stores group will be renamed Kirsh Trading (KT) and all the trading assets of furniture group Russell and wholesaler Metcash will be injected into the company. KT will also hold the Kirsh minority shareholdings in Dion, Union Wine and the Dee Bee supermarket chain.

KT intends to use Section 311 of the Companies Act in its bid to acquire the entire issued share capital of Russell and Metcash. In terms of the Act, the scheme of arrangement must be approved by shareholders and sanctioned by the court. In addition, KT will acquire 50% in Dee Bee, 37% of Union Wine and 30,7% of Dion. The troubled supermarket chain will continue to trade under the name "Checkers," which will, of course, be 100%-held by KT.

Assuming that the proposals are accepted, the immediate effect will be that KT will have 55,8m shares in issue. And, after dilution (allowing for the conversion of Checkers' preference shares) there will be 68,94m issued shares with an estimated market capitalisation of some R250m, according to Kirsh's merchant bank, Barclays.

Chairman Natie Kirsh is still battling to recover the exorbitant price paid for his group's controlling stake in Checkers. The new arrangement is a way of reducing the average cost of his increased holding in the company to roughly R6 per share, against the R15 paid for control. Also, Metcorp will end up controlling 56% of KT, after full dilution, which ensures that Kirsh will firmly control the restructured group.

Kirsh's increased stake in Checkers amounts to a vote of confidence in management's ability to turn the supermarket chain around. Management has stated that satisfactory profits were earned in July and that this trend continued in August. Even so, these profits have been neither quantified nor specified, though MD Gordon Utian assures the *FM* that profits will eventually be disclosed. After 18 months of heavy write-downs and major losses, the need for which was blamed on Checkers' previous management, the stores group now has to produce the respectable profits which have long been promised.

This financial year's profits will certainly have to be disclosed soon if the notional price of 400c, which has been placed on a Checkers share, is to be seen to be fair. It certainly is not if it is based on last year's loss. The price represents a rough 15% discount on the pre-suspension price. On relisting on Wednesday, the share traded at 425c. But minorities in Russell and Metcash may opt for cash.

Coki minorities will find themselves invested in a larger, more diversified group which could derive enormous financial benefits from the proposed rationalisation. Some existing Checkers minorities may dislike the dilution in their speculative holdings, but others — particularly the voteless "A" shareholders — could well be pleased that Kirsh has enfranchised them.

There are, of course, other advantages in

Natie Kirsh ... building a broader trading base

THE NUTS & BOLTS

The restructuring of the Kirsh group's trading interests is straightforward though comprehensive:

☐ Metro Corporation will exchange its 95,6% holding in Metcash at the rate of 60 Kirsh Trading (KT) voting ords for 100 Metcash shares;

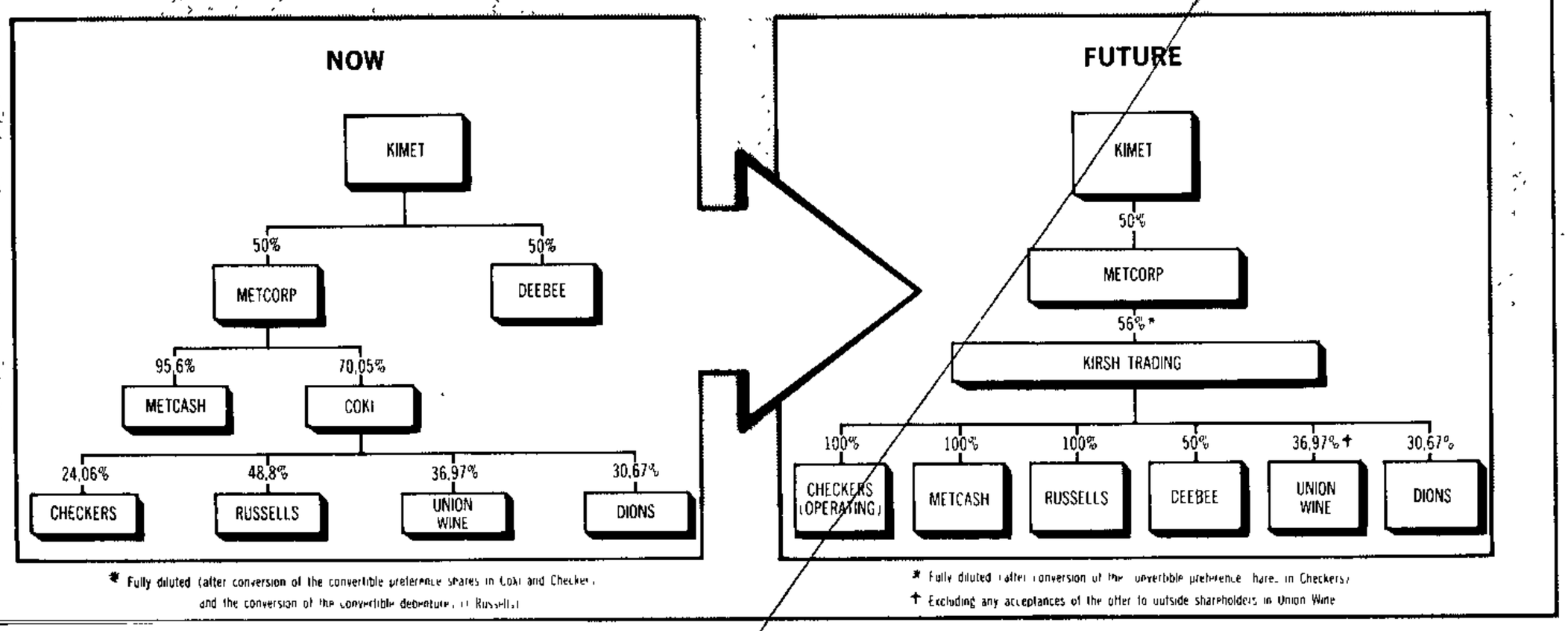
☐ Coki will receive approximately 17,5m shares in KT for its holdings in Russell, Union Wine and Dion. Metro will assume all the preference share capital and short-term loans of Coki in exchange for 3,7m KT ords, and will issue listed preference shares on equivalent terms to the holders of Coki's preference shares. Coki will distribute the remaining 13,8m KT ords to its shareholders in proportion to their holdings. This will result in Metro receiving an additional 9,7m KT ords;

☐ Metcash's minorities will be offered 65 KT ords for 100 Metcash. Russell's minorities will be offered 100 KT ords for 100 Russell. In either company minorities can opt for the cash alternative of 400c per KT share, subject to a formula. The cash alternative will be reduced in proportion to any fall in the JSE industrial index between September 26 and the last date of election to receive cash. There is no comparable provision for an increase;

☐ Kimet is to dispose of its 50% interest in the Dee Bee supermarkets for 925 000 KT ords;

☐ Russell's listed unsecured debenture holders will receive listed KT unsecured debentures in exchange for their holdings at slightly better rates of return; and

☐ At the end of the reorganisation, existing non-voting Checkers "A" ords will be converted into voting shares ranking equally with all other voting KT shares.



the new structure: the group will obviously have much greater negotiating muscle in the market place, with a combined turnover in the region of R2,5 billion. Profits from other operations, can be swung into the Checkers trading division to take advantage of that company's huge assessed tax losses. There will also be unrestricted movement of cash from one side of the operation to another.

The point is that under the new structure Checkers can live with any profit squeeze necessary to regain market share. And management has been given the basis to ensure that the hair-raising losses of the past 18 months are not repeated and that Checkers does not sink. *Brian Zlotnick*

PICK 'N PAY
Surging ahead

When is Pick 'n Pay going to run out of steam? If the latest results are anything to go by, it will take more than a recession to halt the growth of the country's fastest expanding retail chain.

Despite an economic downturn, a slowdown in consumer spending and the serious drought, earnings were up by 15% in the six months to end-August. And it is possible that by the year-end this figure will have risen to 20%.

The pace has, however, been slowing in the past few months and the last couple must have been particularly difficult. Sales growth after 12 weeks of the current half-year was 26% up on the year-ago period, while the turnover rise for the full six months was down to 23%.

Margins are obviously under pressure as the war for customers hots up between the supermarket chains (See *Leaders*) and Pick 'n Pay has not been exempt. But the combination of aggressive marketing and price cuts on strategic foodstuffs kept the customers flooding through the doors.

The product mix has been extended, which for a lesser company would have proved difficult in the current depressed economic climate. But sales of durables and hardware exceeded budgeted earnings forecasts during the first half and were well ahead of expected sales.

P 'n P's PROGRESS

Six months ended	Aug 31 '82	Feb 28 '83	Aug 31 '83
Turnover (Rm)	566,2	668,5	696,2
Pre-tax profit (Rm)	17,6	30,5	20,2
Earnings (c)	49,6	91,2	57,1
Dividends (c)	14,0	47,0	16,5

The group's expansion programme continues, despite a few problems. A new store was opened in Empangeni and a superstore was started in Ormonde. The new Pretoria Hypermarket, the group's 10th, is on schedule for a December opening and the foundations have been started for the first overseas store — in Brisbane, Australia.

During the second half a further four supermarkets are due to open, which will increase the chain to 65 supermarkets and 10 hypers. In addition, extensive renovations are being undertaken at several stores.

A significant contribution to the first half's earnings rise was the reduction of shrinkage to below 1% of turnover. Annualised, it is estimated that 1% represents about R15m at the pre-tax level. So any savings here go straight onto the bottom line.

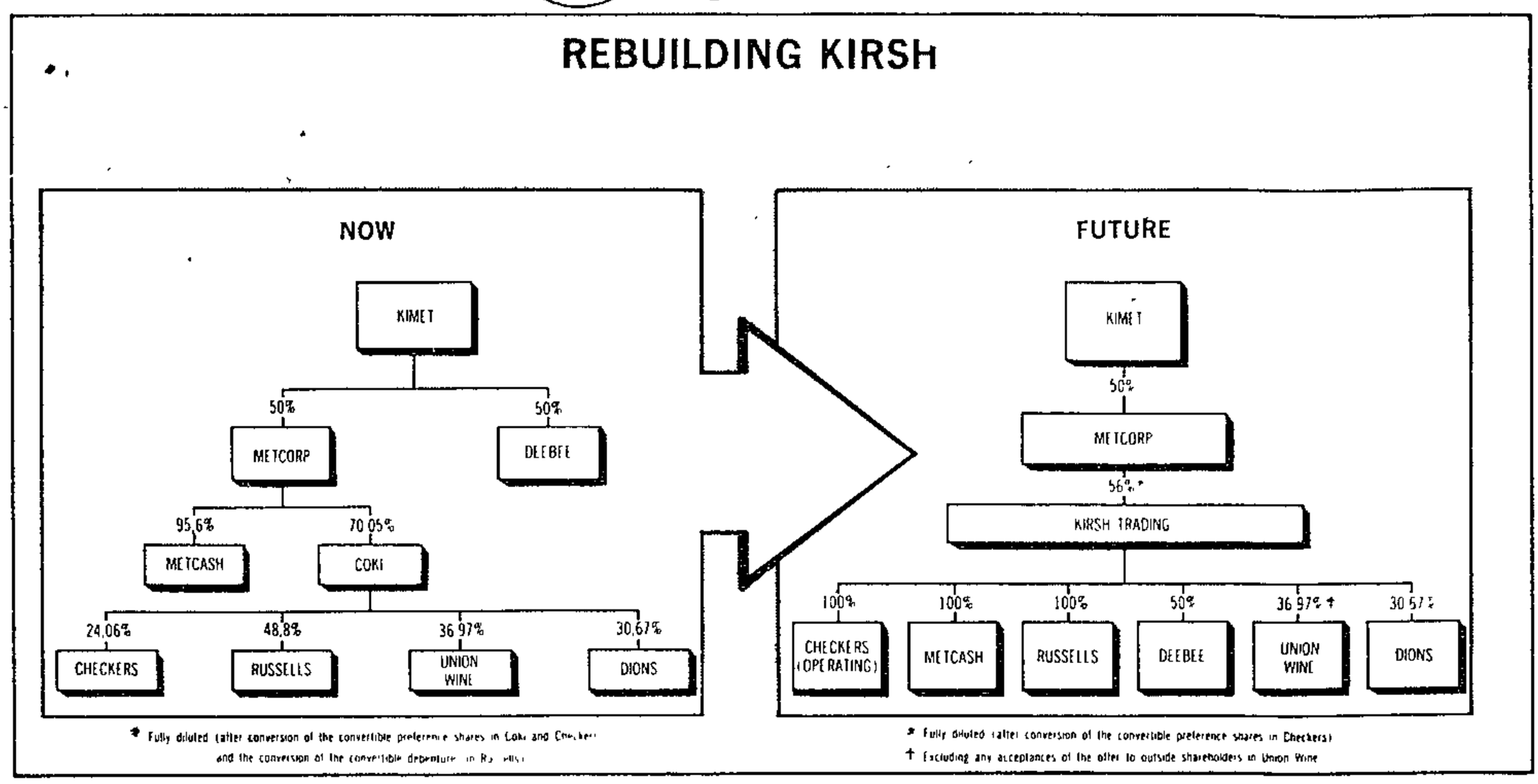
Another factor which should enhance second-half earnings is the absence of one-off write-offs. These took some R2,5m from the pre-tax level in the first six months, due to expenses incurred with the opening of the Pretoria hyper and various renovations at other stores.

The share is seemingly oblivious to the depressed surroundings and at 2 800c it is unchanged from five months ago. At this level, and given the increased interim dividend, it offers an historic 2,3% yield. Not the most attractive return on the market but the rating is still spot on. *Peter Farley*

SENTRUST/UCI
Pros and cons

Dissent has stirred within the ranks of Gencor's mining holding companies as to the merits and demerits of the merger be-

FM 7/10/83



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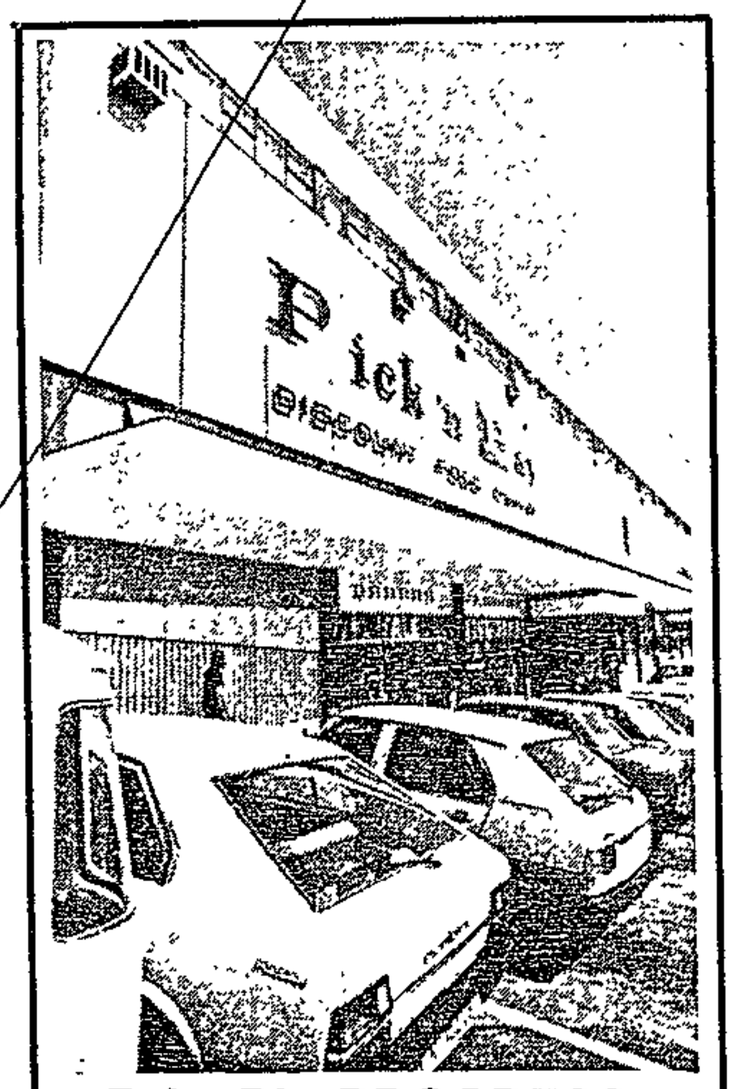

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No big deal from the banks

(58)

S. Times 9/10/83

By Alec Hogg

BANKING is costing the average individual more now than it did a year ago. This is despite the multitude of dazzling new deals being offered to the public by South African commercial banks.

As these once-staid institutions shed their conservative shackles in the battle for the public's cash, the truth behind all the marketing hoopla suggests that clients would be wise to exercise prudence.

Although competition among banks is fierce, most individuals are not receiving net benefits. It is only the money-wise, astute consumer who is really getting a better deal.

Most clients are now paying more for their banking than before the break-up of the banks' cartel which led to the implementation of interest on cheque accounts.

A senior banker admitted this week that service fees have risen on average by 50% over the past year, and he believes that as long as the increase in interest on cheque accounts continues the charges will keep rising.

He argued: "In all cases the bank is going to charge the consumer what it costs plus a reasonable profit. We are not in the game to be charitable."

This fact is emphasised by recent profit results and forecasts from banking groups.

Although, in theory, the paying of interest of cheque accounts should cost the banking sector a minimum of R250-million a year, and bank advertising is at least 45% higher than 12 months ago, no institution has yet reported, or expects to report, a decline in profits.

Further, four of the country's Big Five banking groups are among the world's Top 100 most profitable banks. This is hardly a feature of an industry under pressure.

"Innovations" are being offered continuously to lure the confused individual. Examples are numerous and include:

● The much-lauded 10,5% interest on credit balances in credit-card accounts. What banks have failed to explain is that by keeping a credit balance the consumer is in fact losing out on the previous advantage of 45 days interest-free on his purchases, a benefit which is worth more than the 10,5% he receives by keeping a credit balance.

● The "free banking" for clients who keep a minimum of R500 in their accounts. The service is not "free", as charges are still levied for stop orders and withdrawals from automatic teller machines.

In addition, more than 80% of personal-account holders keep less than R500 in their cheque accounts at any one time, and as such do not qualify for the "free banking" benefits.

● The vaunted interest on cheque accounts. Not only is this interest lower than that available from savings accounts but is subject to tax, and as such the return can be up to 50% lower than what is quoted.

Banks' hard-sell campaigns tend to encourage people to use cheque accounts as a combination of a savings and a convenience service, but with fewer benefits than if these two concepts are treated separately.

● The quoting of high rates of interest without, until recently, emphasising the difference between interest paid on a minimum monthly balance and that paid on a daily balance.

For example, 10% on a minimum monthly balance method is worth nothing if the individual allows his account to drop to zero at any time in a given month.

● Special schemes offering supposedly high interest rates combined with an automatic overdraft.

Consumers are encouraged to use the overdraft facility, but no reference is made to the cost (usually 20% or more) levied for the service.

The sharp increase in bank charges has also hit a major chunk of the country's banking population — those who previously enjoyed truly free banking from building societies.

Because of the higher charges the banks are levying, some building societies like the United can no longer afford to offer their clients five free cheques a month.

Others, like the SA Permanent, are still offering the service at present, although experts believe that, if the cost of bank charges keeps rising, these societies will eventually be forced to follow the UBS move.

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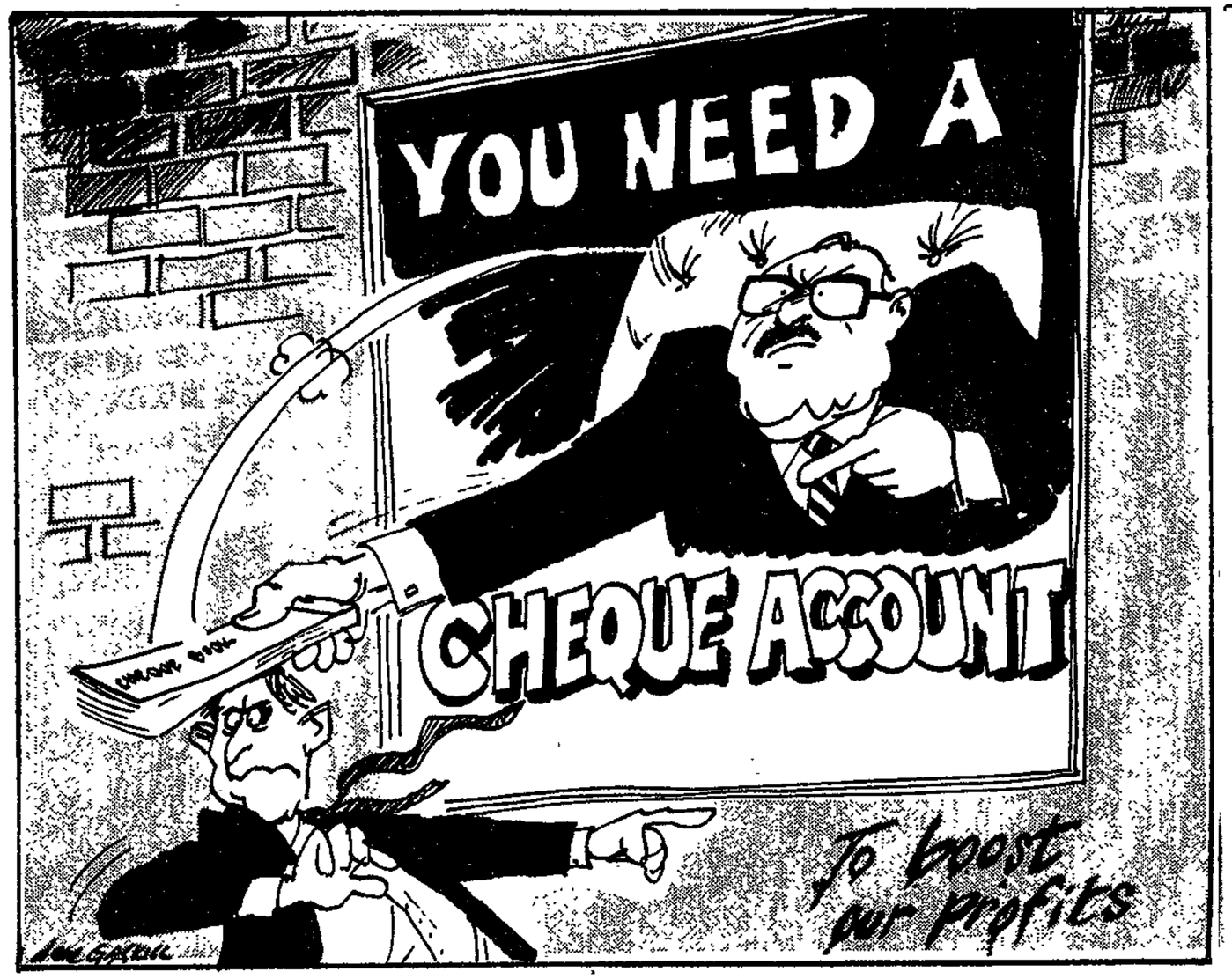

Barclays to merge UK, international sections

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Argus Foreign Service

LONDON. — Barclays Bank has prepared a private Bill for Parliament which will enable it to merge its two main operating sections, Barclays Bank and Barclays Bank International — and give MPs a chance to criticise the bank's South African involvement.

In a circular to shareholders detailing the proposals Mr Timothy Bevan, chairman, said the changes should result in a better service to customers and significant advantages through the more efficient use of resources.

A Bill is necessary because there is no other legal vehicle available to Barclays to achieve its goals without huge disruption.

The Bill is not expected to encounter any serious opposition in its passage through Parliament but it will provide MPs, particularly of the Left, with an opportunity to air their views on the bank's operations in South Africa

DO MORE GOOD

The bank is expected to maintain its firm position that, while it is against apartheid, it believes it can do more good by remaining involved in South Africa than by pulling out.

Barclays first announced plans to reorganise the group last November. It has already started to rationalise its huge branch network in Britain.

The merger will be a topsy-turvey affair, with Barclays Bank International effectively taking over Barclays Bank. This will avoid the need to rewrite contracts in the dozens of countries where BBI does business.

The move envisages Barclays Bank transferring its assets and liabilities to BBI in exchange for shares in the latter.

HOLDING COMPANY

Barclays Bank, to be renamed Barclays, will then become a holding company for BBI, which will change its name to Barclays Bank and become the main operating group.

Shareholders will notice no difference. Stock certificates, dividend payments and stock exchange listing will remain the same. But holders of Barclays loan stock are being asked to approve an exchange into new stock to be issued by BBI.

The net effect on Barclays' balance sheet will also be nil and the bank does not expect to face any tax consequences.

The Bill is expected to come before Parliament next year and the changes will come into effect at the beginning of 1985.

Argus 14/10/83 (58)

INTERNATIONAL

British firm in row with anti-SA group

Argus Foreign Service

LONDON. — A British life assurance association may sue the anti-apartheid organisation End Loans to Southern Africa (ELTSA) for libel.

The company, Liberty Life Assurance, has handed to its solicitor copies of a pamphlet that ELTSA was distributing outside the company's office in New Oxford Street.

ELTSA thought the British company was part of the South African Liberty Life company, and drew up pamphlets reading: "Liberty Life supports apartheid."

But Brian Green, senior divisional manager of Liberty Life here, said there was no connection between the two companies.

"It is pure coincidence that we have the same name," he said. "Our head office is in New Barnet, north London, and we don't have other head offices anywhere in the world."

When the mistake was pointed out to the demonstrators they apologised and retreated in some confusion.

The demonstration was called in support of 90 black South African Liberty staffers who were fired last month after they went on strike for union recognition.

The pamphlets distributed by ELTSA sketched some of the background to the dispute, saying that workers had been "victimised by dismissal" and added: "Liberty Life should recognise Insurance and Assurance Workers' Union of South Africa immediately, reinstate the dismissed workers, open talks with the union and stop supporting the apartheid system."

The pamphlet correctly gave the address of the British company as Commonwealth House, New Oxford Street, W1, but described it as the London office of Liberty Life South Africa.

Employees of the British company took most of the pamphlets soon after four ELTSA members had begun demonstrating outside the office.

Mr Green said he had handed a copy of the pamphlet to the company's solicitors.

"They should research their facts better — they could be up for libel. We're not going to stand for this," he said

Mr Green said his company probably employed more black people than any other insurance company in London

David Haslam, secretary of ELTSA, said his organisation had been "badly mistaken" and that they would be sending a written apology to the British company.

"It's the first time in 10 years we've made a mistake like this," he said.

He added that ELTSA would pursue a link between South Africa's Liberty Life and the British company Guardian Royal Exchange.

A spokesman for Guardian Royal Exchange confirmed that their life fund, Guardian Assurance, owned shares in Guardian Assurance of South Africa and had a seven percent preferential shareholding in Liberty Life South Africa.

Speculation of alliance in electronics industry

Cape Times 13/10/83 (58)

Own Correspondent

JOHANNESBURG. — The suspension of Altron, Altech, Powertech, Asea and Indumeni shares has prompted strong speculation of a major alliance in the electronics industry between Anglo American and Altech.

While a further announcement on the suspensions is not expected for another week, industry and stock exchange sources believe the suspensions herald the establishment of an Amic-Altech electronics group that will have the muscle to face Barlow Rand head on.

Barlows has already shown its cards through the listing of Reunert in the electronic sector of the Johannesburg Stock Exchange, and the stated intention to expand the company through acquisition substantially over the next year or so.

Electronic forces

Barlows' recent acquisition of Telkor and the re-organization of the electronics section within Reunert, which might yet be renamed when listed in the electronics board, leaving Reunert in the engineering arena, creates one of the dominant South African electronic forces, which has the backing of insurance giant SA Mutual.

Barlows electronic interests include Fuchs, Telerama Rediffusion, Perseus, GEC, Sapec, Andromeda, Persetel, Heineman, Impectron, Marconi, and AEI Henley.

Barlows major share of the electronics market (reckoned in South Africa to be about R2 300m) is undoubtedly the military, although it is reckoned that the group is working hard to capture some of the highly profitable communications market, to date considered an Altech arena. This is expected to be one of the big growth areas over the next decade.

"The Barlow moves would seem to make the Altech and Anglo combination the only rationale one can see," said one top electronics source yesterday. "It's common knowledge that Altech tried to acquire a share of Asea a couple of years ago.

"Altech undoubtedly has had a problem in that unlike many electronic companies with overseas connections, it simply cannot hide its profits out of South Africa. Many feel that its very good performance is made at the expense of the Post Office, and that in turn, is paid for by the general public."

Anglo's electronics holding has been fairly lightweight to date and includes Computer Sciences. Through Amic, it holds Conlog and High Logic and has the Asea holding. It is also known that Anglo would like to acquire a ready made electronics empire.

Resources

It is common knowledge that senior Amic executives have visited Altech's head office in Boksburg at least three times over the past year, and it is logical that Altech views with concern the huge resources available to Barlows, which dwarf its own assets.

The only reservation of an Anglo-Altech alliance is that the possibly differing political attitudes of the Anglo and Altech groups might make for a reluctant combination. The insurance weight behind the Anglo/Altech combine is speculated on as Liberty Life, which has already thrown its cards in with Anglo on the Premier deal, and is widely believed to be only a decision away from a direct link with Anglo American Insurance.

The third giant emerging in the electronics sphere is under the Sanlam umberella. It holds Federale Volksbeleggings, which in turn has a 16 percent stake in Siemens and such subsidiary companies as Sparrat, Tek, Teklogic, Tek Industrial, and Swazi Suratel.

Sanlam also through Gencor holds a further 16 percent in Siemens and has bid for Tedelex. In addition, Sanlam holds 25 percent in Plessey and a small stake in SA Philips which in turn controls Aberdare Cables.

What adds genuine spice to the Altech/Anglo development is the current activity in the electronics market.

There has been considerable adverse criticism of the 15-year supply agreement which Altech, Siemens, TMSA and Plessey hold from the SA Post Office.

In Altech's case this is for the supply of modems (computer and terminal interface devices) and microwave equipment, and is in effect until 1994.

In the case of modems more computer and terminal equipment is being supplied with modems built-in, rather than having to rely on independent modem units. This it is felt will affect Altech's dominance in the modem market,which it is thought has sometimes meant prices as high as 20 percent over alternative supplies.

On the microwave side, a Post Office team of experts is believed to be overseas at present looking at state of the art technology which will involve visiting companies such as GEC, Siemens, Teletra, SEL, ITT and Israeli companies.

The team, along with other South African electronics key men will also be attending the telecommunications exhibition scheduled to be held in Geneva in early November.

If the Post Office does opt for new microwave equipment, it is bound by the supply agreement to offer the manufacture to Altech provided Altech can supply and that the Post Office is happy with the price, quality and technology.

All these developments would seem to make this an ideal time for an Anglo/Altech marriage. The only debate at present is whether Altech's chairman, Mr Bill Venter, feels he has grown his empire sufficiently to be prepared to part with it.

Low-interest bond subsidies under attack

w/t Argus (bus) 22/10/83

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LOW-INTEREST tax-free housing subsidies granted to public servants and employees of financial institutions are coming under attack from several quarters.

By DEREK TOMMEY
Financial Editor

They are being blamed for distorting the property market, for leading to the wasteful use of the country's savings and for creating an unfair tax situation.

Mr Neville Berkowitz, editor of the Property Economist, said this week that bond subsidies and low-interest loans granted to the staffs of financial institutions were responsible for soaring house prices. They enabled sellers to demand inflated prices.

In the first three months of this year, building societies lent R477,7- million — 232 percent more than in the first three months of 1982.

Between 60 and 65 percent of bonds granted by the two largest building societies in the first four months of the year carried some form of subsidy.

Subsidies were making a mockery of the affordability of homes, Mr Berkowitz said.

With two out of three homes being financed by a subsidy, he expressed sympathy for the remaining 33 percent of the market — people who did not have access to a bond subsidy.

Stimulatory

"It is subsidised buyers who have pushed prices out of reach of those people who do not enjoy a similar perk."

A Cape Town building society official said this week that news of the latest increase in the public service house subsidy had had a marked stimulatory effect on the prices of low cost housing.

As a result of the increase there were now few houses on offer in the R40 000 to R50 000 price range.

The price of an ordinary house was now between R60 000 and R70 000.

Mr W F de la H Beck, chairman of Murray and Roberts, has also criticised low-interest tax-free housing subsidies on the grounds that they lead to a misuse of capital.

Writing in Murray and Roberts' house journal, he says because of the non-taxable nature of low-interest housing subsidies, an inordinate and artificial amount of capital is being directed into providing houses of a type and a cost which would not have been built if normal market-related interest rates had appertained.

One of South Africa's leading tax consultants, Mr Costa Divaris said today he was amazed that the South African taxpayer had put up with this situation for so long.

If some people paid less tax than they should, others not getting tax-free housing subsidies had to pay more than their fair share.

The people who really benefited from the system were employers and property owners. By giving tax-free housing subsidies employers were able to keep wages down.

As a result the South African taxpayer was actually subsidising employers, he said.

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Subsidies

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The Government has been investigating the levying of taxes on low-interest loans for the past two years.

It recently appointed a two-man commission to take evidence from interested parties and to consider the matter further.

A senior Treasury official said yesterday the commission had finished its report and submitted it to the Cabinet for consideration.

New firm will help "little man"

(S8) S Times 23/10/83

By NORMAN WEST

A NEW investment company — believed to be the first of its kind in the Cape — has been founded and will soon offer 10 million shares at 50 cents each to the public.

Former Labour Party chairman, Mr David Curry, is one of the directors of Klein Kapitaal Bpk, which has a number of well-known personalities on its board of directors.

Among them are Mr Wilhelm Smith, former head of the Department of Mercantile Law at the University of Stellenbosch, a financial consultant and director of the Atlantis-based newspaper, The Atlantan (chairman); Mr Curry, president of the Association of Management Committees (Assomac); and Mr Gideon Snyman, an economist attached to the Bureau for Economic Research at the University of Stellenbosch.

Others are Mr Willie Meyer, trade unionist and businessman, Mr Vincent Muller, a Stellenbosch resident; Mr Lesley Abrahams, editor of The Atlantan; Mr Conrad Sedigo, editor of Rapport Extra; and, Mr Vincent Muller, of Stellenbosch.

A spokesman for Klein Kapitaal said the company was totally non-racial in character, which was reflected in the composition of its board of directors.

He said any member of the public could subscribe to the shares, although, initially, the main consideration would be to give the small man, especially the "coloured" man, a chance of investing in promising business developments in his own areas.

"Once the company is established, it would broaden its base on a national level."

He said that, as a profit-orientated company, Klein Kapitaal was "naturally against Group Areas Act restrictions".

The spokesman stressed that Klein Kapitaal was not to be seen as a "coloureds-only" investment company, nor as one with ulterior or political motives.

Non-political

He said the company was also totally 'non-political' and board members had been co-opted for their special expertise and potential usefulness to shareholders in their particular fields of endeavour.

Klein Kapitaal, the spokesman said, was a community-oriented company which would provide funds for qualifying entrepeneurs, would invest in economically-viable companies, take over businesses with development potential and establish others where viable.

Nedbank Group profits soar 37,2% to R121,6m

CAPE TIMES (58) October 1983

By HAROLD FRIDJHON

JOHANNESBURG. — Nedbank Group has produced spectacular results for the year to September 1983 with disclosed taxed profit 37,2 percent higher at R121,6m and with a final dividend of 50,5c, making a total of 68c for the year against 50c the previous year.

Earnings a share rose from 100,2c to 137,1c.

The preliminary report reflects a year of great progress in which the second six months — when competition was fiercest and margins were more tightly squeezed — outperformed the first half.

Taxed income for the first half of the year was R44,5m and it soared to R77,1m in the second half enabling taxed profit to exceed the R100m mark for the first time.

Total assets

Another first for the bank was that total assets surpassed R10 billion reaching R10,5 billion, a growth of 30,1 percent on the previous year's total of R8,1 billion.

The return on assets improved from 1,09 percent to 1,15 percent which, as Mr Rob Abrahamsen, group chief executive, was quick to point out yesterday, "dispels the view that in banking profitability declines as assets increase".

He said that the past year was one of major change in the South African banking sector. With the abolition of Roco, competition was intensified and was heightened by Nedbank's introduction of the payment of interest on current account.

"At the time we realized that the move would add some R20m to our costs but we did it with a medium term objective in mind."

He denied that the banks had compensated for this additional cost by raising service charges to customers.

Financial markets were more volatile last year than they had been in tne previous year.

Margins in the first half were better than they had been in the previous financial year but they narrowed again in the last quarter. On average they remained at a depressed level throughout the year.

Economic climate

Commenting on the results in a generally poor economic climate, he said that the Nedbank Group was well diversified with a balanced business base.

"We believe it is important to balance our corporate and personal business portfolios and our domestic and international banking activity."

The Northern Hemisphere operations had made a useful contribution to group profits.

This contribution must have been very significant in the second half-year's jump in profits because the Northern Hemisphere operation with branches in London and New York only became fully operation in the last six months of the year.

Nedbank, Mr Abrahamsen, said was now an international bank with headquarters in South Africa. In this respect, the group was different from other major banks operating in this country.

Overseas offices

The overseas offices enabled the group to trade and to finance South African companies in major markets. The foreign exchange operation was fully integrated in the three centres — South Africa, the UK and the United States — and the group's earnings from foreign exchange operations had increased by 40 percent last year.

This was one of the reasons why Nedbank was showing such an excellent return on total assets because trading and financial services earned fee income and did not depend on the use of assets.

The group has always shown an impressive ratio of taxed profits as a percentage of shareholders' funds.

Last year it achieved its best ratio of 27,2 percent compared with 22,8 percent the previous year and 25,3 percent in 1980.

Nedbank had a capital surplus of R131m at the end of the year compared with R110m in 1982 and added R61m to its disclosed reserves.

This suggests that the group has the elbow room to take advantage of the next growth phase.

Next upswing

The directors say in their report: "The Nedbank Group is well placed to advance with the economy in the next upswing."

Comment: Nedbank will certainly be a difficult act for the other major banks to follow.

Mr Abrahamsen said that interest on current account cost the group R20m; the cost must have been considerably greater for Barclays, Standard and Volkskas with their more extensive and expensive branch networks.

But these banks too have been offsetting these additional costs by increasing fee income and by more intensified participation in the financial and foreign exchange markets. How successful they have been will be revealed only when their next accounts are published.

Competition

But one point is clear competition in the profit areas is increasing with all the banks offering additional services and expertise — which means increasing benefits for customers at competitive rates.

Nedbank has enjoyed a preferential rating on the Johannesburg Stock Exchange with a yield of 4,1 percent. The increased dividend will take the yield to about 5,1 percent, which means that the share should react favourably today.

Authorities set on reducing inflation

— Dr Gerhard de Kock

PRETORIA. — Reserve Bank Governor, Dr Gerhard de Kock, predicating economic recovery for South Africa in the years immediately ahead, said yesterday that the country's current account surplus for 1983 would probably exceed R1 billion.

The surplus on the current account, which includes trade and invisibles, will follow a deficit of R2,9 billion in 1982

Addressing a meeting of the State deposit-taking body, the National Finance Corporation (NFC), in his capacity as chairman, Dr De Kock said the monetary authorities would continue to give priority to curbing inflation, now running at 10,9 percent.

In its efforts to bring down inflation closer. to the levels of its main trading partners, the Reserve Bank is aiming to reduce the rate of increase in the broad M-2 money supply to well below the 22 percent recorded in the year to June.

Monetary targeting

Dr De Kock said steps to pave the way for more precise monetary targeting may be introduced next year.

"Provided the necessary fiscal and monetary restraint is achieved, there is every prospect that we whall maintain a strong balance of payments in 1984 and, in addition, experience both a higher real growth rate and a lower rate of inflation than in 1983," he said.

"South Africa can look forward to an economic recovery and a return to high positive rates of growth in the years immediately ahead," Dr de Kock added.

He warned that the country still faced serious problems, including drought, a relatively low gold price and depressed economic activity which could result in a negative growth rate this year of three percent.

But he added that if the world debt crisis intensified, investors might move out of bank deposits and doubtful paper assets into investments like gold and United States Government securities, boosting the gold price but harming the world's financial system.

He said recent economic indicators were encouraging and added that South Africa had no foreign debt problem.

Discussions were going ahead on plans to transfer the deposit-taking operations of the Public Debt Commissioners to the NFC.

"A relatively large amount of deposits, normally ranging from R1 billion to R1,5 billion, is involved, and the acceptance of this new function by the NFC will have far-reaching implications for the future structure and role of the corporation," he said.

Further details of the re-organization, due to be implemented by June next ear, are to be announced soon.

Dr De Kock said the NFC's average daily level of deposits decreased to R407m in the year to June 1983 from R457m the previous year, partly because of reduced reserve requirements for some banks.

But the NFC recorded a net profit of R8,52m in the last financial year after a loss of R4,64m the previous year.

The main reasons for the turnaround were the wider margin of 150 basis points between the NFC's call money rate and the Treasury Bill tender rate, the replacement of low-yielding securities with higher-yielding short-term assets, the stability of the amount of call deposits, and the lower average rate of interest paid on deposits.

FINANCE

Cash flow to societies falls sharply

ARGUS 26/10/83

58

Financial Editor

THE flow of money to the building societies fell off sharply in August to R71,9-million, the latest returns show.

This was only just over half the R139-million inflow in July and equal to only 45 percent of the R162-million inflow in June.

August was the month in which the banks and building societies launched an all-out war to attract the public's savings by offering substantially higher interest rates.

HIGHER RATES

However, it was also the time when many people had to pay provisional tax and also meet normal tax assessments.

So it is not certain whether the building societies should blame higher competitive interest rates or increased demands on the public or both for their poor performance.

Funds invested in August in the building societies' indefinite period shares increased by R41-million, while investments in fixed period shares rose R11,9-million.

Transmission accounts rose by R2,4-million, but savings accounts dropped by R39,9-million.

Fixed deposits rose by R56,6-million.

The August inflow was well below the R290,6-million increase in the societies' funds lent on mortgages that month.

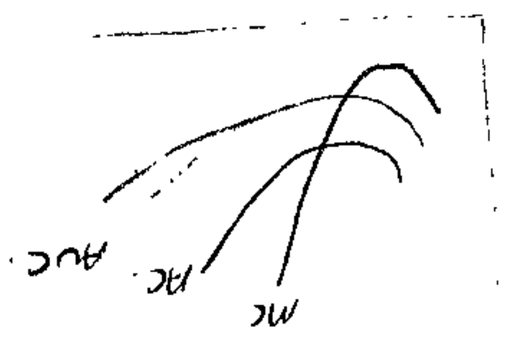
Since March the net inflow of funds has generally been less than the rise in mortgages granted — a sure indication that a scarcity of mortgage money was on the way, unless the situation greatly improved.

It appears the situation has not improved so far, because warnings were issued at the Building Industries Federation conference in Port Elizabeth this week that mortgage money was likely to remain in short supply and therefore expensive.

This week two building societies — the United and Natal — have further increased their deposit rates and are now paying, along with some other societies, 14,5 percent for 12-month to 17-month money.

However, Santambank and Syfrets Bank are still advertising 15 percent on 12-month money.

Building society officials are reluctant to forecast when mortgage and other rates will begin easing. But it could be some time away if the Government continues with its policy of fighting inflation with monetary weapons.



'Few clean hands to welcome'

African Affairs Correspondent

ULUNDI—There were hardly any South African Cabinet ministers who had sufficiently 'clean hands' to have received a warm welcome at the opening of the KwaZulu Legaslative Assembly.

This was said here yesterday by the Chief Minister of KwaZulu, Chief Gatsha Buthelezi, when he thanked Mr P N Hansmeyer, the Commissioner-General for the Zulu people, who opened the first session of the fourth KwaZulu Assembly in a new R13 million assembly complex.

The public galleries were packed for the occasion and about 5 000 people gathered outside the assembly hall for the ceremony.

Chief Buthelezi said the deadlock between Ulundi and Pretoria and between himself and the Prime Minister was worsening.

He said he had suggested to Dr Piet Koornhof, Minister of Co-operation and Development, that no Cabinet minister should come to Ulundi to open the present session of the assembly.

Chief Buthelezi said he had done this because he could give no guarantee that there would not be a repeat performance of last year's demonstrations against Dr Koornhof.

The Ingwavuma land deal had been the reason for the incidents, he said.

Referring to the Prime Minister's objection to his 'No' vote campaign Chief Buthelezi said that, as a South African, he would continue with it.

He accused Mr Botha of 'very shoddy efforts' in driving wedges between King Goodwill, the Zulu King, and himself.

All the attacks by the Prime Minister and his ministers had been on television and in the Press. But requests to broadcast answers to these attacks had had no response, he said.

(Report by P Leeman, 12 Devonshire Place, Durban.)

Buthelezi wary of development bank

African Affairs Correspondent

ULUNDI—KwaZulu was wary of being led along the 'primrose path' to confederation or a constellation of States through the South African Development Bank.

This was said in the KwaZulu Legislative Assembly yesterday by Chief Gatsha Buthelezi.

He was replying to the opening speech by the Commissioner-General for the Zulus, Mr P N Hansmeyer, who dealt at length with the function of the development bank.

The KwaZulu leader said fundamental principles concerning the bank had not yet been sorted out to the satisfaction of the KwaZulu Cabinet and should be resolved urgently.

They concerned the terms under which the assets of the Corporation for Economic Development were to be taken over by the KwaZulu Development Corporation and the powers of his government as a shareholder of the corporation.

He said his government would gladly accept responsibility for the economic development of the region, as a part of South Africa, but would not be able to do so unless it obtained a fairer share of the resources of the country.

ARGUS 27/10/83 (58)

By AUDREY D'ANGELO

Cheaper roof over your head

IF YOU don't work for the Government or any other organisation which gives a housing subsidy to its employees, it seems unlikely that you will ever be able to afford a conventional house near Cape Town — unless you build it with your own hands over a long period, as some people are now doing

Building society executives and the chairman of a large construction company have said lately that subsidies have pushed up the prices of ordinary houses beyond the reach of first-time buyers who receive no help

The only way to bring these prices down significantly would be for demand to fall away And since public servants received a higher housing subsidy this year and are already pressing for it to be raised again next year, there seems no chance of that happening.

Alternatives

However, there are cheaper alternatives which young couples or retired people may be able to afford

The Divisional Council and some municipalities allow mobile homes (which are not mobile in fact, but large stationary caravans without wheels) to be put in some caravan parks.

They are surprisingly roomy, and can be bought fully furnished with two bedrooms for R24 000 or with three for R26 000.

The snag is that so far no local authority allows you to put one on your own plot in a residential area, although there are attempts to persuade them to do so.

This means that you must rent a site in a caravan park or a special mobile home park.

If you don't like the idea of a caravan, it may be worth considering a small A-frame timber house, intended as a holiday or retirement home, from R22 000 to R29 000

One of these is now on show at Imhoff Park caravan site at weekends. It has one small bedroom, a bathroom, kitchen and sitting room on the ground floor and a sleeping loft with room for four beds upstairs.

Little maintenance

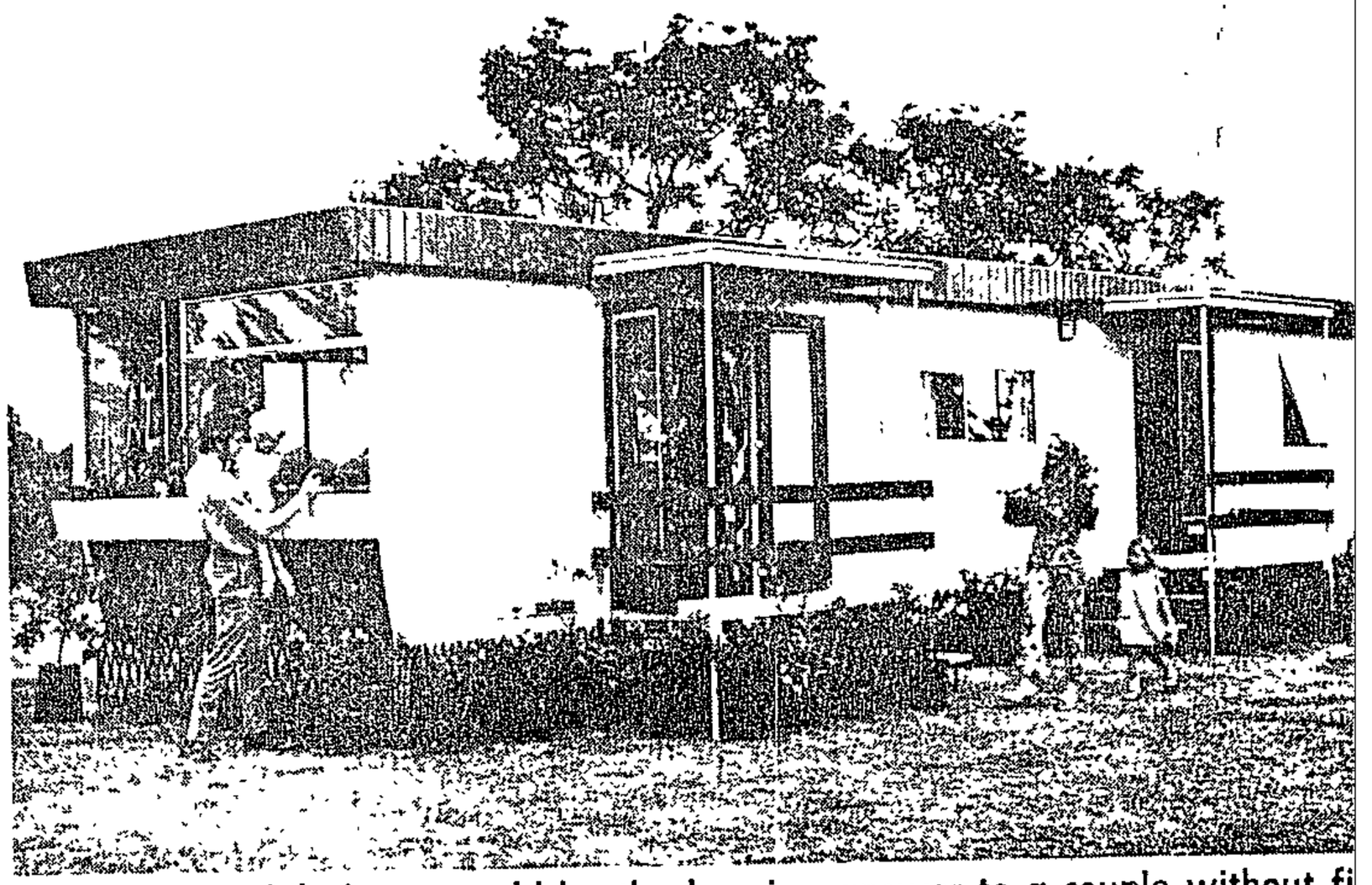
Most of the structure is roof and the rest natural pine, which means it needs very little maintenance and can be put up in about six weeks.

If you are a handyman, you can save by buying the shell and putting in partitions and fittings yourself.

If you are not, you can have the house built with extras such as fitted cupboards or additional dormer windows.

Again, the snag is that so far they are allowed only in caravan parks or on holiday home sites.

But Mr John Newton, a partner in Woodcrest Timber Homes, says he hopes they will soon be allowed in ordinary residential areas.



A roomy mobile home could be the housing answer to a couple without fi

Operate in your own area, black bank told

African Bank's Mr Moses Maubane. 30/10/83
Picture: Herbert Mabuza

The black-owned African Bank is angry that white-owned banking institutions are permitted to trade in black areas but it may not do so in white areas.

Mr Moses Maubane, the bank's manager and chief executive, said his bank had tried for more than two years to get permission to trade in white central business districts.

"As a bank subject to the same financial restrictions as other financial institutions, we feel we should be able to operate on the same footing," he said.

Authorities with whom the bank dealt had been positive but the bank's appeals had been unsuccessful.

"In fact we are back to square one," Mr Maubane said.

He criticised "the double standards" being used against his bank.

"Free enterprise seems to be a privilege of a chosen few and this is very serious criticism," he said.

This week the Department of Co-operation and Development put paid to any ideas of the bank operating in white areas.

It said in a statement: "At present there is no indication that there will be any change of policy as it is the contention that black businesses are there for the benefit of the black communities and they should be sited in close proximity to these people".

Mr Maubane said the African Bank was greatly disadvantaged by the restriction because "the bulk of our customers and people with investment funds are actually working and shopping in the white CBDs".

"We lose an important slice of our business to our competitors. And while the African Bank can offer clients certain benefits and may be attractive for ideological and psychological reasons, banking is essentially a matter of convenience," he said

The department says it is policy for black businesses to be sited in areas set aside for black occupation, "for example in the national states and towns for members of black communities".

"In addition, these businesses may be sited in areas proclaimed in terms of section 19 of the Group Areas Act as areas in which members of different communities may trade," a spokesman for the department said.

He said there had been exceptions in one or two cases "in that branch offices of the black bank have been allowed to open in other areas".

Mr Maubane said the mini-branches of the African Bank which had opened were severely restricted in the services they were allowed to offer.

He said another aspect of the group areas restrictions on black businessmen was the row raging over whether white businessmen should be allowed into the planned Soweto CBD.

"If it is to be made plausible, blacks should be allowed into the white CBD before we think of letting whites into the township," he said.

Mr Maubane said the white CBDs already had 80% of black spending power.

"If the whites are allowed into Soweto as well then they will have access to the remaining 20%."

● The assets of African Bank — only R8-million in 1978 — totalled R20-million last year.

What's mine is mine: What's yours is ... well, also mine

By LAUREN GOWER

(58) S.Times 30/10/83

Pick your bank!

CONSUMERS should shop around exhaustively before opening a cheque account.

This is the overwhelming conclusion of a Business Times street survey of the different banks' receptiveness to prospective new customers.

Business Times staffers made inquiries about opening cheque accounts on an income of R1 200, the national average for white South Africans, at branches of each of the big five banks in a three-block radius of central Johannesburg.

By Alec Hogg

Responses from counter staff differed vastly — from helpful and keen to indifferent and, in some cases, totally discouraging.

The charges quoted ranged from a minimum of 20c and a maximum of R5 a cheque to a minimum of 35c and a maximum of R10. The overdraft rate offered ranged from 20% to 24%.

While this was a limited survey and is not necessarily indicative of service all over the country, the Nedbank branch in the Nedbank Mall emerged from the spot check as the most economical, eager to please and efficient.

The inquiries clerk at Nedbank referred our prospective account holder to the branch's customer services officer, who had two easily accessible desks (separated by a screen) on the banking floor.

As the bank official was busy helping another customer to open an account, our prospective customer was immediately invited to a chair and asked to fill in an application form.

(The potential customer was able to overhear that the other customer was transferring an account from another bank, which could be construed as a lapse in confidentiality by the bank.)

The Nedbank official quoted cheque charges of 20/20/5 which means a minimum of 20c for each cheque written, with 20c for each R100 or part thereof after the first R100 up to a maximum charge of R5.

All the shortcomings of a cheque account were outlined. The Nedbank official noted that, although the bank does not "bounce" cheques, it charges R5 for each cheque which is drawn on an account which does not have sufficient funds, and R10 for every cheque thereafter.

The official was at pains to point out the advantage of operating a savings account together with a cheque account to minimise charges, and said that, although an overdraft of R300 was easily arranged, the interest rate charged was an "expensive" 24%.

The only other bank which appeared to encourage a small-salary earner to operate a cheque account was Volkskas. Here the charge quoted was slightly higher at 25/25/5.

Like Nedbank, the Volkskas bank official at its Commissioner Street East branch was informal and conducted the interview across the inquiries counter. He also noted the benefits of a savings account, and quoted an overdraft rate of 20%.

At Standard Bank Commissioner Street branch the prospective account holder was kept waiting for 18 minutes before receiving attention. This came at last from an official who worked in a different department, and who admitted to ignorance about bank charges and other aspects of a cheque account.

After protracted consultations between the official and his manager, our would-be account holder was quoted charges of 25/25/5 and an overdraft rate of 22%.

To his credit, the bank official mentioned the advantage of using Standard's Autobank, where the withdrawal charge, at 10c, is the lowest in the banking market, although nothing was said about the advantage of using a savings account.

The attitude of the Barclays official at the Carlton Centre branch attending to the would-be client verged on the hostile.

He was instructed by the inquiries clerk to apply for the account at the manager's department and, after a short wait, was shown into the office of a senior manager.

The highest charges encountered, 35/25/10, were quoted. The overdraft rate was more in line with the market at 23%, but, warned the manager, "if you go into overdraft without organising it beforehand, I will kick your backside".

The manager did not respond to the prospective client's reference to the far cheaper operation possible from a building society, and did not bother to point out the relative advantages of cheque and savings accounts.

A number of new factors emerged from the interview with the Trust Bank branch in Commissioner Street. Like Barclays, the prospective client was shown into a manager's office.

The Trust Bank official was frank to the point of fault: "A cheque account is too expensive for the ordinary salary earner," he said.

The bank's charges, he admitted, were probably the highest in the market. Although the per-cheque fee quotes were the same as at Nedbank, Trust charges an additional R2 monthly service fee, whether or not the account is used, the official said.

He recommended use of the bank's savings account — which features five free cheques a month and offers far higher interest — as an alternative. An overdraft rate of 20% was quoted.

Although it may not be fair to judge the banking groups by the responses of single branches, the message is clear:

First, services and costs differ enormously between banks these days.

Secondly, one's satisfaction with the service of a branch depends heavily on its manager and staff.

Loans available soon for Big Sale home buyers

By LIN MENGE

THE United Building Society expects to start granting loans soon to Big Sale home buyers in terms of the agreement with the Government which enables building societies to grant 90% loans and to lend on deed of sale

The society signed the final agreement with the Government on Friday

"From now on it will be up to every building society and their boards to decide whether to participate in the agreement, but we have already taken that decision," said Mr Piet Kruger, UBS assistant general manager.

In terms of the agreement, first reported in HOME-FRONT on September 29, the loan concessions apply to people of all races who buy their rented properties during the State's year-long mass sale of about 500 000 houses

Deposits of only 10% will be required by the participating societies, the National Housing Commission providing security to the societies for an agreed period for the additional 10% deposit

HOME FRONT

Big Sale home-buyers will also be able to obtain loans from the participating societies before their properties have been surveyed The Department of Community Development will issue the societies with housing securities so they may lend to clients before the title or leasehold deeds are available

□ □ □

FROM the Department of Community Development Housing newsletter.

● Surveys have been commissioned on 343 000 houses so far, of which 60 000 have been completed

● Big Sale prices have been approved for 259 000 houses, and 10 000 houses have been sold

● Homes rented by blacks in the Western Cape and Northern Transvaal administration board areas cannot be bought in the Big Sale.

● Employers planning end-of-year bonuses for their staff should think about including in them the 10% deposit needed to buy a rented home in the Big Sale, says Mr Johan Kruger, national sales co-ordinator

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National Acceptances profits soar to record R4,5m

By PAUL DOLD
Financial Editor

NATIONAL ACCEPTANCES (NA) has produced an outstanding set of profits for the year ended May, raising net income from R501 000 to R4,5m and the chairman, Mr Bill Balsdon, is confident the group will fare reasonably well again this year in spite of the dull economic climate.

He warns, however, that the South African economy is unlikely to recover until the end of 1984 and the drought is only now starting to work its way through the economy.

Inflation rate

While the inflation rate has dropped and it could reach single digit figures next year, it is unlikely to remain at that low level for long.

Black unemployment remains far too high particularly viewed against the increasing number of work seekers.

Mr Balsdon predicts that further relaxations of exchange control will take place when the economic upswing is underway.

The bulk of the profit advance in the past year took place in NA's money market division with the favourable interest rate trend helping to boost income from R319 000 to over the R4m mark.

Property dealing was also a bullish area for the group with earnings up from R81 000 to R293 000.

The corporate finance division handled deals valued over R27m. NA is also active in managed leasing and has recently entered the project finance market.

NA's rapid growth in recent years is highlighted by total assets which have now breached R13m and net current assets are R6m.

But in spite of the performance, the group is not planning to seek a JSE listing: NA is highly liquid with little need for new finance and a listing has little attraction at this stage.

Mr Balsdon says that trading conditions in the money market division in the past year were excellent with turnover exceeding R3 billion. Market penetration is reflected by the large increase in institutional and other clients.

The property division which handles both project development — management and sectional title — had an active year with three major shop and office projects and three sectional title conversions.

Apart from the new Pick 'n Pay head office at Claremont (in association with Sanlam) there was the Goodwood Shopping Centre (a project in association with the SABC Pension Fund and the Transvaal Joint Municipal Pension Fund).

The third development was an office block in St Andrews Street, Bloemfontein in association with the Transvaal Joint Municipal Pension Fund.

Conversions

Two of the sectional title conversions were in Port Elizabeth — Estoril and Balmain and Waverely was marketed in Durban.

Since the year-end, NA has bought two Johannesburg flat blocks — the 440 unit High Rise in Berea, one of the largest conversions undertaken in the country — as well as Annper Heights , also in Berea.

NA is currently in talks with NAIH an associate which could lead to the merger of the two companies.

NAIH an industrial company owns the National Acceptance head office building in Johannesbureg as well as a 70 percent stake in Mazista (which mines and markets slate products) and 50 percent of Devland, a Reef manufacturer of maize based snacks.

● Mr Eric Grubb has been appointed to the Board of National Acceptances.

Big Sale bonds now open to black women

By LIN MENGE

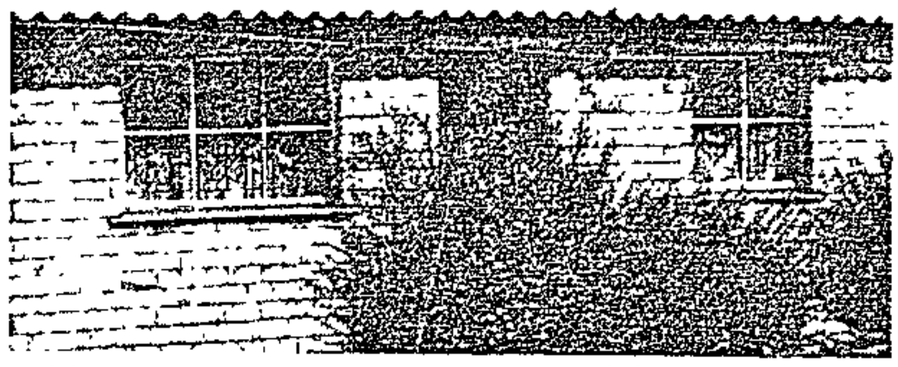
BLACK women who, for legal reasons, have been unable to apply for mortgage bond finance can now do so — provided the houses they wish to buy are being offered on the Big Sale.

They will be able to buy their houses on a ceded deed of sale, in terms of an agreement between the Government and certain building societies.

Until now the only black women who have been able to apply for mortgage finance have been those married by civil law — and in most of those cases the property has been in the husband's name.

But women married under tribal law, or single women — be they unmarried, divorced or widowed — who might marry or remarry under tribal law, have not been able to obtain bonds because, in terms of tribal law, they would be minors. This would immediately invalidate any contract they signed with a building society or bank.

The situation poses a major problem for urban black women. Attempts by the Government to alter the law have so far failed because of disagreement among the parties involved.



Many of the registered tenants of the State-owned houses being offered for sale to all races until July 1 next year are women unable, as the law stands, to get building society loans with which to buy their houses.

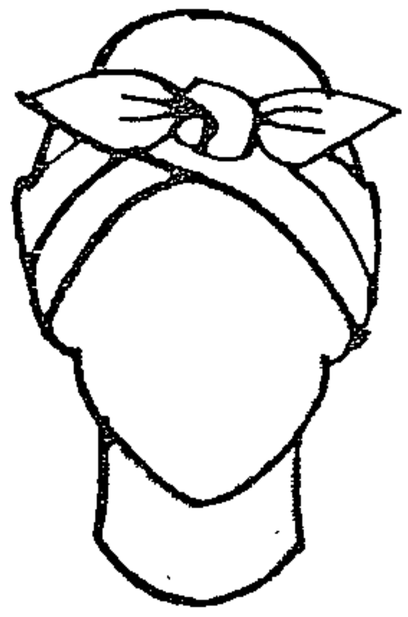
It has therefore been agreed between the Government and certain building societies, that the societies will consider granting loans to such women Big Sale buyers on a ceded deed of sale. In return, the Department of Community Development will issue the societies with housing securities.

It is exactly the same arrangement under which any Big Sale house buyer, of whatever race, may now apply to buy his house on a ceded deed of sale if his stand has not been surveyed, and in that way obtain a building society loan.

However the building societies have given the Government a deadline. According to Mr Piet Kruger, assistant general manager of the United Building Society, the problems both of surveying and the legal status of black women, must have been sorted out, or nearly sorted out, by July 1986. If nothing has been done by that date, the Government will have to refund the societies.

HOME FRONT

As with the arrangement with the Government that building societies can grant 90% loans on Big Sale purchased properties, it will be up to the individual societies to decide whether they are prepared to grant loans to black women or to buyers whose properties have not yet been surveyed. Mr Kruger said the UBS had already



decided to participate in all three agreements with the Government

The position of black women who are not Big Sale house buyers remains unaltered, and they will have to wait for the legal position to be changed. But at least that is now likely to be before July 1986.

Now that the legal formalities for making 99-year-leasehold available in the non-independent "homelands" have been completed (reported in HOMEFRONT yesterday), it will be possible for home-buyers and developers in those areas to apply for mortgage bond finance once present negotiations with the building societies have been completed.

Trendline, Box 767, D
J F M A M J J A S

CAPE TIMES 8/11/83 (58)

Barlow Rand

From page 20

Comment: By now, after the results from CG Smith, Tiger, PPC, TC Land, the improved trend in the second half is already established, but it is encouraging to see that the thread of tighter control and efficiency has been maintained through to the top.

Middelburg is probably the key to much of Barlows future organic growth. It is a classic recovery situation, with everything in place and simply waiting for the markets to improve.

The divisionalization is now well under way, and Mr Rosholt noted yesterday that eventually six out of seven operating divisions would be listed.

Divisions

Barlow Rand, as such, would be responsible for policy, philosophy and financing, and while there would still be a great deal of cross-polination through the executive committees, the divisions would be autonomous.

One of the problems as far as the Barlows share price is concerned is that most institutions have all the holdings they want, having been satisfied by rights issues and the various acquisitions that have been satisfied by share issues over the past few years.

What this means is that, at least in the short term, institutions have no need to chase scrip, and price changes will depend entirely on private investor activity.

Mr Rosholt said the ratios would clearly show the effects of the efficiency drive, as margins had been tighter and had not improved over the year.

Ideally, this sort of asset management and cost control should be a continuing feature through good times and bad, but inevitably when conditions are booming, there is less time to concentrate on such intangibles, and efficiencies tend to slip.

However, provided the necessary surgery is applied when required, and in this case it has proved highly successful, the seeds are sown for efficient management in the upturn.

Yield

At yesterday's R12,30 Barlows is on an unchanged dividend yield of 5,7 percent and the price:earnings ratio moves to 7,4 from 7,0.

Barlows is correctly regarded as a microcosm of the South African economy, and prospects for the company, as for the country, are heavily dependent on the gold price.

What is clear is that there will be no visible recovery for at least another nine months, and this timescale could move out if there is no real gold price improvement.

Ownership of homes 'basis for stability'

Argus 9/11/83

58

HOME ownership was a basis for "political stability and sustained economic growth" in South Africa, the world president of the International Union of Building Societies and Savings Associations, Dr Willy Osterbrauck, said in Johannesburg this week.

And, he added, the Association of Building Societies of South Africa (ABSSA) was to be congratulated for its achievements in this regard.

Dr Osterbrauck, who was addressing the 44th annual meeting of ABSSA, outlined the history of the International Union and described ABSSA as a "meritorious and constructive member of our union".

He said the 8th world congress of the International Union, held in Johannesburg in 1959, was "a milestone in the history of the union".

ABSSA had continued this tradition by holding a regional seminar of building society associations in Swaziland recently, at which 70 countries were represented

ABSSA's initiative was particularly important regarding the role that building societies had to play in developing countries, he said.

It was the aim of the International Union, and all building society organisations, "to shift the populations' savings to the purchase of houses".

ABSSA had realised the International Union's principle that it was "not governments, but the building societies and their members" which were responsible for "continued social and economic growth".

New deal will put more pressure on budgets

2 Business Day

By HAROLD FRIDJHON

SUBSTANTIAL additional claims on public spending are likely to arise from political and constitutional development, said Dr Simon Brand, the chief executive of the new Development Bank of Southern Africa.

Speaking at the Manpower and Management Foundation's conference in Johannesburg yesterday, Dr Brand said that even before the implementation of the new constitution, the principle of striving toward parity in the provision of public services such as education, housing and health had gained wide acceptance.

"It seems only realistic to expect that the demand for putting that principle into practice will become more insistant among coloureds and Indians as a result of their more direct involvement in decision-making that the implementation of the new constitution will bring about.

"Although the nature and direction of further constitutional developments for blacks are not yet clear, what does look clear is that demands for more rapid progress towards reducing differences in the levels of provisions of such services, between blacks and the rest of the population, are going to become increasingly difficult to resist."

This could only result in very considerable increases in public spending because of the differences which now existed and the relative size of the black population.

Citing two examples — education and housing — Dr Brand said that to bring primary and secondary education of all population groups to parity in 10 years with that of whites, Government spending on these services would have to rise from 15% to 30% of total budget.

In the case of housing, if all the backlogs were to be eliminated by 1990, a rise in Government spending could only be accommodated if all other categories of public sector investment declined in real terms by 1,5% a year.

In both instances this assumed that the share of Government expenditure in the gross domestic expenditure would not rise and that expenditure on other services would have to be cut back severely to accommodate the increased expenditure on education alone.

As spending on items such as defence was unlikely to be reduced in the foreseeable future the inevitable outcome would be that the share of Government expenditure in gross domestic expenditure would rise. This was contrary to a view which Dr Brand had expressed: that the share of the public sector in the economy had to be restricted.

To resolve the conflict between the State's possible requirements and those of the private sector, one could not look for novel ways of financing the services through the public sector.

The roles of both the public and the private sectors had to be reconsidered in the provision of services.

"Simply to look for new sources for the public sector, from which to finance the demand for the services does nothing to resolve the conflict but rather has the opposite effect.

"The more successful one is in finding additional sources from which the public sector can finance these services without cutting back on other services.

Dr Brand said in the case of education and housing the role which the State had assumecd had to be drastically revised. It had committed itself to a standard of services for one part of the population without increasing its share of the total expenditure in the economy.

DR SIMON BRAND

This jeopardised the capacity of the economy to create jobs and incomes.

"If it (the State) wishes to come closer to a situation of comparability between the levels of provision for the different population groups, it is going to have to reduce the level of its commitment in respect of whites to one that it can afford to extend to the other population groups over a reasonable periode."

In the case of education, if the average pupil-teacher ratio of 30:1 were to be achieved for all population groups instead of the present 20:1 for whites, the annual central Government expenditure required by 1990 would be reduced by a factor 25%.

Similar results could be obtained in eliminating backlogs of school buildings by using different school-building norms.

In the case of housing, the State's responsibility should be limited to providing minimum-standard serviced plots for all low-income families with the actual building being left to private enterprise.

This would cut State spending on housing by 75% over the period 1982-1990. Even if the State were to provide housing units its commitment could be reduced by using alternative building techniques.

On the question of standards, Dr Brand said that there was no reason to expect that a 30:1 ratio would yield an inferior education to a 20:1 ratio.

The State's expenditure would be based on a 30:1 ratio but, if the individual demanded a lower teacher-pupil ratio, he could pay for the added benefit if he thought it was worth the cost.

The same principle applied to housing. The individual would have to generate resources by saving towards a deposit or financing a house through self-building efforts.

The State's involvement for services could be reduced by limiting it within strictly-defined norms while leaving financing outside these norms to be done from private sources on market terms.

This principle could also be applied to health services and social pensions.

By keeping the share of the public sector in gross domestic expenditure in bounds, the necessary ratio of income and employment creation in the economy could be reconciled.

End of squeeze a long way off as M-1 soars 29%

Giant money-supply leap will keep up rates

(58) RDM (5/4/83

By HOWARD PREECE

SOUTH African money supply rose to alarmingly high levels again in the year to the end of September.

There were some technical reasons for this — but the figures mean that SA must face high interest rates for many months.

That in turn strengthens the prospect that real economic growth in 1984 will be no more than enough to cancel out the negative growth of 1983.

The end of the squeeze is a long way off yet.

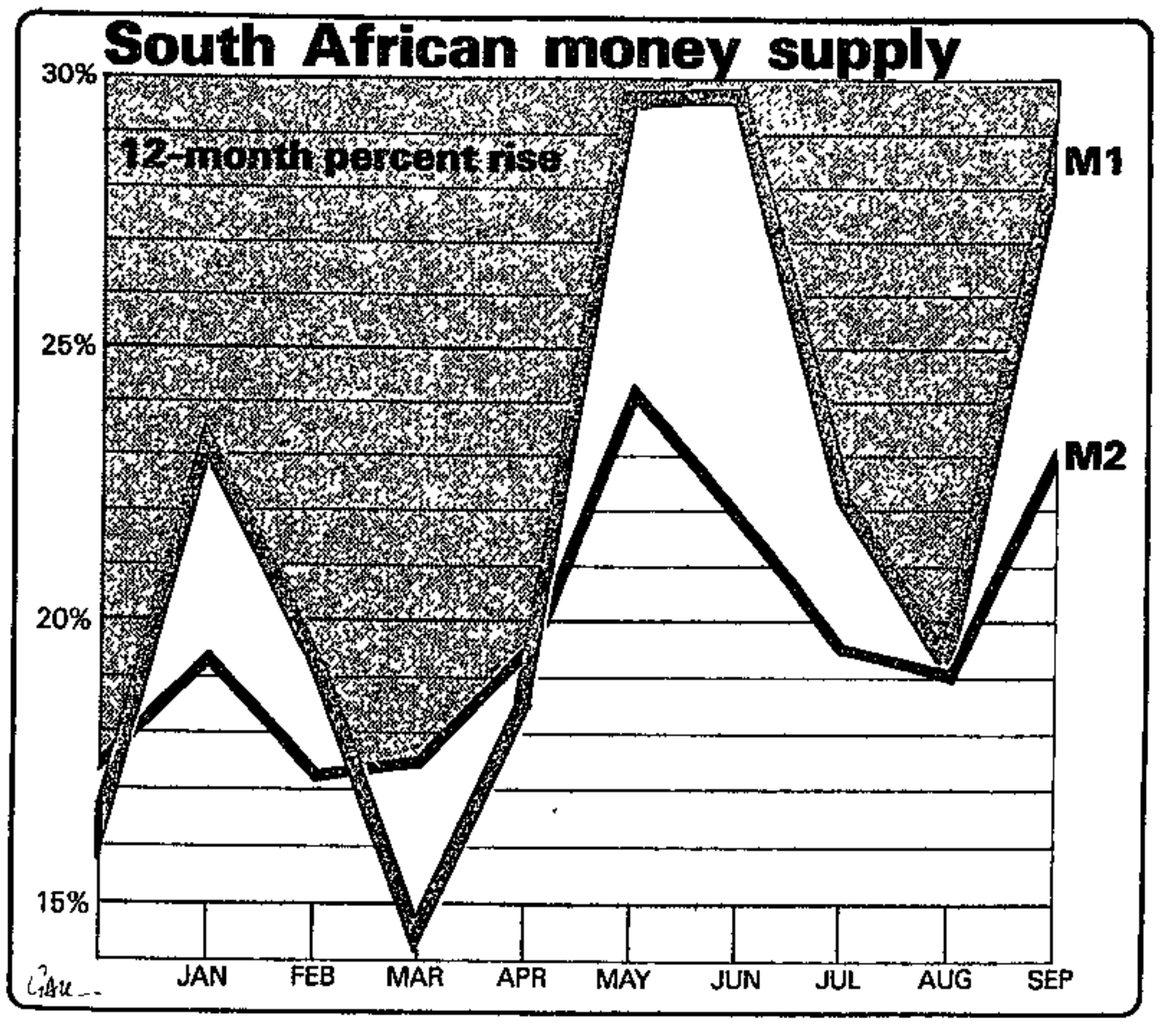
The narrowly defined measure of money supply (M-1) — cash and demand deposits with the banking sector — soared by 29% for the 12 months to September 30.

The wider M-2 measure of money and near-money — M-1 plus non-demand deposits and medium-term deposits with the banking sector — increased by 23% in the same time.

Those figures compare with rises of 19,9% for M-1 and 19% for M-2 for the 12 months to the end of August. All the increase in total money supply in September came from M-1. There was, in fact, a slight decrease in near-money.

Technical reasons account partly for the sharp rise in M-1 — the figure was up from R14 980m at the end of August to R16 412m at the end of September.

This huge rise was effectively explained in advance of the official publication of the data yesterday by Dr Gerhard de Kock, the Governor of the Reserve Bank, in Johannesburg last week.



He told an investment conference: "The only monetary statistics available at present are monthend statistics which are often greatly distorted by a number of short-lived random factors affecting the banks and the public's financial position at the monthend.

"This problem of so-called statistical noise is a major cause of the erratic behaviour of the money-supply figures as currently measured in South Africa. It is precisely to avoid distortions of this kind that the practice is followed in many other countries of measuring the monetary aggregates on a 'quiet' day, such as the second or third Wednesday of the month."

In jargon terms it seems that there was "reintermediation " on a substantial scale in September.

What that broadly means is that many corporate borrowers found it attractive, or necessary, to switch large borrowings out of the inter-company unofficial market and back into the banks.

The rise in the key 90-day bankers' acceptance rate made overdraft facilities more popular.

When all that has been said, however, the crucial point remains that control of money supply in South Africa in recent years has been far from satisfactory.

This was acknowleged last week by Dr De Kock, who said: "Taking the past four years as a whole ... I would undoubtedly side with those critics who contend that monetary policy has on balance been too accommodative.

"Given the severity of the problems forced upon the South African economy our policies have tended to be too expansionary. We have done too much to protect both real and financial activity in the domestic economy and not enough to restrain expansion and inflation."

Some economists point to the continuing buoyant conditions on the stock exchange and the property market as particular evidence, in the face of the worst economic recession since the 30s, of this overaccommodative monetary policy.

No matter how many technical factors may be involved, the hard fact is that M-1 growth of 29% for the year to the end of September is well over the 26% at the end of January 1982.

Similarly, the M-2 rise of 23% is more than it was at January 1982 when the annual increase was running at 22,2%.

Few economists, if any, would call that "financial discpline", to use one of the favourite phrases of Mr Horwood, the Minister of Finance.

But that is in the past.

There seems little doubt now that the authorities are determined to pursue well into 1984 at the least a genuine policy of tight money. That must mean high real interest rates — nominal interest rates less the (declining) rate of inflation.

Such a policy is necessary if inflation is to get down significantly below 10% and, more important, stay down.

Challenge taken up for insurance ombudsman

58 RDM 12/11/83

Mail Correspondent

CAPE TOWN.— In an immediate response to a challenge thrown out in Johannesburg this week by Bob Molloy, the consumer columnist for the Cape Times, a first step has been taken towards setting up an ombudsman's office to deal with complaints against the insurance industry — with R5 000 donated by Mr Molloy as a starting point.

The R5 000 was the prize-money that went with the 1983 Checkers Award for Consumer Journalism won by Mr Molloy and presented to him on Thursday by Mrs Esther Peterson, a consumer affairs adviser to two former United States presidents, Mr Lyndon Johnson and Mr Jimmy Carter.

At the award-winning ceremony, Mr Molloy, stating that he believed in "putting my money where my mouth is", donated his R5 000 prize, for the best individual entry, towards the initial funding of an insurance-industry ombudsman's office.

In his acceptance speech, he said he intended publishing a picture of the R5 000 prize cheque every week in his Watchdog column in the Cape Times, as a standing challenge to the insurance industry to use this money to help set up the ombudsman's office for which Watchdog had been campaigning for years.

Mr Molloy's challenge was immediately taken up by Mr Natie Kirsh, chairman of the Checkers group as well as the AA Mutual insurance group.

In a spontaneous act, Mr Kirsh leapt on to the platform where the award had just been made and stated his intention of giving Mr Molloy a personal cheque for R5 000.

Mr Kirsh said from his office in Johannesburg yesterday he thought it "a little unjust" that a member of a profession that "apparently is not all that well paid" should forego his prize-money.

"What I have in mind is that we will now, through a company in our group, AA Mutual Life Assurance, provide a cheque for R5 000 — representing Bob Molloy's prize money — with a view to the establishment of the type of office he has in mind.

"But I also wanted to make sure that as a very worthy winner of the Checkers Award, Mr Molloy has R5 000 to take home with him."

Santam Insurance profits boom — dividend up 38%

By PAUL DOLD

Financial Editor

SANTAM INSURANCE, one the country's largest short-term insurers which is controlled by Sanlam is firmly back in the growth league with a 151,5 percent taxed earnings leap to R10,9m for the past year and a 38 percent increase in the dividend to 10c.

The encouraging profit increase reflects a new management policy of highly selective underwriting and certain rate adjustments.

Judging from the latest results, the new corporate policy which aims at enlarging the group's stake in the profitable sector of the market rather than growth at all costs has been dramatically successful.

This is reflected in the rise in net premium income by a relatively modest 20 percent to R298,2m as against previous increases of 30 to 35 percent in past years when the group went for market share.

Significantly there was a R10,8m turnaround in underwriting profit from a loss of R2,6m in 1982 to a profit of R8,2m last year.

Profit growth

The confidence of management that the profit growth trend has been restored is shown in the sharp rise from 7,25c to 10c in the dividend — the first increase in some three years. Even at this level the payment is 3,1 times covered out of earnings per share of 31c (12,3c).

While best known for its Multiplex policies and motor insurance, Santam in fact scored heavily in the commercial and industrial fields in the past year. This signifies that management is targetting selectively on profitable market areas.

Investment income was also well ahead of the previous figures. At R13,1m it was a full 47 percent ahead suggesting not only the impact of higher interest rates but also the improved cashflow from underwriting.

Gross premium income including third party was up 18,5 percent to R348,5m while excluding third party it was nearly 20 percent higher at R330,3m.

Total assets at market value were R257,5m — a rise of 28 percent on last year.

Management expenses at a percentage of net premium income were well held at 12,6 percent — the same as the previous year while cash paid on claims was up only eight percent to R220,9m.

Improved trend expected to continue

The Board, Fidelity Bank profits up 62%

CAPE TIMES 18/4/83

By ALEX PETERSEN
Deputy Financial Editor

THE BOARD OF EXECUTORS & FIDELITY BANK GROUP have reported a 62 percent increase in after-tax profits to R740 000 in the six months to the end of September from R459 000 in the equivalent 1982 period.

The chairman, Mr Alex McGregor, said that the improved results spring from "a strong profit recovery by The Board of Executors combined with continuing pleasing results from Fidelity Bank".

He adds that the improved trend is expected to continue for the balance of the year.

Net operating income for the group rose to R1 160 000 from R754 000. Earnings per share were 56c, (34c) out of which an interim dividend of 22c has been declared, increasing dividend cover from 1,7 to 2,5 times.

Commenting on the contribution of The Board of Executors division to the results, The Board's managing director, Mr Bill McAdam, said the improvement had come from "looking very hard at ourselves, and concentrating on our traditional strengths".

While all areas of The Board's operation had shared equally in the upturn, strong attention had been paid to effective asset and balance sheet management. The results had risen from "a reasonably low base, but against the background of difficult competitive market conditions".

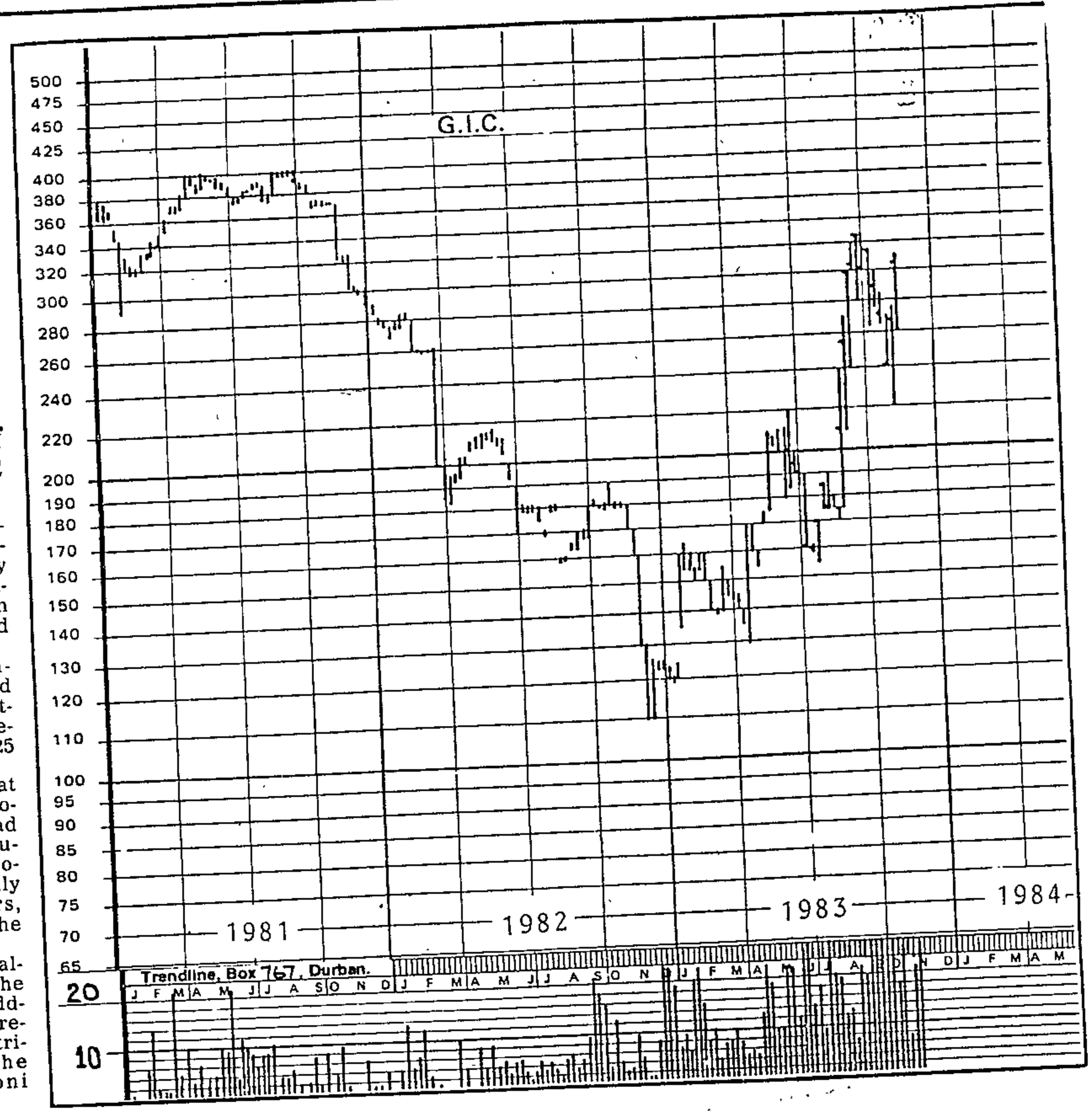
The results suggest that the more aggressive marketing stance along with other changes over the last 18 months are paying off.

The Board has adopted a visibly higher market profile particularly in its investment management, participation mortgage bond and property arms.

But reflecting hungrier times, The Board has also been on a belt-tightening exercise, reducing staff by nearly 25 percent.

Mr MacAdam said that both the Durban and Johannesburg offices had made useful contributions, although the Johannesburg office, only open for three years, was "still scratching the surface".

The group traditionally performs better in the second half, and an added plus for the year results will be the contribution of of the succesful Umdoni launch.



Banks & societies come in line

By Alec Hogg

BUILDING societies are to become banks in all but name — and that is official.

20/11/83

In the process, societies will lose the sheltered, privileged status they have enjoyed since their inception a century ago.

They will pay as much for funds from depositors as banks and lend at more similar rates in future.

At the opening of the SA Permanent Building Society's new R22-million head office in Johannesburg on Wednesday, Finance Minister Owen Horwood disclosed that the Government had accepted recommendations of two commissions of inquiry into the building-society movement.

He expanded on similar comments made in his March 1983 Budget speech. Until now the matter has been treated as sub judice by society executives, because the commissions' reports are being studied by the State-controlled Technical Committee for Banks and Building Societies in Pretoria.

A number of changes will be made to the existing modus operandi of societies, the first of which will be presented before Parliament in the course of 1984, Mr Horwood said.

"The proposed changes will influence the entire business philosophy of building societies because they will find themselves competing for funds in a larger market," he added.

Most significant of the proposed changes quoted by Mr Horwood are that:

- Building societies will be subject to the same liquid-asset and reserve requirements as banks.
- Tax-incentive-linked investments such as subscription shares and tax-free shares, which give societies a substantial funding advantage but which cost the State upwards of R100-million a year, are to be done away with.
- Societies will be allowed to compete on equal terms with banks in all aspects of the country's financial markets, suggesting that operations will move into the previously disallowed hire-purchase, leasing and chequebook areas.
- In the short term societies will still be legislated for separately under their own Act, but within time will be brought under the Banks Act umbrella.
- Societies will for the first time have to keep a statutory level of reserves equal to 4% of total liabilities, while other reserves such as interest-free balances with the Reserve Bank (as with banks) will have to be maintained.

In short, this means that home-owners will no longer be able to borrow from societies at interest rates well below market-related levels and the inflation rate.

Financial observers say this is the "most healthy development for years".

Closure of the gap between banks and building societies implies that home-owners will pay significantly more interest on their mortgage bonds. At the same time depositors will receive more.

In the past, depositors — often pensioners or young people without homes — have been subsidising more affluent home-owners, receiving far less on their money than the inflation rate.

Meanwhile, home-owners, whose debts were being steadily eroded by inflation, made a point of borrowing as much as possible from building societies.

An enormous amount of money chasing the slow-growing housing stock pushed up housing prices, resulting in enormous capital gains for home-owners and pushing house-ownership beyond the means of many.

As Mr Horwood stated: "That housing standards generally in this country are too high is to me indisputable. It is time something was done about it."

For the first time, the State will actively discriminate between those worthy of assistance and others. In the past the wealthy benefited most from across-the-board assistance because they were able to borrow the greater amounts based on their higher income.

Mr Horwood noted: "The system of tax-free investments, which cost the State lost revenue of around R100-million a year, will be replaced by a direct and more visible interest-rate subsidy for the lower and middle income groups."

Another unhealthy aspect of the old situation was that, because building societies have always been non-profit organisations, growth in size was the only motivation for their management.

Ironically, shortly before Mr Horwood's address, the managing director of the SA Perm, Bob Tucker stated emphatically that his society would never offer the public an equity stake in what he calls a "joint stock society".

None of the country's banks, against whom building societies will in future be competing on equal terms, is a mutual organisation.

There have been hints from other societies that, under the new dispensation where they become "mortgage" banks with all the freedom and power of traditional banking institutions, equity funding is the only way to prosperity.

Allied and the Perm are first to issue NCDs

By Alec Hogg

TWO building societies entered the money market this week for the first time as paper-issuing participants.

The Allied Building Society issued R15-million worth of negotiable certificates of deposit (NCDs) within three hours on Monday.

And the SA Permanent also issued its first R5-million in NCDs this week, managing director Bob Tucker announced on Wednesday.

According to Allied senior general manager Allan Tindall, his society sold paper to various insurance companies, banks, mining groups and discount houses.

"We were encouraged by the fact that the Allied was treated as a prime borrower. We were paid the same rate of interest as blue chips Barclays and Nedbank.

"The big bull point is that interest is capitalised over the entire term of the security, which means there is no administration cost," Mr Tindall added.

NCDs are similar to traditional fixed deposits, except that they are sold only in large parcels (R100 000 and more), and are tradeable.

This means that money invested can be realised by the purchaser at any time, while the rate of interest charged depends on the risk which the market puts on the issuing institution.

Mr Tucker said: "We do not regard NCDs as an appropriate long-term funding mechanism. They are useful instruments for bridging and stabilising cash flows of building societies. We will tap the NCD market from time to time."

Mr Tucker was the first building-society executive to express an interest in taking advantage of the new-found ability to issue long-term debentures.

Rand dips below 83 US cents

MGUS 21/11/83 58

FINANCIAL EDITOR

THE rand continued its rapid slide in the foreign exchange markets today, bringing grey hairs to importers, the prospect of new markets to exporters and the certainty of a drop in living standards for most South Africans.

After closing at $0,8355 on Friday, the rand dropped almost 1 US cent at the opening of trading in Johannesburg today to fall to a new low of $0,8295.

This brought the drop in the value of the rand against the dollar since the beginning of October to more than 8 percent.

In the same period it has dropped around 11 percent against the Hong Kong dollar, more than 8 percent against the Japanese yen, and more than 6 percent against the British pound, Swiss franc, German mark and French franc.

The fall in the rand mainly reflects South Africa's loss of foreign earning power as a result of the drop in the gold price.

R660-M LOSS

Since the beginning of October the gold price has fallen more than $30 to $373 an ounce, which is equal to an foreign earnings loss to South Africa of more than $660-million a year.

The current weakness of the rand is a continuation of the process which began at the end of 1980 when the gold price started dropping after reaching a peak of $800 an ounce.

At that time the rand was standing just below $1,50. Thus in the past three years its value against the dollar has almost halved.

The drop in the value of the rand in the foreign exchange markets, is most unwelcome to importers, especially of goods of Japanese and American manufacture, as it means they will have to increase their South African selling prices, which they are loath to do in today's tight business conditions.

As crude oil is normally priced in dollars, the fall in the rand's foreign exchange rate also raises the spectre of a possible petrol price increase.

The decline in the rand is also most unwelcome news to businesses which have borrowed abroad without covering the exchange rate risk.

Two major Cape Town companies reported recently that they stood to lose millions of rands between then if the exchange rate did not recover. With the rand going lower their losses are increasing.

Tourists will find it more expensive to go on holiday abroad.

However, for exporters, including the mining industry, the drop in the value of the rand is for some a lifebelt and for others a invitation to do additional business overseas.

It is certainly a lifebelt for the gold mining industry. Although the dollar price of gold has fallen sharply, the lower rand means that the South African price of the metal is remaining relatively unchanged.

The Cape Times
Business Report
THURSDAY, NOVEMBER 24, 1983

Four banks raise prime rate from 18% to 19%

(58) CAPE TIMES 24/11/83

By HAROLD FRIDJHON

JOHANNESBURG. — Four of the five big banks are raising the prime overdraft rate from 18 percent to 19 percent. The fifth, Standard Bank, will decide today on its course of action.

Trust Bank and Barclays will apply the new prime rate from today; Nedbank and Volkskas from tomorrow.

It is believed that the authorities are somewhat dismayed by the higher rate. It has been held that Pretoria had been content with an 18 percent prime and all the recent action taken to assist the money market in the past two months appeared to have confirmed this view.

Influence

A higher prime rate will affect all short-term rates and some longer-term rates such as hire-purchase borrowing and leasing contracts which are tied to the prime rate.

It could have an indirect influence on the mortgage rate because a higher prime rate will sharpen the banks' competitive edge in bidding against the building societies for funds.

The higher rate will have an adverse impact on corporate profits because of the increased cost of borrowing to finance debtors and stocks.

This is the eighth change in prime this year. In the second week of 1983, prime was moved down from 18 percent to 17 percent. It remained at the level for three weeks and then dropped rapidly to 14 percent, a level held for 15 weeks.. In June the rate moved twice from 15 percent to 16 percent.

The 16 percent rate held for seven weeks and in two weks it jumped through 17 percent to 18 percent.

And according to the general manager of Nedbank, Mr Arrie van Vliet, a further rise to 20 percent within the next few weeks cannot be ruled out. Prime held at a rate of 20 percent for an eight-months stretch last year.

The big difference, however, between a 20 percent prime rate last year and the possibility of a 20 percent prime this' year is the sharp fall in the inflation rate.

Last year when the inflation rate was around 14 percent, the real prime was six percent. This year with a 10 percent inflation the real rate will be about 10 percent — which makes it punitively expensive money.

Mr Van Vliet said yesterday that with the the gold price weak, South Africans must accept that the country is poorer — a view endorsed by Mr P J F Venter of Volkskas, who said that there was an overall scarcity of money. And this had been aggravated by the switching of borrowing from overseas to local sources. In the prevailing climate the banks had no other choice.

Mr Van Vliet pointed out that the cost of acceptances finance had increased from 16,15 percent to over 17 percent in the past four weeks and that in these circumstances it was impossible to continue at the old prime overdraft rate.

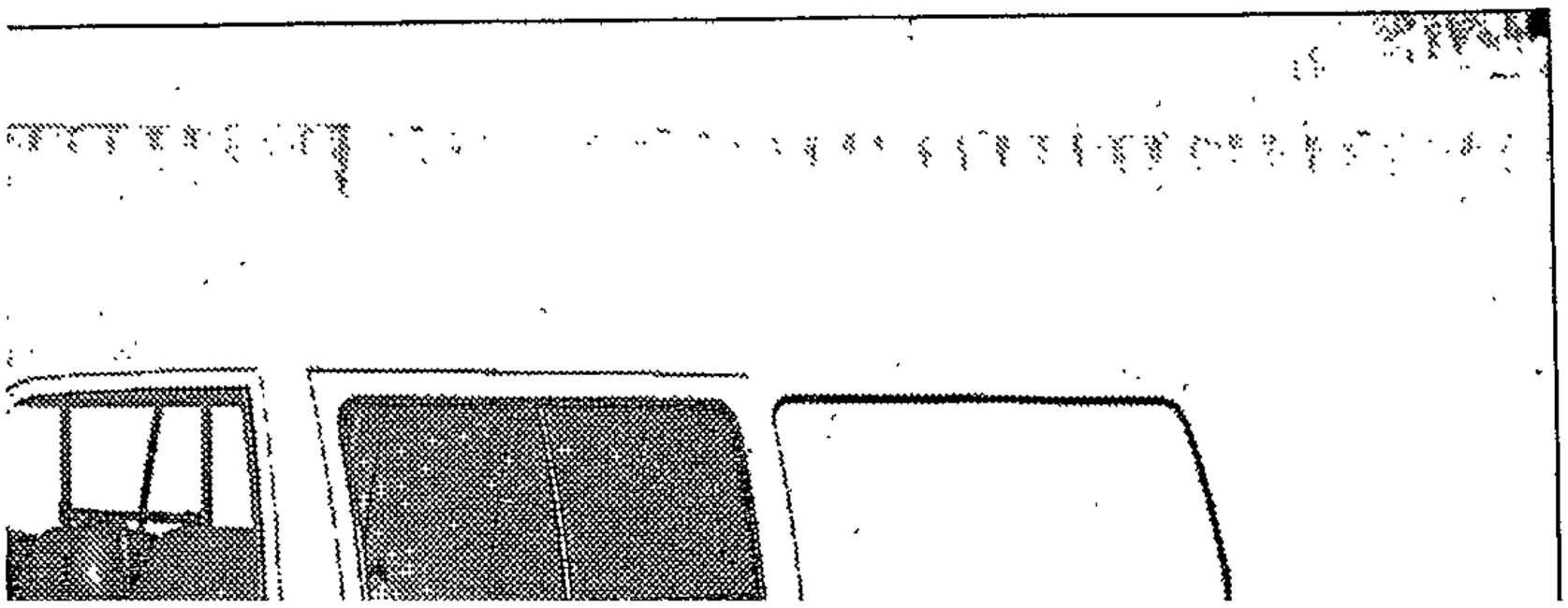
Up to now the foreign exchange rate had carried the full burden of the difficulties caused by the drop in the gold price. This was unbalanced. A higher interest rate structure was also necessary if the policy of monetary discipline was to be properly implemented.

Towards the month-end money market rates could go up still higher, Mr Van Vliet said, with the market shortage again reaching the R2 billion mark.

Large amounts of money would leave the

To page 19

The all-new Toyota Hi-Ace 2000.



24/11/83

58

The Cape Times, Thursday, Nov

Barclays current account deposits rise to R2-bn

JOHANNESBURG. — Barclays National Bank has become the first bank in the country's history to have more than R2 000m in cheque account deposits.

Analysis by Barclays of the quarterly returns which all banks are required to make to the Reserve Bank, shows that at the end of September, customers held R2 024m in their cheque accounts at Barclays' 1 000 branches throughout the country.

Barclays retained its position as the country's top bank, holding 34,8 percent of all cheque deposits.

Over the past year, Barclays and Nedbank were the only banking groups to increase their share of the nation's cheque account business, moving up from 33,8 percent to 34,8 percent and from 9,3 percent to 11 percent respectively.

Market share

Trust Bank's market share was unchanged, while Standard and Volkskas lost market share.

The total cheque account marketplace continues to show strong growth, stimulated by the intense competition between banks as well as the overall competition between banks and building societies.

Having grown by an unprecendented R515m in the April-June quarter, total cheque deposits spurted by a further R240m in the quarter just ended.

Over the past year, the cheque account market has expanded by 20,4 percent to R5 820,7m. Barclays, aided by the successful launch this year of its status cheque account, grew faster than the market — it showed a 24,6 percent spurt.

Nedbank showed faster growth — 43,9 percent over the year — but its cheque account business still only totals R642,5m compared with Barclays' R2 204m. In rand terms, Barclays' cheque deposits rose at almost twice Nedbank's rate, the figures being R399,1m for Barclays and R196m for Nedbank.

Other figures which emerge from Barclays' analysis of the bank returns show that in the hire purchase and leasing market:

Barclays, which toppled Standard from top spot a year ago, stayed at No 1, with 32,3 percent of the market. In 1981, Barclays' market share was 26,3 percent.

Standard hung onto the 24,5 percent market share to which it moved from 26,8 percent in 1981. Trust continued to slip, down from 20,8 percent in 1981 to 19,5 percent in 1982 and 19,4 percent at end September 1983.

Total deposits

Nedbank, having moved up from 10 percent two years ago to 10,1 percent last year, fell back to 9,8 percent. Volkskas edged up from 8,1 percent a year ago to 8,5 percent.

And in total deposits: Barclays and Nedbank were the only two to gain market share in the past year.

Barclays stayed at No. 1, with 27,3 percent of the market at September 1983 compared with 26,2 percent a year ago. In rand terms, Barclays moved up from R7 649,7m to R9 434,2m.

Standard was second, with 23,1 percent and Nedbank third at 18,4 percent. Volkskas, at 13,2 percent of the market, was fourth and Trust's 12,2 percent moved it down to fifth position compared with fourth a year ago. — Sapa

FINANCE/STOCK EXCHANGE

Anglo lifts earnings, pays 35c

ARGUS 25/11/83

By DEREK TOMMEY
Financial Editor

IN SPITE OF difficult economic conditions in South Africa and overseas the giant Anglo American Corporation has shown increased earnings for the six months to September.

Anglo is the country's biggest mining and investment house after De Beers.

Profits attributable to ordinary shareholders, including attributable earnings retained by associated companies, were 6,8 percent higher at R330,5-million (R309,4-million), equal to 145,5c (136,3c) a share.

If these retained earnings are excluded, the corporation's profits were 12,5 percent higher at R241,4-million (R214,6-million), equal to 106,3c (94,6c) a share.

INTERIM PAYMENT

However, the corporation is following a conservative dividend policy and the interim payment is being maintained at 35c a share.

Dividend income rose 25,5 percent from R179,8-million to R225,6-million, mainly as a result of higher receipts from gold investments. In addition the corporation received two dividends from Rustenburg Platinum after its change of year-end.

Trading profits rose from R136,9-million to R140-million with the drop in Anglo American Coal's income being offset by higher earnings by Anglo American Properties.

SHARE DEALING

Share dealing profits slumped from R14,8-million to R3,5-million, suggesting long-term confidence in gold, while the surplus from life assurance rose from R4,5-million to R6,0-million.

However, the share of retained profits of associated companies fell from R94,8-million to R89,1-million, partly as a result of the losses being incurred by the Sigma Motor Corporation, the corporation says.

Anglo American makes no forecast about future earnings.

● Transvaal Consolidated Land's chairman, Mr R S Lawrence, warns that the company is operating in increasingly volatile conditions and profits and dividends are likely to fluctuate more than in the past.

He is gloomy about the immediate prospects for uranium. He says economic circumstances and energy conservation measures have led to a decreased demand for electricity, leading to few new orders for nuclear power plants.

He also reports a further decline in the demand for coal in the international market which has led to a sharp fall in prices.

Demand for chrome ore is also likely to fall but some increase in demand for ferro-managanese is expected.

On the brighter side, Mr Lawrence reports that encouraging results have been obtained from exploration of gold-bearing claims, in which TCL has a 50 percent interest, in the Barberton area.

Sanlam premium income spurts 26% to R1 068m

Cape Times 25/11/83 (58)

IN SPITE of the recession, Sanlam has performed extremely well in the past year with premium income not only increasing by 26 percent to R1 068m in the year but the group has held operating expenses to a staggering low 7,2 percent as against an inflation rate of 13,1 percent.

The R218m rise in premium income is one of the largest ever by a South African life assurer and it is the first time that Sanlam has topped the R1 000m mark.

The chairman, Dr Fred Du Plessis, said last night that from available figures it appeared that Sanlam had retained its position as the life assurance company with one of the largest domestic premium incomes.

While R517m of the total premium income derives from individual Assurance — an increase of 22 percent, group and pensions business has increased by 29 percent to a total of R551m, establishing itself as the largest single income category.

According to Dr Du Plessis, the tight economic conditions and low personal savings propensity made marketing particularly difficult. That premium growth was nevertheless the largest in Sanlam's history, and is therefore an exceptional achievement.

investment income increased by 29 percent to R540m. As anticipated the percentage increase was lower than that of the previous two years.

The yield of 13,4 percent on average assets was nonetheless maintained.

Sanlam's total income rose to R1 619m, more than its total assets a mere five years ago and representing an increase of 26 percent over the previous year.

In the past five years total annual income has risen by a compound rate of 30 percent per annum.

The book value of the total assets held by Sanlam on behalf of its policy-owners and pension fund members rose by 28 percent to R5 045m. This is the largest annual increase ever in the company's assets.

On September 30, 40 percent of the assets were invested in public sector securities and loans, as against 39 percent the year before.

Shares accounted for 21 percent (18 percent in 1982) of the asset portfolio, properties 16 percent (17 percent), other interest-bearing investments 15 percent (18 percent) and fixed and current assets eight percent (eight percent).

Policy-owners and their dependants received R395m in benefits in the past year. This is more than twice as much as three years ago and represents an increase of 32 percent over the previous year. Of this total, R187m was paid in respect of individual policies and R208m in terms of group and pension schemes.

A further breakdown of payments shows that R134m or 34 percent was paid to dependants of policy-owners or pension fund members as a result of death claims.

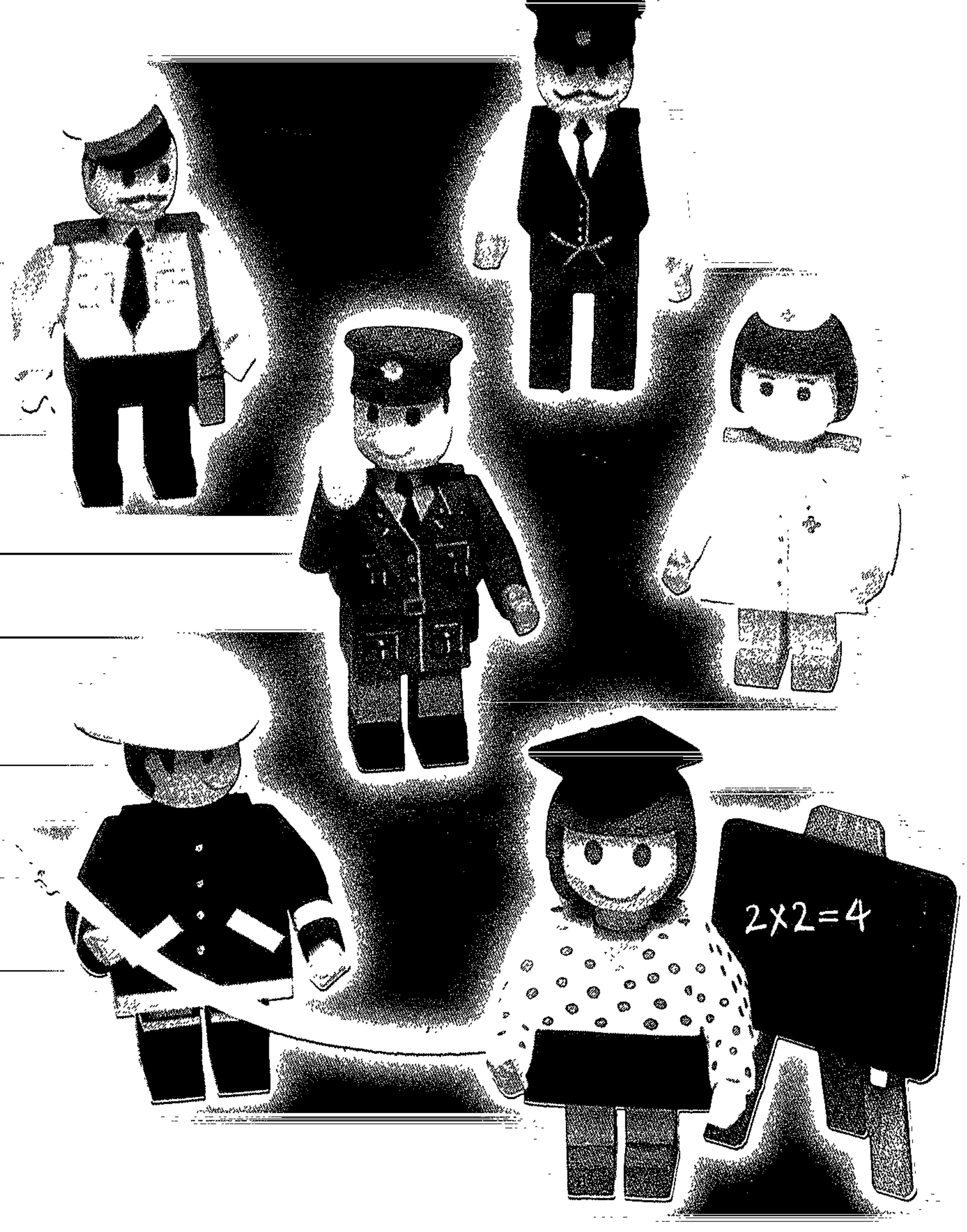
The remaining 66 percent accrued to the beneficiaries themselves.

Over the past 10 years, Sanlam has paid more than R1 700m in policy benefits.

Apart from curbing operating expenses to only 7,2 percent, Sanlam succeeded in reducing administrative expenses, as a percentage of total income, from 4,5 percent in 1982 to 4,4 percent.

COLONIAL MUTUAL

Caring for the people who care



Dankie, Suid-Afrika

South African Nursing Association
Postal and Telegraph Association of South Africa
South African Typographical Union (Cape Town Branch)
South African Postal Association
S A R & H Salaried Staff Association
South African Telecommunications Association
Natal Teachers Society
Spoorbond
South African Association of Municipal Employees
S A R & H Artisan Staff Association
S A R & H Employees Union
S A Footplate Staff Association
Provincial Co-Workers Association
S A R & H Running and Operating Staff Union
The Natal Provincial Administration Hospital Non-European Staff Association
Natal Provincial Administration Personnel Association
Cape Provincial Hospital Officials Association
Hospital Employees Association
Postal Employees Association
Government Servants Association of South West Africa
Teachers Association of South Africa
Society of Natal Teachers
Natal African Teachers Union
Transvaal Teachers Association
Durban Municipal Employees Society
Transvaal Association of Teachers
S A Railway Police Staff Association
O F S African Teachers Association
Cape African Teachers Union
S A R & H Indian Staff Association (Natal Area)
Teachers Association of Namibia
O F S Teachers Association
O F S Coloured Teachers Association
Lebowa Staff Association
Transvaal United African Teachers Association
Cape Teachers Professional Association
National Union of Commercial and Allied Workers
Ciskei Teachers Union
Kavango Government Employees
S A A Engineering Association
ESCOM Employees Association
S A Society of Bank Officials
Ciskeian Nursing Association
Nursing Association of South-West Africa
ESCOM Workers Association
Lebowa Nursing Association
Transkei Nursing Association
Lebowa Government Employees
Electricity Worker Association
Government Servants Staff Association (SWA)
South African Police
South West African Police

"Thank you for our first 100 years"

Colonial Mutual

Colonial Mutual. A corporate report. Supplement to Financial Mail November 25 1983
Steinmann Wilsenach SWA 2225 E

Colonial Mutual

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Cover photograph: Malcolm Drummond; Barry Goldberg Studios

Swiss Re

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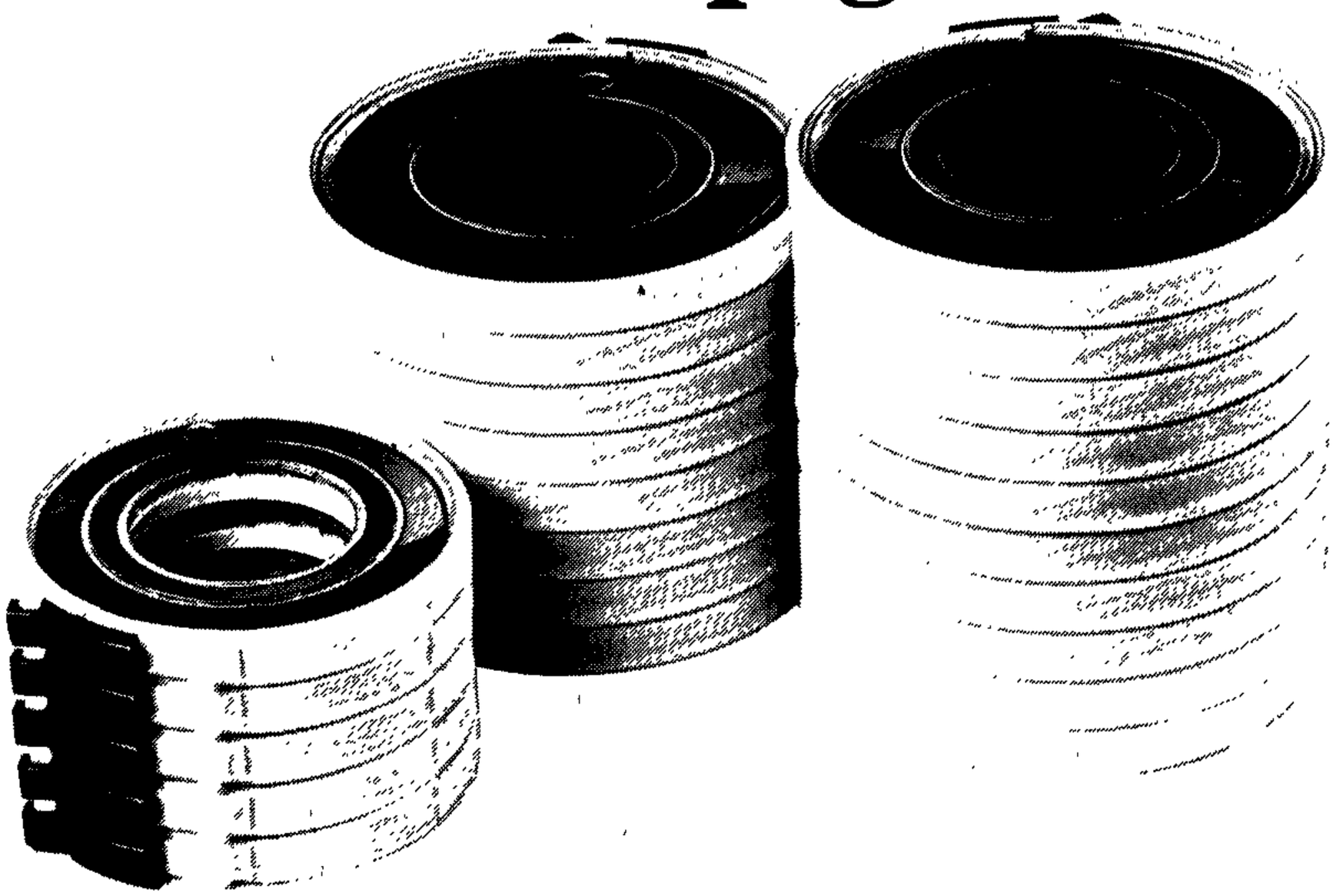
WISH TO EXTEND THEIR CONGRATULATIONS AND GOOD WISHES TO

Colonial Mutual

1883 - 1983

Tailor-made financial accounting packages, or off-the-peg?



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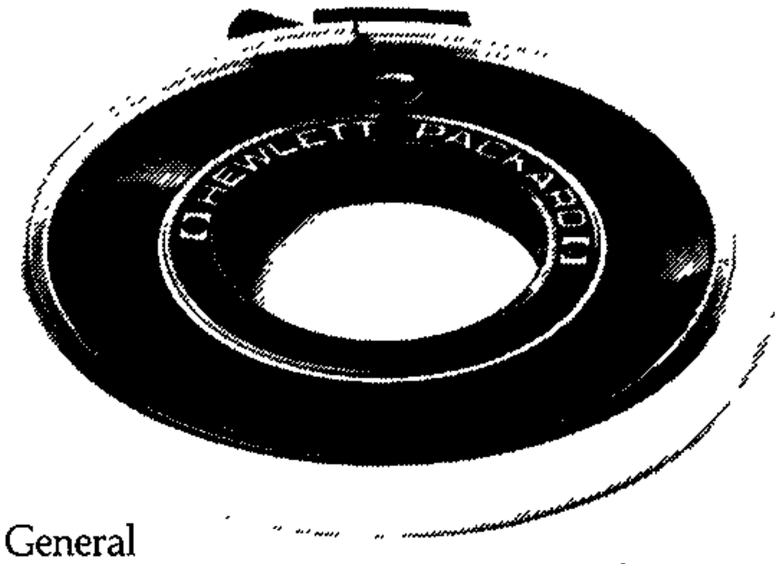

As well as Accounts Payable, Receivable, and General Ledger, it offers several unique features. An automatic allocator that distributes costs to relevant cost centres, production lines or other appropriate allocation centres; allocation criteria and rules are flexible, easily defined and controlled by you. A dual ledger function that allows you to automatically maintain two sets of books (for instance in different currencies) with just one entry. A report facility which lets your accounts staff decide the best form of information to get their job done. And a sales tax function that deals with the requirements of South African tax law.

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Foreword

Colonial Mutual turns 100 this week. Through the harried years of the last centennium, the business of this life insurance society has germinated, survived and flourished. Cape-based, the Colonial Mutual Society is the second oldest life assurer in SA. In this time, it has established itself as a leading expert in the provision of group occupational insurance. Teachers, nurses, railwaymen, policemen, postal and electricity workers benefit from the opportunity to buy life and endowment insurance, specifically designed for the needs of a member of that occupation.

But the Colonial Mutual is not content merely to rest on the laurels of its achievements. Keenly aware that growth is indispensable to success, the insurer has shaken off its gentlemanly shackles and branched into the pensions market. To boost further its competitive edge, an extensive range of new products is being designed. These products will, reckons the Society, rank among the most sophisticated on offer in the market.

Investment yields too have earned Colonial Mutual a place in the niche of top insurance performers. And to cut costs, cope with growth and offer a more sophisticated client service, the Society has embarked on an ambitious programme of computerising its administration. Recognised six years ago by the Registrar of Insurance as a domestic assurer, the Colonial Mutual, with its long SA experience, is adapting to the challenges of the Eighties. The aim is to become, if not the biggest insurer, then certainly the best.

To be associated with the oldest Reinsurance Company in the world is an honour that can be achieved only on the highest merit

The Cologne Re.

Leave the staff to buy their own computers and what do you end up with?

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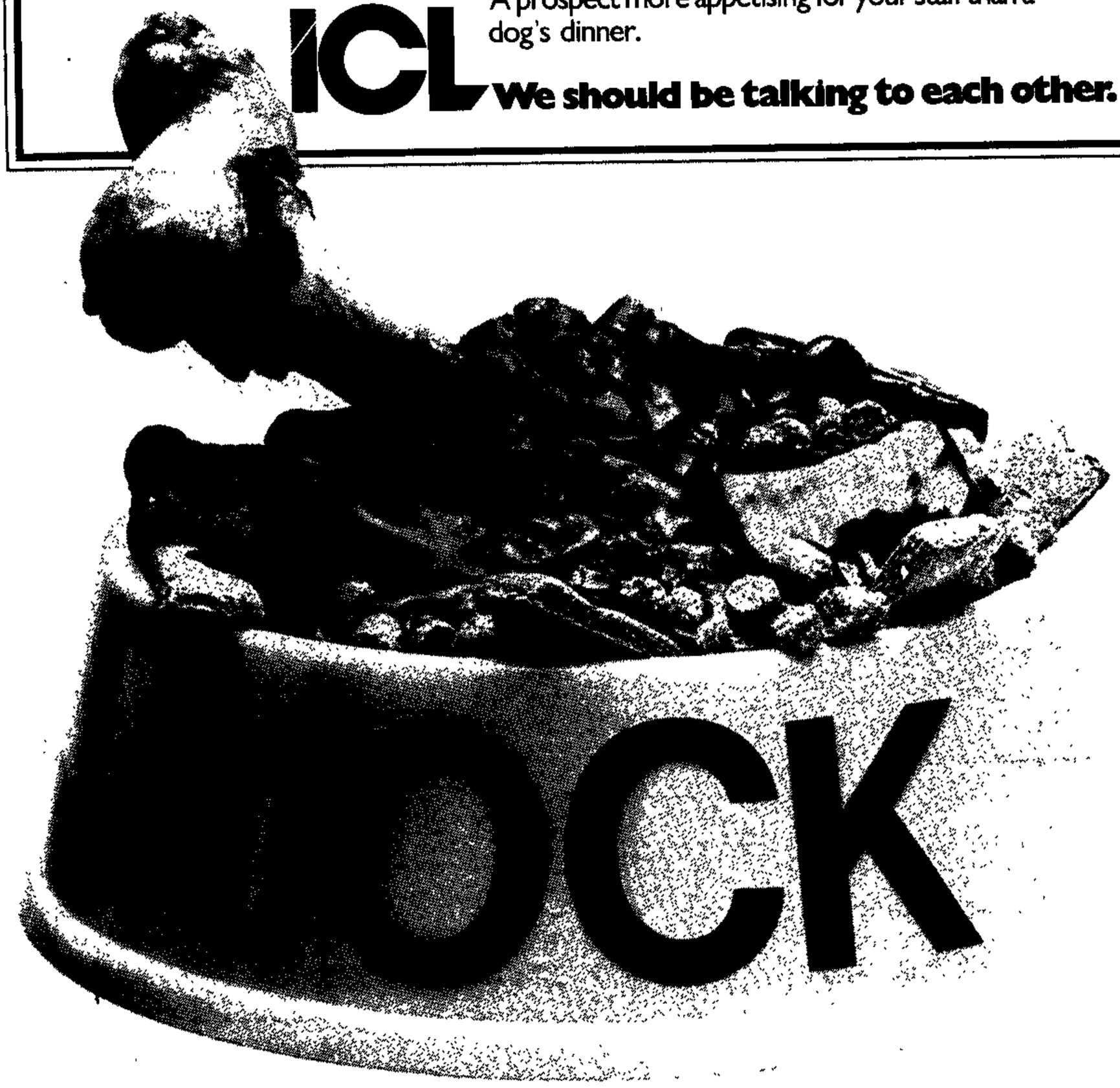
ICL We should be talking to each other.



JWT 53918

One hundred years on

Colonial Mutual turns 100 this week. It has turned itself into a streamlined, growth-orientated organisation

One hundred years ago this week, on November 26 1883, the first meeting of directors of the Colonial Mutual Life Assurance Society was held at No 19 Adderley Street. In the chair was the Hon John Miller, a member of the Upper House of the Cape Parliament. The board consisted of men of prominence in Cape Town. The initiative in holding the meeting, however, came from two men, John Mackillop and William Marshall. They were accredited representatives of the Colonial Mutual Life Assurance Society of Melbourne in the colony of Victoria in what is now Australia.

MacKillop told the meeting that the Colonial Mutual in Victoria was desirous of extending its insurance facilities to all inhabitants of Her Gracious Majesty's British Empire. A power of attorney, he assured the nascent Board, authorising them to conduct the Society's Cape Colony business, would be dispatched on his return to Melbourne. Unfortunately, a confirming telegram to this effect would not arrive in consequence of some error by the Reuters agency.

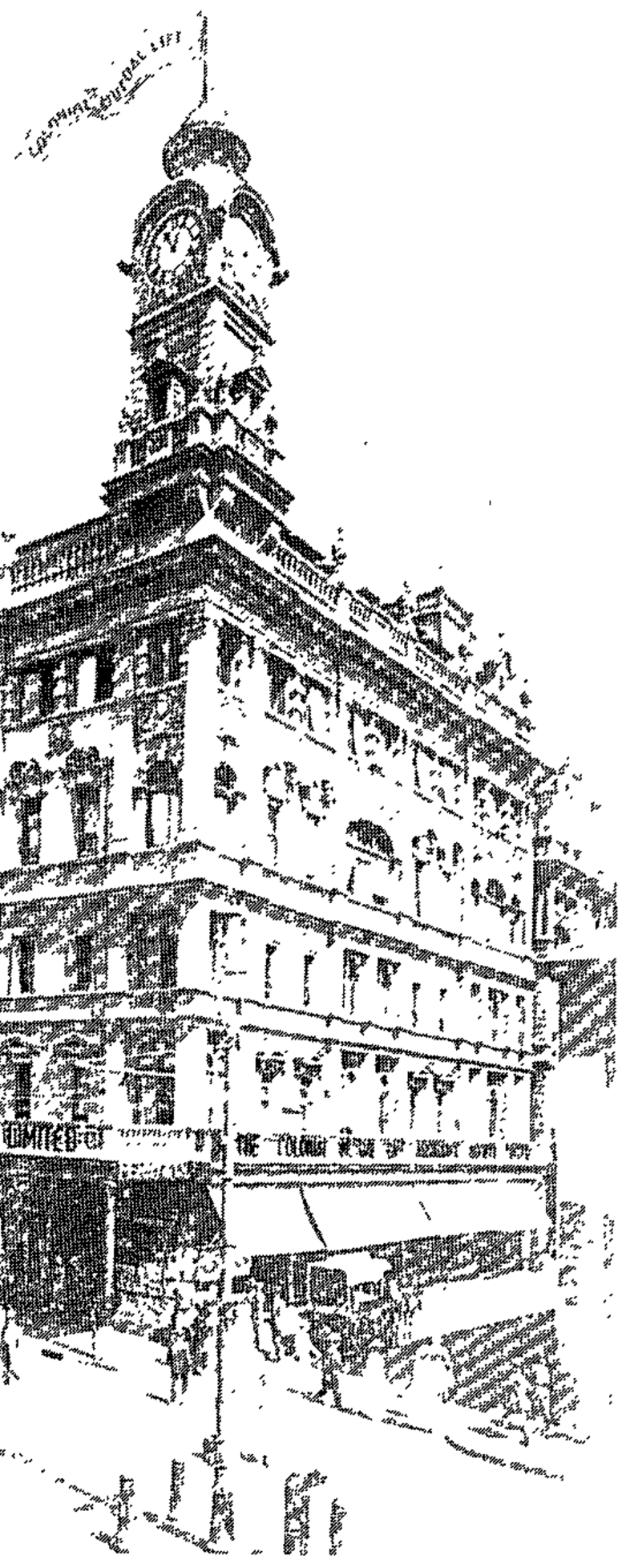
But the directors were impatient to begin business. In the first fortnight, eight proposals for life assurance for a total amount of £4 200 were received. The first decade saw over 27 000 policies issued, representing sums assured of £1,8m.

Milestones followed thick and fast. In 1887, the first agent in the South African Republic was given permission to insure the lives of gold-diggers at Lydenburg and Pilgrim's Rest. The first woman employee, Florence Navers, was taken on in 1908 in the Durban office as a "temporary shorthand typist" at 35/- a week. Nor was the Society unmindful of the growing Afrikaner market. Policies were prepared in Dutch. C J Langenhoven took out a life policy with the Society in 1890 when he was 17 and paid premiums on it until his death.

Sol Plaatje, the renowned journalist and politician was the first black man to take out a Colonial Mutual policy, in 1913. But for the next 60 years, black custom was not seriously sought. Another illustrious early policyholder was the Union's first Prime Minister, Louis Botha, who bought life insurance in 1912 at a £44 annual premium. On his death seven years later, the Botha family was paid out £2 500.

An insurance company is never isolated from its country's social and economic fortunes. Colonial Mutual's records provide their own testament to the fluctuating times SA has experienced. The flu epidemic of early-summer 1918 saw the Society process over 290 death claims, over 200 of them in October alone. During the great Depression, extensive mortgage and individual relief loans were granted. One who benefited, a Roy Welensky, later became Prime Minister of the Federation of Rhodesia and Nyasaland. And when Singapore fell to the Japanese in the Second World War, the Society insured its buildings in Durban against war damage for £168 000.

After that war came spectacular turnover improvements. In November 1945, the new business manager Mr Blankenberg, was called to a Board meeting to receive the chairman's congratulations on "the record



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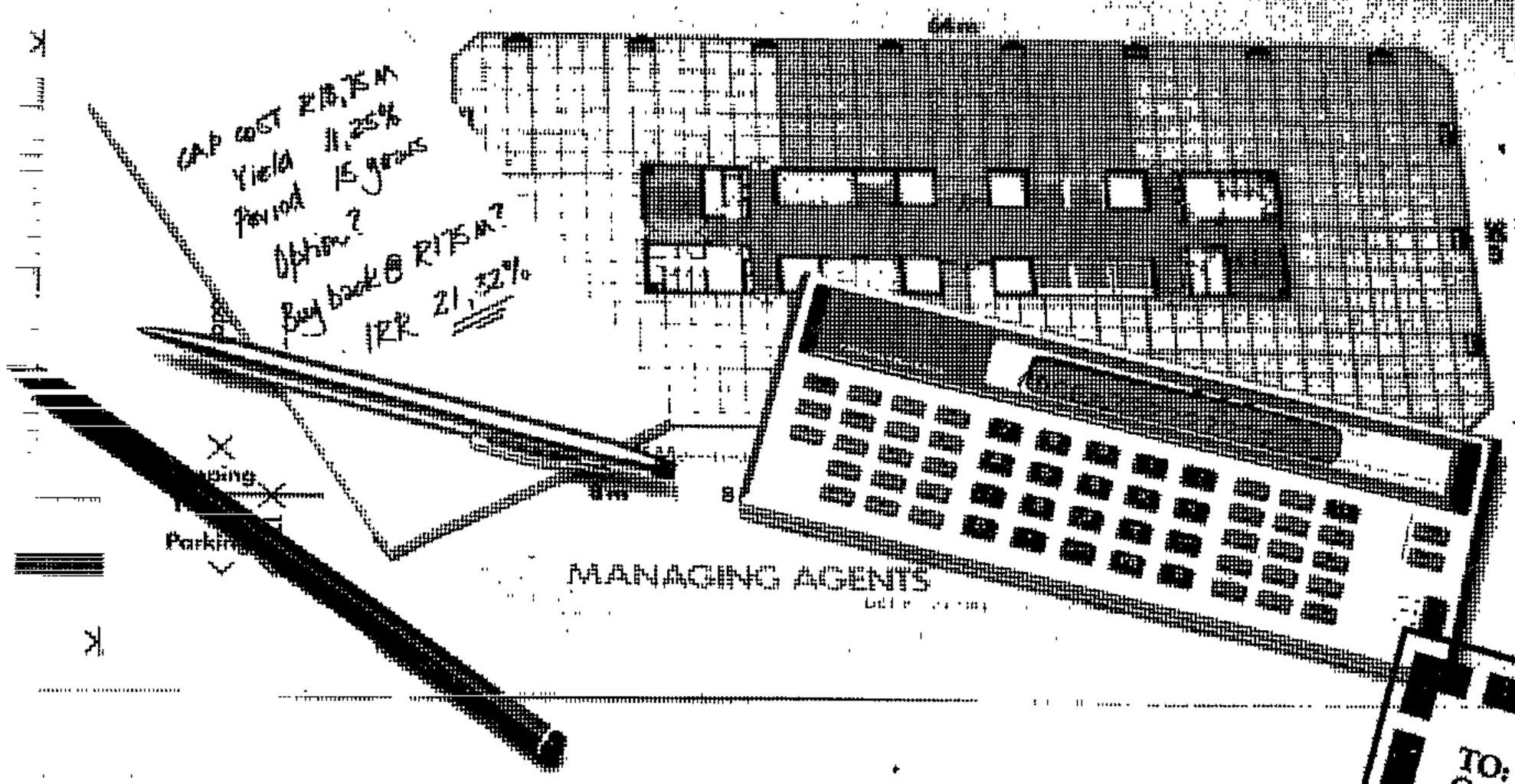

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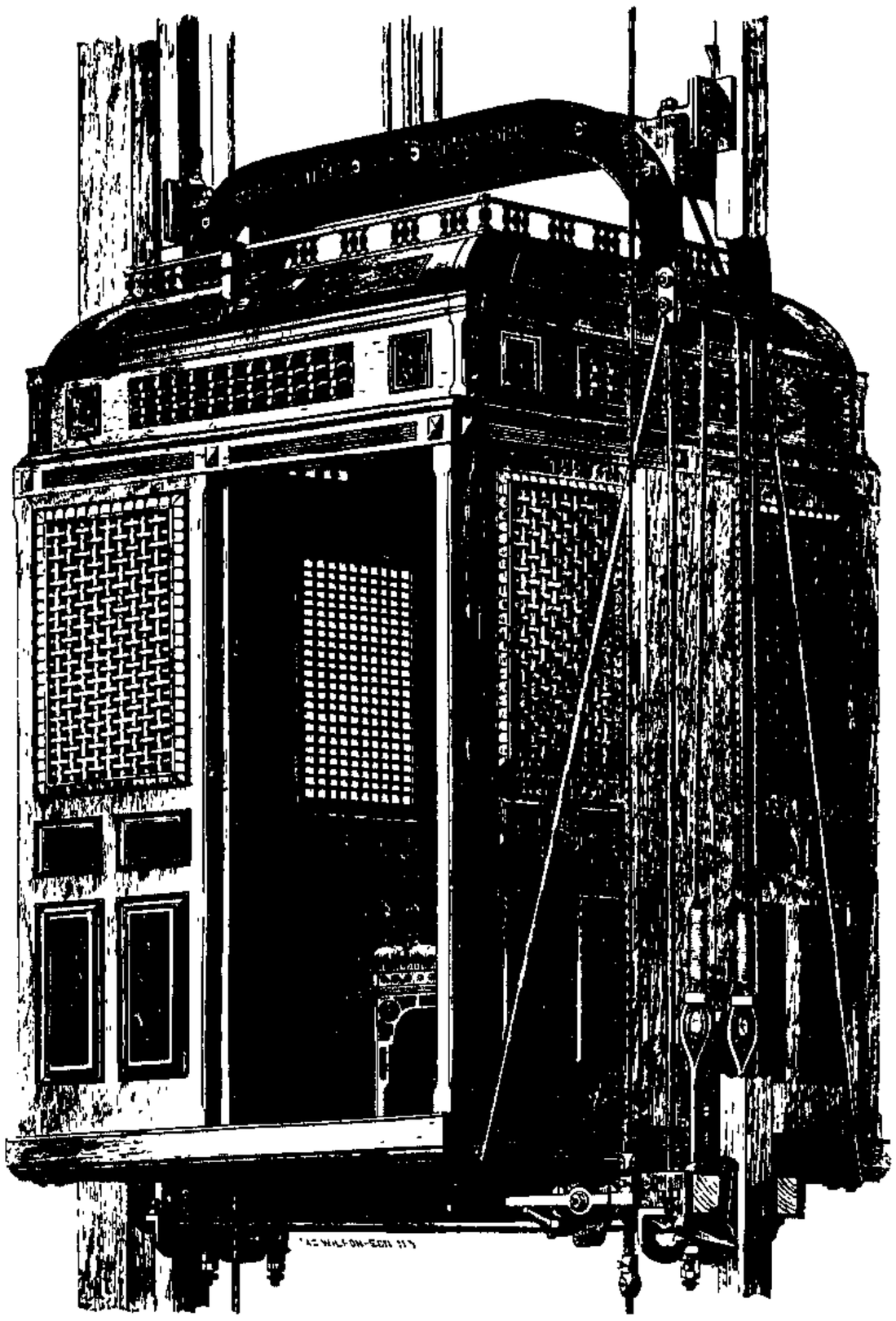

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volume of business of £209 129 for the last week." The post-war period also saw the advent of mechanised records — addressographs, dictographs and later photostatic equipment. Today, computer hardware and instant worldwide investment information-access technology make such early automation seem pathetically crude.

But the need for insurance transcends all ages and technologies. Colonial Mutual, as the second-oldest surviving SA life assurance company (the Old Mutual founded in 1845 is the oldest), embodies both the indispensable tradition of insurance and the necessary foresight to adapt to changing times. Under the stewardship of general manager Fanie Jacobs, the Society has sharpened itself into a more growth-conscious organisation.

Growth, in its established field of group occupational insurance, which dates back to the first group scheme written for the SA Nursing Association in September 1930, is to be won by the marketing of ever more sophisticated benefit, life and endowment policies.

More recently too, Colonial Mutual has branched into the small companies' pensions market and has notched up impressive success. Much effort has also been expended on penetrating the black market, which Jacobs sees as the source of greatest long-term growth. And an ambitious programme of computerising records, accountancy and actuarial operations is underway. The objective is to cut administrative expense ratios and boost the ability to handle efficiently the greater flow of new business written. Indeed, the Society has gobbled up much extra custom and it is hungry for more.

Jacobs outlines the Society's objectives as to give the best service to policyholders, to design products to suit their individual needs, to boost business volumes and to maximise investment yields. Asked for a bird's eye view of where the Colonial Mutual is going, he declares: "We are a mutual, our assets are solely for the use of policyholders. With our revised systems and accent on growth, we are confident that we will continue to grow and to reduce unit costs in the handling of business. We want people to feel that the Colonial Mutual is their company."

Guardian angel ... early Colonial Mutual advertising

Coming home

Although Australian incorporated, the Colonial Mutual is recognised as a fully SA insurer

Walk down Adderley Street and you may well see the Australian flag fluttering in a south-easterly above the Colonial Mutual's head office building. The flag flies over the premises not because the Colonial Mutual is an Australian company but due to the presence of the Australian embassy, which rents offices there.

But by coincidence the flag also symbolises the Society's unusual relationship with its parent company — incorporated in Melbourne, Australia. Colonial Mutual is both South African and part of an international assurer. Like the subjects of a foreign queen, the local Society is nominally the most loyal servant of the principal office in Melbourne. In reality, power resides with the cabinet and parliament, namely the management and board of the SA Colonial Mutual Society.

Full self-government was a long time coming. For many years, the Cape Society was treated as a branch office. As late as 1944, 38% of the SA Society's total assets were managed in Australia, but after the second world war, all SA assets were fully invested here.

Some have argued that the principal office's tightly circumscribed control of its operations in this country in the first half-century or so was deleterious. Growth, they say, might otherwise have been much stronger. Be that as it may, long before the legislative measures of the Seventies to South Africanise local financial institutions, Colonial Mutual was a fully SA concern.

By the start of 1974, the principal office had, in terms of Section 38 of the Australian Life Insurance Act, set up a special statutory fund for its holdings here. Under Australian law, this formalised the legal autonomy of the SA fund. The status of the chief executive of Colonial Mutual in SA was also upgraded from that of manager to general manager.

Nonetheless, difficulties arose with the legal requirements for South Africanisation. Colonial Mutual is a mutual. It is owned not by shareholders but by its policyholders who, by means of bonuses, share in the surplus funds generated each year after the deduction of expenses, tax and payments to policyholders. (Because of the long-term nature of life insurance, these funds are called surplus to distinguish them from the annual profits earned by a proprietorial, trading company.)

However, policyholders of a mutual, unlike shareholders of a limited company, can in theory look to their society worldwide for security. As a single legal entity owned by every policyholder and incorporated in Australia, Colonial Mutual cannot be broken up into separate subsidiary companies. Thus the requirement to domesticate by registering locally could not be met.

Negotiations were begun between the three foreign-incorporated mutuals which operate here (Colonial Mutual, Norwich Union and National Mutual) and the Registrar of Insurance to make special provision in the Insurance Act for their situation. In 1976, therefore, Parliament enacted Section 3 of the Insurance Act which provides that the Registrar can deem a foreign-incorporated mutual to be a domestic assurer.

The kernel of the agreement, says senior assistant general manager Theo Mercer, who was closely involved in the talks, is that:

- ☐ The local Board, which must have at least four members, is responsible for local investments;
- ☐ Money can be taken out of the country only with the Registrar's permission;
- ☐ Actuarial valuation work, such as the determination of bonus rates, must be done in SA.

Principal office also issued a new power of attorney. It stated expressly that the local Board should exercise its powers as if the Society's business and assets were those

AFRIKANER IMPORT

General manager Fanie Jacobs is the first Afrikaner to head the Colonial Mutual. Born in Parow and one of nine children, Jacobs's first job application was to the SA Railways for a position as an apprentice artisan. Turned down, Jacobs went back to school, where he demonstrated considerable flair for maths. Later he joined Sanlam as a clerk and studied part-time at UCT for his B Com degree.

In the mid-Fifties he moved to Homes Trust, qualified as an actuary and rose to become that assurance company's general manager. When Homes Trust was merged in 1979 with Metlife, Dove and Saffas, Jacobs became executive director of the actuarial and investment departments.

The following year, in May 1980, Jacobs assumed his present position. Despite its name, Colonial Mutual's clientele is predominantly Afrikaans-speaking and the board to quote Jacobs, "was keen on appointing an Afrikaner."

Jacobs was invited to switch from Metropolitan and he saw the job as a new challenge. He describes his personal input at Colonial Mutual as "to press hard for much faster growth in business in the areas of existing staff association, pension and black market custom."

Outside of Colonial Mutual, Jacobs's professional activities include a term as President of the SA Insurance Institute, council membership of the SA Actuarial Society and, for four years until 1981, work on the management committee of the Institute for Entrepreneurship and Management at Stellenbosch University. Spare time is spent with his wife; hobbies are golf and bridge.

Jacobs characterises his management style as "apparently democratic but eventually getting what I want." An important task has been to monitor the progress of black staff to management levels and to develop a black assurance market, first for Homes Trust and now for Colonial Mutual.

With considerable feeling Jacobs observes: "It was a challenge to adapt from Afrikaans labouring class origins to an Afrikaans professional and then to an English professional background and now to a non-racial work environment. The art is to adjust, to become part of a new environment quickly.

of a wholly owned and registered subsidiary incorporated in the Republic.

Nowadays, the international tie is predicated primarily on co-operation and an exchange of information. Worldwide, Colonial Mutual had assets at the end of last year of R2,6 billion. Roughly 50% of its business is done outside Australia — in SA, the UK, New Zealand, Fiji and Zimbabwe. This size and geographical spread gives rise to fruitful co-operation in the realms of data processing development; management information sharing; and marketing, actuarial, investment and accountancy liaison.

Bright youngsters and leading personnel get the chance to work for or to visit Colonial Mutual offices overseas. Says GM Fanie Jacobs: "I personally thoroughly enjoy the chance to visit overseas operations and to draw on their experiences to improve our operation in SA."

Occupational specialists

The Society's main market is group scheme business in which it has built up considerable expertise.

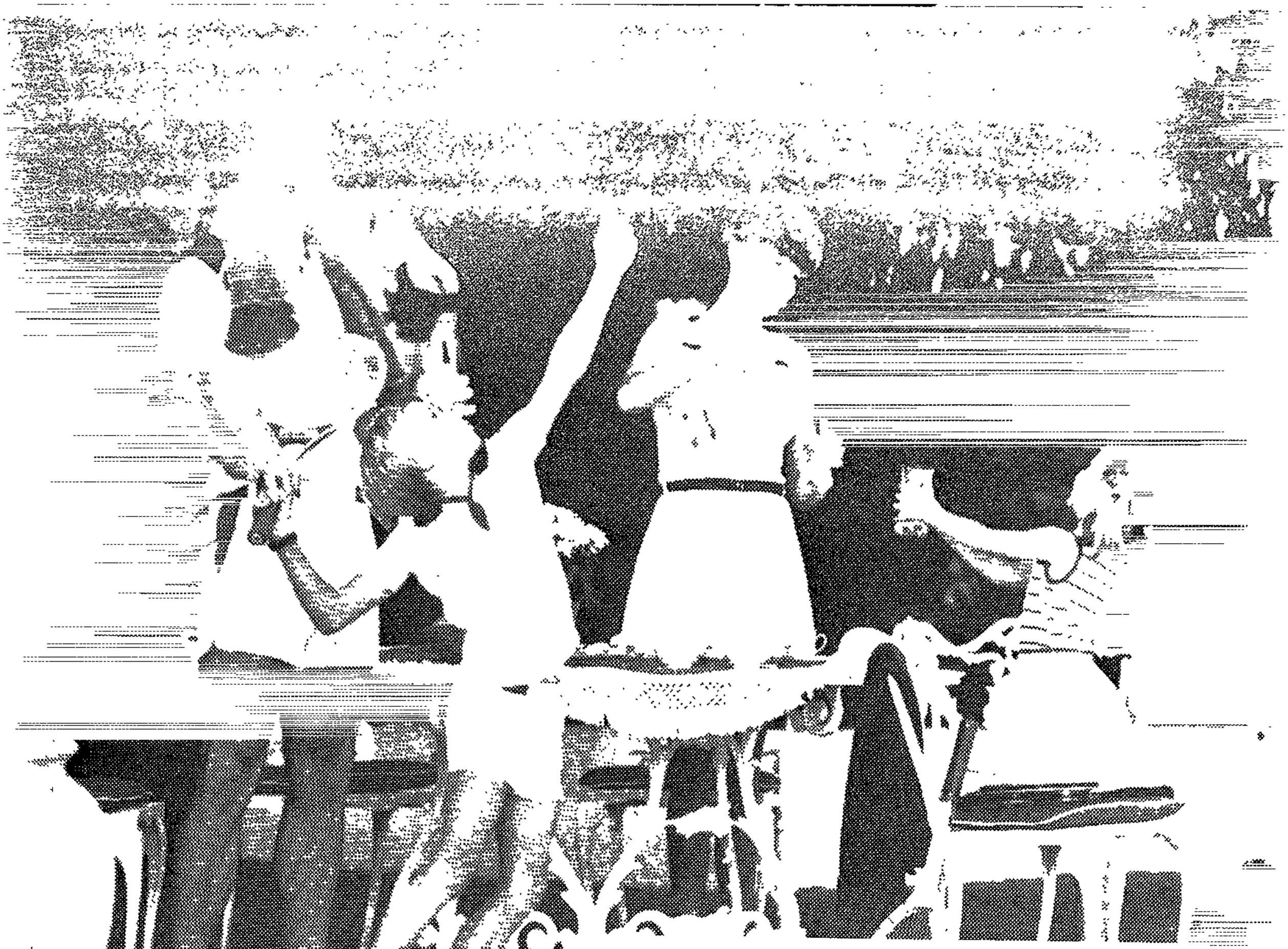
Colonial Mutual has staked out its territory in the preserve of group occupational insurance. Explains assistant general manager for marketing Tim Wood, "We attempt to customise our products depending on the nature of the group. An occupational group is identified. We try to anticipate the insurance and service needs of the occupational segment we have selected. Our aim is to provide benefits appropriate to that group."

Formal group schemes constitute the bulk, about 75%, of the Society's business. The oldest, for the SA Nursing Association, was set up in 1930. This was followed, soon after, by a scheme for teachers and since then the Society has developed group schemes for railway and municipal associations, Post Office workers and, more recently, Escom and the SA Police.

Despite its possibly misleading name, group scheme business involves the sale of endowment, retirement annuity or whole life policies to the association member. The member bears the premium costs personally, unlike group pension business, where contributions are paid by employer and employee on a company basis. For the member, the advantage of purchasing a group scheme policy lies in its offering life cover and in enhancing pension or accident benefits receivable from his employer's pension fund.

Benefits are related to the special needs of that member's occupational group. Teachers, for example, enjoy loss of voice benefit on their policies. During study leave, such as a year-long sabbatical, premiums need not be paid but the cover continues. For certain categories of railway workers, a "boarding benefit" exists, which enables a railwayman who is put off his job because of sickness ("boarded" in railway parlance) to be eligible for a lump sum payment.

Post Office officials, at their instigation, have a specially designed mortgage insurance plan incorporated in their policies. The



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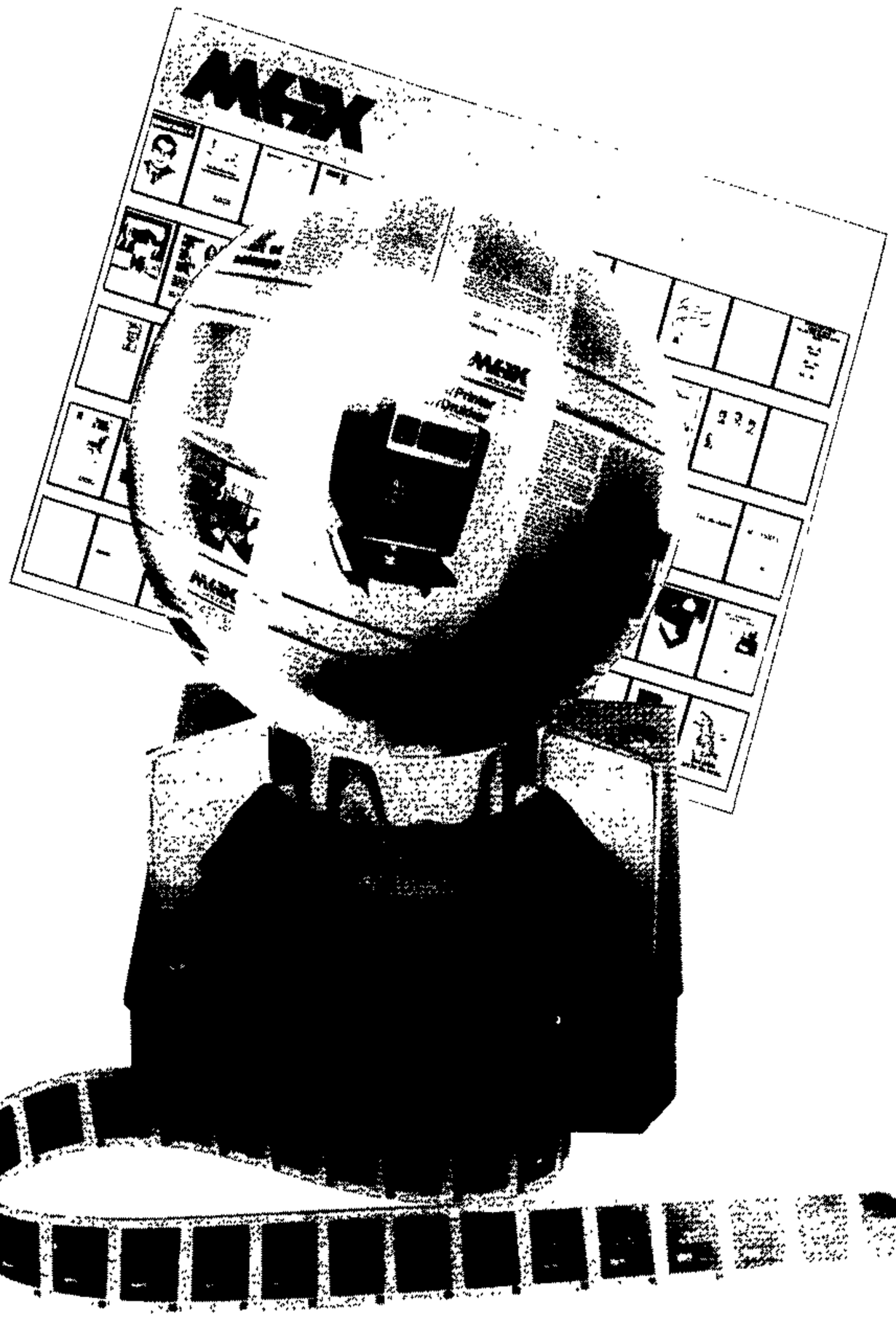

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BELL & HOWELL

Van Sittert, Wood ... search for group scheme members

Post Office lends money to its staff on special terms to buy houses. Colonial Mutual provides a life assurance benefit on the amount outstanding.

As so many of the Society's clients are artisans and other blue-collar workers, an awareness of potential physical accident is very pronounced. Death or disablement from injury is, therefore, an eventuality well covered by the Society's schemes. All group schemes offer compensation payments for loss of own occupation due to injury. Accident, disablement and death benefit policies are also most sophisticated in that yearly bonuses are added. Comments Wood: "To my knowledge, the sum insured on other such policies is fixed. Normally it is life policies that accrue bonuses. It is almost unique for accident policies to provide escalating benefits."

Another unusual feature of the Society's group scheme policies is the link which exists between endowment, accident and disability benefits. In the market-place, it is common to pay an acceleration benefit on an endowment so that if the policyholder is incapacitated, a surrender sum will be paid out and the policy will be terminated. Under Colonial Mutual's policies, payment of an accident or disability benefit does not end the policy but, on the contrary, provides for a premium waiver. The endowment remains in force without the need for the injured policyholder to pay any future premiums.

Crucial to the success of group scheme marketing is the relationship between the Society and the executive of the relevant staff association or trade union. The Society and the staff association will bargain over the benefit structure, the generosity of which is designed, subject to cost restraints, to meet the special needs of the association's members.

For marketing, Colonial Mutual uses a highly trained field force of agents. This contrasts with sales of its group pension policies, which are channelled through brokers. To ensure high standards, a training programme has been developed for the representatives. In Wood's words, the course is "almost 100% home-grown. It is needs-orientated and appropriate for the people we are selling to."

The emphasis, therefore, lies not on estate duty nor key man insurance planning, which have little relevance to Colonial Mutual's market. Instead the agent needs to ensure that if a railway worker retires at 63, his endowment will mature when he is 63. Or, if a man has a house to pay off and children to care for after his death, that his mortgage and life assurance will enable this objective to be met properly.

Intensive, skilled marketing has brought with it an improved group market share, two recent examples of which were the acceptance of the Society's tender to set up a scheme for the SA Police and a larger chunk of the railway associations' business. Last year, gross premium income generated on individual life group scheme business rose 67% to R9,6m. "We are," says Wood, "very objective orientated."

Wood, a junior Wimbledon quarter-finalist who farmed tobacco in Rhodesia before he joined the Colonial Mutual and who has a penchant for wearing bow-ties to the office, is also in charge of the drive to capture black custom. As with the white market, the Society concentrates on black occupational insurance. Its biggest prize to date has been to implement a scheme for the Natal African Teachers Union.

Wood emphasises that since 1976 the Society has been strictly non-racial in its selling policies. It does not practise hidden discrimination through segmenting the market by income so that higher premiums

MEET THE COLLIES

Sales promotion officer Kate Hopkins had an important matter on her hands. How could an advertising campaign be fashioned to capture public interest and give Colonial Mutual a distinct image? Financial institutions, Hopkins feels, project "a granite type of aura." The message to get across was that Colonial Mutual is a friendly, approachable group who look after people "like you."

Cape Town advertising consultants Steinmann, Wilsenach & Associates were called in. Their solution was to introduce to the public the Collie family. Specially designed, 11cm high dolls, the Collies represent the major staff associations with which Colonial Mutual does business. There are six of them: a nurse, railwayman, teacher, policeman, postman and fireman. They aspire to be your friendly, family companion. Says Hopkins, "We hope they will become as popular as the Smurfs."

The Collies will appear in advertisements and will be used as give-away keyrings, T-shirts and cut-out and dress dolls. The kick-off comes this week with their appearance on the cover of this survey. Next year, they will get prominent exposure in an intensive advertising campaign in the staff association magazines. Juxtaposed on a family background, the Collies will suggest a theme of the good, traditional values of life.

"They're friendly, they're fun, they're certainly an improvement on figures and graphs" says Hopkins, "and Colonial Mutual hopes they'll get its message across as a friendly, expert and approachable insurance company for a long time to come."

COLONIAL MUTUAL'S MAJOR GROUP SCHEMES

Group scheme	Year of inception of first scheme	Total sum assured Rm	Claims paid (1982) R000's
SA Transport services	1932	468	1 075,8
Teachers	1932	233	54,7
Post Office	1930	218	255,4
SA Nursing assoc.	1930	140	76,5
SA Police	1977	93	334,3

Source: Colonial Mutual.

are paid by the lower earning groups. Premium rates at the Colonial Mutual are the same for all, irrespective of race or income.

One difference between the black and white insurance markets, Wood notes, is that blacks demonstrate a keener interest in the savings element of insurance. Consequently, purchases of endowment policies are more prevalent.

Greater exposure to black markets has brought with it corresponding black advancement in management. Of 31 branch managers in the Society, six are African, one is Coloured and one Indian, compared with none five years ago. Wood, recounting this progress, concludes on an up-beat note: "We feel that the black market offers tremendous future potential. Despite the teething problems, to remain outside it, is a bit unrealistic."

Opening umbrellas

Having neglected this area until recently, the pensions marketing division is going determinedly after growth

Pensions business is very much a growth area at Colonial Mutual. In 1974, 4% of the Society's total premium income came from this class of business. In 1978, pensions' share was 7% and in 1982 it was 17%. Especially in recent years, growth of annualised premium income on pensions business has surged ahead, by 93% in 1981, 69% in 1982 and 73% in this year to date. So far in 1983, 25% of the Society's total premium income has been contributed by pensions.

Senior assistant general manager Theo Mercer explains that the impetus behind the drive for pensions business growth is to effect a decrease in Colonial Mutual's expense ratio and to improve its share of the insurance industry's total premium income. In the early Seventies, by contrast, the Society's marketing effort was targeted on its small policy individual insurance, in which it exercises great skill.

But the result was that expense ratios deteriorated. The expense ratio on individual life business is higher than on pensions, as administrative charges are more expensive. Moreover, in the Seventies, pensions was and still is the source of greatest premium growth in insurance. This was a market Colonial Mutual failed to tap.

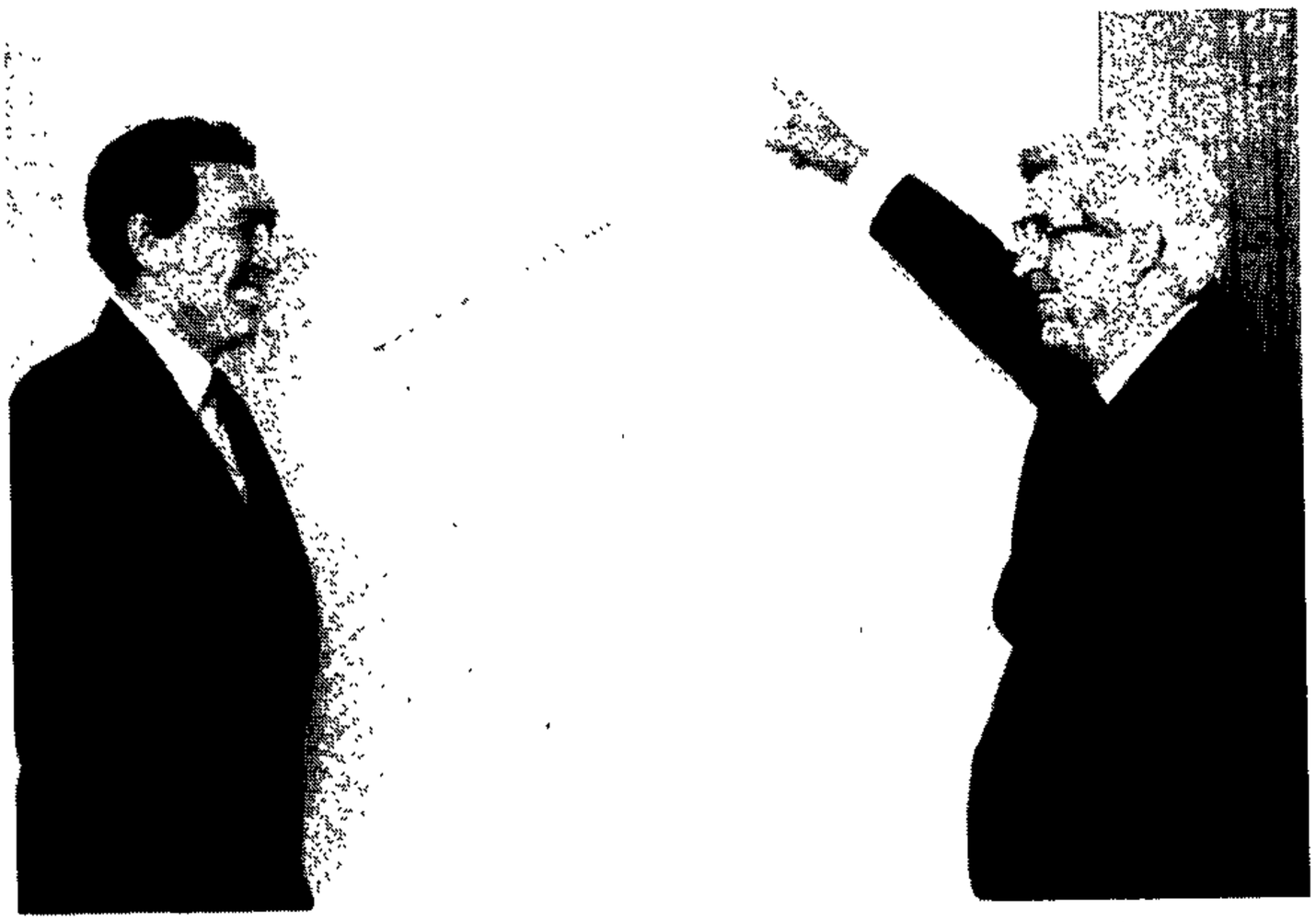
From its research, the Society established that the small and medium sized company market was covered inadequately and it is on this segment that Colonial Mutual's efforts are concentrated.

Once a company account is won, the contributions, from employer and employee alike, are channelled to a small employee or money purchase fund, known in the industry as an umbrella fund. At present, some 200 firms are participating. By offering competitive administrative fees and high fully vesting bonuses, the Society maintains a strong marketing edge.

Pensions services manager Dirk Wolmarans notes that the 1982 bonus yield on the pensions fund, net of investment charges, was 17,25%, which vested *in toto*. This contrasts with the industry practice of vesting the substantial part of any bonus declared, say 11,5% of a 17,5% declared bonus, but treating the remaining 6% as a discretionary bonus which vests fully over 10 years only. In that time, the assurer could, therefore, revoke all or part of the 6% bonus.

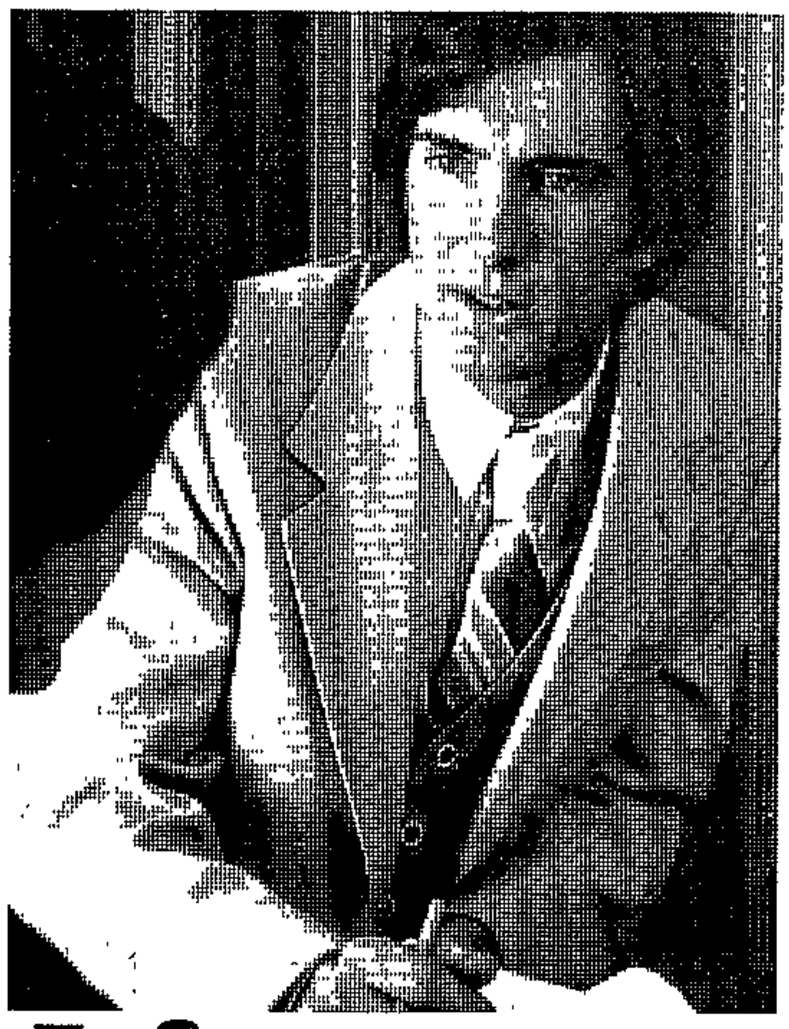
No company cross subsidisation exists in the umbrella fund, another advantage of which is to increase the range of benefits on offer. Each company also has the option to convert its fund at a later stage to a benefit promise fund. Under this arrangement, the employee will get a benefit on retirement, expressed as a percentage of his or her final salary, or of final average salary in the three to five earning years immediately before retirement.

As Colonial Mutual trailed its rivals in entering the pensions market, it had the advantage of learning from the competition's mistakes. So it has avoided costly administrative disasters in computerising its pensions business, some 85% of which is handled on a data base file structure. This new technology has maximised flexibility of response to clients' varying requirements which is essential in the pensions arena.



Wolmarans, Mercer ... pensions growth upwards

"We're making it a special year for you"



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BLACK STAR

To date Geoffrey Nkwanyana is the most successful black manager with Colonial Mutual. "He is very much a pioneer" says assistant general manager for marketing Tim Wood. Born in Dundee, Nkwanyana completed his formal education at the Umpumolo training college, taught for a year, worked for the Bantu Affairs Department in Johannesburg and then moved to Durban. After a stint with the SA Transport Services (Sats) and in public relations, he joined the Colonial Mutual in 1965 as a representative.

The following year he was instrumental in getting a group scheme off the ground for the Natal African Teachers' Union — the Society's first group scheme for blacks. Today, Nkwanyana is manager for black business in Natal. He heads a staff of 15 and last year generated premium income of over R400 000. Apart from insurance selling, Nkwanyana is mad about football. In his younger days, he played for the African Wanderers first division in Durban.

Times were not always good for black insurance salesmen, who struggled in the Sixties and early-Seventies.

The assurers would insure black customers for small sums only, would charge higher premiums and insisted on a stringent medical examination for every applicant. As a result, says Wood, black salesmen had to work "terrifically hard" just to make a living. Often stymied by the difficulty of transporting prospective black policyholders to a doctor for the medical exam, Nkwanyana, desperate for custom, would get his police friends to lend their van for this purpose.

After 1976, Colonial Mutual marketed non-racial policies and black custom soared. Life for black salesmen has demonstrably improved. Last year, for example, Nkwanyana qualified to go to Colonial Mutual's sales jamboree, the Masters' conference, in Lisbon. The honour was bestowed in recognition of his sales success, the criteria for which include not only high sales, but also a minimal lapse rate.

The conference, an annual affair, is a happy forum where Colonial Mutual's top salesmen and managers exchange ideas. Next year's is in Rio. With other black managers in the Society, more such sales stars are undoubtedly in the race for a turn along the Copacabana.

Service back-up to brokers is much emphasised by Wolmarans, an ebullient, rugby-loving man who hails from the western Cape. He underlines the importance of getting quotes to the broker on time, of answering queries rapidly and of paying broker commissions timeously. "Service, service, service, service" says Wolmarans expansively, "I can't stress anything more than that. Some 98% of our pensions business comes from brokers."

To provide a pension, however, is one thing. To maintain its value in the face of persistent inflation, which eroded the real purchasing power of the rand from R1 in 1970 to 31 cents in 1981, is another. For the newly retired man with a lump sum in his pocket, the Society has, to combat inflation, designed a highly competitive growth annuity.

As with the better known escalating annuities, the initial income on a growth annuity is less than it would be on a fixed pension. But they differ in that on escalating annuities, the insurance company is obliged contractually to raise the annuity each year by a pre-determined amount, whereas on growth annuities, increases are not guaranteed but are related to the Society's investment returns.

Because actuarial liabilities for purposes of the Insurance Act must be calculated on the basis of contractual requirements (bonuses are not treated by the Act as a liability), the Part 1 prescribed asset requirements necessary to fund all liabilities are less on growth annuities than on escalating pensions. A higher proportion of the sum used to buy a growth annuity is thus available for discretionary investment and the returns have been considerably higher. Colonial Mutual's growth annuities in the last five years have posted 11,67% annual average compound growth compared with an insurance industry average of 3% to 5% annual compound growth on escalating pensions.

The accompanying table lists the bonuses declared by the Society on its growth annuity policies since 1977. The middle column shows the appreciation in a Colonial Mutual growth annuity purchased in 1977 for R500. Wolmarans points out that if a 65-year old man buys a fixed pension today of R1 000 a month, an annual 10% inflation rate would reduce the real value of the monthly R1 000 after 10 years to R386.

Were the same sum used to purchase a growth annuity, initial monthly income would commence at R683 but would rise after 10 years to R2 704. At 10% annual inflation, the annuity's real value after 10 years would be R1 042 a month, which would make the pensioner R656 better off than if

GROWTH ANNUITY INCREASES

Annuity payable in	Amount of annuity per month	% rise on previous year
1977	R500	
1978	R538	7,75
1979	R585	8,75
1980	R643	9,75
1981	R716	11,5
1982	R814	13,6
1983	R934	14,75

Source: Colonial Mutual.

COLONIAL MUTUAL

1883-1983

One hundred years of change

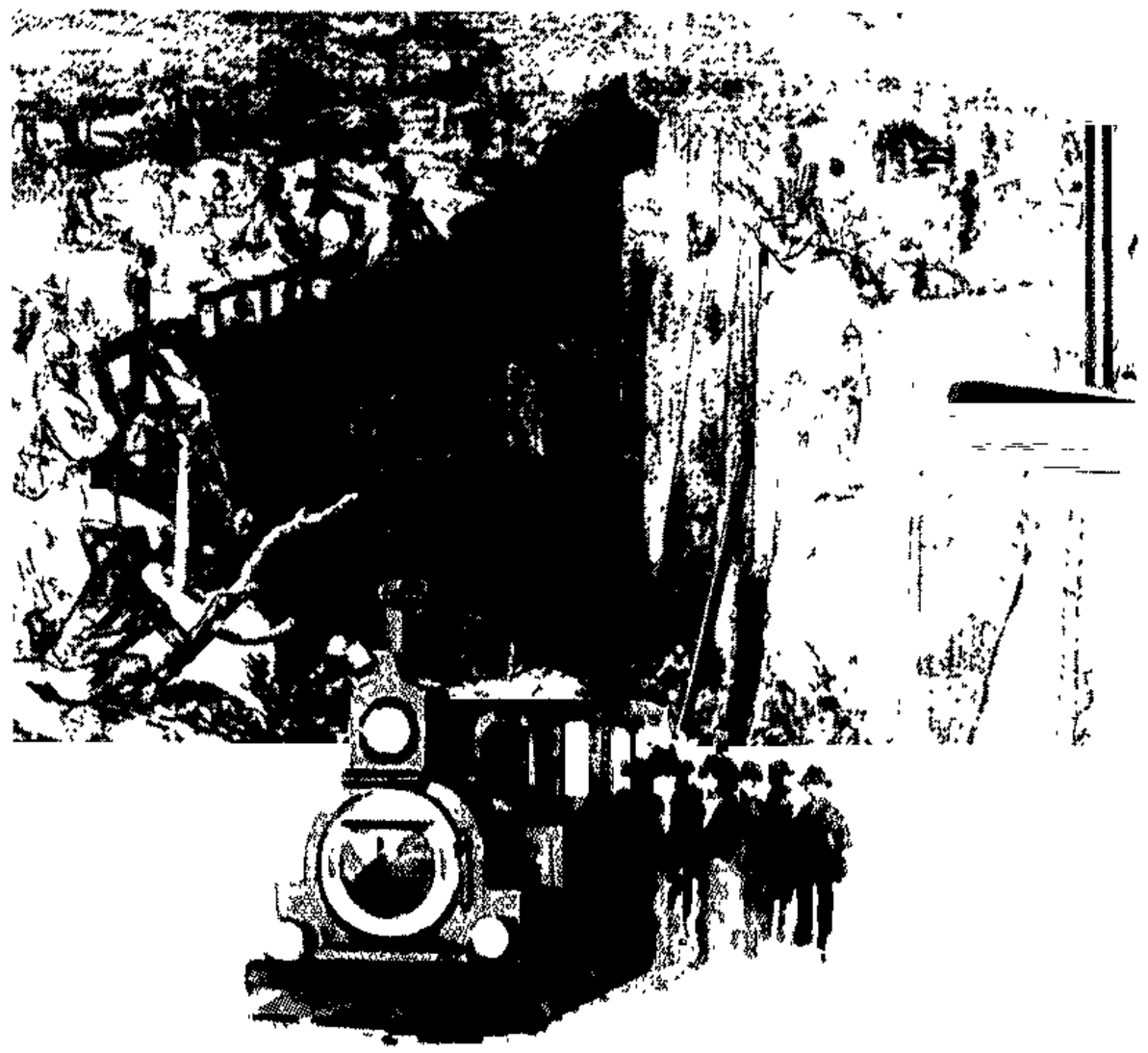
Colonial Mutual. A corporate report. Supplement to Financial Mail November 25 1983

1883

U. Kruger is elected President of the South African Republic.

1885

Railway line to Kimberley diamond fields is opened.



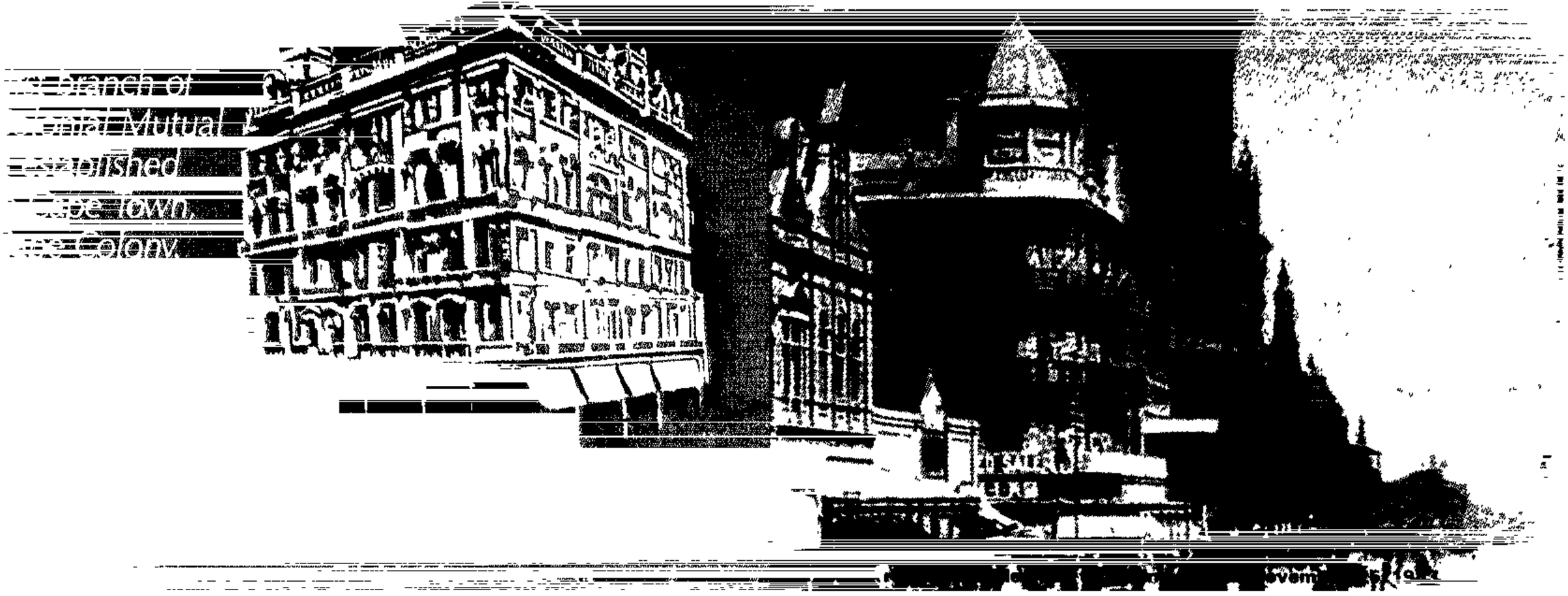
Colonial Mutual opens their first branch in Natal.

1886

Town of Johannesburg is laid out.

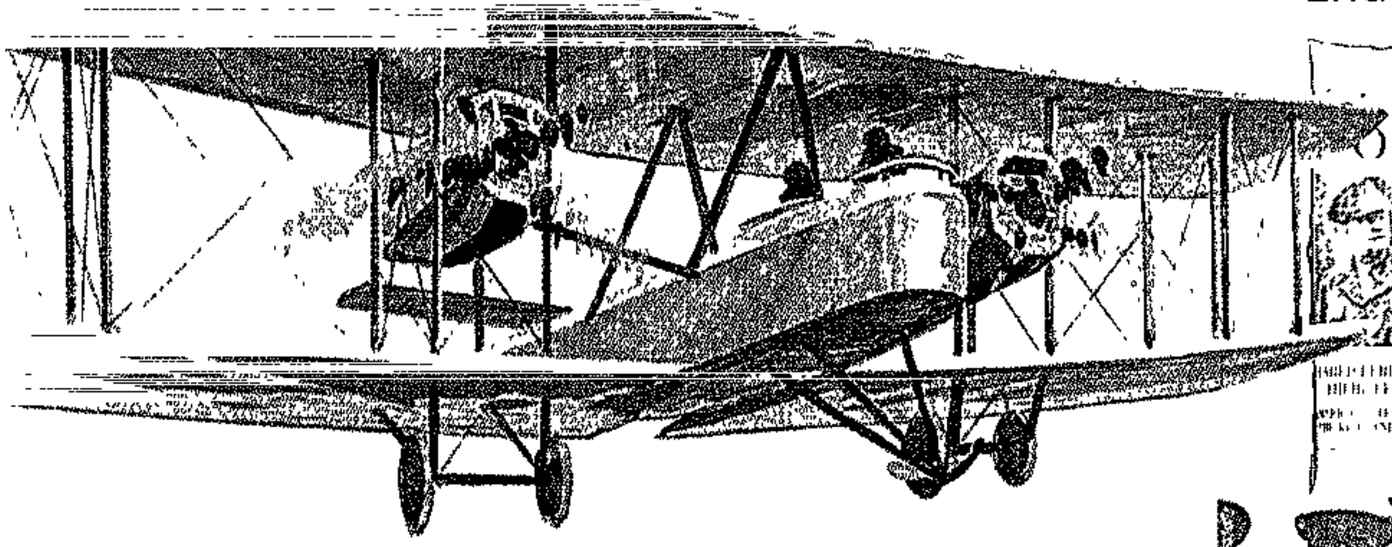
Colonial Mutual opens offices in the Boer republics.

Pretoria is established as the capital town of the Transvaal.



1920

Pioneer flight between London and Cape Town of South African aviators, Quinton Brand and Pierre van Ryneveld.



Colonial Mutual calls for tenders for the erection of their first five-storey miniature skyscraper in Johannesburg.

1930

Colonial Mutual underwrites the first group endowment scheme for the SA Nursing Association, an arrangement which is still in force.

1945

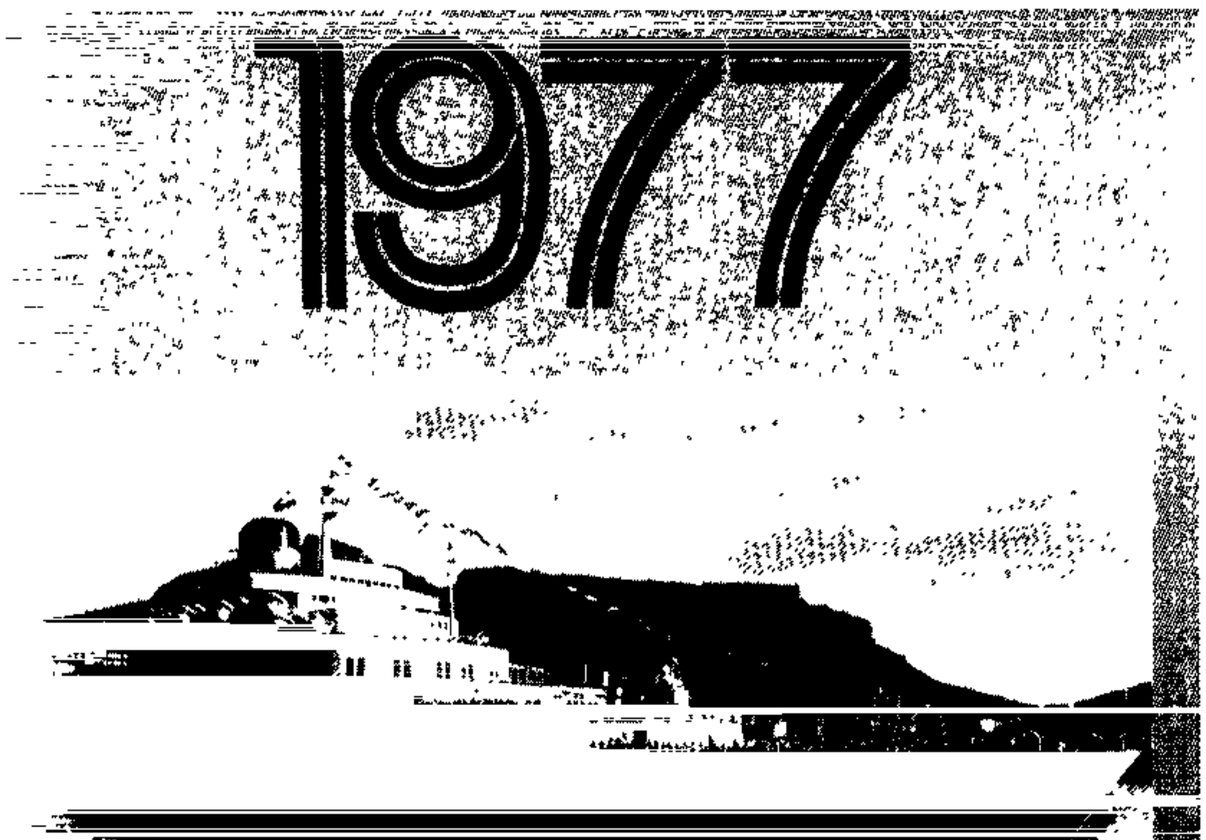
End of World War II

SA Board of the Colonial Mutual obtains full control of all premiums paid to it – and is able to invest even more capital in South Africa.

1970

South African cricketers defeat visiting Australian team in all four test matches and by general consent have the best of all test teams. The All Blacks tour South Africa and out of the four internationals the Springboks win three and lose one.

First computer is installed at Colonial Mutual.



Colonial Mutual celebrates 100 years in South Africa and donates a reconstruction of the clock on their second building in South Africa to the people of Cape Town.

Colonial Mutual
1883-1983
LOOKING AFTER PEOPLE FOR 100 YEARS

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The Argus

Colonial Mutual. A corporate report. Supplement to Financial Mail November 25 1983

Steinmann Wilsenach SWA 2178E

he had bought a fixed benefit.

In the example, Wolmarans assumes an annual 14,75% bonus on the growth annuity. This was last year's bonus rate and is the highest yet declared. Given the vicissitudes of the market, this rate could decline. Moreover, pensioners in bad health or in urgent need of funds would probably do better to go for a fixed annuity. And as the Registrar of Insurance earlier this year cut the prescribed asset requirements on fixed and escalating annuities, the competitive yield on these policies vis-a-vis growth annuities can be expected to improve. But pensioners confident of a long retirement will undoubtedly gain from an income that keeps even with or betters inflation.

Competitive product

Wolmarans brims with confidence. Three years ago, the objective was set to boost new business premium income by 50% a year for each of the next five years. Every year to date, this target has been exceeded. At the start of 1983, a managed fund, linked to prescribed assets, equities and cash was set up in response to market demand. Property may well be added. Concludes Wolmarans, "Our product is competitive. We advertise through our yields and the good service we give. We're flexible and will continue to repackage our products according to the particular needs of our brokers' clients."

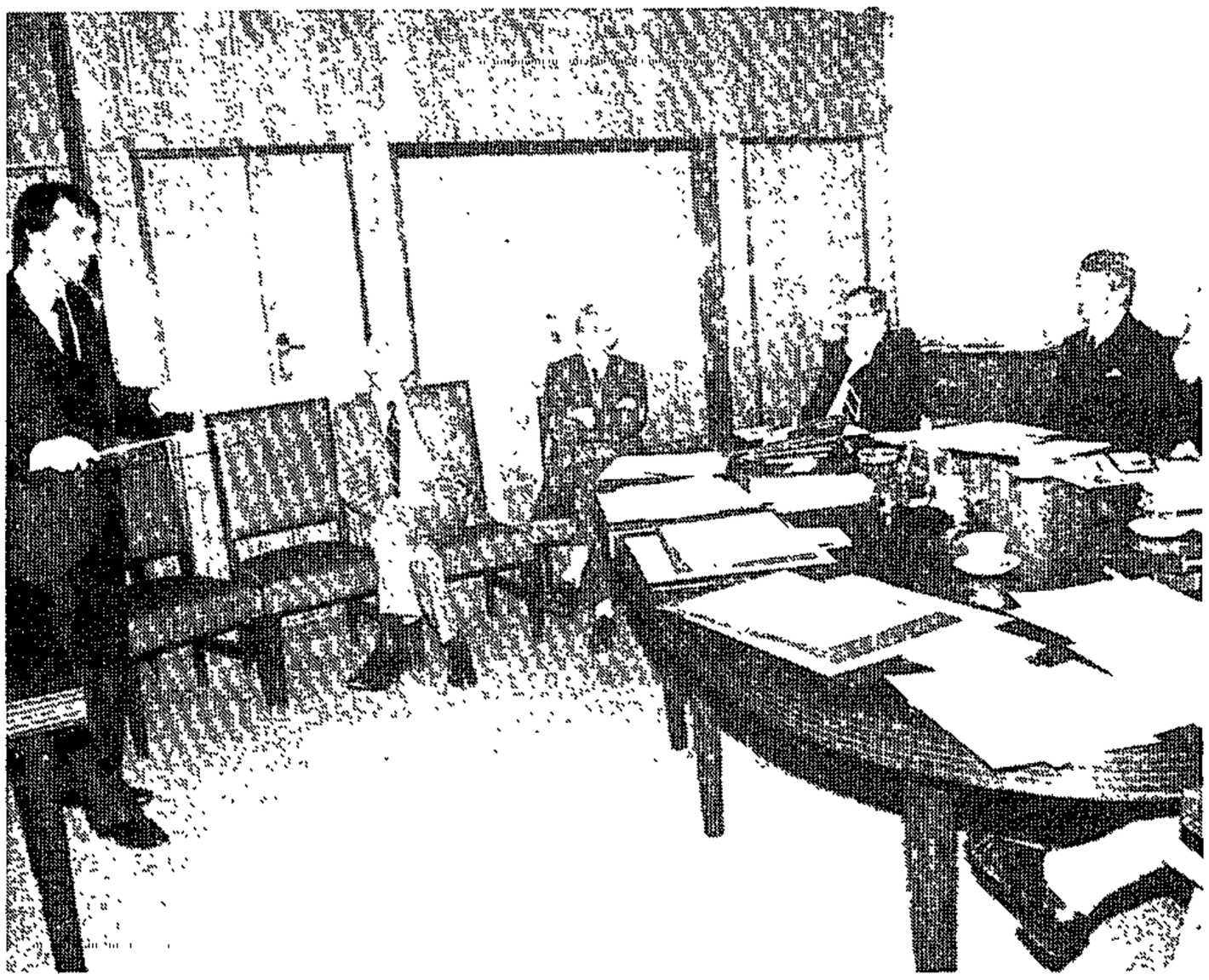
Making the millions

The investment section's mandate is simple: maximise yields! Actually doing it is much harder

Although no exact basis of comparison exists, in terms of its investment yields, Colonial Mutual ranks consistently among the top five life office performers. Over a three-year period to December 31 1981, total annual return on investments averaged 23,1%; over four years 24,2% and over five years, 23,3%.

Figures for the other insurers are, however, based on their managed fund results and are not directly comparable with Colonial Mutual's, as the Society's managed fund was only set up at the beginning of this year. (It takes at least three years to get a clear assessment of a managed fund's performance). Instead, as assistant general manager for investments Doug Cleland points out, Colonial Mutual's yields are based on its total investment fund and not on a relatively small performance-orientated managed fund.

Cleland is almost too modest about his job and the success he has enjoyed. Good yields boost bonuses and increase available funding for new business. His work is thus pivotal in boosting the Society's competitiveness.



Mutual advice ... Cleland addresses the board

But something of the German historian Oswald Spengler, whose pessimistic books foresaw the inevitable end of civilisations, has rubbed off on him. Cleland is acutely conscious of the investor's vulnerability. Today's successes can easily be tomorrow's failures.

Questions on Colonial Mutual's investment coups are eased aside. Cleland is more forthcoming on his mistakes. Not that the interview proceeds with palpable tension. Cleland is cool, relaxed, confident, alternately instructive and bantering. Tall and good looking, he combines the ethos of the *ware* South African chap with the polish and insight of the sophisticated institutional investor. In short, he is "laid back."

Cleland was mandated in 1970 with the task of specialising in the analysis of quoted ordinary share opportunities. With investment manager Hector Campbell, he started the Society's investment division virtually from scratch. In the early years, investment expertise was not in great demand. Like the other assurers, Colonial Mutual initially sank its funds into municipal loans and property and farm mortgages.

Its first investment took place in March 1886 when it tendered successfully for an entire debenture issue of £3 750 of the Beaufort West municipality at 5½% a year. Other funds were repatriated to Melbourne. However, the post-war placement of all assets in SA and, by the late-Sixties, the need to find higher yield investments than public stock, dictated that in-house investment expertise be built up.

In 1976, this process was sealed with the passage of domestication legislation which enacted that investment responsibility had to vest with the SA board. Four years later, the investment function was split. Campbell assumed responsibility for property and Cleland took charge of shares and interest-bearing investments.

As shares are thought to be the best long-term growth prospect at present, the Society's investment strategy calls for a substantially larger equity exposure, amounting by 1985 to 47,5% of its total

INSURING THE SICK

Until 25 years ago, proposals for life insurance from applicants with a history of serious illness or disease stood scant chance of acceptance by an insurer. But the pattern of reinsurance since then, which has seen the insurer place medically impaired risks, called substandard risks, with a reinsurer, has much changed matters. These days coronaries, strokes, cancer, are rarely bars to taking out life insurance.

Explains Mercantile & General Reinsurance deputy GM Don McKay, "The reassurers have acquired an expertise in the field of substandard business. Continuous monitoring of mortality results has led us to liberalise our underwriting standards and our confidence in the statistics acquired has removed these risks from the realm of experimental underwwriting. We provide a service to the direct writing offices, life brokers and agents, and to the whole community, few of whom nowadays need be deprived altogether of the life cover they need."

Colonial Mutual chief actuary Roger Grenville-Jones describes the handling of health risk cases as "a very interesting example of inter-disciplinary co-operation." The actuaries, working from reinsurers' underwriting manuals, SA Actuarial Society and overseas mortality tables and other medico-actuarial statistics, project the effect of a particular disease on longevity. The doctor interprets the applicant's medical evidence. Once abnormalities are pointed out to the underwriter, he translates this evidence, with the aid of the actuarial tables, into increased mortality or reduced expectation of life statistics. So if the policyholder were aged 50 years, he might be treated as a 55- or 60-year-old and charged the premium applicable to that age bracket.

Grenville-Jones points out that at Colonial Mutual no-one under 50 years is denied insurance on health grounds. A leukaemia sufferer could, therefore, get a policy. If he died soon afterwards, the family would get back only what he paid in. But after a waiting period of three to four years, depending on his age, he would derive the full benefits of a life policy but at a higher premium. And only rarely, adds Grenville-Jones, is the applicant over 50 years of age refused any life insurance.

INVESTMENT WINNERS
Return on Investment Fund*

	1977 %	1978 %	1979 %	1980 %	1981 %	1982 %
Total return on investment assets	14,1	21,0	30,8	16,6	12,0	24,8
Income only return on fund†	9,6	10,0	10,1	10,9	12,3	15,1

* Includes all monies avail. for investment.
† Excluding capital gains.
Source: Colonial Mutual.

investment fund. This will conform with the practice of Colonial Mutual internationally, which, at the end of 1982, had 43,2% of its assets in equities, compared with just 27,1% for the SA society.

Mining shares are favourite buys as Cleland reckons they are subject to rerating because of SA institutional purchases and peripheral foreign interest. Mining stock now comprises some 60% of the market value of the Society's ordinary share portfolio.

Cleland admits, however, to having been caught unprepared by the rise last year in shares. "The speed of the rebound surprised us," he says. "The gold price fundamentals were negative. We did not expect a sustained rise. Due to institutional cash flows chasing fixed amounts of financial securities, the market appears to be losing flexibility and efficiency. Allowing local institutions to make overseas investments would soon rectify this situation."

Gold, of course, is the big variable. Despite the price falling below $400 at the time of writing, Cleland remains a bullion bull. He bets on stronger inflation in due course on the international economic front. Inflation is good for gold, but the usual short-term uncertainty has made him hedge his bets. Although the strategy was to achieve 22,7% share exposure by this year-end, it now looks likely that the target will slide to a figure of just 16,7%.

"In practical terms," avers Cleland, "we now accumulate cash at 17% to 18% on short money. We are happy to buy shares later, when one feels more comfortable, rather than take a higher-risk profile that bullion will go up. It is prudent to buy later, even though later you may look very good if you bought now. We've gone into neutral around here."

Neutrality applies also to property, which Cleland ventures "is a little ahead of itself." It was planned to hold 22,4% of total assets in property by December 31, but the slowdown in rental growth and the shortage of prime buying opportunities is likely to deflate that figure to 19,4%.

But as Campbell points out, the last few years have seen significant acceleration in property exposure. Since 1980, R34m has been invested, boosting the portfolio to a book value of R54m. Of this figure, about 56% is tied up in commercial and 44% in industrial property. Regionally, 50% is in the Transvaal, 42% in the Cape and 8% in Natal or OFS.

Much of the build-up is in leasebacks — in line with conventional institutional thinking. Campbell sees this business as "an area of good solid growth with minimal management problems." Two recent projects were the development of a R3,5m project at Ophirton in the Transvaal and the R3m Standard Bank stationery and distribution centre in Pinelands.

In June, the Society acquired its largest property ever, for R8,5m, in the shape of Conlyn House in Johannesburg. With the bulk of lease renewals due by end-1985 and a vacancy factor of less than 2%, Campbell expects a doubling of rent over the next few years from present R3/m² and R4/m² levels to R7/m² and R8/m².

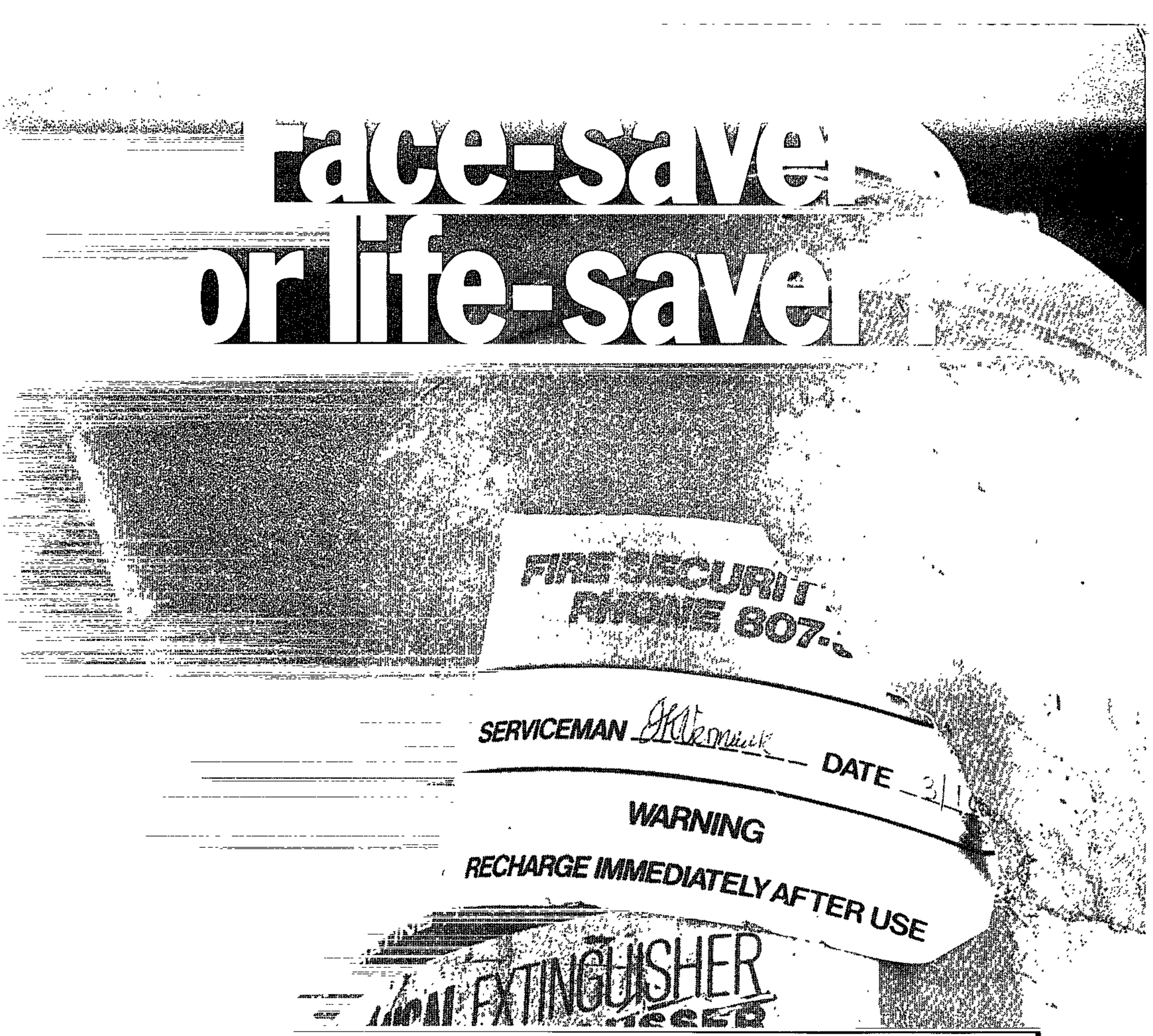
As with institutional practice in the UK, but unlike practice here, management of the Society's portfolio is undertaken by a property company, DCF. Campbell explains that this arrangement has "the advantage of being able to draw on a wide range of property skills, not easily available in a medium-sized organisation such as ours."

Campbell is then left free to search for new investments and to monitor DCF's performance. What of new investments? Campbell talks of anything between R1m on non management-intensive leaseback deals to R8m to R9m. Speculative development also is not ruled out, provided the right premises are found.

Campbell is a Scotsman of varied international experience. He took a degree in economics from Glasgow University and did war service in the Royal Air Force, training in the US. Later he worked in industrial psychology and banking, married a South African, immigrated here, then moved to Rhodesia as chief executive of United Dominions Trust. On his return to SA he joined the Colonial Mutual. He is a genial man of marked physical resemblance to actor Donald Sutherland and outwardly he manifests the same laconic approach to life.

Cleland in contrast is more careworn. The investment pit, he opines, "is a tough, professional place. Reputations can easily be broken. Whizzkids who look like superstars can look like nothing two or three years later."

face-saver or life-saver



Fire extinguishers are the bane of a building manager's life. The law says you *have* to have them. The law says you *have* to have them serviced. But nobody ever tells you that there's servicing – and servicing.

So the guy comes round, puts his signature on the label and drives off. How can you be sure he has checked the contents, the valve functioning, the spray mechanism . . .

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Tables from the mount

Life assurance is founded on actuarial expertise, which means the assessment of risk and future surplus

On August 26 this year, the Society accepted the proposal for life insurance of a 22-year old technician. The following day the young man was killed in a car accident. His monthly premium would have been R20 a month; instead the bereaved family received a R40 000 pay-out. Freakish as such cases are, they happen, and it is part of the actuary's job to assess the likelihood of such an occurrence within the continuum of probability.

Beck, Prentice, Grenville-Jones ... financial aristocracy

Actuarial principles underlie the operation of life assurance. Insurance, in the words of Hardy Ivamy, the English legal scholar, is a contract by which "the insurer undertakes in return for the agreed consideration, called the premium, to pay to another person a sum of money on the happening of a specified event." The actuary must ensure not only that funds enough exist to meet the event but also that surplus enough is generated to pay bonuses as good as or better than the competitors'.

Thus the actuary needs to be an insurance futurologist, a financial supremo, a *deus ex machina,* all in one.

He must:

- ☐ Design the terms of the company's products;
- ☐ Calculate premium rates on the basis of the risk carried;
- ☐ Value benefits to identify what proportion of the assets is surplus and thus available for distribution as bonus;
- ☐ Ensure the maintenance of solvency margins;
- ☐ Assure the board of directors and the Registrar of Insurance that all statutory requirements are being complied with.

How are premiums determined? If, for example, an endowment policy was de-

IN SHORT SUPPLY

Actuaries are a rare breed. Until now, just 218 of them have qualified in SA, of whom 30 to 40 have retired or gone overseas. And they are in short supply, says chief actuary Roger Grenville-Jones, although Colonial Mutual is in the comfortable position at present of having its full complement.

Grenville-Jones attributes the shortage to the long time it takes to qualify, high entrance requirements, and the fact that people with intellectual stamina and ability can also do very well in less demanding occupations such as accountancy and computer programming. Actuarial work differs from accountancy in that it is more statistically based with greater specialisation in a narrower range of activities.

To commence study, one needs the minimum of an upper second in first-year university maths. Courses are part-time and involve examinations in six subjects in Group A and two papers in each of four subjects in Group B. Group A work embraces instruction in actuarial techniques. The courses cover: maths & stats, probability theory, finance & investment, demography, construction of mortality tables, and special mathematical actuarial techniques. Group B papers deal with an actuarial understanding of how these techniques are applied. The course work includes the operation of life and general insurance, institutional investment and pension funding.

As the SA Society of Actuaries does not yet have examining powers, the exams are set by the English Institute of Actuaries. There is also a four-year experience qualification. On qualifying, the actuary becomes an FIA (Fellow of the Institute of Actuaries). The Scottish qualification is the FFA (Fellow of the Faculty of Actuaries) and the American is the FSA (Fellow of the Society of Actuaries.)

Grenville-Jones, who lectures in actuarial science at UCT, notes that steady progress is being made in providing adequate actuarial education locally. He is also concerned with educating potential black actuaries. He hopes Colonial Mutual will sponsor blacks or coloureds at school who show outstanding promise and, if necessary, transfer them to schools where their potential can be better developed.

Progress is tough. In 1982, the pass percentage for the UK candidates who wrote the Group A exams was 48% and for the Group B exams, 32%. Rewards for the newly qualified actuary are, however, superb. Cash salaries of at least R30 000 a year can be commanded. Housing and car allowances can boost that to R40 000. In insurance, the sky is their limit and with the greater sophistication of corporate and budgetary planning, other opportunities in the commercial world are opening up.

Colonial Mutual

A CENTURY OF SERVICE

1883-1983

SOUTH AFRICA'S GROUP SCHEME SPECIALISTS

One hundred years ago Colonial Mutual established its first office in South Africa - since then it has grown into one of the Republic's most respected assurance companies specialising in group scheme assurance and pension planning.

Ideas

signed for railway drivers with benefits for lay-off due to medical reasons, the actuary, to assess the risk and an appropriate premium, would need comprehensive information on the total number of train drivers in the country and those who had lost their jobs on health grounds. The greater the frequency of sickness-induced job losses, the greater the risk and the higher the premium.

Mortality tables acquire vast importance in this work. They are codified tablets, the bible of the actuarial profession, which set out the statistical probability of death of people of all groups and ages. With the build-up of computer expertise in the last decade, it has become possible for Colonial Mutual, in line with other insurers, to determine its own mortality tables, based on direct experience.

Other factors, notably the savings element of insurance policies, also influence the setting of premium rates. In essence, the actuary's job involves working with a complex range of variables. These include income and expense items based on different assumptions as to the average premium size; interest earned; mortality, claims and bonus rates; and the rate of policy terminations and maintenance charges. Out of the competing chaos of these factors, the actuary must extract a disciplined synthesis of the company's future financial journey.

A life insurance applicant who has suffered a heart attack or some major illness, merits special attention. The higher risk that attaches to such a person is assessed individually and the premium set accordingly. More mortality tables are needed to encompass the greater likelihood of the applicant dying sooner. Chief actuary Roger Grenville-Jones emphasises, however, that no person under 50, whose health is bad, has his or her application refused by the Society.

Grenville-Jones has been chief actuary of Colonial Mutual since 1979. A savant, precise, somewhat remote, often discrete in his thought, Grenville-Jones is, in the words of a less admiring colleague, "a very good actuary." English-born and a Cambridge maths graduate, he spent a year teaching English in Lapland before he qualified in 1970 as an actuary.

Grenville-Jones decided to settle in Cape Town, where he has enjoyed an illustrious career. At present, he represents SA on the permanent actuarial notations committee of the International Actuarial Association. This committee agrees on a common world language of actuarial symbols, which in recent years has meant the adaptation of existing international actuarial language to the needs of computer programming.

Other concerns? Grenville-Jones lectures in actuarial science at UCT, was president of the Western Cape Jaycees and has been involved with computers, demographic studies, family planning and medical underwriting.

Under Grenville-Jones is life management actuary Graham Prentice. Kearsney-schooled, Prentice qualified last year and has responsibility for financial modelling. This relatively new field of actuarial endeavour embraces financial growth planning, which allows for the better evaluation of market strategies. Too rapid growth strains resources as initial liabilities, mainly in the form of commission to agents or brokers, rise too fast, while administrative systems often cannot cope. Too little growth, however, is demoralising and stifles expansion. Prentice works, therefore, on a cash flow projection model which aims to tread the golden path of expansion without pain.

"Properly applied," he says, "the model can break down expenses into their respective components, assess an adequate return rate, the right premium structure and determine a band for the ideal volume of new business growth through the provision of the right financing requirements."

Prentice, however, adds a qualification. "The model is not intended to give a final answer," he avers, "It is a tool to say what would be the case if this and this happened."

Product design, the special charge of life development actuary Peter Beck, is also under actuarial tutelage. Beck is a man of considerable self-assurance, (his curriculum vitae runs to four pages) who talks fluently in general terms of the philosophy behind product design. "We have tended to find market black holes in certain specific occupational groups," he notes, "and this is where the thrust of our marketing effort has been. But it does not pay to go into the market until the product is ready."

First generation inflation-proofed policies have been flawed, he argues, in that the relationship between premiums, benefits and inflation has not been clearly established. Such policies provide for pre-determined premium rate increases. But if inflation over a 10-20 year period is high, one could be under-insured. Alternatively, if inflation is low, one could be over-insured. "A good inflation policy" he declares "must cope automatically with a situation where, if inflation abates, the rate of premium increase will also fall."

At present, Colonial Mutual is engaged in formulating a series of new products. These policies will be more inflation-sensitive and will extend disability benefits, while some will allow the drawing of benefits at more regular intervals.

Details are not forthcoming yet as consultation with the staff associations, whose members will benefit from the new product range, is still to be undertaken. But next year will see the Society mount an intensive marketing drive to sell its new products, which, it claims, will rank among the most advanced in the market.

How does the Society generate its surplus in view of the many sophisticated benefits it offers and the average small size, given its market, of premiums written? Grenville-Jones points out that surplus is a matter of product design. Higher bonuses and more benefits require more expensive premiums. The lower the cost of any policy, the poorer the benefits that accrue.

Cost, he argues, is not the only criterion for a successful marketing drive. "The art" he explains, "is to design products which are seen to match needs closely. If there is a market need for a substantial amount of insurance, it will sell."

Electronic ensemble

An efficient DP system requires long-term, intensive planning as outlays on the necessary computer equipment are big

Time was when one could take a mail boat from Durban to Cape Town. The intrepid child might, during the voyage, venture down to the uncomfortably hot engine room and gape at the massive boilers, serviced by scurrying mechanics in grease-stained overalls.

Today the mail service is gone. Children play now with computers and the Eighties' equivalent of an engine room would be a visit to, perhaps, Colonial Mutual's computer room. Stacked with equipment (older computers look like double-door fridges, recent models like a set of desk-drawers), this air-conditioned engine room with its score of well-groomed personnel is what powers the company's operations along.

Computer, personnel and systems planning are the province of the management

The Mercantile and General Reinsurance Company of South Africa Limited

We are proud to be associated with the Colonial Mutual and congratulate them on their Centenary

services division. To quote the division's boss, assistant general manager Brian Suter, "among the functions of management services is the application of information processing technology to the needs of other divisions, such that greater productivity is achieved year by year in the administration of our business."

In simpler words, the division organises Colonial Mutual's computer services and seeks to find cost savings in such work. Crucially, this requires not only that appropriate computers are bought but also that the programs to run them are properly designed and applied. Although the Society's first computer was installed in 1970, inexperienced management hindered the equipment's optimum use. Responsible for spearheading the present cost efficiency thrust are Suter and his able deputy, data processing manager Brian Ralphs.

Long range planning, Suter emphasises, is vital if computers are to operate to best effect. At Colonial Mutual's principal office in Australia, for example, it will take seven years before the latest data base systems are fully developed.

It follows that Colonial Mutual must know where its future markets will lie and the extent of its penetration of them. Explains Suter: "If we are unsure what the company will do in five to seven years, it will be difficult to establish the systems environment at that stage. Systems need to be developed in logical sequence."

Accordingly, the company aims to flesh out its long-term marketing strategy. With major new product developments in the offing, suitable computerised administrative procedures will have to be designed. Computers, it is hoped, will mop up volumes of increased business. An overall reduction in administrative costs per rand on premium income would thus be effected, which is important for Colonial Mutual as its average premium size is less than for the industry as a whole.

Since 1979, in line with practice in the Society's overseas offices, an integrated range of ICL data processing hardware has been brought on stream. Since its introduction in 1982, the new 2958 model has vastly enhanced increased processing speed and storage capacity. In the last four years, the value of hardware has jumped from R500 000 to R1,5m.

And in software the Society is abreast of the market leaders. An American-designed G/L Plus general ledger package, which greatly jacks up the quality of financial information available to management, will soon be fully functional. The Society's pensions system has developed on data base and a test prototype of ICL's personal data system (the PDS) is used for personnel records. "There has," declares Ralphs, "been a transformation from the firefighting to the front-line."

What of future challenges? Distributed computing, with regional office staff keying-in new business data, a proposal seen as conducive to productivity, promises hours-full of brain-busting work for the management services division.

A move away is also foreseen from the present predominantly operational nature of the Society's computing, that is, handling general ledger and investment transactions and recording receipts and payments, to management information systems.

Characterised by Suter as "special decision support services," these programs would plot trends such as the size of premium policies and identify business by class of policyholder or representative. Adduces Suter, "if over a six month period, Colonial Mutual were seen to be selling bigger policies, would this be due to different training methods? From this trend we could extrapolate and make assumptions about what would happen if we did this or that."

Not surprisingly, to cope with the volume and complexity of this work, numbers in the data processing department have climbed from 32 at the end of 1980 to 53 today. Says Ralphs: "In future we will recruit data analysts with specific skills such as in data base development to assist in the move away from conventional applications."

Conventional application systems are those written to perform specific tasks such as to pay the staff's salaries each month. This involves the collection and storage of relevant data such as names, salary details and methods of payment. A second system for, say, the needs of the personnel department would, however, see much of this data duplicated. Changes would have to be updated on every program.

A data base establishes a network of data available to a variety of different systems. This involves separating the basic data from the systems which will make use of it. Thus payroll and personnel systems could both get access to a common information base which stores names and salaries.

Insurance-wise, a data base allows one to separate personal and policy information from the programs which deal with premiums, claims and new business written. To date, pensions business has been put on data base. This sophisticated accomplishment much improves information access and the convenience of inputting data. So, when pensions data is amended or updated, the data is changed automatically, regardless of which program uses it. The mammoth task of redeveloping the life business systems on data base lines will begin soon.

Cost is the bugbear. "A super service," observes Suter, "is super expensive." A steering committee, which includes the general manager, the chief actuary, the accountant and the heads of the policy and marketing divisions, decides, therefore, on the knotty question of priorities. Suter adds, however, that a real need still exists to educate staff in the complexities of modern information processing.

Suter himself is a private school product (St Andrews) who read for a B Com and MBA at UCT, played squash for Western Province and later acquired a bent for studying metaphysical philosophy. Some of that discipline's formal and complex expression is echoed in the man. But there is no denying Suter's fascination with the broad intellectual precepts which lie behind the management of people and administrative systems.

Says Suter, summing-up his work: "The spin-offs from better management services are in better planning, better reporting and better integration of accounting information with corporate planning. And if a manager can't manage the data, he can't produce the results."

Ralphs, Suter ... data processing front-liners

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LIBERAL VALUES

His offices are in Wale Street, in one of the elegant quarters of SA's most distinguished city. Across the street stands St George's Cathedral, and a mere stone's throw from the offices are the Houses of Parliament and the SA Museum. For Colonial Mutual board chairman Hans Middelmann, the journey from the Germany of his origins to these splendid, historic surroundings has been varied. But the setting presents a fitting backdrop to his elevated position in Cape Town's commercial life.

Middelmann was born in Berlin. After matriculating in Leipzig and rounding off his studies at the London School of Economics, he trained as a merchant banker with the private bank, Hans Kroch. Alarmed at the retardation of Hitler's Germany, Middelmann travelled abroad. In 1937, he bought a round Africa sea-ticket from Hamburg. "I still have the return ticket" he reveals. "The ship is here too; it was scuttled in False Bay."

In Cape Town, Middelmann found work in the accounting department of Inter-Union Finance and rose to the position of MD. He joined Colonial Mutual's board 20 years ago and was appointed chairman in 1974. "The average age when I began was 80," tells Middelmann, "and I have made it my business to diversify the board's membership as widely as possible in terms of age and experience. We look for people, not necessarily in insurance, who can bring views of value to the company."

Middelmann's interests, however, are catholic. He served as a director of Tongaat, Garlicks and the Standard Bank Investment Corporation, has done time as Assocom president and is a member of the UCT Council. A peripatetic traveller, Middelmann also was chairman of the Cape Town chapter of the American Field Service scholarships.

His name is a German derivative meaning middle man. Perhaps this, his cosmopolitan experience and certainly his encounter with Nazism, instilled in him strongly-held liberal beliefs. Middelmann is a champion of the open society. He believes that the free market, individual initiative, tolerance and democratic government remain the best guarantors of economic growth and individual freedom.

On Colonial Mutual, Middelmann's policy is to devolve reponsibility to management. "The board" he states, "acts as a guide and to ensure that management policy is based on what is best for the Society and its policyholders. We have built up a good management and staff and perform well in our sector of the market."

Paper chased

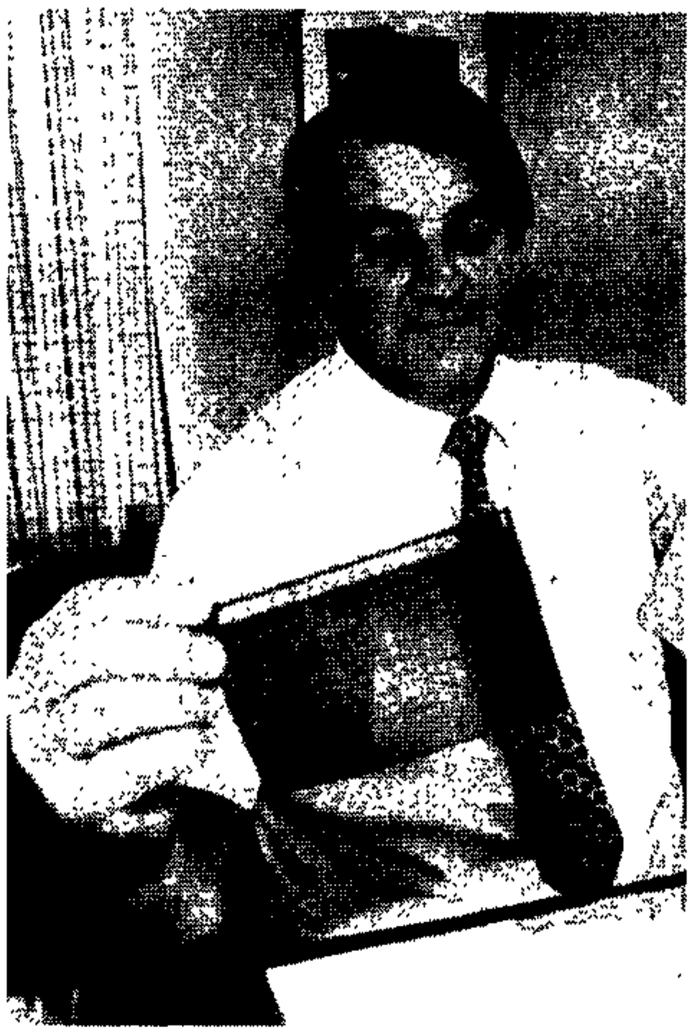
Policy administration has become highly computerised and automation has greatly raised service efficiency.

Policy administration is the biggest head office division. Command is exercised by policy administration manager Dave Powell. Not much about this division can set the *FM*'s readers alight with excitement, but Powell is a born marketeer. A two-hour interview, with ingrained potential for boredom after five minutes, raced by. No matter that the conversation digressed. Powell has much to say and he says it with humour.

Servicing policies is what policy administration is about. Applications for loans must be handled, claims processed and inquiries and letters answered. To do this job in bulk, automation is essential. No longer need policies be tediously entered in registers. The computer, *Time*'s man of the year, has wrought a desktop revolution at Colonial Mutual.

No division has benefited more from computerisation than policy administration, which uses 81% of the Society's total computer time. One immediate benefit has been a dramatic improvement in general policy servicing. In 1982, this was reflected in a 30% drop in the number of inquiry letters received.

For computerised policy administration work, all kinds of programs must be written. Powell reckons the Colonial Mutual leads its competitors in the sophistication of its bulk stop-order collection and reconciliation systems. Premiums are collected in bulk, one computer tape debits the account of a collecting agent, an employer's bank account or whatever. The total figure is then reconciled with the premiums due from each policyholder involved and the need for handling thousands of individual contributions every month is eliminated. "It's quite



Powell ... belief in participative management

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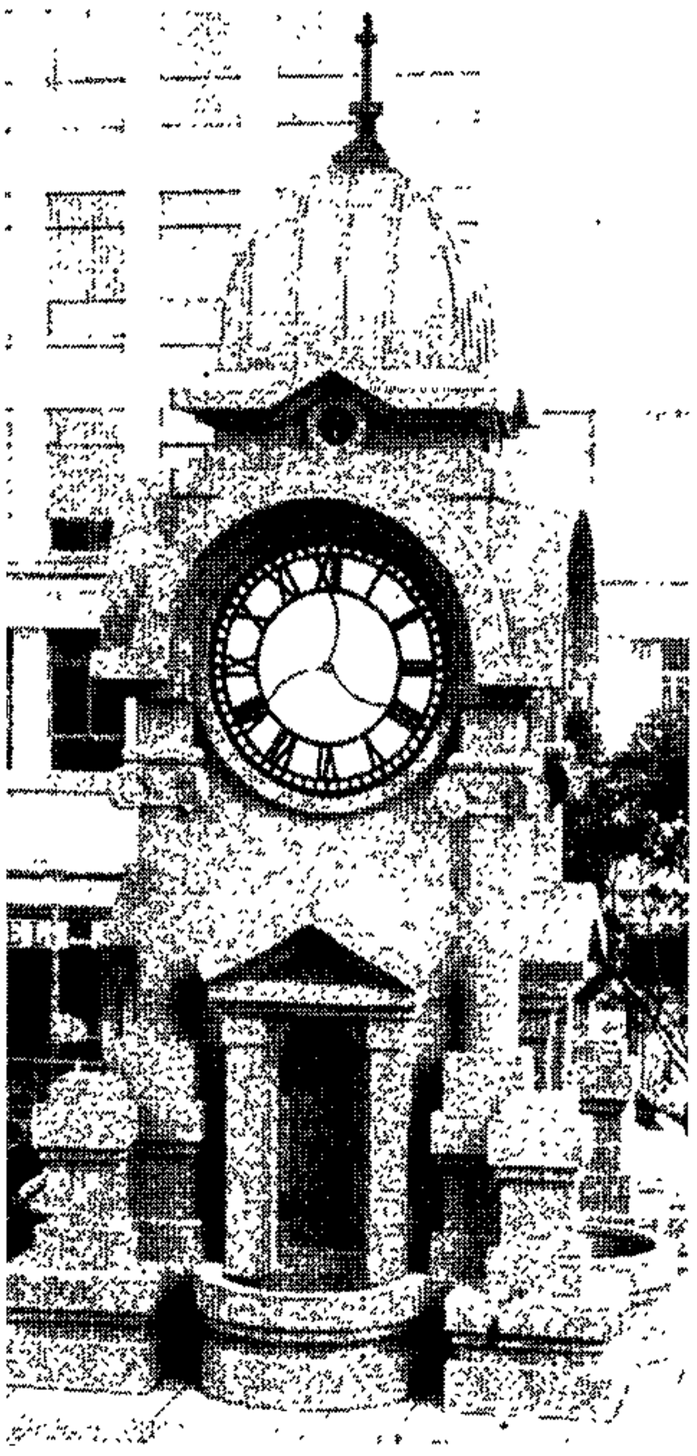
THE SAME OLD FACES

"You can't put the clock back," is a favourite saying of devotees of change. But Colonial Mutual is going one step further. It both adapts to new challenges and is quite literally putting back the clock. On Wednesday this week, board chairman Hans Middelmann presented the Mayor of Cape Town with the old clock that crested the building of the Society's previous head office in Adderley Street. The clock — situated in Thibault Square, the largest square in Cape Town — is Colonial Mutual's centenary gift to the citizens of the Mother City.

When the Society came to South Africa in 1883, it rented premises in Adderley Street, opposite its present head office. Three years later, the organisation erected an imposing Victorian edifice capped by a clock tower, which rose 85 feet up from the pavement. The clock was lit by gas at municipal expense and became a renowned landmark in town.

One night in 1901 a sleepy employee of the Jutas Bookshop next door, inadvertently started a fire, which, fanned by a strong south-easter, made short work of the Cape Colony's primest office building. Damage totalled about £10 000 and the Society lost the bulk of its records. Undeterred, it put up new premises — with another clock tower on top.

On demolition of the replacement building in 1958, the four faces and hands of the clock were stored in a work-shop of the demolishers, building contractors Clifford Harris. Once there, its existence was promptly forgotten about until MD Clifford Harris approached Middelmann recently about the problem of its disposal. With his keen sense of history, Middelmann hit on the idea of utilising the past's heritage in service to the present.



The Dean of the UCT Architecture Faculty, Neville Dubow, described Middelmann's concept in an artice in *The Argus* as an "urban equivalent of the celebrated 'folly' so integral to Eighteenth century landscape planning. But unlike those romantic visual props, those fragments of ruined castles or Greek temples, this one will serve a practical function as well in that it is proposed that drinking fountains be incorporated into the sides and, of course, it will tell the time."

At a cost of R100 000, a new 13 m high clock tower has been built. It is modelled on the style of its predecessors and will contain the faces and hands of the original clock. The site was agreed in consultation with the city engineer's department and will enliven what has been a rather drab part of the city. Says Middelmann of his baby. "In the past people used to say 'meet you under the clock,' meaning the old station clock. Now I hope people will say 'meet you at the Colonial Mutual clock'."

simple when you think about it," says Powell, who is reluctant to divulge details, "and that's probably why it's unique."

Powell is a great believer in participative management. "People react better when given responsibility for jobs," he declares, "and we want to be the best within cost effective limits." He remembers a very basic lesson, learnt from the time when he was a sisal farmer in Tanganyika.

A 14-year-old boy was employed to look after his two sons. Once, the negligent watch-hand left the sons unattended while they fished in a crocodile-infested river. He was promptly sacked and the next day the farm labourers staged a sit-in outside the Powell homestead. "It was unnerving to see all those faces silently watching you," Powell recalls. Their demand was simple: the watch-hand could not arbitrarily be fired, the matter required negotiation. Concludes Powell: "You quickly learn what participative management is all about."

One aspect of participative management is that rather than lay off staff because of the advance of new technology, productivity should be increased. This strategy has proved most successful. Staff numbers have been reduced by natural wastage in four years, despite a 40% rise in the volume of work handled. At Colonial Mutual, it is a prime objective to keep numbers down as business levels rise.

A challenge of a different kind arose with the need to transport to an independent Zimbabwe the policy files and records of all business written in that country. Previously, Rhodesia had been run as a sales office, and clerical and administrative work was done in Cape Town.

Unrest in Matabeleland, however, made it seem dicey to send some 1 698 kg of paper by road. Had the stuff fallen into the possession of armed bandits, a fire of a latter Twentieth century sort might have caused a replay of the 1901 inferno which destroyed the young Colonial Mutual's records in Cape Town. Instead, the material was airfreighted. The task of training Zimbabwean administrative personnel, once allowance is made for certain patriarchal reservations about taking instruction from women, who in the SA Society predominate in policy administration work, is going well.

Changes of address is very much a motif of policy administration work. Some 3 000 are reported every month. "Our policyholders must be a lot of Bedouins," comments Powell. A corollary to this is the number of unclaimed policies on maturity, which Colonial Mutual cannot pay out immediately as it has no record of the policyholder's new address. Sometimes, the forgotten amounts constitute respectable four-figure sums.

Claims department head Anne-Marie van der Vyfer says the usual procedure is to try to trace beneficiaries either from the voters' roll, the Department of Births and Deaths or the Society's branch offices, or, if the policyholder lived in a small town, by phoning people of the same name in the telephone directory. But the tracing rate, notes van der Vyver, could be better.

Future objectives? Answers Powell: "To handle more business, to be the best at it." Meanwhile, Powell has many other interests to keep him occupied. In 1981, he was a

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student on the UCT Business School's Programme for Management Development. He led the winning team in the business game. It notched up the largest number of sales over a five-year period.

Dogs are an especial interest. Apart from breeding Alsatians, whippets and schnauzers, Powell is a show judge for the international panel of world kennel clubs. Next year, he's off to America to do judging. Although he has travelled widely in the southern hemisphere, it will be his first visit to the globe's northern half.

And he is kept busy with responsibility for head office's security. "I'm the guy who tells people to sit tight and wait to be blown up." Of his work, Powell ventures: "To manage people is very interesting and challenging."

At the pit-head

Regional offices must win new business and ensure good service to policyholders.

Hopkins, Jacobs, De Vos ... preserving the past

"I'm from Colonial Mutual. We underwrite your staff association's group endowment scheme. Please give me five minutes of your time. When I'm finished, I'm going to ask those who are interested to give me their names and addresses and we can see each other on a personal basis."

Place: a school, hospital, an office or a workshop. The audience: teachers, nurses or railwaymen. The speaker: a Colonial Mutual representative about to talk on the insurance benefits his company offers. This is the front-line. Where the action is. Like miners at the rock-face, the reps have to extract the precious mineral-ore called new business on which the entire enterprise rests. Our economy would be vastly diminished without gold, diamonds or precious base metals. Without policyholders, the assorted elements of an insurance company; actuaries, investment analysts, accountants and administrators, would be rendered inconsequential.

Colonial Mutual's five regional offices scattered around the country are its mining pitheads. Their job is to win new policyholders and to ensure continued good service to existing customers. As the Society is the officially accredited insurer to a large number of group schemes, prospecting is easier, for the market is well defined. To this end, says southern Transvaal regional manager Doug Watson, reps are appointed not on a geographical but on an occupational basis. "One rep specialises in a specific scheme," he says, "they offer specialised rather than generalised knowledge."

How does one win the prize of new custom? Interest is the first requirement. Explains branch manager Boet Smit, who handles hospital business: "We try to get all matrons and secretaries to familiarise themselves with what the group scheme is about. If you convince her that this is the best scheme, it has so many exclusive features, she can urge her people not to take out any other policy before the Colonial Mutual rep comes around."

Branch manager Thandulwazi Mthethwa who handles the Transvaal African Teachers' group scheme, one of the Society's larger schemes, relies on similar techniques. School principals inform each other of the group scheme's advantages and this eases his own path when he needs access to another school. Adds Mthethwa, with a certain flair: "The pathway into the market is quite brilliant."

Armed with a valuable letter of introduction from the staff association, the rep gives his speech. It has to be good, for, comments Smit wryly: "Once he shows his face, he's Colonial Mutual. If he's stupid, Colonial Mutual's stupid." Selling cannot be done on the premises. The object is to get an appointment to see a potential policyholder at home, when, as Mthethwa puts it, "it rings fresh in their mind."

The rep must be dynamic, persistent and must not easily take no for an answer. "Reps need to be people with will-do qualities as opposed to can-do qualities, people with the will to succeed," declares Watson, whose regional office saw a 100% growth in premium income in 1983, recession notwithstanding. Given the scale of the rep's responsibilities (to sell new business, service clients, project a good image and not misrepresent the range of benefits on offer), Colonial Mutual has adopted high recruitment and training standards.

Qualities of integrity, job stability and reasonable educational attainment are sought. Training is pretty intensive and lasts from 18 months to two years. The courses cover product knowledge, selling technique, the need for insurance and psycho-cybernetics.

Smit rather graphically explains this last-named as "trying to find the man's hot button, to be able to sum a man up and know what technique to use." But he emphasises that "we are not making fast-talking salesmen out of them. It's to teach the rep how to

In the late-Sixties it was suggested that the Society's group scheme connections, being very South African, might appreciate a calendar illustrated with our national monuments. As the country's second-oldest life assurer, the Colonial Mutual, it was felt, was a company eminently suited to making such a contribution to SA's visual heritage. Then manager Hamish Wares did some scouting around and bought for R250 a work entitled "Dorp Street, Stellenbosch" by the then up-and-coming popular artist Don Madge. It was the subject for the first (1968) calendar.

"The reaction from the public was phenomenal," enthuses sales promotion officer Kate Hopkins. "Letters by the hundred poured into head office asking for calendars, not only from policyholders but also from people who had seen the calendar somewhere in an office. We realised we were onto a winner."

While Madge has painted most of the national monuments which illustrate the Colonial Mutual calendars, other artists have contributed as well. Each year a commissioned painting of a different monument is used. Among the choices: the Church of the Vow, Hermanus harbour, the bridge at Waterval-Onder and the old locomotive in Cape Town station. The calendars' popularity endures. Mine manager Gordon Mulholland in his *Villagers* role on TV displayed one in his office. Next year's theme is Government Avenue, Cape Town by the relatively unknown artist Myburgh Kennekam.

With their bright colour and recognisable visual forms, Colonial Mutual's paintings very much portray the genre of popular art. The distinguished art critic Esme Berman suggested in her book *"Art and Artists in South Africa"* that the appeal of popular art is that: "The larger body of the public responds to the familiar, the evocative, the moving and it gives its patronage to those whose products answer such requirements."

service the client and make him happy. Everyone's got a specific need for insurance, whether it's the sweeper or the Mayor."

Selling insurance is not like selling a tangible product. Misconceptions must be cleared up, as for example, explaining to possible black policyholders that insurance does not consist of getting a car, house or tractor after so many years. Interest must be maintained by regular call-backs, called servicing. Members need to be told of new benefits which can be incorporated in their policies. Insurance cover needs review to ensure its continued adequacy. And every year, policyholders are advised of bonus increases on their policies.

Winning a new group scheme is often a product of good servicing. Two years ago, for example, Watson won the Electricity Workers Association (EWA) scheme, a group scheme for Escom's black employees with 20 000 potential members. Colonial Mutual was advised by the Escom Staff Association, an existing group scheme for Escom's white workers, that the EWA planned to run its own. In the face of tough competition from two other insurers, Colonial Mutual won the scheme.

Watson says he was impressed by the thoroughness with which the advantages of the respective schemes were analysed. EWA members wanted to know in particular about accident benefits and what would happen if the employee left Escom. The answer is that the member loses no benefits. Premiums remain the same, possibly with a small adjustment on the accident part of the premium to reflect the likelihood of danger in the policyholer's new job.

Colonial Mutual, states Watson, aims at maximum market penetration. The long established group schemes are usually the best but the relatively new police scheme flourishes. The teachers, avers Watson, have "tremendous potential," particularly in the black and coloured communities. Servicing problems, meanwhile, are being ironed out with a greater effort to make teachers aware of benefits.

Some railway associations, continues Watson, "are among the best we have." Entry to the banks is more difficult as reps are not allowed into the premises in working hours. There is also fierce competition from bank-owned brokers, who don't want to see business and profits walk out of the door.

Reps, of course, are trained to present the bright side of life, but their enthusiasm can be infectious. Their work involves long hours but they rank among the highest paid professions in the country. Earnings of R40 000 a year are not uncommon for relative beginners. Smit reckons the market is wide open with 95% of people underinsured. Eulogises Mthethwa: "The freedom I have! I'm able to communicate with people. I enjoy listening, helping. I know I belong here."

"I could kick myself for one thing," insists Smit, who became a manager just 20 months after joining Colonial Mutual: "I should have gone into insurance 10 years earlier. It's the most exciting industry in the world."

Bright tomorrows

On its life, pensions and investment business, the Society aims for future growth. It believes it will succeed

This is a festive week for Colonial Mutual. On Thursday night a centenary dinner was held in Cape Town. Finance Minister Owen Horwood attended as guest of honour. Other dignitaries included the Mayor of Cape Town and prominent local businessmen.

Around the country, company employees, brokers and staff association officials involved with the Society's group schemes have drunk, talked and eaten their way through a bunfight of parties. An anniversary gift, together with a publication on Colonial Mutual's history and copies of the 13 prints that have appeared on annual calendars, will be given to all staff members. Ask any secretary at head office about her job recently and she will talk unhesitatingly of the huge work-load involved in organising invitations, parties, presents and publicity.

In SA, where modern commercial life took root only in the last century, a 100th birthday is enough of a company rarity to merit a lot of hoopla. Colonial Mutual is older than Johannesburg, older than Anglo-American, older indeed than a united SA. Indeed, a very substantial proportion of the Society's first investments were extended in municipal loans for the building of the na-

Colonial Mutual ... fighting for its policyholders

tion's infrastructure. During this time, the Society has survived and flourished. That is cause enough for celebration.

But the future beckons. If Colonial Mutual is to go to greater strength it needs to expand the volume of its business. Assistant general manager for marketing Tim Wood says that the Society in the next four years is going for 30% annual premium growth compounded. Since 1979, premium growth on new business has averaged 35% a year, approximately 40% of which represented black business.

More attention, however, is to be given to maximising the potential of existing group schemes. Black business will likewise be subject to consolidation as technical problems, notably premium collection arrangements, need to be ironed out, the problem of high lapse rates tackled and a reservoir of black managerial talent built up. Moreover, next year's marketing emphasis will fall on selling the Society's new generation of inflation- and disability-linked products to the staff associations.

This year, in the investment arena, the Society went forth to battle with the lions when it launched a managed fund. Colonial Mutual's investment returns on this fund will be directly comparable with those of the other insurers, so the pressure is on to be among the best gladiators. In assistant general manager for investment Doug Cleland's words, the investment division "has taken on the task of publishing monthly performance figures that, in the nature of the product, had better be good."

Staff planning is another area of scrutiny. According to manpower resources manager Dennis Lehmann, Colonial Mutual has been something of an innovator in that it and Anglo-American Life pioneered the use here of the US-designed Life Offices Management Association (Loma) questionnaire. Employees were asked to reply to some 65 questions on work conditions, pride in their company and physical recognition.

Answers were graded by occupational category in order to ascertain in which divisions of the Society the percentage of those dissatisfied was higher than the overall average. Lehmann says the main criticism concerned inadequate communication with management, especially over the assessment of salaries. The big surprise, however, was the lack of complaints about the size of salaries themselves. Lehmann claims that employee satisfaction since the survey has shown remarkable improvement.

Looking outwards, the Society is keen to see changes in investment tax. Last year's effective 47% rise in the life offices' investment income tax rate added another R1,3m to Colonial Mutual's tax bill. This sum amounted to 8% of all bonuses declared last year. The Society feels it is unfairly done by: its mostly lower income-earning clientele in effect pays tax at a higher rate than would be the case if it were levied instead, after the declaration of bonuses, on the policyholder's personal income.

Chief actuary Roger Grenville-Jones argues that for investment tax purposes, the life offices should be grouped in bands, membership of which would be determined by the average level of income of the assurer's policyholders. Tax rates could be determined accordingly.

Grenville-Jones asserts that the life offices should not be taxed as profit-earning shareholder companies. Unlike these companies, the insurers are not taxed on net earnings (the difference between income received and money paid out), but purely on the basis of how much they earn on behalf of policyholders. Taxation of the life offices is thus tantamount to an additional tax on policyholders. Grenville-Jones pleads that the life offices be recognised as existing on the policyholders' behalf, with an important function to play in mobilising savings.

On equivalence of reward, Grenville-Jones would like to see the Registrar adopt an informal, flexible approach. He is against setting a common rate on salesmen's commissions, as the size of commission is very much a function of how the life insurance company is managed.

Companies with good management will reduce expenses, he argues, but at the same time allowance has to be made for different rates on brokers' and agents' commissions. The Registrar should rather, suggests Grenville-Jones, confine his intervention in commission rate-setting to individual inquiries of the assurers to determine that their rates are not excessive.

Looking to the future, Colonial Mutual is convinced it will enjoy greater market success. Next year it will market new products. And after some years of slight decline in its share of the insurance industry's total premium income, an upswing is detectable.

General manager Fanie Jacobs has the final word. "The company has survived for 100 years" he notes. "Over the last few years there has been a rapid increase in new business and very much stronger application in improving service effectiveness and investment performance. Based on these three prongs, I believe the Society will sustain rapid growth, to become not necessarily the biggest, but the best."

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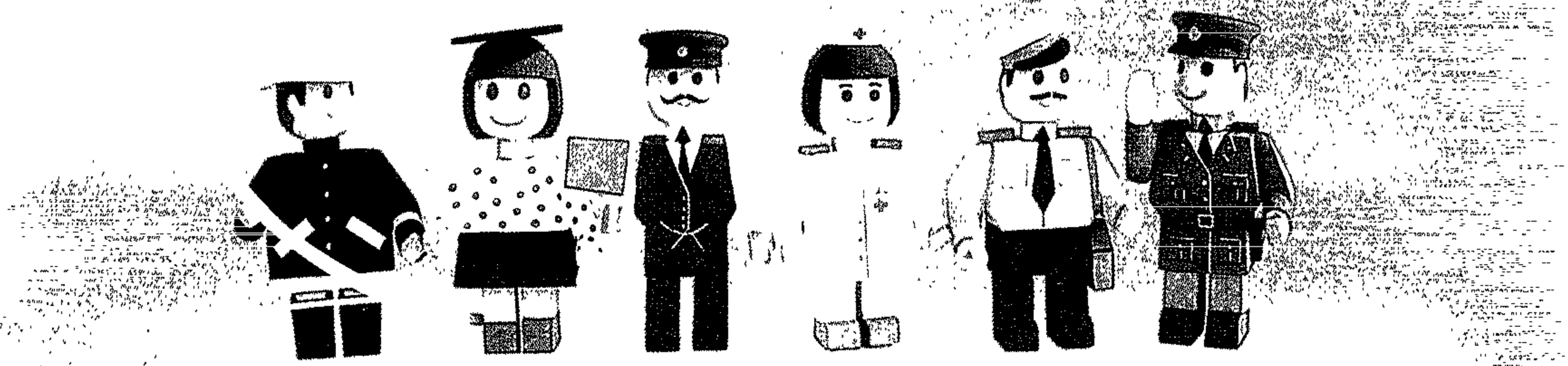

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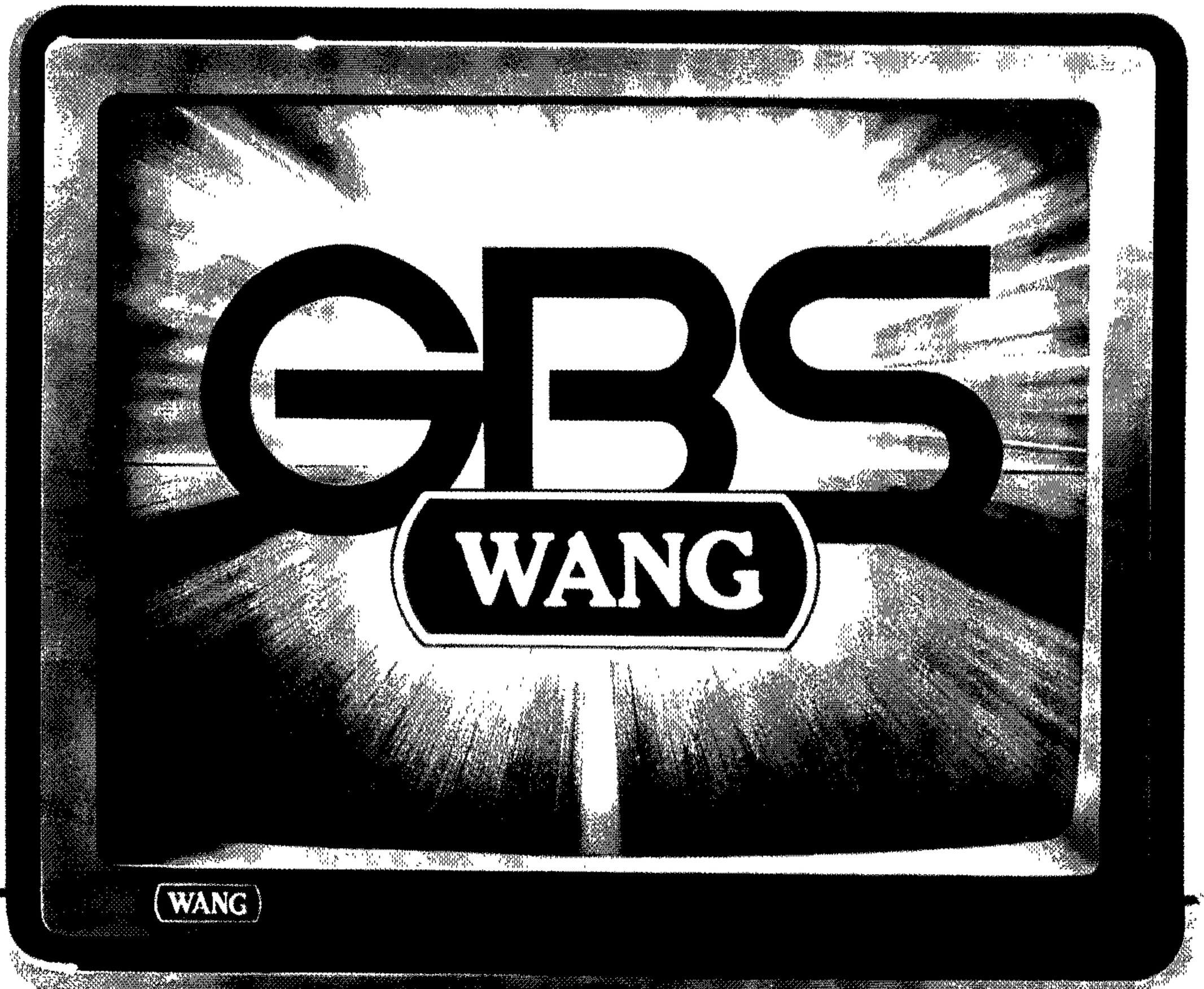

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Sanlam to launch outreach on policyholders

IN a dramatic attempt to make his association more democratic, Sanlam chairman Dr Fred du Plessis is to launch a massive outreach to policyholders.

He and top executives of Sanlam are to host meetings of policyholders in 60 cities and towns all over South Africa next year.

Policyholders will be invited to put questions and make criticisms to Dr du Plessis and his team on the dais.

By Alec Hogg

"Before we arrive at a town, we shall send out invitations to policyholders. We will even give them a drink to encourage attendance," Dr du Plessis says.

This is the first time such an effort has been made by a mutually run company. Insurance observers said Old Mutual and Southern Life, the two other multi-billion mutual companies, would find Sanlam's outreach a hard act to follow.

The mutual assurance companies have come under fierce criticism recently for being undemocratic and being answerable to no one.

This is because they do not have shareholders.

In an exclusive interview with Business Times coinciding with the release this week of Sanlam's results to end-September, Dr du Plessis said: "It is important in a mutual situation that you get policyholders to know more about what is, after all, their company.

"I will give people who attend these meetings a short projection on what they can expect, and tell them what the company is busy doing at present and what it intends doing in the future.

"For example, none of our policyholders realises that in the past two years alone their funds invested through Sanlam have provided new jobs for 20 000.

"I will be visiting all the large towns like Ermelo and Newcastle once, and in places like Johannesburg we will hold three or four meetings.

"In this way we will ensure that all interested policyholders will have the opportunity to attend," Dr du Plessis added.

Dr FRED DU PLESSIS
"Counting on my stamina"

He admitted that Sanlam's lead would probably result in similar tours by the chief executives of other mutually run life offices, but said: "I'm counting on my stamina to stay in front."

In recent months mutually run life offices have come in for severe criticism.

Most of this revolves round the fact that managements of these companies are in practice entrenched in their positions for life, no matter what indiscretions occur.

In addition, critics have alleged that the managements of mutually run life offices have neglected the very people who have put them in their jobs — the hundreds of thousands of individual policyholders.

Criticism reached a peak during Sanlam's battle with Rembrandt over management changes at Gencor in August last year.

Tobacco magnate Anton Rupert then told the Sunday Times: "The threat of Sanlam stretches across the country, and I will do everything to prevent an insidious management position where one small man in Bellville can fire directors along the line."

Since taking over the chairmanship of Sanlam in October last year, Dr du Plessis has gone out of his way to smooth ruffled feathers.

On the management side, Sanlam did a lot to get its ship in order in the year to end-September.

Despite the largest ever increase in new business by any life office, Sanlam managed to keep costs down to a rise of less than half the inflation rate.

It also easily outperformed the results of its major competitor, the Old Mutual. Between them, the Mutual (33%) and Sanlam (23%) control well over half of the country's life-insurance business.

Sanlam's investment income rose 29% in the year, while Mutual's increase in its financial year to end-June, when investment conditions were more favourable, was 21,7%.

Premium income rose by R218-million at Sanlam while the Old Mutual's increase was R200-million.

Most significant, however, was Sanlam's ability to restrict its cost increase to just 7,2% while Mutual's operating expenses rose 13%.

LOA

Smaller life offices unhappy with set-up

By Alec Hogg

THE future of South Africa's last remaining cartel, the Life Offices Association (LOA), is in the balance.

Last week's annual meeting saw the most heated debate for years. The meeting had to be called to an end before certain questions posed by one of the members had been answered.

It now seems certain that at least one life office will be a "dissenter" to a controversial recommendation, an action unprecedented in the past 10 years.

Business Times has established that a number of life offices are considering withdrawing from the LOA, the only effective cartel agreement left in this country after the break-up of the banks' and building societies' "clubs" this year.

Most of the dissatisfaction with the LOA has come from the smaller life offices.

An executive of one of the country's big seven life offices told Business Times: "The LOA is being dominated by two companies, and we are being forced to do what they tell us. We are seriously discussing our future in the LOA."

The management of the smaller offices are equally outspoken, although most, fearing retribution, prefer not to be quoted.

Disagreement has arisen because of the handling of the contentious "equivalence of reward" investigation.

In terms of this, all life offices have had to supply figures of remuneration to agents.

This sensitive information is available only to the nine-member LOA management committee, which is dominated by representatives of the Old Mutual, Liberty and Anglo American Life.

The information is ostensibly being assimilated at the request of the Registrar of Financial Institutions. But smaller offices believe it is unfair that representatives of large institutions have free access, while it has been clearly stated that other members will not.

It is the handling of this matter which caused the hot debate at last week's meeting.

The chairman of the LOA, Old Mutual managing director Frans Davin, explains the association's point of view: "All we are doing at this point is following a request from the Registrar of Financial Institutions to try to find out what is going on in the industry.

"The Registrar has the power to call for this information himself, to act completely independently of the LOA. He is not obliged to consult us.

"As long as we are able to keep the matter in our own hands, we can ensure that the industry develops along the lines we believe are the most responsible."

Theoretically, as the smaller offices outnumber the large by four to one, it is easy for them, through sheer numbers, to vote in people who would be more representative of their views.

But, as AA Mutual Life managing director Brian Benfield says: "Only the large offices can afford to have people on the committee. Being chief executive of a large office, where you have six or more experts handling most of the duties, is vastly different from a small office when his job entails getting into what is regarded as menial tasks at the big institutions."

Adds Bill Jack, managing director of African Life: "By the very nature of a trade association, it tends to be dominated by the larger members. There are so many sub-committees, and the large offices are the only ones which have the in-depth resources to fill the posts.

"Although I am sure that the individuals put into these positions try to dissociate themselves from their companies when acting for the LOA, this is practically impossible."

Another possible reason is the sheer apathy prevalent among many small offices. Proof was the election of members of the LOA management committee last week when all members were returned unopposed.

Significantly, neither AA Mutual Life nor African Life is among the offices threatening to leave the LOA.

Mr Benfield reckons that, although there are specific matters which cause dissatisfaction, "the whole theory behind the operation still pleases us".

Liberty managing director Monty Hilkowitz, a member of the LOA management committee, believes the calls for breaking away from the association appear to be "immature".

He says: "The discipline imposed by the LOA is mostly because of its relationship with the Government. This is largely where the friction arises between members.

"But if the LOA were to break up, and the industry was no longer self-regulated, the Government would have to legislate. We all know which option is better."

Managing director of Sanlam Fred du Plessis says: "I am in two minds about the LOA. Although as a cartel it is not healthy, one has to examine the alternatives, and I believe that the LOA is by far the better."

Or as Dorian Wharton Hood, managing director of the Prudential, argues, vital information such as the life registry, which lists all people who have been turned down for life assurance because of health risk, or the S reference system, which lists "undesirable" brokers or agents, will not be available to offices leaving the LOA.

The fact is that recent actions by the LOA have made the benefits of leaving the cartel that more attractive, particularly to smaller offices, which have virtually no say in industry developments, and at times feel that their freedom is restricted.

LOA
AA
walkout
threat

Shareholders to decide on Kirsh group restructure

Star 28/11/83 58

By Peter Farley

In two weeks' time shareholders of Checkers, Russells and Metcash will have to decide whether to put their faith in chairman Mr Natie Kirsh and give their approval to the restructuring of the Kirsh group trading interests.

And while there are still many sceptics around who feel that Checkers will continue to be a millstone around the group's neck, the new proposals probably offer them their only lifeline.

But Mr Kirsh sees the move more as part of longer-term trading objectives than merely a means of rectfying the problems of the past two years. In today's business environment he feels a trading group has to be polarised to operate efficiently.

He cites SA Breweries as a prime example, and says that in order for the Kirsh group to be able to compete effectively against SAB (more particularly OK Bazaars, Edgars, Ackermans, Amrel and Shoe Corp) it has to strengthen its operating structure.

This would have been done long before, but could not be contemplated until Checkers had been sorted out.

He feels this has been mostly accomplished now, and will be finalised through the restructuring proposals currently in front of the shareholders.

Certain rationalisation benefits will be quickly evident, he says, particularly in the areas of co-ordinated buying power, joint overseas representation and a leaner and tighter senior management structure.

Although no decision on a head of the new holding company — Kirsh Trading — has yet been made, this appointment will be pivotal to the new operation.

The crux of the issue appears to be that Checkers is now trading back in the black, after a pre-tax loss in the year to July 2, of R8,2 million, and is expected to stay there.

Shareholders should, nevertheless, not look for much in the way of dividends this year. (A token 5c was paid at the year-end, as if the payment is passed Mr Kirsh faces the possibility of losing control due to this providing the opening for non-voting shareholders to gain voting status.)

However, the company estimates that had the current proposals been in force for financial 1983 earnings per share would have been 3c instead of the 276c loss actually incurred. Net worth would have declined to 311c from 315c.

But the retail battle is hotting up, with a knock-on impact on margins at a time when consumer spending power — particularly in the black community — is at a low ebb. Certainly not the best time to try and regain market share.

But Mr Kirsh is confident it can be done. Already, he says, Checkers is back to 1981 market share levels and he is looking for further inroads.

Plans are afoot for a massive expansion of Dion stores — in which Kirsh holds a 30 percent stake — with big new stores set to open in Durban and Parrow in the next couple of years.

These will be aimed to complement existing Checkers outlets, and will be offering further direct competition to nearby Pick 'n Pay outlets.

FINANCIAL BENEFITS

The wholesaling side of the group operations, Metcash, has also suffered setbacks in the past year or so, but Mr Kirsh believes much of this was due to management attention being diverted towards Checkers.

This area is also now coming right again, and while it may be some time before significant growth is generated it should also be contributing to profit this year.

A major consideration behind the proposals are the financial benefits to the group as a whole.

Gearing will immediately come down to about 30 percent, from over 50 percent, while cash on hand will jump from R13,8 million to R62,3 million. On the negative side, current liabilities rise from R173 million to R353 million.

It is unlikely that minority shareholders in the respective listed group companies will try and block the deal.

After all, they can only lose more money should it not go through. But it does appear to be the start of getting Checkers back on the road and into a position where further long-term growth can be generated.

Let's just hope that the lessons learnt in the past two years are heeded and that mistakes are studiously avoided in future.

Another rise in bond rates on the cards

w/E ARGUS 3/12/83 SA BRP

BUILDING societies will have to raise their mortgage rates early next year if deposit rates continue at their present levels, Mr Bob Tucker, managing director of the SA Permanent, warned today.

By DEREK TOMMEY, Financial Editor

His remarks have come at the end of a week which has seen a considerable increase in the rates of interest offered by the banks and building societies on deposits and savings accounts.

Among the highlights have been a 1,5 percent increase in some rates and the lifting of the rates on 12 months fixed deposits and five-year fixed period partly tax-free shares rise to record levels.

Mr Tucker said if these rates were maintained there was no doubt that mortgage rates would have be increased at the end of the year.

Interest rates were unnecessarily high and the new rates were not drawing in any additional cash but were merely increasing competition between the institutions.

The SA Perm had to match these rates if it wanted to retain its deposits.

However, this was affecting its profitability and if it continued it would be necessary to increase the society's lending rates.

Mr Tucker blamed the latest round of interest rate increases on unbridled competition between the United Building Society and the Natal Building Society.

He said the first increase in rates in mid-November by the United seemed a rational move. But since then it and the Natal Building Society had been leap-frogging each other for no good reason..

"I don't understand why they did this. It was contrary to the financial pressures."

Top United Building Society officials were not available for comment today, but Natal Building Society officials defended the rate increases on the grounds that they had to protect their deposits.

Some building society officials have maintained that the latest round of interest rate increases would only last a few weeks and the situation would ease by the end of the year.

But the move by Barclays Bank this week to increase the rates on medium-term deposits by up to one percentage point suggests that it is expecting the high rates to continue for somewhat longer.

Rates on interest on mortgages are currently: Up to R20 000 — 15 percent, R20 000 to R40 000 — 15,5 percent, R40 000 to R60 000 — 16 percent, R60 000 to R130 000 — 17 percent, over R130 000 — 17,5 percent.

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INVESTMENT By DEREK TOMMEY

Savers at last getting decent reward

ONE thing in the world which has definitely changed for the better in recent months is the rate of interest being paid to savers.

As a result of rate increases announced this week, the banks and building societies are now paying up to 16 percent on 12 months fixed deposits and from 8 percent to more than 16 percent on special savings accounts.

And since Friday, the United Building Society has been paying 14,5 percent on five-year partly tax-free fixed period shares and 14 percent on partly tax-free subscription shares.

An important point which must be made is that these are "real" rates of interest because they exceed the current inflation rate of around 12 percent by a significant margin.

Also of importance is that some of these rates are even giving the investor a net return after tax, which has not been so for at least a decade.

Savers are at long last getting a decent reward for their sacrifices as well as positive encouragement to save rather than spend.

One of the most attractive of the new rates is the 14,5 percent paid on the five-year fixed period share investments.

Marginal tax

Because one-third of the dividend is tax free, it gives a better return than the 9,5 percent tax free to an investor in any income group.

An investor earning R40 000 with a marginal tax rate of 50 percent gets a return of 9,7 percent; one earning R24 000 with a marginal tax rate of 40 percent would get a return of around 10,6 percent.

However, investing in this medium means tying up your money for five years, which is not the case with an investment in tax-free shares from the building societies or Post Office certificates.

Another attractive rate is the 16 percent being offered on 12 months fixed deposits, by most banks and building societies.

It is certainly the best rate even offered the ordinary saver, and for married couples earning R26 000 or less and single persons earning R18 000 or less, it offers a higher net return than does the 9,5 percent tax-free investment with the Post Office Savings Bank and the building societies.

A rough calculation indicates that a married saver with a taxable income of R10 000 a year will get a net after-tax return of 13,12 percent from this investment, while a married saver with a taxable income of R15 000 would get a net return of 11,50 percent.

The net return for married savers in other income brackets is: R20 000 — 10,56 percent, R25 000 — 9,8 percent.

A noteworthy aspects of the increases announced this week is that the rates for deposits for periods of longer than a year gradually decline. Usually, the longer the period of deposit, the greater the rate of interest paid.

But compared with the 16 percent the banks and building societies are offering on 12 months deposits, they are paying only 15,5 percent on 18 months deposits, 15 percent on 24 months deposits and 14,5 percent on 36 to 60 months deposits.

Temporary

This suggests that the institutions believe the present situation to be temporary and that interest rates will start to decline in six months or a year.

On the basis of this it might seem that the long-term investor — the man who is seeking long-term income — should ignore the 16 percent rate.

Instead he should take the 14,5 percent being offered on 36 to 60 months deposits, as he could then be assured of a fairly high return even when interest rates have fallen.

However, there is no guarentee that interest rates will fall much in the next year or so, even if the inflation rate does decline.

In recent months the Government has been laying the foundations for a huge expansion of industrialisation when the economy begins picking up again. Although much of the new investment will be labour intensive much new capital will still be needed.

Yet if the long-term capital market is tight when the economy is in a recession, it could well be even tighter when demand for funds starts to grow again.

Meanwhile, the other side of the coin is that if deposits rates stay high it must be expected that bank lending rates and building society mortgage rates will stay even higher.

Pay off bond

It is therefore worth emphasising that even though current deposit rates are high, a much better form of savings for the house buyer is to pay off his bond as quickly as he can.

If a house buyer used R100 of his savings to repay part of an 18 percent bond he would improve his financial position by R18 a year — representing the annual saving in interest payments.

In contrast R100 invested in a 16 percent fixed deposit would improve his his financial position after tax only by about R12.

In other words the house buyer in this instance is 50 percent better off if he repays his bond than invests his money elsewhere.

Life of bond

However, this is the saving he would get in one year. Over the remaining life of the bond the saving would be much greater, provided he maintained his monthly repayments at their previous level.

This is because his savings would be compounded at 18 percent instead of say 12 percent if it were invested eslewhere.

So if his bond had 10 years to run his net savings would not be R18O (R18 by 10) but more than R400, compared with a net after-tax gain of just over R200 if he were to invest it in the 16 percent deposits.

With the current high interest rates, it certainly pays to save, and especially to repay your mortgage bond.

ARGUS 5/12/83

FINANCE/STOCK EXCHANGE

Volkskas lifts profit by 21,3 pc

PRETORIA . — Volkskas's attributable net profits increased by 21,3 percent in the six months ended September to R27,4-million equal to 92,0c a share from R22,6-million equal to 75,8c a year ago.

The interim dividend has been raised to 21,0c from 18,5c a share last year.

Volkskas says its banking subsidiaries again performed well. But its industrial group, which is extremely sensitive to the trade cycle, continued to perform unsatisfactorily.

Volkskas's share in the after tax losses of the Bonuskor group of companies was R841 000, compared to R1,6-million a year ago.

The serious drought affected the results of Transvaal Sugar Corporation and reduced its taxed profits to R1,5-million from R3,5-million in the same period last year.

The disclosed income of the Bank of the Orange Free State Limited is still maintained at a low level in order to strengthen internal reserves.

Volkskas says the economy deteriorated further during the six months ended September 30, 1983, and certain trends seem to indicate that the turning point in the current downswing in the business cycle has possibly not been reached.

Uncertainty about improved business conditions during 1984 prevails.

However, the international economy shows welcome signs of revival. Should this trend continue, it may result in more favourable business conditions in this country, it says.

In spite of the weak performance of the industrial companies, the group's potential remains sound.

Argus 8/12/83

Blacks worst hit by tight money - BER

Financial Reporter

PEOPLE of all races have found money tighter in the past few months and are finding it impossible to save, according to the latest consumer survey by the Stellenbosch Bureau for Economic Research.

The bureau says spending of a discretionary nature is likely to remain low for the next six months.

But indications are that the situation is already improving, with manufacturing production increasing and a fall in white and coloured unemployment figures.

Although there may have been a setback in the past two months this will probably be short-lived as a result of the fact that the United States economy is becoming stronger and South Africa's export earnings should benefit in due course.

Under strain

Black people have been more badly affected than whites by the recession in the past year and are less optimistic about the coming months.

"Both groups reported a tight financial situation and both said that their finances were under more strain compared with the situation a year ago.

"Blacks regard the present as the wrong time for the spending of money on durable goods and few of them have money for saving.

"The white group have a more neutral attitude but appear to favour spending over saving in spite of their relatively tight financial situation."

Neither group noticed any particular slowing down in the rate at which prices had risen in the past year.

Most whites, however, thought the rate of price rises would slow down in the coming year while blacks expected it to remain the same.

"These attitudes led to a sharp decrease in the confidence of blacks and a very marginal deterioration in the confidence of whites.

"The demand for goods of a discretionary type could fall away in the black household sector while there is likely to be little change in the demand from whites.

Improving

Many indicators show that the national economy is improving but some suggest that a setback has occurred in the past two months."

The number of coloured, white and Asian people registered as unemployed fell steadily between March and July.

"But the July figure, which was the latest available at the time of writing, was still slightly more than double the July 1982 figure.

"Unemployment among blacks is still increasing, and at an increasing annual rate.

"The decrease in registered unemployment suggests that manufacturing production might have accelerated in recent months and this is underscored by the index of physical volume of manufacturing production."

The motor trade did very well and appears to be on an uptrend in sales.

"Reports were, however, received of a sharp decline in sales of white goods and furniture towards the end of October.

"This is possibly a result of a downswing in the building cycle and substitution of furniture and the like by cars and computer-video equipment.

"Interest rates are still high in real terms and inflation remains rampant in spite of a concerted effort to bring it down."

58 S. Times 11/12/83

Standard and UBS extend alliance

By Alec Hogg

IN another move drawing the R20 000-million Standard Bank-United Building Society-Liberty Life alliance closer together, Standard and the UBS are about to open desks in one another's branches.

And Liberty Life is already steering its customers towards the other two members of the power bloc.

Business Times has established that plans are well advanced to open UBS "desks" in at least 30 Standard Bank branches.

In addition, the first two Stannic desks will be opened in existing UBS branches early next year, giving the building society's customers access to on-the-spot hire-purchase or leasing facilities.

Standard Bank is also mopping up the overflow of mortgage-bond applications which UBS cannot handle.

A certain proportion of the loans advanced by the society, particularly for smaller amounts, where the society offers significantly lower interest rates, are earmarked specifically for the bank's clients.

In this way, the bank is satisfying the requirements of its own customers and those of UBS who in other circumstances would not be able to raise bonds.

The only requirement is that the individual must change his account to a branch of the bank.

In addition, Liberty Life financial consultants are actively referring their clients to Standard Bank branch managers, with such referrals receiving the highest priority from the officials concerned. In return, they are getting leads from both the bank and UBS.

A recent example quoted to Business Times is accepted as the norm rather than the exception.

A Liberty financial consultant, on being told that his client was trying to raise a mortgage bond, passed the lead on to the business-development department of Standard Bank.

Within an hour, the customer received a call from a branch manager, and just over a week later his bond application with the UBS (accompanied by a Standard Bank recommendation) had been approved.

Gutch Vickers, general manager, personal services, of Standard Bank, on being told of this, said: "I am pleasantly surprised. I didn't realise that the wheels were already so smoothly in motion."

Liberty managing director Monty Hilkowitz told Business Times: "There is a lot of talk of a personal financial package being offered across a whole range of products and services through ourselves, Standard and UBS.

"We are doing a bit of experimentation, but nothing has been done formally yet. I have a feeling that great things could and should happen.

"The potential is enormous. Hopefully, we will be able to get some heads together to discuss the matter some time next year."

Mr Vickers agreed that the bloc has only scratched the surface, and "there are many opportunities for closer co-operation which are still to evolve".

He said that the scheme was best described as a "freely negotiable marketing situation", with commission paid to the UBS for each deposit placed with the bank and vice versa.

Further, all mortgage-loan applications to the bank are handled jointly. While Standard Bank satisifies the financing requirement, all valuations are done by the UBS, with a fee paid to it for the service.

The cosy arrangement whereby Standard Bank entertains bond applications which the UBS cannot handle, works to the benefit of both institutions.

The UBS does not lose business because of not being able to satisfy demand, while the bank is able to continue extending credit in an environment where normal lending is slow.

Mr Vickers believes that if societies' cash flow stays under pressure, and provided demand stays constant, by the end of next year "I would not be surprised if we have lent R200-million in this way".

In this regard he may be erring on the conservative side. Standard offers by far the most attractive deal of the banks active in the home-loan market.

It charges clients a set 17,5% no matter how large the loan. By comparison, Barclays, which claims to have advanced R800-million to house buyers, charges 18% for loans up to R40 000 and 19% for larger amounts.

According to Mr Vickers, the rate his bank charges is linked to the maximum interest rate charged by UBS, although "if we decide at any stage that we want to charge a different rate, we must, according to our contracts, first give bondholders 12 months' notice of this intention".

While admitting that the rate being charged is not in itself a money-spinner, Mr Vickers argues that the bank benefits from the spin-offs of gaining new current accounts, while "we are looking for the young people who will be big one day".

CAPE TIMES 14/12/83

Major banks raise prime rate to 19½%

By HAROLD FRIDJHON

JOHANNESBURG. — Today the five major banks will raise their prime rates — the overdraft rate charged to their best customers — from 19 percent to 19½ percent.

This would appear to be a compromise rate agreed to among the banks, some of which were prepared to go the whole hog and rise prime by one percentage point to 20 percent, the rate which the market had been expecting.

Others, however, indicated that at present their positions were comfortable and that they would not go along with a full one point rise.

Attitude

The prevailing attitude among some bankers was clearly expressed by Trust Bank's Mr John Howell who said yesterday that if money market conditions did not go better, prime might move again to 20 percent.

Indeed the concensus among bankers canvassed yesterday is that the 19½ percent rate is very tenuous and that it could go the extra half point to 20 percent at any time in the next couple of weeks.

A spokesman for one of the major banks said yesterday that his institution would do all that it could to hold prime down. His argument was that a further rise in prime would inevitably stimulate an increase in the banks' borrowing rates and as borrowing rates increased new pressures would be set up again on prime.

This was a vicious circle and a determined effort had to be made to break it. He added that his bank reluctantly followed the other banks in raising prime.

Barclays was the first bank to announce the increase and the others followed in quick succession, almost — one suspects — with relief that ranks had been broken.

Several bankers spoken to yesterday indicated that the half a percentage point move was a halfway stage lift and that every sign pointed to the additional half a percent being added to the top "pretty soon".

Bankers feel that prime rate should be more flexible than it has been in the past. Prime, said one, is a short-term rate like the overdraft rate; it should not be rigid.

Trust Bank's Mr John Howell said that the increase in prime was a natural reaction to market forces, but his management had been very reluctant to put up the rate because of the effects on the business and agricultural sectors.

Higher overdraft rates could break the backs of certain companies which were fully borrowed at present and which required nursing through the current recession. And farmers, too, were terribly vulnerable with their high debt ratios and the vagaries of the weather to contend with.

Although the money market reacted to the increase in the prime rate by cutting the 90-day bank acceptances (BA) rate from 18½ percent to 18 percent, the new BA rate is way out of kilter with the higher prime rate. Either the BA rate must come down by at least one full point in order to achieve a reasonable correlation between the two rates or prime must go up further.

The key might lie in the money market shortage which has soared by R571m to R1,14 billion as a result of the first stage of the transference of the Sasol money to the Treasury. In addition there is the R1 billion which was owed to the banks from the buy-back deals.

The R1 billion should have dropped by R250m to R750m by the close of business last night but that might be merely a transfer of debits from buy-backs to straight-forward Reserve Bank accommodation which means that the R1,14 billion could be higher when the figures are released this morning.

Theoretically, if the banks can hold out for the next few weeks with a 19½ percent prime one can look to an easing of prime next year. But the bankers' doubts expressed yesterday point to the possibility of prime rising to 20 percent before any easing of the rate comes about.

Anglo gets lion's share of insurance giant

Barclays seeks R80m to fund Southern Life

By JOHN MULCAHY

BARCLAYS National Bank is making a rights offer to raise R80m as part of the funding for its share of the newly-created insurance giant, Southern Life Association Ltd.

The merger between Anglo American Life and Southern Life, announced yesterday afternoon, will create the third biggest insurance company in the country and the biggest insurance group listed on the Johannesburg Stock Exchange.

Liberty Life, which will dip to fourth position among SA insurance groups as a result of the deal, is expected to announce total assets at the end of this month of about R3bn.

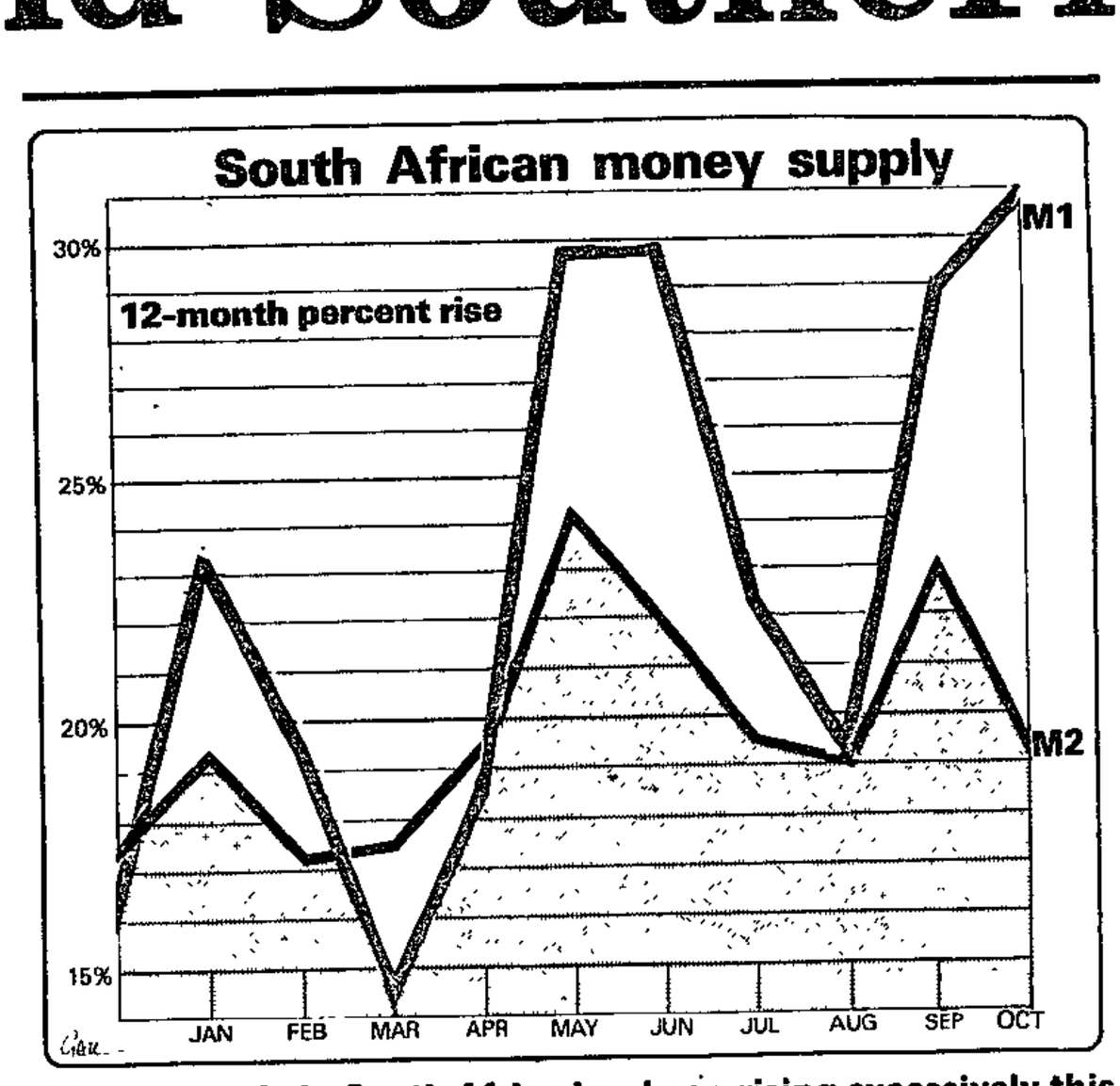
The enlarged Southern Life will have assets of R3,5bn and a market capitalisation of about R500m, with Anglo American Corporation holding 40%, Barclays 30% and the balance spread among institutions and the general public.

Barclays will be required to contribute R135m in cash to the establishment of Southern Life and the rights issue will satisfy the need for additional funding both for the immediate future and for later requirements.

According to yesterday's announcement Southern policyholders will be given preference in the public offer of the new Southern shares.

The merger proposals have been approved in principle by the Southern Life board of directors; Anglo American; the Minister of Finance, Mr Owen Horwood; and the Registrar of Financial Institutions, Dr Robert Burton.

Mr Desmond Loch Davis, now chairman of Southern Life, will be chairman of the enlarged group, with Dr Zach de Beer as deputy chairman and Mr Neil Chapman chief executive.



Money supply in South Africa has been rising excessively this year in spite of a supposed policy of financial discipline. The graph shows the erratic pattern of annual growth of both money supply measures — the narrow M1 and the broadly defined M2 — at the end of each month for 1983. See Page 2.

Mr Chapman was only recently appointed managing director of Southern Life.

Mr Chris Ball, Barclays deputy managing director, said last night the bank had a capital surplus of about R100m in terms of the Banks Act, although on a conservative accounting basis the surplus funds were used as a reserve against foreign liabilities.

There is no requirement for South African banks to hold a reserve for foreign liabilities but, Mr Ball said, it was possible the Reserve Bank would at some stage request the banks to establish such a reserve.

Mr Ball said the rights issue would take place early in the new year and Barclays Bank International would not follow its rights.

SA banks controlled from abroad have been requested by the Minister of Finance and the Registrar of Financial Institutions to dilute their foreign ownership to 50% by 1986.

The merger will take effect on April 1 but the transformation of Southern Life to a limited company from a mutual association will probably be completed by the middle of the year.

One notable implication of the merger and the associated Barclays rights issue will be the dilution of Barclays Bank International's stake in the SA subsidiary.

By waiving its rights Barclays Bank International will reduce its stake in Barclays National to 50,4% from 55%, thus complying with the authorities' 1986 requirement.

Mr Ball said the BBI rights would be privately placed by Barclays National Merchant Bank and would not result in any other material change to Barclays National's major shareholdings.

The biggest shareholder in Barclays National after BBI is Anglo American which, together with associates, holds 19,1% of the bank.

The BBI rights will be placed with SA institutions.

The rights issue will probably be underwritten by Anglo, and Anglo will follow its own rights, but will not be allotted any of the shares arising from BBI's waiver.

Mr Ball said the acquisition of the Southern stake would not materially affect Barclays' earnings, dividends nor net asset value in the short term.

He said Barclays earnings for the year ending December would be not less than 230c a share, compared with 190,6c last year, while the final dividend would be at least 55c (45c) for a total payment this year of at least 90c (75c).

"This presupposes taxed profit of R122m, which is 20% higher than last year's figure of R101,4m."

19½% bank compromise

By HAROLD FRIDJHON

THE five major banks will raise prime overdraft rate from 19% to 19½% today.

It appears to be a compromise agreed to among the banks, some of which were prepared to raise prime to 20%, the rate which the market expected. Others, however, indicated that their positions were comfortable and they would not go along with a one-point rise.

Trust Bank's Mr John Howell said yesterday that if money-market conditions did not improve prime might move to 20%. Other bankers agree. But a spokesman said yesterday that his bank would do all it could to hold prime down. His argument was that a rise in prime would stimulate an increase in deposit rates and as they increased, new pressures would build up on prime.

This was a vicious circle and an effort had to be made to break it. His bank followed the other banks reluctantly in raising prime.

Barclays was the first to announce the increase and the others followed quickly — one suspects with relief that ranks had not been broken.

Several bankers indicated that the increase was a halfway lift and every sign pointed to the additional 0,5% being added soon. Bankers believe prime rate should be more flexible than it has been in the past. Prime, said one, was a short-term rate and it should not be rigid.

Mr Howell said the increase in prime was a reaction to market forces, but his management had been reluctant to raise it because of the effects on business and agriculture. Higher overdraft rates could ruin fully borrowed companies which required nursing through the recession. Farmers were vulnerable with their high debt ratios and the vagaries of the weather to contend with.

Although the money market reacted to the increase in prime rate by cutting the 90-day banker's acceptance rate from 18½% to 18%, the new BA rate is way out of kilter with prime rate. Either BAs must come down by at least one point to achieve a correlation between the two, or prime must rise again.

The key could lie in the money-market shortage which has soared by R571m to R1,14bn as a result of the first stage of the transfer of Sasol rights-issue money to the Treasury. In addition, R1bn is owed to the Reserve Bank in buy-back deals. This amount should have dropped by R250m at the close of business yesaterday, but there might have been merely a transfer of debits from buy-backs to straight-forward Reserve Bank accommodation. This means that the R1bn could be higher when the figures are released this morning.

Theoretically, if the banks can hold out for the next few weeks with a 19½% prime one can look to an easing of prime next year. But bankers see 20% prime rate before then.

ANGLO AMERICAN is rapidly moving towards challenging the Old Mutual's supremacy in life assurance with the formation of a new R3 billion insurance group by Anglo, Southern Life and Barclays.

By PAUL DOLD, Financial Editor

The new muscle flexing by Anglo caused a stir in financial circles yesterday following the Standard Bank — Liberty and the Premier deal which gave Anglo, Liberty Life and JCI control of Premier and SA Brews.

It shook the insurance establishment and meetings were underway yesterday among several competitors to assess the implications:

For Liberty, the direct Anglo American — Barclays insurance link through the new quoted group must have come as a surprise particularly after the co-operation with Anglo over the Premier agreement. However, Liberty has already linked with Standard. The new group ousts Liberty as the largest JSE listed assurer.

Anglo chairman, Mr Gavin Relly ... increasing Anglo's stake in insurance market.

Mr Neal Chapman, The Southern chief executive ... a powerful new insurance base.

Barclays' Mr Chris Bajl ... lucrative stake in insurance giant.

Major coup

The deal can be regarded as a major coup for the new Southern Life chief exeuctive, Mr Neal Chapman. It is significant that:

- Southern Life men occupy both the chairman and chief executive posts with Mr Desmond Loch Davis being appointed chairman and Mr Chapman as chief executive. The new board will include Southern directors.
- The group has been named The Southern. It was only recently that Anglo gave its name to the merged African Eagle and Guarantee Life.
- The head office will be in Cape Town.

This suggests that Mr Chapman may well have put the deal together. He was previously part of the Barclays Bank top management structure and headed The Board of Executors before joining Southern.

While at The Board, Mr Chapman at one time sought a merger with Hill Samuel in which Southern Life would have had some 30 percent of the merged group.

This would have established a new Cape financial power base. The deal later fell through but obviously impressed with Mr Chapman, Southern Life offered him the top job. This time he has achieved staggering success with a deal which is bound to catch the market's imagination both in terms of sheer size and innovation. And more is bound to follow.

Market share

Anglo's dramatic move suggests it is determined to win the major share of the life assurance market and is on collision course with the Old Mutual. This in turn implies that the new insurance giant may be highly acquisitive using its equity to expand market share.

This equity will be a powerful weapon for the new Southern in pulling market share away from competitors. The Southern, too being Cape-based, can anticipate considerable local support.

The Mutual for its part is unlikely to stand still in the face of this new thrust One can predict a rapid offensive particularly in the marketing sphere. Looking at the broader Mutual group and its associates the theoretical opportunities include a similar rationalization between group companies and (like Anglo) involving the banking arm — Nedbank. This could be a new bull point for Nedbank's share price.

It however remains to be seen whether the Mutual would be prepared to shed its mutual assurance identity. I believe this can be excluded and the Pinelands-based giant will remain a mutual company. What could evolve however is a closer relationship between group companies.

Barclay's share price rose on the news and the development should lead to a further hardening.

The Southern deal is important in terms of Barclays capital and reserves and the anticipated Southern market capitalization of R500m gives some indication of the muscle of the new group.

Earnings

The Southern is expected to report earnings of some R40m for the year ending March 1985 and pay dividends totalling R26m.

Southern will first have to be "demutualized" with the effective date for the amalgamation April 1, 1984.

The mechanics of the scheme are that the businesses of Southern Life and Anglo American will be injected into The Southern with Barclays subscribing R135m in cash for its shares.

The Southern will issue its share capital to Anglo, Barclays and certain trusts The shares held by one of the trusts will be offered for sale to the public.

Barclays' stake will be a direct 30 percent with another five percent held by its staff pension fund. Anglo's stake will be 37,5 percent of the ordinaries and 2,5 percent through non-voting participating shares.

Last night's announcement said the Anglo shares would be held by Anglo American "and associates". Clearly some other companies in the Anglo group will hold shares as well.

Operations

While the registered head office will be in Cape Town, major portions of The Southern's operations will be conductred from Johannesburg.

The anticipated volume of business will be such that all present resources of both life companies will be fully employed, the statement said.

"There will be no question of any retrenchment of any staff whatever. In the course of time such re-organization as will promote efficiency and productivity will be carried out after due research and consultation.

"It is possible that this re-organization may mean that some employees are asked to accept geographical transfers, but this will not be done precipitately or without full consultation.".

Southern makes audacious deal

Argus 14/12/83 58

DEREK TOMMEY
Financial Editor

THE Southern Life Association, the Cape Town-based life assurer, has taken the business world by surprise with one of the most audacious business deals South Africa has ever seen.

It is to shed its mutual status, merge with Anglo American Life, link up with Barclays Natioanl Bank, and then become a listed quoted company with the Anglo American Corporation and Barclays National Bank as major shareholders.

The result will be a major new financial power block, able to offer the widest range of financial services, and also able to compete on an equal footing with the Old Mutual-Nedbank, Sanlam-Bankorp-Trust Bank and Liberty Life-Standard Bank groupings.

The new insurance company, to be known as the Southern Life Association, will have assets of more than R3 000-million and will rank third among the country's insurers behind the Old Mutual and Sanlam, and ahead of Liberty Life.

FROM APRIL 1

The scheme will take effect from April 1 and the first chairman will be Mr Desmond Loch Davis, while the deputy chairman will be Dr Zach de Beer and the chief executive Mr Neal Chapman.

A unique feature of the plan is the shedding by Southern of its mutual status. This is believed to be the first time that a major insurance company has become a proprietary company.

This was apparently necessary to enable Anglo American to retain a stake in the insurance industry after the merger of Anglo American Life with Southern Life.

Anglo American will hold 37,5 percent of the new company's capital and a further 2,5 percent through non-voting participating shares.

Barclays will hold 30 percent and the balance with be held by the public and by trusts, including Barclays National Bank's staff pension fund.

The shares held by one of the trusts will be offered for sale to the public.

ALLOCATIONS

There will be preferential allocations in favour of the policy holders of Southern Life, Anglo American Life, members of staff, pension fund clients, members of the broking fraternity and other business associates.

The Southern Life says the interests of existing policy holders will be fully met in the amalgamation. This will be subject to the approvals of several authorities, all of whom have agreed in principle.

The head office of the new company will be in Cape Town.

... bonuses.

Mr Neal Chapman . . . new super-businessman

City man to head insurance giant

Financial Editor

CAPE TOWN has a new super-businessman — Mr Neal Chapman of Cape Town, who is to head the insurance giant to be formed by the merging of Cape Town-based Southern Life Association and the Johannesburg-based Anglo American Life.

The new company will be the third largest life insurer in the country, behind the Old Mutual and Sanlam.

The merger, in which Mr Chapman and Mr Dudley Williams, Southern's retiring general manager, played a major role, has taken the insurance industry by surprise.

POWERFUL PARTNERS

Among other things, it involves the "de-mutualising" of a major highly successful insurance company — something that has never happened anywhere else. It has also given Southern two powerful partners — Anglo American and Barclays Bank.

As a result of the merger Mr Chapman now ranks in the South African business hierarchy on a par with the heads of Old Mutual, Sanlam and Liberty Life — positions of great importance in view of the financial muscle these vast institutions can wield.

However, Mr Chapman's rise is not surprising. He has shown great ability during his business career and possibly today could have been heading Barclays Bank had he not preferred to live in Cape Town rather than Johannesburg.

Mr Chapman joined Barclays after matriculating at Pretoria Boys' High School and was soon singled out for promotion. He rose rapidly and worked for the bank in London and New York.

He attended the Wits Graduate School of Business. He was responsible for the bank's managements systems until 1973 when, at the age of 39, he became the bank's youngest general manager, with responsibility for the Western Cape.

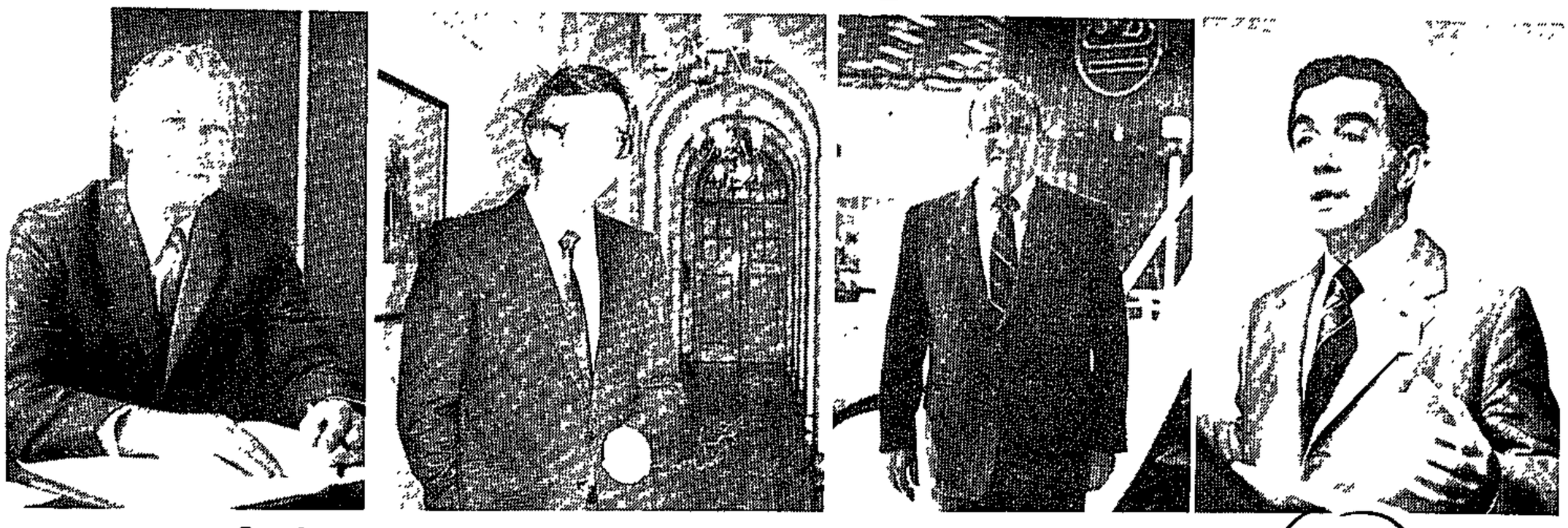
MAIN BOARD

When Barclays wanted to move him back to Johannesburg in 1976 he left the company and became chief executive of the Board of Executors. But he retained close links with Barclays, joining the bank's local board, and in June this year was appointed to the bank's main board.

After six years with the Board of Executors Mr Chapman joined the Southern Life in October last year as chief executive-designate, to succeed Mr Williams when he retired at the end of November this year.

But is now seems that he and Mr Williams were seeking ways to strengthen the organisation in the face of increasingly intense competition.

The head office of the new group will be in Cape Town.



Southern's Williams and Chapman . . . Liberty's Gordon . . . Anglo's De Beer

tive problems. There are bound once more to be logistical difficulties.

Third, if the merger does bring into being the third largest life assurer in the country, there is going to be an upsurge in competition. For instance, Liberty Life's Donald Gordon can hardly be happy at being pushed out of the number three position. In addition, his association with Anglo in other recent mergers has led to expectations that Anglo would push its insurance interests in his direction. If it did so, Liberty Life plus Anglo American Life would have been in a position to challenge Old Mutual and Sanlam in a few years.

So response from the marketing men in Liberty Life is going to be stiff. Maybe Southern Life Association, the proposed name of the merged interests, will as a whole turn out to be less than the sum of its parts.

What is significant about the proposed merger is that its roots were not in the avariciousness of Rand financiers. It came out of Southern Life's HQ, which for years slumbered in an historic building behind Table Mountain. But no doubt the proposal was music to the ears of the Rand lords.

In a policy statement last year, Southern Life directors and managers agreed to undertake to explore the formation of a "financial family" embracing SL, a mining house, a bank or an industrial giant to strengthen the "marketing base." Well, it looks as though they have them. All that is needed now is a building society.

The man behind the ground plan appears to be Neal Chapman, who was once in line for the top job at Barclays. Since Bob Aldworth pipped him to the post, he has tried hard to piece together small institutions into a financial force.

He was last in the news when he tried to put together the Board of Executors, Fidelity Bank and the local Hill Samuel interests. But that all fell through early last year. Perhaps for Chapman it was a blessing in disguise.

More recently his name suddenly appeared in Southern Life's annual financial statement as deputy chairman and chief executive designate waiting to take over from Dudley Williams. That was in November. A month later he is slated as chief executive designate not of the seventh largest life office but what might turn out to be the third largest.

Of course Barclays direct and traditional ties with Anglo meant that it has had access to a relatively large life office in what became Anglo American Life (the old African Eagle Life and Guarantee Life). The advantage of having an even larger life office in its fold puts it on a more even keel with Standard (which has Liberty), Volkskas (Legal and General), Nedbank (Old Mutual) and Bankorp (Sanlam).

It has kept the right side of the Banks Act by taking no more than a 30% interest in the enlarged life office. Standard managed to get away with a larger slice of Liberty by holding the interest less directly. But its method raised eyebrows.

Foreign ownership

Moreover, by raising R80m in a rights issue which Barclays International will not take up, the bank's foreign ownership falls from 55% to 50,4%. That must make Pretoria happy, too.

No doubt at insurance brokers Barclays Bowring they will be as impartial in their selling as before. But what a potentially captive market is unfolding.

Barclays rights issue will provide more than half of the R135m it will need to purchase its proposed interest in Southern, an investment that introduces a major new force into the SA insurance market.

The point is not so much what Barclays' stake will do short term for its own profits. The benefits are likely to be less direct. The Barclays link will certainly enhance Southern's position, making Barclays' stake increasingly more valuable.

Anglo will hold 37,5% of the equity of the new SLA with voting rights and an additional 2,5% non-voting. Barclays will hold 30%, while the balance will be offered to the public probably around April 1984. Of the public interest, one-sixth will be held by Barclays pension fund.

The choice of name marks a change of direction for Anglo, previously keen to boost its image on the reputation of Anglo American Corporation. But it is believed that the long-standing reputation of Southern Life — with 91 years to its credit — held sway. Barclays too probably preferred to be associated with a neutral name.

An interesting aspect will be the way the merger is handled from Southern Life policyholders' point of view. Apart from the fact that SL, as a mutual company, is combining its assets with a company partly backed by shareholdings, both companies have considerable assets belonging to policyholders.

The life funds of the two companies, AAL and SL, stand at R1,37 billion and R1,1 billion plus an investment reserve of R386m respectively. These total assets of some R2,9 billion belong to the policyholders with just R27m standing to Anglo's shareholders.

Until the proposed share issue is floated it will not be possible to determine precisely the total assets of the new company. Barclays has agreed to buy its 30% stake for R135m cash, which puts the notional capitalisation at R450m. So it could stand at over R3,5 billion.

When Anglo merged Guarantee Life and African Eagle, the market values of the respective companies had to be continually revised up to the last day. The same will presumably hold for the new deal.

Some are going to fear that this deal represents an undue concentration of economic interest: Barclays, the largest bank, will own directly 30% and have additional influence on the third largest assurer. But it should be remembered that four other large banks have similar interests. So the deal could enhance — rather than detract from — competition in the market place. Size is not necessarily a determinant of competition.

Besides, because of their inevitable bureaucratic structures, large financial groups tend to become less innovative in time and thus more vulnerable to competition from smaller competitors. But unless Barclays, Anglo and Southern create a business environment of unquestionable trust, those fears of undue concentration could prove a millstone.

DING SOCIETIES

eading for another crunch

society managers have been eading softly over the possibility of a rise mortgage rates. But the trend in society ash flows suggests that an increase in ending rates cannot be far off. And unless the commercial banks step in to lend a , it seems almost certain that the sup- of home loans will dry up again.

As both the table and graphs show, the -start pattern of building society fund- — and thus lending — is still deeply enched. Fund inflows, represented by eposits and shares, show a clear recovery late 1982 and early 1983, followed by a teady decline. The peak was in February his year, when R440m was taken in. In ugust, the societies managed to attract nly R51m, and the deposit component avings, transmission and fixed deposits) tually declined.

It seems quite clear that building society managers did not anticipate this fall-off. On the contrary, they appear to have been ...ed with optimism and the belief that things would stay the same for ever. At the end of 1982, they began to step up the modest lending levels — under R200m/month — that they had maintained throughout the year. Net loans granted rose from, say, R170m in July and August last year to a heady record of over R700m in March alone.

In April, while the monetary authorities were voicing concern over the runaway property market, United Building Society chairman Philip Sceales vowed that his society alone would continue to lend out R150m each month. But the decline was already under way. In September, the movement's total new lending fell to under R350m, less than half the March figure.

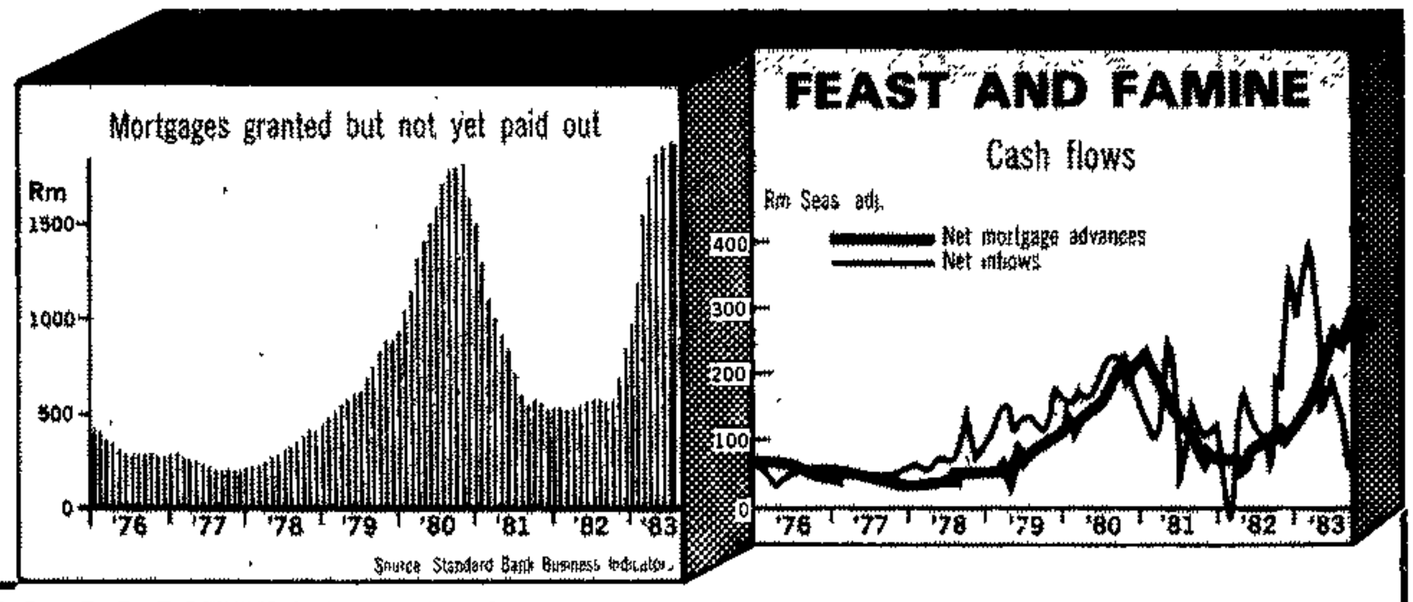
It took time to sink in. Mortgage rates fell in April, just as the cash squeeze began, and did not rise again for four months, by which time inflows had become severely reduced. And it was not until August that the societies finally reduced their total cumulative loan commitments. These had hit a peak of over R1,9 billion in July, more than a threefold increase in 12 months.

At the same time, however, the societies had to continue meeting the loan obligations they had made previously, loans which had been granted but which were still to be paid out. This monthly payout figure continued to rise, hitting R500m in September.

To generate cash, they liquidated the investments they had begun to build up from about September last year. As the middle columns in the table show, surpluses invested each month in deposits or securities peaked as the year turned. In November last year, for instance, collective purchases of prescribed securities (that is, legally required investments held in proportion to liabilities) were R369m. By January, the excess of actual holdings of prescribed investments over the legal minimum stood at almost 12% of total liabilities, probably a record.

Then the sell-off began. In the six months to September, over R500m was liquidated. By September, the excess prescribed investment ratio had fallen to 6,3%. It coincided with a period of rising interest rates and falling capital values, which suggests that the societies must have made extensive capital losses in their scramble to raise money, making it an expensive exercise in short-sighted enthusiasm.

The longer-term pattern is clear from the graphs. In loans granted, the profligacy



BUILDING SOCIETY FUNDS AND LOANS

	Rm						Rm			
	*Change in deposits	*Change in shares	*Change in total	Change in cash assets	Change in presc. inv. (PI)	Excess PI ratio %	Net loans granted	Loans paid out	Total loan commit.	Mortage rates %
82 Jan	48	−40	10	−2	−9	3,9	136	194	519	12,25/14,25
Feb	43	−35	11	−78	−97	3,2	134	147	519	13,25/15,25
March	218	−46	130	−41	−66	2,7	162	133	501	13,25/15,25
April	185	−52	142	45	76	3,0	137	145	517	13,25/15,25
May	139	−4	128	46	152	3,9	160	169	534	13,25/15,25
June	155	−35	121	−8	7	3,8	190	209	551	13,25/15,25
July	97	7	104	93	60	4,3	170	172	557	14,25/16,25
Aug	1	20	41	−4	9	4,4	170	197	557	14,25/16,25
Sept	175	7	189	23	62	4,6	186	207	553	14,25/16,25
Oct	162	29	188	66	91	4,9	192	225	560	14,25/16,25
Nov	309	65	380	337	369	7,0	297	195	682	14,25/16,25
Dec	194	88	286	152	181	7,8	335	210	839	14,25/16,25
83 Jan	271	98	373	301	363	11,8	274	155	961	14,25/16,25
Feb	286	150	440	286	283	11,2	457	257	1182	14,25/16,25
March	134	197	287	5	−35	10,5	702	356	1546	14,25/16,25
April	17	100	125	−9	−39	9,9	471	288	1741	14,00/15,50
May	126	87	207	33	40	9,9	489	401	1866	14,00/15,50
June	61	95	162	−32	−95	9,1	480	454	1909	14,00/15,50
July	67	71	139	−119	−97	8,5	449	427	1932	14,00/17,00
Aug	−14	45	51	−39	−172	7,5	378	485	1846	14,50/17,00
Sept	159	23	188	−322	−153	6,3	348	500	1724	15,00/17,00
Oct	—	—	—	—	—	—	—	—	—	15,00/17,50

Cash assets are investments in cash, deposits and securities. * Seasonally adjusted. Source: Reserve Bank.

LIFE OFFICES' MERGER

Insurance giant and Barclays

A new and powerful force is gathering in life assurance. Not only are Anglo and Southern merging their life interests, but Barclays, the biggest bank, is taking 30%. Does this mean more or less competition?

Southern Life is hardly a name that jumps out of the headlines each week. It is not what would be called a household word. But who knows what it could become after the merger with Anglo American's life assurance interests and with Barclays coming in as a major shareholder.

There is a great deal of theoretical logic behind the proposed merger which is no doubt in response to competition from other rising financial supermarkets. Our guess, however, is that it is not all going to be plain sailing.

First, despite the nod from Pretoria, there are growing fears that big, monopolistic corporations will dominate economic life by eroding competition. It is the stuff of political controversy.

Second, it is clearly going to be a difficult merger to hold together. Southern Life, whose executives appear to have the dominant management positions (Anglo's Zac de Beer is deputy chairman), is the smaller of the two and is a mutual office. Suddenly its executive are going to be answerable to shareholders.

Anglo American Life is a product of the merger of Schlesinger insurance interests and SA Eagle's life portfolio. Anglo has spent many years sorting out administra-

Bond rates set to soar next year

CAPE TIMES 28/12/83

58

Own Correspondent

JOHANNESBURG. — Mortgage-bond rates of most building societies are set to rise by 1,25 percent across the board at the beginning of February, to a new all-time high.

The move will mean an increase in monthly repayments of about 95c per R1 000 borrowed on a 20-year mortgage on all levels of borrowing

No officials of individual societies would comment on either the amount of the projected increase or its effective date but informed sources confirmed both

Mr John Bennett, the managing director of the NBS, accepted that it was well-founded speculation and said advice notices would undoubtedly be sent out to bond holders by some societies within the next few days.

He commented that, while an inter-society agreement to consult on rates and move in concert no longer exists, "it is difficult for societies not to follow one another".

"We all need profits and the interest involved even on one month's repayments is substantial."

Mr Brian Kemmey, senior general manager of the SA Perm, said each society would act as it saw fit.

Immediate reaction from property circles was that the increase was bigger than expected and would hit bond holders hard, in many cases absorbing most of any year-end post-tax salary increase.

"People tend to stretch themelves to the limit on what they can repay when house buying and, with the repayment on a R60 000 bond increasing by about R55 a month, they could find themselves in difficulty," one property broker said.

Estate agents had been expecting increases in the region of 0,75 percent.

Intending home buyers will definitely be discouraged and house prices, which have stabilized in recent months but not fallen, will almost certainly be affected.

Demand for stands is expected to ease.

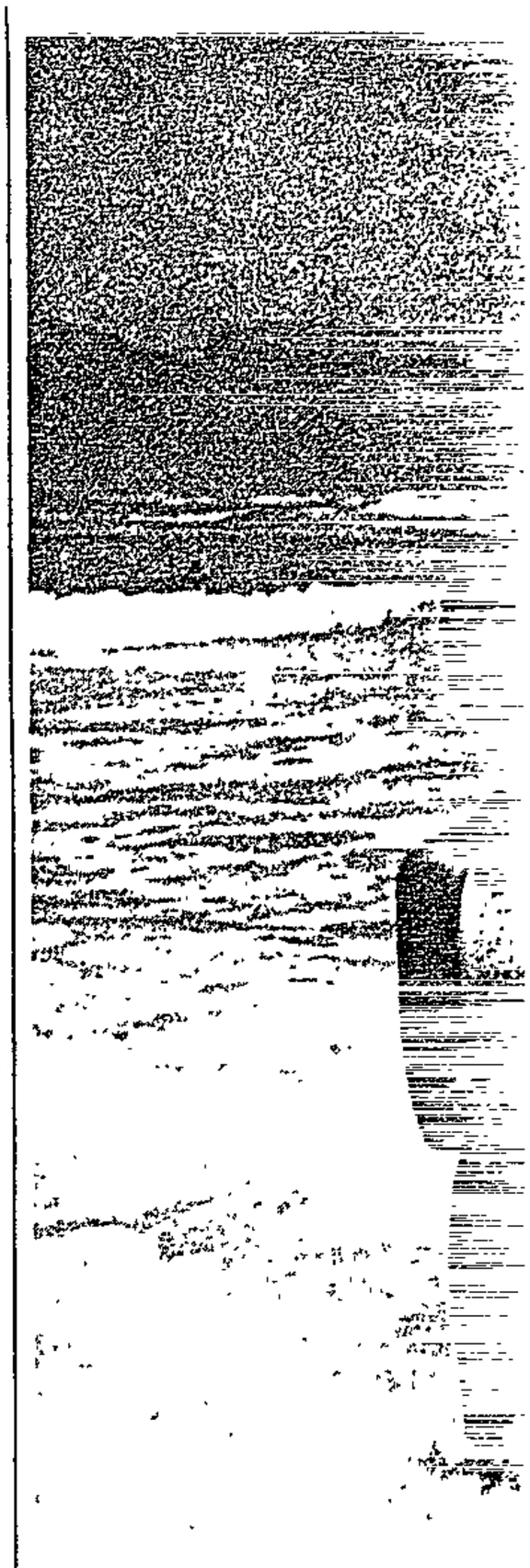
Worst hit will be investors who bought into the residential property market, particularly townhouses and flats, earlier this year.

Vacant

In a depressed rental sector, they are already unable to cover their bond repayments. Many of their investments are standing vacant.

Demand for building society bonds, too, can be expected to slacken and they should now be more readily available.

Anybody willing to take out a mortgage at the new rates could find there were bargains to be had in the housing market within the next



Cooling off at Blouberg Be
left, of Sea Point and De

The Cape Times at New Year

THE Cape Times will be published as usual on Saturday, December 31, but NOT on Monday, January 2.

The advertisement offices on the ground floor as well as on the fourth floor of our building at 77 Burg Street will be closed from 12.45pm on Friday, December 30 until 8am on Tuesday, January 3.

Birth and death notices may be phoned through to 24 2233 on Friday between 12.45 and 5pm for publication in Saturday's Cape Times, and between 10am and 5pm on Monday for publication in Tuesday's Cape Times.

Pick 'n Pay

to soar next year

Cooling off at Blouberg Beach after a lon left, of Sea Point and Dee-Ann Hutchi-

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Demand for building society bonds, too, can be expected to slacken and they should now be more readily available.

Anybody willing to take out a mortgage at the new rates could find there were bargains to be had in the housing market within the next couple of months.

Experts said that the ever-increasing cost of money, as evidenced by leading banks raising their prime lending rate to 20 percent just before Christmas, has made the increase inevitable.

The building societies, which must compete in the open market for funds and last raised their bond rates in July, have held back as long as possible in the face of steadily escalating general interest rates.

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Tele Views

Readers wishing to comment on TV programmes can phone their comments through after 6pm from Monday to Friday to ☎24-2233 ext 216.

Fati in S

Staff Reporters

A FISH HOEK ma missing, presu drowned, after his ber dinghy capsize heavy surf at Komm yesterday, throwing and his 11-year-old into the sea.

An air and sea se failed to find any t of Mr Leo Hartma Felucca Crescent. son, also named I was rescued by two f ermen in a small c

The John Rolfe re helicopter circled area for 30 minutes f about 4.30pm, bef calling the NSRI.

An NSRI spokes said the search — i

Police 'tai

Own

DURBAN. — Dozen and on the street policemen as they i registered car park ville Place here ye

Mr Barry du Ples toria who arrived b his friend's car ab "About 150 people, were trying to obst

He said two wom trying to prevent it towing apparatus — plastic bags filled w

Barclays backs R3,5bn merger

Insurance giants in power play

By JOHN MULCAHY

A HUGE deal announced yesterday will lead to the creation of South Africa's third biggest life insurance company, topped in size only by the Cape giants, Old Mutual and Sanlam.

The creation of Southern Life Association Ltd, which will be listed on the Johannesburg Stock Exchange, climaxes a year of unprecedented big business activity in South Africa.

Triggered by the Government's bold move in February to abolish exchange control for non-residents, big deals have characterised the business year.

The latest deal brings together the life arm of South Africa's biggest company, Anglo American Corporation, Southern Life and Barclays National Bank, the country's biggest banking group.

Anglo will own 40% of the new Southern Life, Barclays National Bank will pay R135m in cash for 30% of the company and the remaining 30% will be spread among Southern Life and Anglo American Life policyholders, staff members of the two insurance companies, pension funds, members of the insurance broking industry and "other business associates of the new company".

One insurance industry source said yesterday the merger of Southern Life with Anglo American Life to create the enlarged Southern Life — which will have assets of almost R3 500-million — was the creation of the last major insurance power in South Africa

Southern Life's head office will remain in Cape Town, entrenching the Cape as the seat of insurance power in South Africa The Old Mutual's head office is in Pinelands and Sanlam's head office is in Bellville.

Way out in front of the asset race is Old Mutual, followed by Sanlam, Southern Life and Liberty Life.

After three months of intensive negotiation behind closed doors, Anglo American, Barclays and Southern Life have arrived at a deal that effectively leapfrogs over Mr Donald Gordon's Liberty Life, which until now has been the third biggest life assurer in the country.

It also represents the final link in the big bank/big insurer chain, and comes only months after Standard Bank

London Bureau

LONDON. — Thousand Christmas shoppers evacuated in a huge operation in central London today as Irish terrorists start an expected festive bomb campaign.

Police, who have been high alert, found three bombs parently placed to cause mum death and destru... among the huge crowds of pers jamming gaily-decor Kensington High Street.

The first device was dealt by a controlled explo... streets and shops were evac... by hundreds of policemen.

The second two devices quickly found and imm... by the bomb squad as dou... police cars, with sirens bl... extended the evacuation.

Scotland Yard then issued cial warnings over BBC R ordering people in flats abov... street to stop leaning out of ... windows or join the evacua...

The police issued public ...

A tow truck prepares to remove the charred shell of the mini-bus which burst into flame travelling in the bus escaped uninjured after bystanders shouted a warning to them that ...

Sol orders fraud checks within gambling empire

By GEOFFREY ALLEN

CASINO king Mr Sol Kerzner has ordered a crackdown in his R100-million-a-year gam-

two were "outsiders".

Neither the Bophuthatswana police nor Mr Kerzner's Sun International

by the scheme.

"It was simply a device to defraud the casino," Mr Kerzner said.

Five flee inferno e... on mini-...

Mail Repor...

FIVE people narrowly esca... the mini-bus in which they

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Anglo will own 40% of the new Southern Life, Barclays National Bank will pay R135m in cash for 30% of the company and the remaining 30% will be spread among Southern Life and Anglo American Life policyholders, staff members of the two insurance companies, pension funds, members of the insurance broking industry and "other business associates of the new company".

One insurance industry source said yesterday the merger of Southern Life with Anglo American Life to create the enlarged Southern Life — which will have assets of almost R3 500-million — was the creation of the last major insurance power in South Africa.

Southern Life's head office will remain in Cape Town, entrenching the Cape as the seat of insurance power in South Africa. The Old Mutual's head office is in Pinelands and Sanlam's head office is in Bellville.

Way out in front of the asset race is Old Mutual, followed by Sanlam, Southern Life and Liberty Life.

After three months of intensive negotiation behind closed doors, Anglo American, Barclays and Southern Life have arrived at a deal that effectively leapfrogs over Mr Donald Gordon's Liberty Life, which until now has been the third biggest life assurer in the country.

It also represents the final link in the big bank/big insurer chain, and comes only months after Standard Bank and Liberty Life consummated their relationship.

The country's five big banks now all have close links with life insurance companies, with Barclays linked to Southern, Standard to Liberty, Nedbank to the Old Mutual, Volkskas to Legal & General and the Trust Bank to Sanlam.

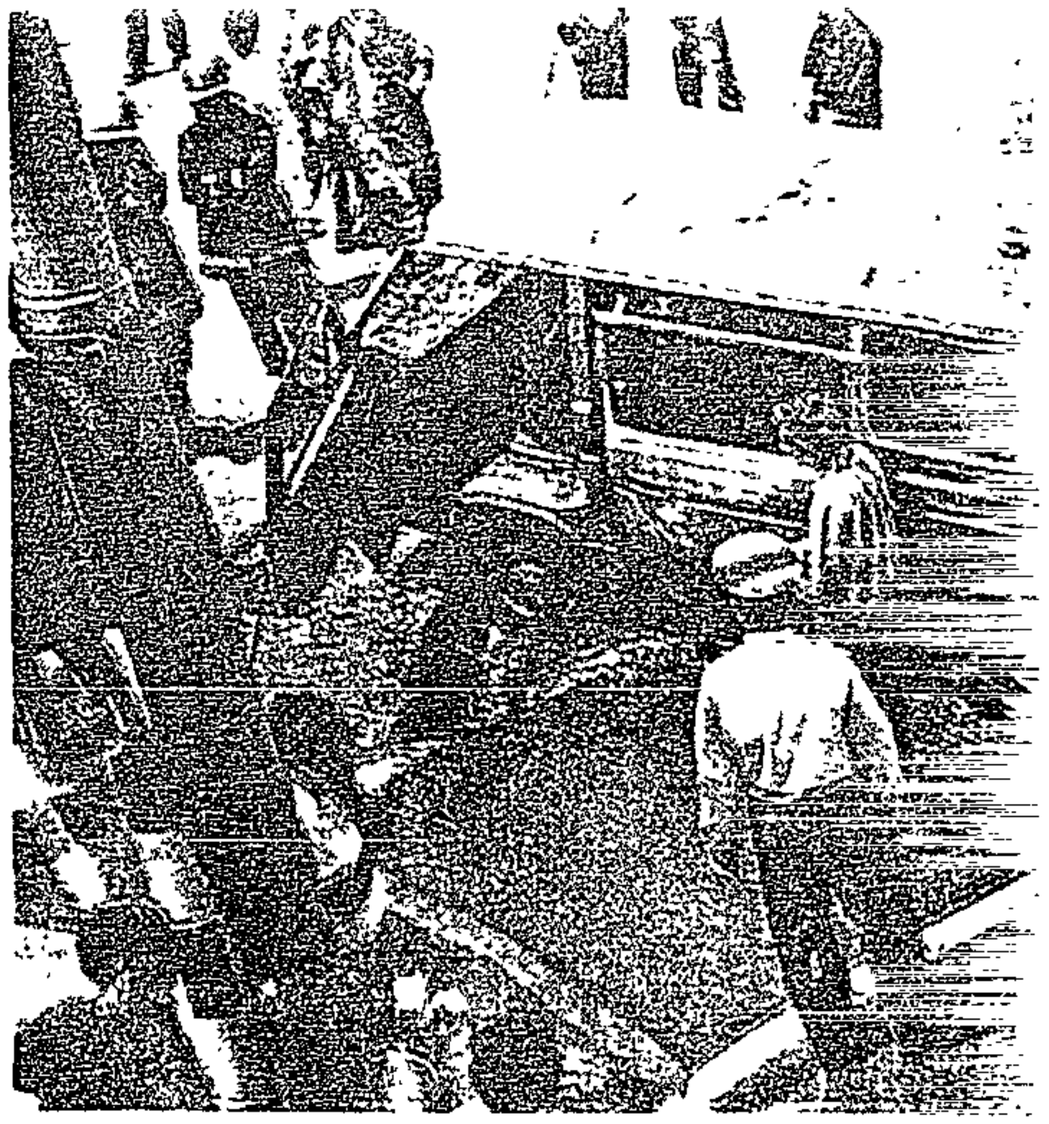
It is a fitting end to an extraordinary year in South African business, which has seen control of the huge food group Premier revert to South Africa, the reversion to South African control of Rennies Consolidated Holdings and the formation of a powerful alliance in the Southern African leisure industry which followed Mr Sol Kerzner's takeover of control of Southern Sun's casino interests and the subsequent merger with Holiday Inn's casinos.

The Anglo American Life-/Southern Life merger poses an important question in South Africa's big business power game.

It has been frequently said that the dynamic entrepreneur Mr Donald Gordon never closes a deal until he is sure about his next deal.

At the time of the Standard Bank/Liberty merger two months ago there was widespread speculation that Mr Gordon's next move would be a merger with Anglo American Life.

Barclays to make R80m rights offer
● See Business Day



A tow truck prepares to remove the charred shell of the mini travelling in the bus escaped uninjured after bystanders sho

Sol orders fraud checks within gambling empire

By GEOFFREY ALLEN

CASINO king Mr Sol Kerzner has ordered a crackdown in his R100-million-a-year gambling empire to prevent frauds similar to the one allegedly perpetrated at Sun City during the "past few months".

Yesterday he confirmed that his Sun International company was fully aware of the nature of the fraud at Sun City which allegedly involved "several hundred thousand rands" and knew how it was operated.

He has ordered checks on all of the other casinos under his control.

Twelve people, eight women and four men, appeared in the Mogwase Magistrates' Court charged with the theft of R129 000 from the Sun City casino.

They were not asked to plead and have been remanded in custody until today.

Ten of them were on the Sun City casino payroll while two were "outsiders".

Neither the Bophuthatswana police nor Mr Kerzner's Sun International were prepared to release the names of those held.

However the Mail understands that there are at least two husband and wife teams in which the wives were croupiers and the husbands pit-bosses.

The accused, all British subjects, were remanded at Mafikeng.

Mr Kerzner declined to asnwer when asked whether the fraud involved a "chips for money" racket whereby croupiers would exchange gamblers' chips for higher denominations and then use the redeemed chips to claim cash from the casino till and thus apparently balance the books while in fact pocketing the money.

"I'm not saying anything," was all Mr Kerzner would say.

He said that no gamblers at Sun City had been "hurt" by the scheme.

"It was simply a device defraud the casino," Kerzner said.

The Mail has been told alleged fraud was cracked a top investigator from ca of London, the which previously owned merous gambling lice the British capital and runs the Miss World tion.

A source said that a who previously worked Mecca had been stayin Sun City for a fortnight.

Mr Kerzner said that was incorrect.

"There is bound to be of speculation about a like this," he said.

Brigadier P J Seleke, missioner of the Bop wana police who arrested syndicate members, said investigations were still tinuing into the natu their alleged fraud and exact amount of money volved.

Still plenty of tickets for Transvaal-Windies game

Mail Reporter

BOOKING for the Transvaal-Windies match beginning on Saturday at the Wanderers has been moderate but organisers believe that tickets for the 3rd four-day international, to be held here in January, will soon be sold out.

The tickets for the three-day Tvl-Windies match will be on sale until Thursday and latecomers will also be able to buy seats at the ground on Saturday.

Prices of tickets for adults are R4, R6 and R8 while children will be let in for half price.

The third four-day international is to be held in Johannesburg on January 13, 14, 15, 16th.

Booking is already looking "very encouraging", say the organisers.

Organisers are also looking for a full-house in the one-day international against the Windies to be played at the Wanderers on January 21.

● See Back Page

Breakfast Qui

"Maybe Gerrie can ge bond."

THE EXECUTIVES

R2-billion gives Syfrets 'a lot of clout'

By AUDREY d'ANGELO

MR Brian Robinson, managing director of Syfrets Trust, says he gets "a lot of fun" from his work — and he particularly enjoys deciding on the company's investment policy at meetings with his key people.

The prosperity of a great many clients depends on their decisions for Syfrets is the largest trust company in South Africa, administering more than R2-billion, "which gives us a lot of clout in the market place."

Mr Robinson said in an interview this week: "It is also a finance house in the fullest sense."

Either directly or through subsidiaries it invests in property through participation mortgage bonds and manages personal finances and property.

Until it became part of the Nedbank group it had its own unit trust.

Chartered accountant

Mr Robinson, who is both a chartered accountant and a chartered secretary, has been managing director since 1979.

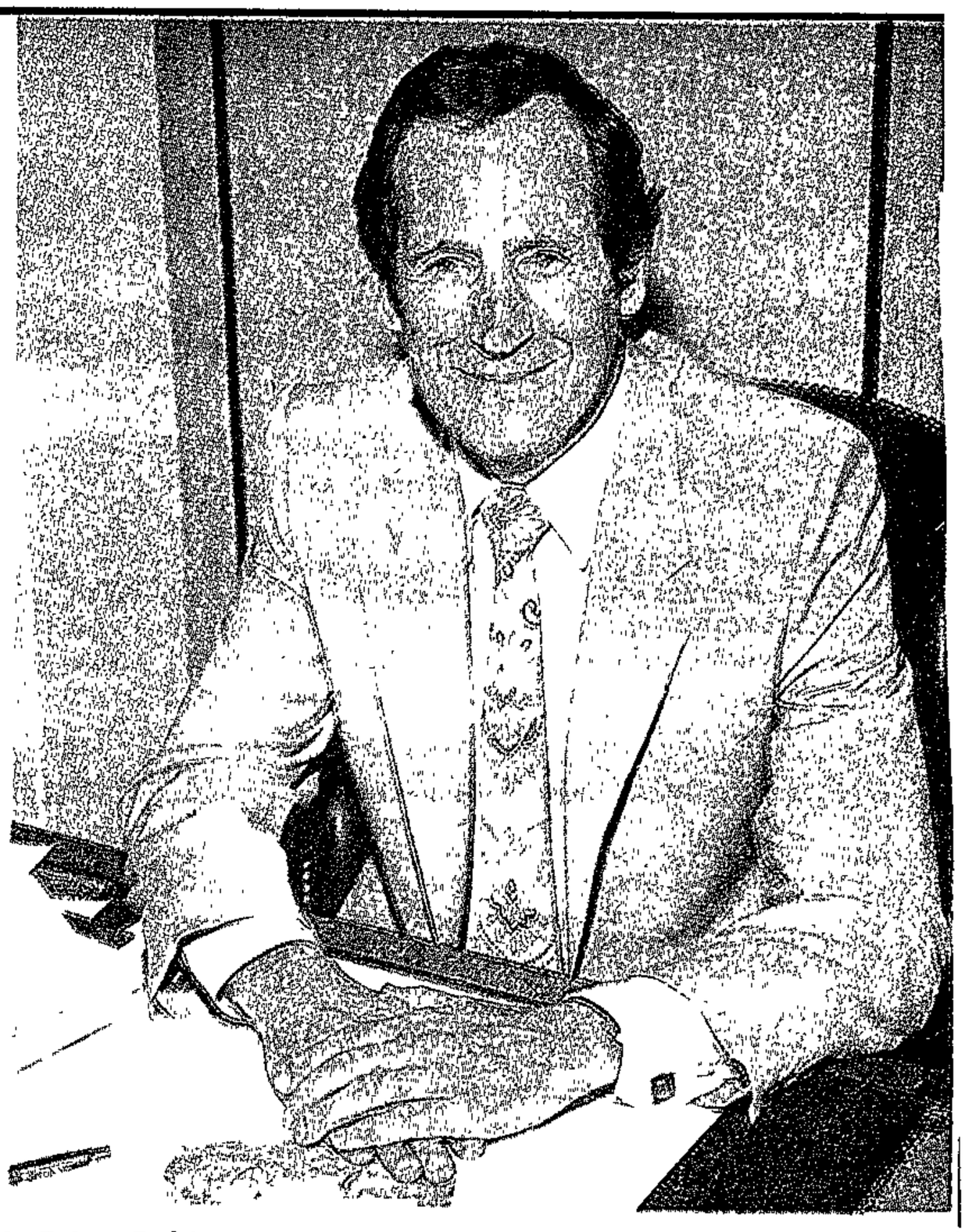
He is also a director of Minet Holdings (Pty) and CNA Investments and chairman of South African Property Investments and Syfrets Participation Bond Managers.

He is a Cape Town man who was educated at Bishops, but he worked in Britain and Australia and for the Ford Motor Company in Port Elizabeth before coming back to the city in 1965 to start an investment research department for Syfrets.

In spite of its wide range of activities, Mr Robinson says "the property market in its totality" is still the most important part of Syfrets' business.

He finds the property market exciting.

He does not believe house prices will come down as long as inflation persists and employers are prepared to give housing subsidies, and as long as these are not taxed as fringe benefits.



Mr Brian Robinson, managing director of Syfrets Trust . . . he finds the money and property markets fascinating.

"There is still plenty of money around in spite of the recession. A great deal has been made on the stock exchange.

"You can see there is money about by going to Johannesburg and looking at the cars people are driving and at their lifestyle.

"House prices in the medium range, from R100 000 to R200 000, have come down a little and the market may have reached saturation, but prices have not come down in the cheaper range or at the top end of the market."

Inflow of people

He thinks the shortage of township land, due mainly to the long wait of from three to five years for it to be proclaimed, the constant inflow of people to this country and the in-built wish of South Africans to own their homes means that "the property market on the dwelling side is not very vulnerable."

Industrial and commercial property is another matter. Mr Robinson thinks the market is somewhat oversupplied and says office rents are starting to come down in some places.

Discussing other investments, he says that the information and expertise available to Syfrets takes a lot of uncertainty out of these.

"But there is always an element of risk," he admitted.

"You can be the best judge there is of the quality of an investment, but if your timing is out you just have to sweat it out and wait for an improvement."

Barclays' happy Christmas

By Alec Hogg

BARCLAYS Bank emerges as the big winner in the R450-million mega-deal with Anglo American Life and Southern Life announced this week.

All parties to the deal agree that the bargaining went Barclays' way. Banking observers are full of admiration for the terms that Barclays' new managing director, Chris Ball, negotiated for his group.

Said Dr Zac de Beer of Anglo American Life: "Barclays did exceptionally well, but they brought a lot along to the party."

The consensus is that the insurance companies needed Barclays more than Barclays needed them.

This was because the insurers' biggest rivals were allied to banks, and banking halls are about to become prime selling areas for insurance.

Old Mutual has effective control of Nedbank. Sanlam has outright control of Trust Bank and Santambank.

Standard shares control of Liberty Life and Volkskas has the biggest holding in Legal & General Volkskas

Barclays was thus the only big bank not tied closely to an insurer and could choose its suitors

All the other big banks have close building-society connections, leading to speculation that Barclays might make approaches to either the Allied or the NBS.

But Mr Ball denies any such intention. "We already have R830-million committed to home loans, so are already a building society of a kind."

The deal was the brainchild of Southern's new managing director. Neal Chapman — once a Barclays general manager He made a proposal to Anglo American Life and the two approached a delighted Barclays.

Analysts reckon Mr Ball out-negotiated the hard bargainers at Anglo American Corporation.

Barclays will pay R135-million for its 30% stake in the merged Anglo American Life/Southern Life giant. It will receive a dividend of R7,8-million in the financial year to March 1985.

This means it bought in at a prospective dividend yield of 5,8%. Liberty Life commands a 4,2% prospective yield on the market.

Barclays therefore bought in at a 28% discount to the most comparable alternative. In other words, if it had paid the going rate for its shares in the new insurance giant, the stake would have cost it nearly R40-million more.

The pros and cons . . .

Barclays Bank

PROS:

- Good investment in a high-growth industry at a bargain price.
- Broadens product range and gives access to unique expertise.
- Better utilisation of branch network.
- Increased financial muscle.
- Boost to staff morale.

CONS:

- Loses independence. The bank is now linked more closely to Anglo American Corporation and the Southern, but this could alienate other institutions.

Southern Life and Anglo American Life

PROS:

- Access to Barclays' branch network.
- Competitor becomes ally.
- Management and capital resources enlarged.
- Stock-exchange listing.
- More muscle in all three major metropolitan areas.
- Enlarged sales force.
- Long-term cost benefits.
- Complementary product range.

CONS:

- Loss of independence.
- Southern no longer a mutual.
- Culture gap to be bridged.
- Medium-term rationalisation costs.

Southern Life Policyholders

PROS:

- R270-million capital injection.
- Greater management accountability.
- First bite at the public issue of shares.
- Guaranteed fair treatment for exisiting policyholders by appointment of independent actuary D J Malan and Associates.
- Increased security of investments.

CONS:

- Shareholders receive a share of the profits.

In addition, the R80-million which Barclays will raise through its rights issue will provide a boost to its capital and enable it to write more banking business.

Some analysts have interpreted the deal as an admission of defeat in life assurance by Anglo American, though Anglo hotly contests the assertion.

The Anglo name is relinquished; the head office will be at Southern's Great Westerford in Cape Town and both the chairman and the managing director of the merged group are Southern Life men.

Anglo ends up with 40% of the shares (compared with 100% in the old Anglo American Life), but only 37,5% of the voting rights, as 2,5% are non-voting shares. The public will hold the 30% not held by Anglo or Barclays.

Mr Ball said the merger would facilitate one-stop banking and insurance. He insisted, as have his rivals, that business will be transacted on an arm's-length basis.

While much has been made of the new enlarged Southern's ability to market through the Barclays network, competitors claim not to be shaking in their boots at the threat.

As the chairman of the Old Mutual, Jan van der Horst, told Business Times: "There is now one fewer competitor, but I must admit that I am rather surprised the Southern decided to demutualise."

Said Fred du Plessis, chairman of Sanlam: "We were expecting some kind of rationalisation sooner or later, and this move certainly does not frighten us. This is following the international pattern of a one-stop financial service institution."

Adds Liberty Life founder and chief, Donald Gordon: "They are going to have their work cut out over the next two or three years to overcome integration difficulties."

The reasoning of the competitors is that Anglo American Life and Southern have served similar markets.

While Anglo American Life has sold mainly linked policies, and Southern is more heavily weighted on the conventional side, both have mainly serviced the upper-income, urbanised white market, so there is no obvious complementarity.

The recent deal in which Liberty Life co-operated with JCI and Anglo in repatriating control of Premier caused a rift between Anglo American and Old Mutual. Many insurance observers expected Liberty and Anglo American Life to be merged.

But Mr Gordon says today: "A merger with Anglo American Life was at the very bottom of my list of priorities. We never looked at it with any enthusiasm.

"Integration problems would have set us back two years. I believe the same effort spent on expanding existing operations would have resulted in equivalent asset growth in that time.

"Their market is too similar to ours — and to Southern's, for that matter — but if we could acquire a company with a large penetration of the Afrikaans market, that would be interesting . . ."

Prudential chief executive Dorian Wharton-Hood comments: "I am glad that I am not handling this merger. The problems of integration are enormous.

"There are the different corporate cultures. The parties are putting together Cape and Johannesburg based institutions, one a mutual and the other a proprietary office. Then there is the problem of trying to reassure people whose noses are out of joint."

The men behind the deal

CHRIS BALL

CHRIS BALL, 44, managing director-elect of Barclays, has been in a hot seat since Bob Aldworth left suddenly early this year. Mr Ball returned prematurely from an overseas career development programme to take over as deputy MD.

His first challenge was to help settle morale in the bank after the Aldworth debacle. Then came the scrapping of the bank cartel and the introduction of interest on credit balances in current accounts.

Barclays' Status cheque was seen as a pro-active masterstroke that prevented erosion of its large market share.

Next came an unprecedented spate of agglomeration in SA commerce and industry, and new alliances between banks, insurance companies and building societies — culminating in the current deal.

NEAL CHAPMAN

Critics are full of praise for Mr Ball's track record and the staff nation-wide are also highly chuffed. They reckon Barclays has a worthy successor to Bob Aldworth and competitor for Nedbank's Rob Abrahamsen.

A lawyer and merchant banker by training, Mr Ball established himself as a star of the future first as MD of Barclays Merchant Bank and then by turning around Westbank. His merchant-banking background served him well in this complex deal.

He takes over as chief executive of Barclays next year when Colin Waterson retires.

Burly, good-looking and impeccably groomed, the quietly spoken Mr Ball is as tough as nails and a workaholic who demands the same from staff.

A self-made man, he worked himself through a legal degree at Wits while doing articles, following this up with an economics degree from Cambridge.

□□□

ZAC DE BEER

NEAL CHAPMAN, 49, not long ago a forgotten man of South African business, has come a long way in the past two years.

After a short spell as chief executive-designate and vice-chairman of Southern Life, he took over the reins following Dudley Williams's retirement just three weeks ago.

Mr Chapman resigned as general manager, Western Cape, of Barclays in 1976 after a distinguished 24-year career with the bank. This was shortly after Bob Aldworth had been chosen ahead of him as group managing director. He has maintained links with the bank by re-

□ To page 3

HOW THE GIANTS SHAPE UP

	Policy-holders	Sales-men	Total assets	Premium income	Investment income	Market share†
Old Mutual	900 000	2 000	R7 166m	R1 206m	R658m	30,2%
Sanlam	750 000	1 500	R5 045m	R1 079m	R540m	27,0%
Southern	500 000	1 115	R3 100m	R 500m	R250m	12,5%
Liberty	300 000	500	R3 000m*	R 400m*	R200m*	10,0%

† Based on total premium income received by all life offices
* Business Times estimates for year to end December

Men behind the deal

S. Times 18/12/83

From page 1

maining on the Western Cape board.

While group managing director of the Board of Executors, he tried unsuccessfully to arrange the merger between the Board and Hill Samuel.

Exceptionally well groomed and softly spoken, his appointment as chief executive of the merged life office is the highlight of his career.

□□□

ZAC DE BEER, 55, former PFP MP for Parktown (1977-80), is an Anglo American Corporation career man.

A trained medical doctor, he preferred business to medicine, practising for less than a year before joining Anglo.

This urbane, highly articulate man has made his mark in the tough Anglo camp, heading not only the group's insurance interests but also its construction (LTA) and property (Amaprop) arms.

An outspoken critic of the Government, Dr de Beer campaigned actively for a No vote in the recent referendum.

One of his more famous quotes: "Free enterprise means free: people must do their own thing. In South Africa the majority of people are forced to do not their own thing but the National Party's thing."

A splendid orator, Dr de Beer is highly articulate in both English and Afrikaans. His diplomacy will be a vital asset in making the merger between the two life offices as smooth as possible. He will be deputy chairman of the new group.

Pity the pensioners who carry the insurance can

LAST week "Furious Pensioner" told WATCHDOG how he had paid into a pension fund for a quarter of a century and ended up with a monthly income barely sufficient to keep him off the breadline.

We pointed that he was not alone.

Private pension funds, largely backed by the insurance industry, have created a whole generation of new poor. What is needed is some kind of national supervision of this lucrative market to sort out the whole sorry business.

WATCHDOG reader Mr J Dyason sees inflation and government controls on pension fund investments as the real causes of poor pension performance, and thinks WATCHDOG is barking up the wrong tree

"It is also apparent that you seem to be unaware that almost all the major insurance companies are mutual companies, which means they have no outside shareholders, and that all profits accrue to their own policyholders.

"Competition within the industry is extremely intense and more regulation would only serve to stifle initiative and increase costs with the additional burden of yet another bureaucratic albatross."

Mr Dyason also felt WATCHDOG was opposed to business and profit-making in general.

WATCHDOG says: With respect, Mr Dyason is barking up the wrong tree. It is overfed complacency we have been smelling out, not the lean, clean, competitive air of a real free enterprise system. To get a glimpse of bureaucracy par excellence, try filling out a claims form or ask a mutual fund how much of its premium rand is spent on adminstration.

Better still, ask a counter clerk for the latest update on your pension fund. Having obtained the information, try to understand it.

Concidentally answering Mr Dyason, Mr Brian MacLeod, secretary of the Chamber of Commerce, gives the following example of how a private fund can make adequate provision for its pensioners, despite inflation.

"The Chambers of Commerce pension fund, which any member of a Chamber of Commerce can join, is self-underwritten so that every cent of profit made is retained and used to enhance pension benefits

"The fund is able to make excellent profits because it does not have to provide such payments as commission, dividends to shareholders etc.

"Administrative costs are minimal and, coupled with efficient management of investments, the fund has been able to make substantial profits as revealed in actuarial valuations undertaken every three years.

Pensions paid to members, as well as pensions accruing, have been increased by as much as 45 percent over a single three-year period.

"In 1978, the fund decided to increase pensions, as well as accrued pensions, automatically each year by three percent This figure has now been increased to six percent so that from January 1, 1983 all pensions paid as well as pensions accruing will automatically go up by six percent each year

"A special bonus addition of 35 percent was paid to all pensioners, accrued benefits to members having been increased by a like amount. This special bonus addition is equivalent to a compound increase of 10,5 percent a year for the period.

"Taken with the three percent automatic increase the total rate of increase amounts to 13,5 percent a year compounded, which is close to the average rate of inflation for the three-year period in question

"There will, of course, be a valuation covering the three years ended December 31, 1985, and no doubt it will be possible to declare a further bonus.

"Referring to the letter from 'Furious' published by you: had he been a member of the Chambers of Commerce pension fund, the pension of R170,83 per month in 1971 would today have increased to R554,71 per month. There are other pension funds which could no doubt equal these benefits."

WATCHDOG doubts that last statement about other funds, but is willing to be convinced. The following anguished cry is from a Rondebosch reader for whom a private pension fund has done very little:

"I can understand why your challenge continues to appear at the head of your column, apparently unanswered and certainly unaccepted by the in-

A rose by any other name...

AN insurance company executive "with 40 years experience" claims WATCHDOG is using the term "insurance" incorrectly when referring to the life industry which properly is concerned only with "assurance".

Apart from the fact that the quibble is in itself symptomatic of where the industry is — still in the dark ages of Victorian commerce — we believe one year's experience repeated 40 times doesn't necessarily lead to wisdom.

The Insurance Act, as amended, lumps it all together, as do both Witherby's and Davids' dictionaries of insurance — not forgetting our own Gordon and Getz (1983) on the South African law of insurance.

WATCHDOG doesn't run courses for insurance execs, but will be happy to supply photocopies on request.

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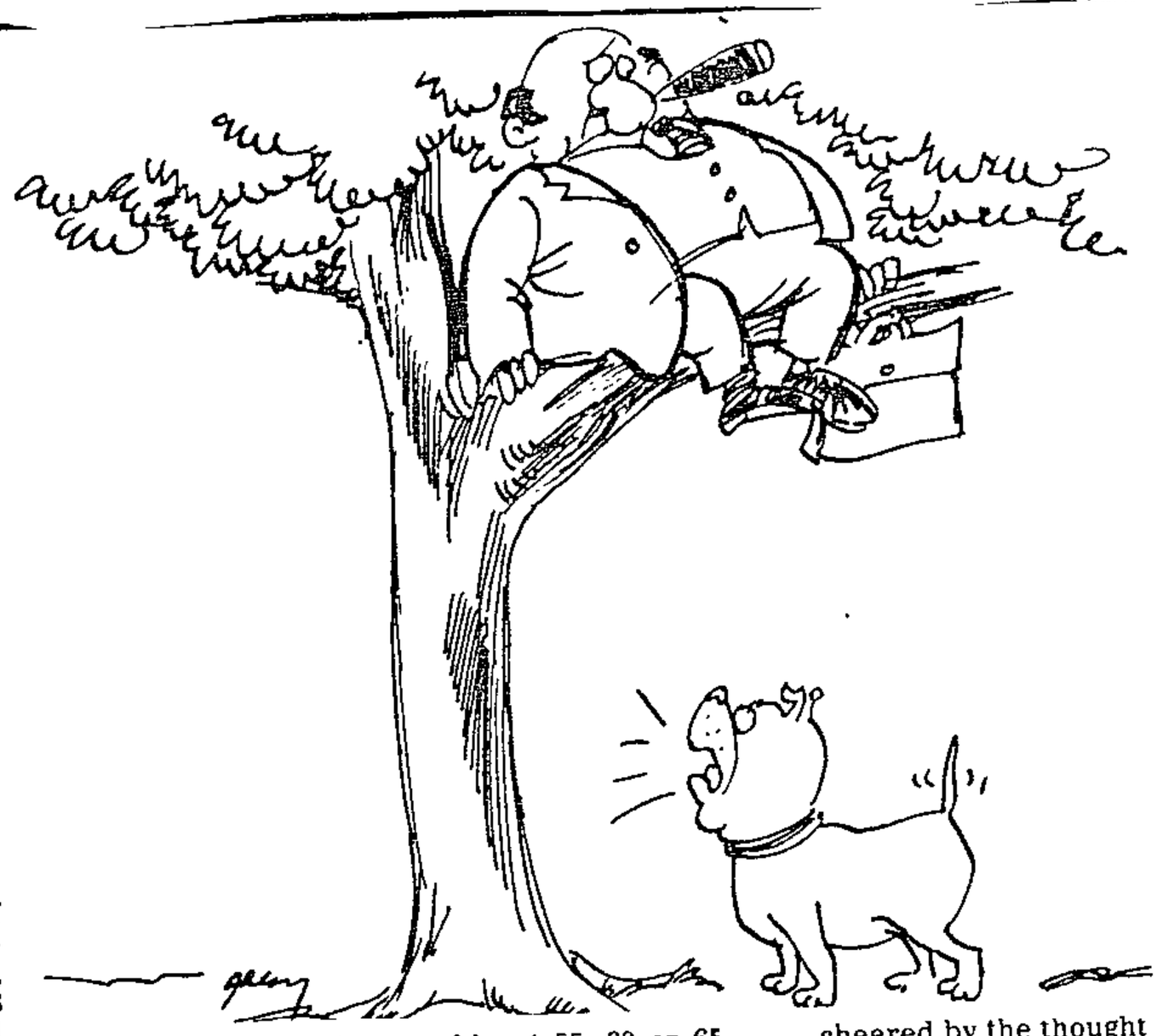

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"I can understand why your challenge continues to appear at the head of your column, apparently unanswered and certainly unaccepted by the insurance industry, just as I can understand and associate myself with the anguish of your correspondent whose 25 years of contributions won him a pension of R170,83 a month.

"Circumstances compelled me to terminate my Cape Chamber of Industries (pension fund) membership in 1971 after I had been paying contributions (as a self-employed person) for 22 years. I was informed that my premiums would be frozen and would earn me one of three options: a pension payable at 55, 60 or 65.

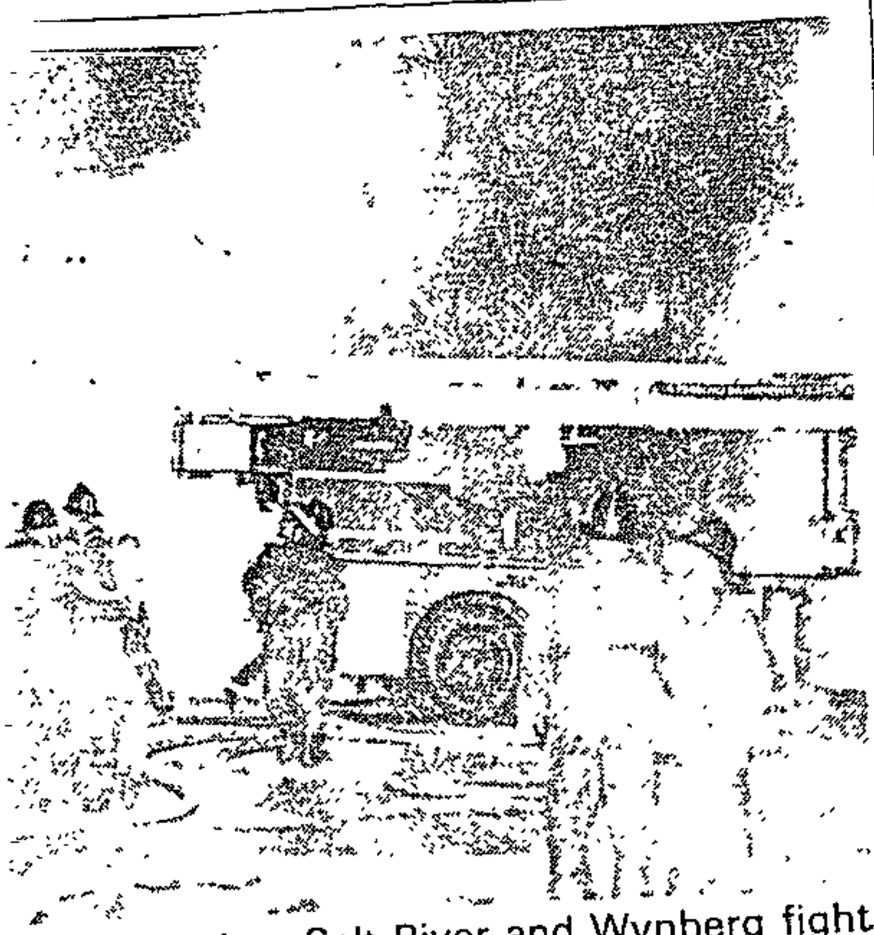
"I opted for 55. For 12 years now I have been drawing R115,67 a month.

"What really hurts is not so much the miserliness of the amount, but the miserliness of the underwriting insurance society which, when across-the-board pension increases have been announced for beneficiaries under the scheme, denied me these on the pretext that I was not a pensioner but the recipient of "a self-financed annuity".

"I am in no way cheered by the thought that other premium payers are being similarly deprived — and I am sure it is with deliberation — by insurance industry casuistry.

"Oh Ombudsman, when will the insurance industry take up the WATCHDOG challenge and allow the country's thousands of insurance victims to be heard?"

WATCHDOG says: When it gets the message that a satisfied consumer will buy more insurance, not less.



Town, Epping, Salt River and Wynberg fight
:h destroyed two Observatory factories last
engine from Lakeside stood by at Wynberg.
Picture: Stewart Colman

:stroys factories

black smoke blew over Observatory while the firemen were fighting the blaze, which started just after 9pm.

The fire is believed to have started in a storeroom containing drugs and chemicals in the basement of Heynes Mathew Ltd, a pharmaceutical wholesaling company. However, it is not yet known exactly how the fire started.

The heat in the Heynes Mathew building caused a wall adjoining the Plastform, Lennon Petersen Agencies (L P A) building to collapse, and the flames, fanned by a strong wind, quickly engulfed the second factory.

Mr Dick Quaile, manager of Plastform, which manufactures styrofoam containers, said his company had been built up steadily in the past three years.

The fire was "disastrous", he said. "It has destroyed everything. The damage will run to millions."

The managing director of Heynes Mathew, Mr Joe Varkul, said it was impossible to give an exact estimate of the damage to his building.

150 000 hold key in giant insurance deal

CAPE TIMES 21/12/83

(58)

By GORDON KLING

MORE than 150 000 insurance policy-holders throughout South Africa hold the key to a R3-billion deal in the industry and can look forward to being wooed by some of the biggest financial institutions in the country from next week.

Approval by policy-holders with the Newlands-based Southern Life is essential to allow it to go ahead with Anglo American Life and Barclays National Bank in the formation of a new group, the Southern, intended to challenge the reigning insurance giants, Old Mutual and Sanlam.

A spokesman for the Registrar of Insurance pointed out that full agreement would have to comply with Section 25 of the Insurance Act which prescribes that each policy-holder must be informed of all steps of the merger.

"The crux of the matter is that it must go to court and all parties concerned can fight it out in court."

The chief executive-designate of the Southern, Southern Life's Mr Neal Chapman, yesterday disclosed that the first shots in the battle for policy-holder approval would be fired though the mail next week when key aspects of the deal and its advantages would be spelt out

Main targets in the campaign for approval will be the estimated 80 000 holders of "with-profit" policies who stand to be materially affected by the new deal.

This is because the articles of association of a mutual society stipulate that its policy-holders, and only its policy-holders, are its owners, entitled to all its reserves and profits Technically each policy-holder has a vote at the annual meeting and the majority can determine who runs the business and how it is run, although in fact power is far more concentrated.

On the other hand, a proprietary company, listed or otherwise, has shareholders, who may or may not be policy-holders, who earn dividends on their shares.

Southern Life would have to demutualize in order to participate in the new combine with

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P.T.O.

gs: Jodie Foster fined

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agent in charge of the customs office in Boston.

Miss Foster, 21, a senior on leave from Yale University, arrived on a flight from Paris on the way to the West Coast. Agents had found the single gram of cocaine "during a routine customs inspection," Mr Nelson said.

The drug, valued at about R120, was confiscated, Mr Nelson said, but both federal and local authorities declined to press charges.

"Everybody down the line declined because it was such an insignificant amount. She was administratively fined and let go. I have no idea what the fine was," Mr Nelson said.

The actress, a star since her childhood role in Bugsy Malone and later opposite Robert De Niro in Taxi Driver, was thrust into the media spotlight when John Hinckley tried to assassinate President Ronald Reagan in 1981, apparently believing it would win him Miss Foster's love.

Miss Foster, who recently finished filming Hotel New Hampshire, missed her connecting flight to the West Coast when she was detained.

A Yale spokesman in New Haven, Connecticutt, said Miss Foster was on a leave of absence from the school.

Jody Foster has said her goal is to graduate from Yale with honours. She is expected to graduate from next June.

Mr Howard Lamar, Dean of Yale, said the school was undecided if it would take action against her. — UPI

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The Facts correction service,
☎ 24-2233 (Mon to Fri)
Cape Times, Box 11,
Cape Town.
(Registered at the GPO
as a newspaper.)

Cape Times 21/12/03 (58)

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its proprietary partners Anglo and Barclays. Its policy-holders will have to share its profits and reserves with the new shareholders if the deal goes ahead, and they can expect compensation for this.

Old Mutual general manager, Mr Peter Bieber, was reluctant to comment yesterday on the developing battle for policy-holder support and emphasized that he was not knocking the deal without having seen what form this compensation would take.

The deal has to be approved in the Supreme Court, probably in Cape Town, but no date has yet been set.

"Maybe they will just offer all their 'with-profit' policy-holders R100," he speculated, "and then try to get as close as possible to what they had before to allow the demutualization to take place.

"The policyholders chose to be with a mutual society and it will no longer be the same thing. Instead of getting a straight share of the profits in the club, they're going to have to share. But it would be very unwise to prejudge the issue."

Southern's Mr Chapman is confident that existing policy-holders will gain.

Critics, including independent Cape Town insurance consultant Mr Isaac Hickman, however, maintain that the deal could take away about 10 percent of profits that should go to existing policy-holders with Southern Life and that it also further increases the concentration of economic power in South Africa by strengthening the vast Anglo American empire in insurance at the expense of Southern Life policy-holders.

"The rich shall get richer and the poor poorer," said Mr Hickman.

Sources at Liberty Life also believed the offer to policy-holders would have to be quite attractive, and there were doubts on the mechanics of getting all the information across while retaining consensus.

"Policy-holders are going to have an opportunity to put their views," said Mr Chapman, and the most important topic of discussion at the boards of Southern Life and the others had been how to entirely satisfy everyone that this new arrangement was in the best interests of serious policy-holders.

"We came to the conclusion before we got into serious negotiations that policy-holders' rights could be met, and handsomely."

'In the dark'

Responding to complaints that Southern Life policy-holders, the real owners of the society, had been kept in the dark about the venture, Mr Chapman said: "We were in negotiations where confidentiality was vital. It simply wasn't possible to consult policy-holders.

"We will be advising them of their rights and how they will be protected. They will shortly, I would think next week, be getting the necessary details to assess the situation."

The independent Johannesburg-based consulting actuaries B J Malan and Associates had been retained to report objectively on the development.

"As far as the Southern Life 'with profit' policy-holders are concerned, no part of the surplus which arises on their business will be paid to shareholders, so the 10 percent (alleged loss) does not apply to them.

"The new shareholders are introducing in excess of R250-million in new cash into the Southern and to this can be added the already massive reserves of the parties involved."

Critics, however, maintained that the Southern Life reserves were already technically the property of its policy-holders and the new shareholders were putting money in because they expected good dividends on their investment.

Said Mr Chapman: "The Southern is in a postion to offer both existing and new policy-holders considerable strength and an excellent return. The benefits of scale from the amalgamation will have an impact on cost and in turn profitability, and it is this profitability which allows a life office to offer an attractive return to policy-holders."

Commenting on allegations that the deal further concentrated economic power, Mr Chapman said the insurance industry was already dominated by Sanlam and the Old Mutual, with about 30 percent each, and Liberty with about 12 percent.

"Look at these three and you have 72 percent of the industry, and each is a part of a major financial group."

"We will be a much bigger challenger and more competitive than before," said Anglo American Life head, Dr Zac de Beer.

But critics of the deal say South Africa is financially carved up into three parts held by Anglo American, Sanlam and the Old Mutual, and the disappearance of Southern Life means less competition, not more.

It is understood that the deal has been approved by the Registrar of Insurance and the Minister of Finance, Mr Owen Horwood, subject to policy-holders agreeing.

"We know that policy-holders can stop it," agreed Dr De Beer, "and they and everyone else should be made aware of this."

Controversial homelands research bureau folds

Labour Correspondent

A GOVERNMENT research bureau on development in the black homelands, whose statistics were sharply criticised this week, has dissolved — but its staff will play a significant role in conducting research for the new SA Development Bank.

The Bureau for Economic Research, Co-Operation and Development — known by its Afrikaans acronym Benso — was attacked this week in a research paper by a University of Cape Town economist, Mr Iraj Abedien

He said Benso's statistics on productivity, population, and income in the homelands, which are often used by the Government and business in planning economic policy, were "unreliable and inconsistent"

He levelled these charges in a research paper funded partly by the University of Transkei and published as part of the Second Carnegie Inquiry Into Poverty and Development in South Africa

Yesterday a Benso spokesman said Mr Abedien's criticisms were similiar to those levelled at the bureau earlier this year by Professor Wolfgang Thomas of the University of Transkei.

He said Benso had commented on these charges in its quarterly bulletin "Development Studies Southern Africa" in mid-year.

He was reluctant to comment further on the charges as Benso, together with the Corporation for Economic Development which helps fund business development in the homelands, had now been dissolved.

"Most of our staff have, however, now taken up research positions within the development bank," he said

Among Mr Abedien's criticisms of Benso were that it distinguishes between non-black and black citizens of homelands which, he says, "falsely implies" that their economies are segregated

He also says Benso's population figures "abound with errors and inconsistencies".

He also criticises Benso's measurement of black purchasing power

The article referred to by Benso's spokesman — written by Benso's former director, Mr F J van Eeden — concedes there have been some errors in Benso calculations, but defends the bureau's research methods.

Many of these, he argues, are in keeping with United Nations standards and consistent with methods backed by foreign experts.

Mr Van Eeden said Benso was hampered by the "availability and quality" of reliable statistics on the homelands.

The Star/BUSINESS

Liberty looks to Europe for expansion

24/12/83 Star 58

By Duncan Collings
Deputy Financial Editor

Liberty Life has still a long way to go before it completes its programme of "internationalisation" and 1984 could well see this maverick of South African life assurers as an active buyer in the overseas markets.

According to managing director Mr Monty Hilkowitz, the North American market has little attraction for Liberty.

Europe, against the background of Liberty's existing power base in the UK, is a far more likely arena for expansion, he told The Star in an interview.

"We haven't looked at Australia or New Zealand in any depth, but it is most likely we will do so in the near future," he said. "But there are logistical problems — distance and few aircraft connections for example — and I am not sure just how welcome we would be in those countries against their existing political backgrounds."

On the other side of the globe, the Eagle Star/Allianz/BAT battle for control of Eagle is being watched very closely by Liberty. "This is a very great model for us," said Hilkowitz.

But the expansion of Liberty into world markets is very much under the direction of Liberty's chairman, Mr Donald Gordon. Mr Hilkowitz was at pains to point out that the expansion — and further international expansion is on the cards — will be handled by Mr Gordon.

Mr Hilkowitz is far more involved in running the "home operations" of the group which was pushed back into fourth position in the big league with the merger of Anglo American Life and Southern Life from its previous third position.

This is an untenable position for the aggressive Liberty Life which, according to Mr Hilkowitz, will make strenuous efforts to regain its position as soon as possible.

Monty Hilkowitz learning the tricks of the trade from Master Donny.

Not that 1983 has been a bad year for Liberty Life.

Although growth overall during the year was lower than that of 1983, the group has outperformed the market, in the process grabbing a greater slice of the cake.

At the halfway stage of 1983 the group's new business was up 15 percent over the previous year and, said Mr Hilkowitz, he would be "very surprised if we are not up 20 percent for the full year".

Next year Mr Hilkowitz sees the South African market for individual and group business expanding by between 15 and 20 percent. "I would expect Liberty Life to gain market share again in 1984 and our new business therefore should be higher than the market," he said.

Mr Hilkowitz says that the group business area could be very interesting. The trend, he said, is for more and more self-administered private company pension schemes to place their business with the assurers.

And if this gains momentum next year "we could see a very big increase in group premium income in 1984."

Policy lapses were much higher in 1983 compared with 1982 and Mr Hilkowitz sees a similar picture for 1984.'

In the longer term, Mr Hilkowitz sees the life and pensions industries continuing to expand in real terms for the foreseeable future.

On the product front, 1983 was the year which saw the computer married to a new generation of policies where flexibility is the keynote. Mr Hilkowitz does not see the basic policy format changing in the years ahead, instead the keynote for development by life companies will be the marriage of all financial services — banking, investments and life insurance; and a greater emphasis on the degree of service offered.

MARKETING CHANGE

"Marketing will become more cutthroat as the level of saturation of the market increases and the principle of selling life assurance in today's numbers, rather than relying on inflated telephone-like end-benefit numbers, will be the keynote of selling in the future."

"Although inflation is here to stay, people cannot accept the enormous sums that they will need by the time they retire. You have to talk to them in numbers they can relate to — numbers of today," he said.

The development of a full range of financial services is now accepted in the industry. Liberty and Standard, the new Southern Life and Barclays, The Old Mutual and Nedbank, for example have taken the first steps towards offering a range of "one-stop" integrated financial services.

A nagging problem area which remains for Liberty has its source in the field of industrial relations. The group has been beset by strikes and go-slows for several months now and this has extended to a black boycott of the group and its associated companies.

Talk in the company is that this is resulting in severe administrative problems resulting in the late issuance of policies and, perhaps more serious, late payment of commission to agents.

Bond rates set to rise again

Financial Editor

TENS of thousands of home owners will be receiving letters from their building societies in the next few days notifying them of an increase in the rate of interest on their mortgage bonds from February 1.

This move has been forced on the societies as a result of the sharp rise in the cost of money in South Africa in the past few months. This led at the weekend to the commercial banks increasing their prime lending rate — the rate they charge their best borrowers — to 20 percent.

Building society officials said that letters notifying borrowings of the increase will have to be sent out today or tomorrow at the latest if borrowers are to receive a month's notice of the increases.

Although there have been suggestions that the increase may be only 0,75 percent, it is generally believed that it is more likely to be around 1,25 percent.

If this proves to be the case rate of interest on mortgage bonds from February 1 is likely to be:

Under R20 000: 16,25 percent,
R20 000 to R40 000: 17,25 percent;
R40 000 to R60 000: 18,25 percent;
R60 000 and above: 18,75 percent.

A 1,25 percent increase in the mortgage rate will increase the repayment on a 20 year bond by about 95c for every R1 000 borrowed

It will increase the repayment on a R60 000 bond from about R800 a month to about R855 a month.

LIMITED SAVINGS

The increase in mortgages rates are mainly the result of the Government's decision to move towards "market related" interest rates, in order to use South Africa's limited savings to the country's best advantage.

This led to the lifting of artificial restrictions on interest rates and to a sharp increase in the rates of interest charged and paid by the banks.

In turn this meant that the building societies have had to pay more for deposits (some are now paying 17 percent for 12 months money) and therefore have had to increase the rate of interest they charge for mortgages.

The Governor of the Reserve Bank, Dr Gerhard de Kock, said recently that interest rates could ease in the New Year. This led to hopes that the building societies might have been able to delay and possible avoid having to increase their interest rates on mortgages But this has not been possible.

The increase in mortgage rates will bear down heavily on house buyers who could already be finding their present repayments a heavy burden, and thus could lead to some softening in the property market, building society officials say.

Bond rates could remain at record high throughout 1984

Cape Times 29/12/83 (58)

Own Correspondent

JOHANNESBURG. — Mortgage bond rates of the major building societies, which are to rise by 1,25% in February, could remain at their new all-time high level throughout 1984, even though interest rates generally may decline in the middle of the year.

All major societies yesterday confirmed the increases and most have already sent out notices to bond holders.

The SA Perm is to raise its rates in two stages. An immediate increase of 0,75% on new bonds will be applicable to existing bonds from the beginning of February. The date of a further increase of 0,5% will be announced shortly.

Banking circles believe that money market rates have now peaked. But, they say, some societies which in recent months liquidated much of their investments built up since September 1982 would have to maintain the new rates for at least a year to balance their books.

Mr Jim Dodds, managing director of the Allied, was reluctant to agree but he acknowleged that due to the mechanics of their funding, the societies always lag the market.

He pointed out that building societies could not change their deposit or lending rates overnight, as banks can, to react to a market move.

In some cases societies had to give a calendar months' notice: a decision taken on, say, January 5 would be notified on February 1 to become effective on March 1.

Fixed deposits were taken for a minimum of one year.

A hiccup

Mr Dodds expects interest rates generally to start falling in about six months.

"The societies had hoped to avoid this increase and that the recent hike in money market rates — prompted largely by the banks — was a hiccup.

"But we had to raise our deposit and share rates to protect our flanks and stop money flowing out.

"In the event, we have now accepted it is more than a temporary aberration and we have had to raise the lending rates."

Rebutting recent speculation that mortgage loans were again drying up, he said that, "while inflows of funds have declined and the cake is, therefore, getting smaller, lending is fairly steady".

"The higher bond interest rates can be expected to dampen demand for mortgages and will tend to equate supply and demand a little more closely."

The Allied, which advanced a total of R458m between April 1 and December 20 this year (against R197m in the same period of 1982) and has loan commitments at present of R288m, has a high liquidity.

Against prescribed investments of R330m, it now has investments of R570m — a surplus of R241m.

A UBS spokesman said the increase could have a slight downward levelling effect on house prices.

He believed that housing subsidies — enjoyed by "more than 50% of all borrowers" — would take the edge off the impact of the increase for many first-time buyers.

Cheaper

There will be no immediate change in the interest rates Barclays National Bank charges for home purchase loans — presently 18% for amounts up to R40 000 and 19% for amounts above R40 000.

"We are going to sit tight for the time being," a spokesman said. "We think rates may have peaked."

He pointed out that where a buyer has to pay a raising fee to obtain matching finance to get a building society bond, the bank's home loan scheme could now prove cheaper than a society mortgage.

Barclays did not require a matching investment.

Standard Bank's home loan rates are tied to the top UBS rate and will move from 17,5% to 18,75%.

Any increase in bond interest rates was a two-edged sword for the societies, said Mr Basil Elk of Basil Elk Estate Agents.

One the one hand, it turned off potential house buyers and, on the other, it drew in more funds attracted by the concomitant rise in deposit rates.

He expected the market to seesaw for a while House prices were now moving sideways but in the long-term they would continue to rise, he said.

Mr Barry Benigson, manager of Aida Estates, felt house prices might decrease slightly, with those in the R100 000-plus bracket being the worst affected

Size of bond	Interest rate per annum, percent		
	Up to today	Now	Soon
Up to R20 000	15,0	15,75	16,25
R20 000-R40 000	15,5	16,25	16,75
R40 000-R60 000	16,0	16,75	17,25
R60 000-R80 000	17,0	17,75	18,25
R80 000 upwards	17,5	18,25	18,75

Figures released by The Perm show the changes in the bond rate on bonds of differing sizes.